



## Dream Office REIT: Act Now and Collect an 8.7% Dividend

### Description

There are many things I don't understand. Quantum physics is lost on me. I don't get why freshly ground coffee beans smell so delicious but brewed coffee tastes so bad. And, at least according to my girlfriend, I can't tell the difference between blue and purple. But there's one thing that makes me scratch my head more than anything else: I cannot figure out why shares of **Dream Office REIT** ([TSX: D.UN](#)) keep going down.

Dream Office is one of Canada's largest owners of office space, spanning more than 175 different locations and approximately 24.3 million square feet of leasable area. The portfolio is concentrated in Toronto and Calgary, with 39.5% of its space located in the GTA and 16% in Calgary. It owns some of the largest office towers in both cities' downtowns, as well as a smattering of smaller buildings in the suburbs.

Thanks to its attractive portfolio and sheer number of properties, Dream's revenue base is rock solid. Not only does it boast more than 2,200 different tenants, but its top tenants are among the largest companies in Canada. The **Bank of Nova Scotia** is the company's top tenant, followed by the Governments of Canada, Ontario, and Quebec. Rounding out the top 5 is **BCE**. Those are the kinds of tenants every landlord wishes they could get.

Plus, the company has one of the strongest balance sheets in the business. Its debt-to-assets ratio has recently crept under 47%, and management has brought down the effective interest rate for its debt to 4.2%. The company estimates its net asset value is more than \$33 per share, meaning investors are paying approximately 80 cents on the dollar to buy Dream's assets, its management expertise, and a dividend that's extremely generous.

### Why is the price going down?

Dream is facing a couple of minor issues that are making investors nervous.

First of all, there's an influx of new office space coming online in Toronto, especially in the suburbs. Investors are speculating that this will cause pricing pressure and perhaps a lower occupancy rate going forward.

The other headwind is the weakness in the company's operations. Its rents are anywhere from 5-10% under the market rate. The company says its happy to take a discounted rate to secure a tenant to a long-term agreement, while investors are punishing it because management isn't holding out for top dollar. Occupancy currently stands at 94.6%, which is also a little weak. Analysts would like to see it in the 96-97% range.

Ultimately, these are minor problems. Even though occupancy is a little disappointing, the company is still expecting funds from operations to come in at \$2.43 per share in 2015. Investors who opt for cash dividends get \$2.24, putting the payout ratio at a comfortable 92%.

### **How to supercharge the dividend**

As I type this, investors who opt for a cash dividend will enjoy a yield of 8.4%. That's good, but it can get even better.

All you need to do to increase the yield is take your dividends in the form of additional shares. Dream gives investors a 4% bonus for doing so.

Let's look at an example: 1,000 shares would set an investor back \$26,650, plus commissions. Each month this investor would receive \$181.66 in cash dividends, or \$188.92 in value if taking shares. That doesn't seem like much, but if an investor does it over a year they'll end up with an extra \$87. Everybody can use an extra \$87.

I'm not sure when Dream Office REIT is going to recover. It could be next week or it could continue to be weak as the Fed raises interest rates in 2015. But investors are getting paid a sweet dividend to wait, and getting a nice bunch of assets for 20% off what they're worth. Seems like a good deal to me.

### **CATEGORY**

1. Dividend Stocks
2. Investing

### **TICKERS GLOBAL**

1. TSX:D.UN (Dream Office Real Estate Investment Trust)

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