

3 Undervalued REITs to Add to Your Portfolio

Here we highlight three undervalued companies with unique exposure to some of the faster-growing segments the REIT industry.

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Real estate investment trusts (REITs) had a tough 2020 as the pandemic caused lower property valuations and a weak leasing environment across many sectors. As a result, the S&P REIT Index fell 11% and woefully lagged the S&P 500 benchmark which was up 16%.

The narrative has changed in 2021. A rebounding economy has spurred rental demand and raised property values in several corners of the real estate market. With REITs up approximately 16% year-to-date and outperforming the broader market, many investors are looking to ride the real estate recovery.

While certain groups like office REITs may have a longer road to recovery, others are getting a head start because of the types of properties they specialize in. Here we highlight three undervalued companies with unique exposure to some of the faster growing segments the REIT industry.

What is a Good 5G Infrastructure Stock?

American Tower (NYSE:AMT) is more of a play on the global 5G networking buildout than a recovery in traditional real estate. That's because the company owns and leases wireless communications towers in addition to antenna structures used

for television and radio broadcasting.

The REIT therefore has a unique tenant base comprised of telecom service providers and media companies. During COVID-19, its towers have played a key role in making sure people have access to data and high-speed internet while working and playing from home.

But looking beyond the current environment, American Tower has plenty of opportunity to build off its strong track record of profitability. It has a dominant position in the communications infrastructure market that will allow it to generate multiyear growth as the world transitions to 5G.

The company continues to acquire new assets overseas to boost its scale and allow its industry leading profit margins to go to work with tenants paying higher lease rates year after year. American Tower is trading around 27x funds from operations (FFO) and has room to expand to at least its five-year historical peak of 32x on account of its growth prospects in 5G infrastructure.

Is Digital Realty Trust a Good REIT to Own?

Another unique REIT with exposure to above industry growth is Digital Realty Trust (NYSE:DLR). Its area of expertise is developing data centers for a wide range of businesses. The company's properties are strategically located in some of the world's fastest growing markets where cloud computing, social media, and financial companies are a source of strong leasing demand.

The buildings contain a sea of computers, storage systems, and communications wiring that allow an enterprise to have a centralized information technology (IT) hub. And with businesses across many industries transforming their IT platforms from on-premise data centers to remote, cloud-based centers Digital Realty also stands to benefit from a multiyear growth trend.

The REIT has a strong and growing presence in the global data center space. The European market is a particularly promising growth market because data storage companies there have high pricing power and ample room for growth as the region embraces the cloud transformation. Digital Realty is in the process of integrating its latest European acquisition, Amsterdam-based data storage company Interxion, which will strengthen its presence there.

Digital Realty Trust offers one of the most stable dividends among REITs and presently has a 3.1% dividend yield. The stock trades at 30x FFO but has room for multiple expansion based on its superior growth opportunities and balance sheet relative to smaller, less geographically diverse peers.

Is American Campus Communities a Good Stock?

American Campus Communities (NYSE:ACC) is a much smaller REIT than American Tower and Digital Realty but its growth prospects are equally compelling. It is the country's largest student housing developer with more than 200 properties that offer a sleek alternative to traditional college dorms and off-campus apartments.

Operating conditions have been gradually improving at American Campus Communities (ACC) with rent collections trending higher and refunded rent payments now a fraction of what they were at the onset of the pandemic. Another sign that the college housing market is on the mend, is that the company secured 3,600 leases for the Spring 2021 semester, about 50% above the prior year's leasing activity.

Since most of ACC's properties are in southern states like Texas and Florida that have reopened sooner than others, the company is expected to ride the coattails of surging college enrollments. As current and new students shift from distance learning to the in-person university experience, demand for high-quality housing is expected to rise ahead of the fall

semester. Recent announcements of a return to in-person classes at major universities like the University of California and California State bode well for ACC's future results.

ACC shares have more than doubled from their March 2020 low but still appear undervalued. Although the P/FF0 ratio of 23x is near its peer group average, at 7x sales, the stock is trading at a substantial discount to peers. This along with above-average 4.1% dividend make this a REIT to own as America's campuses return to life.

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