Stock Musings from TheFranklyFour.com

REIT Edition (sent 3/21/21)

A real estate investment trust (REIT) is a company that owns and leases buildings or other property. REITs are legally required to disperse most of their profit to shareholders so REITs pay dividends and make good income investments. REITs tend to specialize in particular types of property. Some lease office buildings. Some lease malls or other retail space. Neither of these REITs are of interest to me based on current e-commerce and work at home trends. Although demand for malls and office space is declining, demand for other property is increasing.

First, also due to the e-commerce trend is warehouse space and other industrial spaces. Amazon and other e-commerce companies are leasing warehouses so products will be close to population centers so they can fulfill same day and one day deliveries. Industrial REITs include Prologis (PLD), Duke Realty (DRE), and Stag Industrial (STAG). Here is a comparison of these three companies (3/4/21) to the Vanguard Real Estate ETF (VNQ) which includes 174 stocks including REITs and other real estate-related companies. I also included the Vanguard S&P 500 ETF which I (and most people) use as a performance benchmark.

Company (Ticker)	Market Cap	Dividend per share (%yield)	Revenue growth (TTM)	Profit margin	3 yr return	5 yr return	10 yr return
Duke Realty (DRE)	14.2B	0.98 (2.56%)	2%	31%	49%	83%	165%
Prologis (PLD)	70.7B	2.52 (2.62%)	33%	36%	54%	130%	164%
Stag Industrial (STAG)	1.5B	1.45 (4.58%)	19%	43%	38%	67%	138%
Vanguard Real Estate Index Fund ETF (VNQ)	--	2.51 (3.31%)	--	--	15%	6%	42%
Vanguard S&P 500 Index Fund ETF (VOO)	--	5.30 (1.51%)	--	--	41%	89%	181%

*data as of 3/10/21

I do not have a favorite among these three companies. I like STAG because with just a 1.5B market cap, strong revenue growth, and high profit margin it hopefully has lots of growth in the future. PLD is the largest of the three but also has high revenue growth, profit, and strong 10 year growth in share price. However, all three have beaten the Real Estate ETF in growth and have similar yields. I would take a basket approach to adding REITs and general real estate exposure to my portfolio. This might mean adding some of the VNQ ETF for stability, STAG for higher yield and growth potential, and the other two for strong growth and overall returns.

The second trend I am following for investing generally is cloud computing. There are lots of high growth cloud-related stocks out there but a more conservative play on this trend is REITs that serve cloud companies. Cloud storage and service providers like Amazon Web Services, Google Cloud, Microsoft, and others lease huge buildings to hold servers and other equipment. Equinix (NASDAQ: EQIX), is the world's largest data center operator, with over 200 centers across the Americas, Europe, and Asia. Digital Realty (NYSE: DLR) is another REIT focused on digital infrastructure. EQIX is my favorite of these two for its higher overall return and it is profitable. Thus, even though it has a lower yield potential the overall return may be higher.

Company (Ticker)	Market Cap	Dividend per share (%yield)	Revenue growth (TTM)	Profit margin	3 yr return	5 yr return	10 yr return
Equinix Inc. (EQIX)	53.9B	11.48 (1.88%)	7.9%	6.2%	52%	102%	584%
Digital Realty Trust Inc. (DLR)	36.3B	4.64 (3.69%)	21.6%	9.3%	27%	53%	124%
Vanguard Real Estate Index Fund ETF (VNQ)	--	2.51 (3.31%)	--	--	15%	6%	42%
Vanguard S&P 500 Index Fund ETF (VOO)	--	5.30 (1.51%)	--	--	41%	89%	181%

*data as of 3/10/21

You may think some of these stocks don’t have very high yields. Yield on the S&P 500 is around 1.5%. There are REITs and other assets with higher yields if that is your primary concern. These companies with slightly lower yields offer more opportunities for capital appreciation (growth in share price) in addition to yield. For many investors this provides a good compromise so they are growing their bottom line without generating excess (potentially taxable) cash. REITs can be part of your portfolio foundation since they provide steady yields and relatively low volatility (unless you’re a mall REIT in a pandemic). In a tax sheltered account like an Roth IRA you will never pay taxes on the dividends whether you reinvest them or use them to fund more adventurous investments.

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