Reproduction without permission is illegal

BUILDINGWEALTH

THE INCOME INVESTOR

Volume 20, Number 18 | Issue #2218 | September 29, 2022

IN THIS ISSUE

High-Yield Portfolio setback 1

Retail REITs provide good opportunities 3

This month's Top Pick: Primaris REIT 5

Gavin Graham's REIT updates: Slate Grocery, Crombie, Automotive Properties, Granite 6

Gordon Pape's ETF updates: Harvest Brands Leaders Plus, iShares 1-5 Year Laddered Corporate Bond 8

Editor and Publisher: Gordon Pape
Associate Publisher: Richard Croft
Associate Editor: Mike Keerma

Copyright 2022 Gordon Pape Enterprises Ltd.
All material in The Income Investor is copyright Gordon Pape Enterprises Ltd. and may not be reproduced in whole or in part in any form without written consent. All recommendations are based on information that is believed to be reliable. However, results are not guaranteed and the publishers and distributors of The Income Investor assume no liability whatsoever for any material losses that may occur. Readers are advised to consult a professional financial advisor before making any investment decisions. Contributors to The Income Investor and/or their companies or members of their families may hold and trade positions in securities mentioned in this newsletter. No compensation for recommending particular securities or financial advisors is solicited or accepted.

Reprint permission: Contact customer service

Phone: 1-888-287-8229

Email: customer.service@buildingwealth.ca

Next update issue: Oct. 13

Next regular issue: Oct. 27

HIGH-YIELD PORTFOLIO SETBACK

By Gordon Pape, Editor and Publisher

First the bad news. Our High-Yield Portfolio was down 8.8% in the latest six-month period.

The good news is that was much better than the overall market. Plus, we generated 2.28% in cash flow, which would equate to about 4.6% over a full 12 months.

This portfolio was created for investors who were looking for above-average dividend income and who were willing to accept somewhat more risk. The portfolio invests entirely in stocks, so it is best suited for non-registered accounts where any capital losses can be deducted from taxable capital gains. Also, Canadian dividends are eligible for the dividend tax credit.

The initial portfolio value was $24,947.30, and I set a target average annual total rate of return of 7% to 8%, with an annual yield of around 5%.

Here is a review of the securities we own and how they have performed in the time since our last review in March. Results are to Sept. 23.

Enbridge Inc. (TSX, NYSE: ENB). Pipeline stocks were doing well until the pullback in oil prices prompted some investors to take profits. The shares are down $5.02 from the time of the last review in mid-March. We received two dividends for a total of $1.72 per share.

Pembina Pipeline Corp. (TSX, NYSE: PPL). The Enbridge comments apply here as well. Pembina is down $4.32 from the time of the last review. However, we received a small bump of $0.075 in the monthly dividend in September, to $0.2175 a share ($2.61 a year). At the current price, the dividend yield is 6.1%.

Sun Life Financial Inc. (TSX, NYSE: SLF). Financial stocks have been hit hard in the market selloff. This is unusual because these stocks tend to do well when rates are rising. However, right now recession fears trump all else. The stock is down $12.21 since the last review. We received two dividend payments for a total of $1.38 per share. The current yield is 5%, which is very attractive for a sound insurance stock.

Continued on page 2…

Reproduction without permission is illegal

High-yield portfolio – continued from page 1…

Capital Power Corp. (TSX: CPX). Here's a stock that bucked the trend. While the broad market was in a downward spiral, Capital Power gained almost $10 a share in the latest period. The company announced that the quarterly dividend will be increased 5.9%, to $0.58 per share ($2.32 per year) effective with the Oct. 31 payment. At that rate, the stock will yield 4.6% at the current price.

Canadian Imperial Bank of Commerce (TSX, NYSE: CM). As with Sun Life, we're seeing a downtrend in financial stocks, of which the banks are the leaders. This is creating great bargains for astute investors. CIBC split its shares two for one in May, so we now own 110. The stock yields 5.5%, very high for a bank.

Brookfield Energy Partners (TSX: BEP.UN, NYSE: BEP). This Bermuda-based limited partnership invests in an international portfolio of clean energy properties, mainly hydro. The units were trading near $52 in early August but have since retreated. The quarterly distribution is US$0.32.

BCE Inc. (TSX, NYSE: BCE). The stock was down $8.90 in the latest six-month period. The dividend is $0.92 per quarter ($3.68 a year). The stock yields 6% at the current price.

Firm Capital (TSX: FC). Mortgage investment corporations normally see their share prices decline when rates rise, and that's the case here. We're showing a loss to date, but the monthly cash flow is steady, with a yield of 7.9%.

Algonquin Power & Utilities Corp. (TSX, NYSE: AQN). Green energy stocks staged a brief rally earlier this year but then got dragged down when the whole market slumped. The shares are down $2.26 since our last review, despite a small dividend increase. As a result, the yield is now up to 5.5%.

North West Company Inc. (TSX: NWC). This company has a long history, with a prime focus on general stores in Northern Canada and Alaska. The shares are down $5.17 since the last review. We received two dividends of $0.37 each. The yield is 4.6%.

We earned $13.93 from the cash we deposited in an account with EQ Bank that paid 1.25% at the time.

The table below shows what the portfolio looked like as of the close of trading on Sept. 23. The weighting is the percentage of the market value of the security in relation to the total market value of the portfolio. The gain/loss shows the performance of the security since it was added to the portfolio. Sales commissions and exchange rates are not considered.

Income Investor High Yield Portfolio **(a/o Sept. 23/22)**

Security	Weight %	Total Shares	Average Price	Book Value	Current Price	Market Value	Retained Income	Gain/ Loss %
ENB	8.0	90	$43.98	$3,957.80	$51.64	$4,647.60	$166.02	+21.6
PPL	10.3	140	$32.65	$4,571.65	$42.50	$5,950.00	$424.63	+39.4
SLF	14.3	150	$31.54	$4,730.75	$55.27	$8,290.50	$207.00	+79.6
CPX	10.4	120	$32.12	$3,854.40	$50.30	$6,036.00	$131.40	+60.0
CM	11.6	110	$56.48	$6,213.30	$60.87	$6,695.70	$859.10	+21.6
BEP.UN	14.6	180	$24.13	$4,343.87	$46.92	$8,445.60	$238.74	+100.0
BCE	7.4	70	$56.75	$3,972.40	$61.45	$4,301.50	$373.80	+17.7
FC	8.4	410	$15.04	$6,164.40	$11.80	$4,838.00	$243.48	-17.6
AQN	5.9	200	$19.02	$3,803.75	$16.97	$3,394.00	$135.61	-7.2
NWC	7.8	140	$26.38	$3,692.50	$32.14	$4,499.60	$255.90	+32.2
Cash	1.3			$701.68		$715,61		
Total	100.0			$43,373.03		$57,814.11	$3,035.68	+40.3
Inception				$24,947.30				+143.9

Comments: The reason this portfolio is outperforming the TSX this year is simple: high dividends. They put a floor under the market price of these stocks. Unless there is a serious threat of a dividend cut, which we have not seen with this portfolio, investors will tend to hold on to high-yielding securities.

Despite the recent losses, we are showing a total return of 143.9% in the ten and a half years since inception. That translates into an average annual growth rate of 8.86%, which is above our target range.

Continued on page 3…

Reproduction without permission is illegal

High-yield portfolio – continued from page 2…

In terms of cash flow, the portfolio earned $1,522.71 in the latest. six months, for a yield of 2.28% in that time. Over a full year, that would work out to almost 4.6%. Our target is 5%, so we're close.

Changes: The largest single holding in the portfolio is Brookfield Renewable Properties. It's a first-rate operation, but the yield of 3.7% is on the low side for a portfolio of this type. Accordingly, we will sell 80 units at $46.92 for a total of $3,753.60.

We will reinvest this money in 285 units of **Automotive Properties REIT (TSX: APR.UN)**. It's paying $0.067 per month ($0.804 per year) to yield 6.1% at the current price. You'll find a full update on this security elsewhere in this issue. The units are trading at $13.20 so our cost is $3,762. We'll take the extra $8.40 from cash.

We'll use some of our retained earnings as follows:

PPL – We'll buy 10 shares for a cost of $425. That will give us 150 shares and reduce retained income to zero. We'll take $0.37 from cash to make up the difference.

CM – We will buy another 10 shares for $608.70. That will give us 120 shares and reduce retained earnings to $250.40.

FC – We'll add another 20 shares for a cost of $236. We now have 430 shares and retained earnings of $7.48.

Our retained earnings plus cash now totals $2,473.19. We'll move the money to a Saven Financial high interest savings account, which is paying 3.3%.

Here is the revised portfolio. I will review it again in March.

Income Investor High Yield Portfolio (revised Sept. 23/22)

Security	Weight %	Total Shares	Average Price	Book Value	Current Price	Market Value	Retained Income
ENB	7.9	90	$43.98	$3,957.80	$51.64	$4,647.60	$166.02
PPL	10.8	150	$33.31	$4,996.65	$42.50	$6,375.00	$0
SLF	14.0	150	$31.54	$4,730.75	$55.27	$8,290.50	$207.00
CPX	10.2	120	$32.12	$3,854.40	$50.30	$6,036.00	$131.40
CM	12.4	120	$56.85	$6,822.00	$60.87	$7,304.40	$250.40
BEP.UN	7.9	100	$24.13	$2,413.00	$46.92	$4,692.00	$238.74
BCE	7.3	70	$56.75	$3,972.40	$61.45	$4,301.50	$373.80
FC	8.6	430	$14.88	$6,400.40	$11.80	$5,074.00	$7.48
AQN	5.7	200	$19.02	$3,803.75	$16.97	$3,394.00	$135.61
NWC	7.6	140	$26.38	$3,692.50	$32.14	$4,499.60	$255.90
APR.UN	6.4	285	$13.20	$3,762.00	$13.20	$3,762.00	$0
Cash	1.2			$706.84		$706.84	
Total	100.0			$49,112.49		$59,083.44	$1,766.35
66.35							
Inception				$24,947.30			

Follow Gordon Pape's latest updates on Twitter: http://twitter.com/GPUpdates

RETAIL REITs PROVIDE GOOD OPPORTUNITIES

By Gavin Graham, Contributing Editor

Fixed income and sectors regarded as interest-rate-sensitive have all been badly affected as interest rates continue to climb. The Bank of Canada's most recent hike took short-term rates to 3.25%. The US Federal Reserve raised its fed funds rate last week by 75 basis points to 3%-3.25%.

The Bloomberg Barclays Bond Index is down 20% this year, the worst performance in almost 40 years. Meantime, the yield curve has inverted, meaning that short-term rates are higher than long-term rates. In

Continued on page 4…

Reproduction without permission is illegal

REITs – continued from page 3…

Canada, 2-year Canadas yield 3.75% compared with 3.10% for 10-year maturities. US 2-year Treasury notes have touched 4%, while the benchmark 10-year note is above 3.55%, the highest in a decade. Both countries have raised rates from near zero in just nine months.

Central banks in the UK, the Eurozone, Australia, and Sweden, have all been raising short-term rates as well, in some cases by as much as 100 basis points (one percentage point). Increases of this size have not been seen since the inflationary days of the 1980s.

The reason for this precipitate rush to raise rates has, of course, been the very high levels of inflation. The Consumer Price Index (CPI) in both Canada and the US has exceeded 8% in recent months and has breached 10% in the UK and 9% in Germany.

Far from being a “transitory” phenomenon, as central bankers like the US Fed’s Jerome Powell and the Bank of Canada’s Tiff Macklem claimed last year, it’s apparent that inflation is not merely the result of COVID-inspired supply disruptions. Instead, it reflects a deeper problem of reduced capacity, geopolitical factors such as the Russian invasion of Ukraine and the sanctions on Russian energy exports, and, perhaps most importantly, rising wage pressures resulting from full employment and declining workforce participation.

Inverted yield curves have an excellent track record as a predictor of recessions, although the timing of the economic slowdown ranges from six to 18 months after the curve decisively inverts (short rates 25 basis points above long rates). Many economic forecasters now expect a recession in North America in 2023. In fact, if one uses the generally accepted recession definition, then the US is already in one, with two consecutive quarters of shrinking GDP in the first half of 2022. Reluctance by US Treasury Secretary Janet Yellen and President Joe Biden to say the word “recession” does not change this fact.

In Canada, several analysts are expecting a sharp slowdown in the housing market. Desjardins Financial, for example, is forecasting housing prices to fall by 15%-20% by the end of 2023 due to rising mortgage rates. Certainly, both the volume of property sales and the price in major markets such as Toronto and Vancouver are down sharply this summer. The Teranet National Housing Price Index was down 2.4% in August from July, having been positive as recently as May, although it is still up 8.9% over 12 months. Canada is regarded as more sensitive to rising mortgage rates, as most fixed rate mortgages have 5-year terms, so one fifth expire each year and have to be reset. In the US, 30-year terms are more common.

With this gloomy outlook for economic growth, and the possibility of higher bad debts and loan losses, it’s understandable that financials have been under pressure. The iShares S&P/TSX Financials ETF is down 10% year to date , and the iShares Core Canadian Long Term Bond ETF is off a remarkable 22% since the beginning of the year.

However, because of their higher debt loads, the performance of other rate-sensitive sectors, such as utilities and REITs, has seen some wide differences. For example, the iShares S&P/TSX Utilities Index ETF is up 3.5% year to date, while the iShares S&P/TSX REIT Index ETF is down 21.5%.

Both sectors are characterized by high debt loads because companies can borrow against their long-life assets, while maintaining some ability to protect investors from inflation because they can pass through rising costs through higher rates or rentals.

Yet, for REITs, the market has chosen to focus on the possibility of retail bankruptcies in a recession or tenants and renters not renewing their leases. This is perhaps understandable after the experiences of the sector during the pandemic.

Yet this is to ignore the extremely low level of unemployment in both Canada (5.4%) and the US (3.5%), near 50-year lows. Reflecting the strong recovery from the pandemic and the so-called Great Resignation/Great Retirement, which has seen many older workers decide during the pandemic to take early retirement, Canada had 997,000 unfilled positions in the second quarter. The US is also struggling with filling many positions. Of course, some of those looking for jobs may not have the appropriate skills to fill the vacant positions. But many of them do, and the shortage of entry level and low-level workers is reflected in the difficulties restaurants, shops, and entertainment venues are encountering in filling their vacancies.

Continued on page 5…

Reproduction without permission is illegal

REITs – continued from page 4…

This means that concerns about defaults on mortgages or leases are probably overdone, at least for the next few quarters. Executives at mortgage insurers like Genworth/MIC and lenders such as Home Equity always point to unemployment as the best forecaster of defaults, and with unemployment at its present low levels, the market may be unduly pessimistic on the outlook for REITs.

As a case in point, apartment REITs have sold off steeply, such as our recommendations **InterRent REIT (TSX: IIP.UN)**, down 25%, and **Minto Apartment REIT (TSX: MI.UN)**, down 35%. These REITs are selling at big discounts to their net asset values (NAVs). However, retail REITs, especially those with defensive food-anchored retailers, have held up better. For example, **Choice Properties REIT (TSX: CHP.UN)** is down 7%, **CT REIT (TSX: CRT.UN)** is off 10%, and **Crombie REIT (TSX: CRR.UN)** is down 16%.

Despite their recent selloffs, retail REITs are still worth holding for income investors. My recommendation this month is **Primaris REIT (TSX: PMZ.UN)**, which is the third-largest operator of enclosed shopping malls in Canada. Details follow in this month's Top Pick.

Gavin Graham has had a long and successful career in money management and is a specialist in international securities. He held senior positions in financial organizations in London, Hong Kong, and Toronto. He is a Trustee of the Royal Medical Foundation Investment Committee and Chief Strategy Officer SmartBe Investments (www.smartbeinvestments.com). He divides his time between Canada and the UK.

TOP PICK

Here is our Top Pick for this month. Prices are as of the close of trading on Sept. 26 unless otherwise indicated.

Primaris REIT (TSX: PMZ.UN)

Type: REIT
Current price: $12.46
Entry level: Current price
Annual payout: $0.80
Yield: 6.4%
Risk: Moderate
Recommended by: Gavin Graham
Website: www.primarisreit.com

The business: Primaris was one of the first specialist retail REITs 20 years ago and was a recommendation of *Income Investor* before being taken over by H&R REIT. With diversified REITs falling out of favour with investors, H&R decided to simplify its structure and spun off Primaris at the beginning of the year. It consists of 27 properties worth $2.4 billion with $723 million debt attached. Each holder of four H&R units received one Primaris unit.

Meanwhile, Primaris acquired an additional eight properties worth $800 million from Healthcare of Ontario Pension Plan (HOOPP), giving the newly listed Primaris a total of 35 properties with11.4 million sq. ft. of assets worth $3.2 billion and debt of $930 million. HOOPP owns approximately 26% of Primaris' units.

Primaris is the third-largest operator of enclosed shopping malls in Canada, with a low debt-to-assets ratio of less than 30%. It is well positioned to acquire some of the $50 billion in similar assets being disposed of by Canadian institutions wishing to rebalance their property portfolios.

Primaris operates the leading shopping centres in secondary markets, which accounts for 73% of net operating income (NOI), with 39% of its NOI in Ontario, 35% in Alberta, 15% in BC, and the remainder in Manitoba, New Brunswick, and Quebec. Food and grocery make up 19% of sales, fashion and apparel 30%, general merchandise 21%, personal services 16%, and other 14%.

Why we like it: With the pandemic behind us, providing the most severe test of retailers in living memory, the ability of Primaris to maintain its occupancy rates at 87.5% on its original portfolio, with committed occupancy at 89.4%, is a tribute to the strength of its relationships with its retailers.

Primaris reduced rents in some cases to enable its tenants to trade through the pandemic, in exchange for release from restrictive lease clauses. Primaris points out that the evolution of the Canadian retiling scene is well advanced. Bankruptcies of Target and Sears in recent years and pandemic lockdowns have cleaned out weaker players. Hudson's Bay is now the only traditional department store anchor tenant left in Canada.

Continued on page 6…

Top pick – continued from page 5…

The acquisition of the HOOPP properties, with occupancy of 83.2%, gives Primaris an opportunity for future organic growth, with rentals at $22.21 per sq. ft. compared with $24.21 for the Primaris portfolio. The potential for intensification of Primaris' portfolio grew recently, by the approval of the City of Toronto for a development of 1,200 residential apartments (of which 120 will be social housing) and 120,000 sq. ft. of commercial space on four acres of parking lots at Dufferin Mall, a project slated to begin later this year. Last, but not least of the reasons we like Primaris is that is sells at a discount of over 35% to its NAV of $22.07.

Financial highlights: For the year to Dec. 31, 2021, revenue from the 27 Primaris properties was down 7%, to $253.9 million. NOI was up 10.2% to $141.6 million, primarily due to reduction in bad debt expenses of $35.1 million and a $2.3 million increase in lease surrender fees. That was partially offset by a decreased base rent of $8.4 million and a decrease on net recovery revenue of $11 million, reflecting the rental concessions to help its tenants.

For the three months to June 30, revenues from all 35 properties rose 2.8% from the previous quarter, to $94.3 million, while same-properties NOI rose 15.4%, to $52.5 million. That consisted of 7.2% of post-pandemic recovery from higher rents and tenant sales, and 8.2% from recovery of prior-year property tax and lower bad-debt expenses.

Management raised its forecast for 2022 net income growth by 1.5% and NOI by 2.8%, reflecting strong operational performance. Meanwhile funds from operations (FFO), the REIT equivalent of earnings per share, rose 4.7%, to $0.399 per unit, and adjusted FFO climbed 9.9%, to $0.332 per unit, with distributions of $0.20 representing a conservative 60.2% payout ratio.

Distributions: Primaris pays a monthly distribution of $0.0667 per unit, giving it a yield of 6%.

Tax treatment: As a REIT, Primaris' distributions are a mixture of return of capital (RoC) and ordinary income, but as a new entity, the proportions won't be available until early next year.

Risks: With a high exposure to non-essential retailers, Primaris is vulnerable to a severe recession, which would cut discretionary consumer expenditure while increasing unemployment rates, leading to deferral of purchases. However, its low debt-to-assets ratio (28.8% as of June 30), investment-grade rating of BBB, ability to raise occupancy rates in the HOOPP portfolio, and intensification efforts make it relatively resilient amongst non-food-anchored retailers. In addition, its commanding position in secondary markets such as Kelowna, Windsor, and St. John, NB, bolsters its outlook. The 36.5% discount to NAV also provides some protection for unitholders.

Who it for: Primaris is for investors willing to accept a somewhat higher level of volatility in exchange for a high and sustainable yield and some growth in NOI and NAV.

Action: Buy now at the current price.

GAVIN GRAHAM'S UPDATES

Prices are as of the close of trading on Sept. 26.

Slate Grocery REIT (TSX: SGR.UN)

Type: REIT
Current price: $13.15
Originally recommended: May 25/17 at $15.15
Annual payout: $0.86
Yield: 6.5%
Risk: Moderate
Website: www.slateam.com/reit/retail

Comments: (All figures in US dollars except for per share amounts.) Slate Grocery REIT (formerly Slate Retail REIT) owns a portfolio of 121 grocery-anchored retail properties primarily located on the east coast of the US and in the sunbelt states. After a $425 million acquisition of 14 properties this quarter at a price equivalent to $174 per sq. ft., this comprises 15.7 million sq. ft. worth $2.4 billion. Its clients include almost all the leading US grocery chains, including Kroger's, Publix, Ahold Delhaize, Albertson's, Tops, and Walmart. The acquisition follows a $390 million purchase of 25 properties from Annaly Capital equivalent to $137 per sq. ft last fall.

The portfolio had 100% grocery anchor occupancy and an overall occupancy rate of 93.4% at June 30. Slate leased440,000 sq. ft. in the second quarter, with rentals 9.3%

Continued on page 7…

Reproduction without permission is illegal

Gavin Graham's updates – continued from page 6…

above existing rents, and saw a 1.4% increase in net operating income (NOI) on its same-property portfolio.

The recent acquisition was partially funded by a $180 million equity investment by Slate North American Essential Real Estate Income Fund, a joint venture between Slate and the New Zealand Superannuation Fund, which valued Slate at $13.01 per share, and the remainder by a $275 million loan at better terms than its existing facilities. Funds from operations (FFO) was unchanged at $0.26 per unit, while adjusted FFO rose 4.8%, to $0.22. The distribution of $0.216 represented a 98% payout ratio, with debt-to-gross-book-value down from 53.5%, to 51.3%.

Action now: Slate is well positioned to benefit from the strength of grocery-anchored properties in the fast-growing eastern and sunbelt states in the US, with the ability to improve occupancy in its acquired properties. It sells at a substantial discount to both Canadian and US-listed grocery focused REITs and yields over 8%. Despite rising over 40% from the last update as investors finally recognized the strength of its investment proposition, Slate remains a Buy.

Crombie REIT (TSX: CRR.UN; OTC: CROMF)

Current price: $14.23, US$10.64
Originally recommended: July 25/13 at $13.35
Annual payout: $0.89
Yield: 6.3%
Risk: Moderate
Recommended by: Tom Slee
Updated by: Gavin Graham
Website: www.crombiereit.com

Comments: Crombie is 41.5% owned by Empire Company, owner of Sobey's and Safeway supermarkets. It owns 294 grocery-anchored stores and distribution centres with 18.5 million sq. ft. and a value of $5.1 billion. In the second quarter ended June 30, Crombie had occupancy of 96.3%, and renewed 275,000 sq. ft. at rents 6.4% above expiring rents. It bought one 67,000 sq. ft. investment property and a development property for $15.9 million and sold one 19,000 sq. ft. investment property for $10.5 million. FFO rose 3.7%, to $0.28 from $0.27, and AFFO climbed 8.7%, to $0.25 from $0.23, representing a payout ratio of 90.5%.

Action now: Crombie remains a low-risk play on the strength of Canadian grocery retailing, especially as Empire has been successful at turning around its Safeway acquisition, converting many of them to the FreshCo banner. Down 17% from the last update, Crombie is a Buy.

Automotive Properties REIT (TSX:APR.UN)

Current price: $13.08
Originally recommended: Sept. 30/21 at $12.90
Annual payout: $0.80
Yield: 6.1%
Risk: Moderate
Recommended by: Paul Bamford
Updated by: Gavin Graham
Website: www.automotivepropertiesreit.ca

Comments: Automotive Properties is the only listed REIT focusing on owning and acquiring automotive dealerships in Canada. It holds 72 properties comprising 2.7 million sq. ft., with a long life average weighted lease term of 11.1 years, representing 32 automobile brands ranging from high-end European brands (Audi, BMW, and Mercedes) to mass market Asian producers (Toyota, Nissan, Honda, Hyundai, and Kia). For the second quarter ended June 30, rental revenue was up 6.5%, to $20.8 million, while NIO rose 4.9%, to $17.7 million. AFFO rose 3.9%, to $11.4 million (up 0.8%, to $0.228 per unit) due to issuance to fund acquisitions, representing a lower pay-out ratio of 87.8%. Automotive Properties' payout remained at $0.067 per month, giving a 6.1% yield at the current price. Automotive Properties anticipates further growth opportunities as owners of auto dealers take the opportunity to realize the value of their dealerships while retaining management control.

Action now: Up 10% over the last year compared with a 20% decline in the iShares REIT Index, Automotive Properties remains an attractive play on the consolidation of the auto dealership industry in Canada, with a wide range of brands covering all price ranges. Buy now.

Granite REIT (TSX: GRT.UN; NYSE: GRP.UN)

Current price: $67.17, US$48.92
Originally recommended: Dec. 20/18 at $53.95
Annual payout: $3.10
Yield: 4.6%
Risk: Moderate
Recommended by: Paul Bamford
Updated by: Gavin Graham
Website: www.granitereit.com

Continued on page 8…

Gavin Graham's updates – continued from page 7…

Comments: Formerly the owner of auto parts maker Magna International's production plants, Granite REIT has diversified successfully into other industrial, logistics, and manufacturing assets, so that Magna's properties now comprise only 21% of its assets. These comprise 127 properties with 57.5 million sq. ft. worth $8.6 billion with a weighted average lease term of 5.6 years and 97.8% occupancy.

As of June 30, the REIT held 64 US properties (33.5 million sq. ft.), nine Austrian properties (7.5 million sq. ft.), 36 Canadian properties (5.4 million sq. ft.), 14 German properties (4.6 million sq. ft.), and 16 Netherlands (5.4 million sq. ft.). Distribution and e-commerce make up 69% of its assets, industrial/warehouse and special purpose contribute 11% each, and the remainder are flex/office or properties under development.

In the second quarter, Granite's NOI rose 15.6%, to $92.8 million, primarily due to acquisitions, as same-property NOI rose 3.6% in the quarter. FFO per unit rose 10%, to $72.1 million ($1.09 per unit), while AFFO rose 8.3%, to $68.2 million ($1.04 per unit), giving an AFFO payout ratio of 75%, down from 79%. It acquired two income-producing properties in Canada for $38.6 million and completed two developments and an expansion for $129.1 million, adding one million sq. ft. of leasable area.

Action now: Since we recommended taking half profits at $90 earlier this year, Granite has dropped more than 20% and is now attractively valued, with its twelfth consecutive increase in annual distributions, giving it a yield of 4.6%. Buy now.

GORDON PAPE'S ETF UPDATES

Prices are as of the close of trading on Sept. 26.

Harvest Brand Leaders Plus Income ETF (TSX: HBF)

Current price: $8.96
Originally recommended: Aug. 18/17 at $8.84
Annual payout: $0.72
Yield: 8%
Risk: Moderate
Website: www.harvestportfolios.com

Comments: This fund invests in an equal-weight portfolio of 20 large companies selected from the world's Top 100 Brands. Top holdings include highly recognized names like UPS, Shell, Apple, Alphabet, McDonalds, and PepsiCo. These are all industry leaders that can survive any recession. The managers use covered call writing to enhance income.

The holdings are absolutely sound – none of these companies is going out of business. But all are being dragged down by the broad market, and as a result, the fund is well off its 52-week high of $11.92 and is now just slightly ahead of our original purchase price.

The distributions are consistent at $0.06 a month, giving the fund an apparent yield of 8%. But that's an illusion because the market value has steadily declined. For the year to the end of August, the fund is actually down 10.6%. For the five years to August 31, which approximates the period since we recommended it, this ETF has generated an average annual compound rate of return of 9.1%.

Action now: Hold. This ETF will recover when the market turns around, which it eventually will.

iShares 1-5 Year Laddered Corporate Bond Fund (TSX: CBO)

Current price: $17.05
Originally recommended: Oct. 27/10 at $20.88
Annual payout: $0.456 (12-months forward)
Yield: 2.7%
Risk Rating: Conservative
Website: www.ishares.ca

Comments: This is a short-term corporate bond fund that's supposed to protect your assets and provide a modest return. But the bond bear market we're now experiencing has hit even the most conservative ETFs. Your money is better off in a short-term GIC or a high-interest savings account from a small institution at this time.

Action now: Sell.