TSX HGR

GLOBAL REITS OFFER INCOME AND DIVERSIFICATION

Real Estate Investment Trusts (REITs) have traditionally been popular with conservative, income seeking investors because they generate a steady stream of dividends.

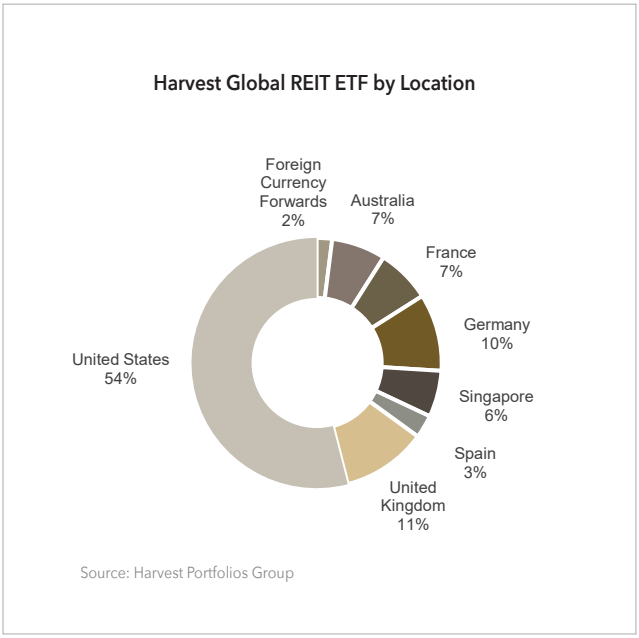
REITs are not quite stocks and not quite bonds, but offer just the right features of each. Canadian favourites have been shopping centres, office space, and commercial buildings, but these areas have been hard hit by the coronavirus.

Malls are still closed. Many employees are working from home and will continue to do so. Some REITs have cut dividends while others aren't sure which tenants will be able to pay their rents. As a result, the S&P/TSX Capped REIT Index is down by 19.5 per cent year-to-date (June 10, 2020) , more than double the 7 per cent decline of the S&P/TSX Composite Index.

But amid the fallout there is opportunity. REITs with a global reach, held in actively managed funds, offer opportunities for growth and income amid current market volatility.

One area of growth is companies that provide secure facilities with high speed data and communications links for cloud computing. There are no publicly traded Canadian REITs focused on this area, so you have to look abroad. The clients for these companies include the biggest tech companies as well as banks, insurers, energy and healthcare firms.

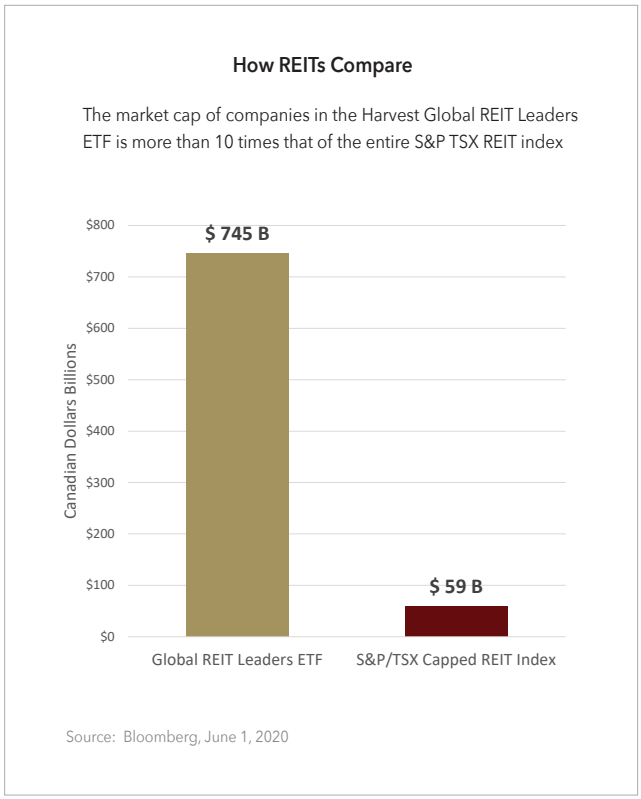
Another area of growth is facilities that serve the health-care sector, another area not served by public Canadian REITs. These includes facilities for doctors and dentists, medical labs and biotech and drug research with the ability to store temperature-sensitive medicines.



A third area is REITs that own warehouses and storage for so-called last mile deliveries of goods. As online shopping expands these facilities are in demand by many retailers including Amazon Inc. and Walmart.

"There's lots of REIT opportunity outside Canada," says David Wysocki, managing director of sales for Harvest Portfolios Group, adding that a global approach can reduce risk, while offering opportunity.

Many non-Canadian opportunities can be found in the Harvest Global REIT Leaders Income ETF (TSX: HGR). Harvest launched the ETF in 2017 which invests in an actively managed portfolio of between and 20 and 30 developed market real estate issuers. As at May 31, 2020, the average market cap of each holding was C$26 billion. The holdings are 54% in the U.S., 38% in Europe and 6% in Singapore. The holdings are broadly diversified with 20% of the companies involved in industrial 'last mile' storage and 17% in specialized areas, such as cloud storage and medical research. Another 16% are residential REITs and 13% are healthcare related. Only about 3% are in retail, the area most affected by the coronavirus.



The ETF is TSFA, RRSP, RRIF and RESP eligible and pays a monthly distribution.

"It is the sort of exposure you don't have in the Canadian market" Mr. Wysocki says.

The ETF's portfolio holdings have an average dividend yield as of May 31, 2020 of 3.25%. This was enhanced by Harvest's covered call strategy which generated a current annualized distribution yield of 6.59% as of May 31, 2020. To reduce volatility, the ETF selectively writes covered call options on up to 33% of the option eligible securities.

"We can't control the markets but we can control the quality of the companies we buy," says Paul MacDonald, Harvest's Chief Investment Officer.

He cites as an example, Digital Realty Corp (NYSE:DLR), based in San Francisco which is a holding in the ETF. Digital Realty is a leader in data centres uses for cloud computing. Its clients include IBM, Google and Microsoft.

Digital Realty has about 21 per cent of the global market share for data centres and its properties include two Toronto area facilities. It recently acquired Netherlands-based InterXion to become the second largest European data provider.

Digital Realty raised its dividend in March of 2020 for the 15th consecutive year. The annual rate yields 3.17% at current prices. (June 10, 2020)

"It's not just Amazon and Google who need these facilities," Mr. MacDonald says. "Every company has to store data somewhere."

CoreSite Realty Corp. (NYSE:COR) is another holding.

While Digital Realty is international, CoreSite is U.S. focused and has a smaller market cap. However, its customers are blue chip and include Walt Disney, Apple, Comcast, Microsoft and Verizon.

Other specialty REITs in the ETF include Crown Castle International Corp. (NYSE:CCI) and American Tower Corp. (NYSE:AT). They capture the Internet of Things (IoT) which is the interconnectivity of devices with phones and computers via the Internet.

Houston-based Crown Castle is one of the largest U.S. wireless tower companies with over 40,000 towers and approximately 80,000 route miles of fiber optic cable. Boston-based American Tower is the largest global owner and operator of wireless and broadcast communications towers.

Mr. MacDonald says last mile warehouses, which are where goods ordered online or shipped between factories are stored prior to delivery is another area of interest. In Canada, the exclusive public players have been acquired or taken private. A lead player is Prologis Inc. (NYSE: PLD) which has been in business for 30 years, operates in 19 countries and has a $64 billion market cap. The dividend yields 2.38% at current prices (June 10, 2020).

Other holdings include Orpea S.A., based in Paris which is one of Europe's largest operators of retirement and nursing homes. It owns 950 properties with almost 100,000 beds in Europe and Brazil.

California-based Alexandria Real Estate Equities Inc. with a $20 billion market cap, is a specialty provider of medical offices and labs. These are rented to pharmaceutical, biotechnology, medical device and life science agencies, as well as technology companies. Tenants include Pfizer, Google and Eli Lilly.

"REITs in Canada are retail heavy," says Mr. Wysocki. "That's why you should consider diversifying outside of Canada with an actively managed ETF. You want to invest in areas that are growing."