



## Dream Office REIT Is a High-Income Contrarian Play

### Description

Previously known as Dundee REIT, **Dream Office REIT** ([TSX:D.UN](#)) is the largest office real estate investment trust in Canada. Its portfolio of office properties are primarily located in central business districts of Canada. Like other real estate investment trusts, Dream Office REIT is benefiting from the low interest rate environment. As its upcoming mortgages mature, it is able to refinance at a lower rate for interest savings.

#### Dream Office REIT's top 10 tenants

Dream Office REIT owns more than 24 million square feet of hard-to-replicate central business district and suburban office properties. Its top tenants include easily recognizable brands: **Bank of Nova Scotia**, the government of Canada, the government of Ontario, **Bell Canada**, the government of Quebec, **Telus**, **Enbridge**, State Street Trust Company, the government of Saskatchewan, and the government of Alberta.

It's not surprising that these top tenants have exceptional credit ratings ranging from AAA to BBB+. They contribute to 27% of Dream Office REIT's gross rental revenue.

#### Is Dream Office REIT's distribution safe?

For the past decade, Dream Office REIT has never cut its monthly distribution and raised it by 1.8% in 2013. In the same period, its payout ratio ranged from 72% to 95%. With the payout ratio sitting at 78% right now, its distribution seems safe, but I won't bet on distribution raises based on its history.

#### Is it time to buy Dream Office REIT?

Dream Office REIT has essentially traded between the range of \$25 and \$28 since October 2013, and is currently near the mid-range of its 52-week price range of \$23.80 to \$29.78. Last month, its consensus net asset value estimate is \$32.53 per unit. With its current price under \$26, it is selling at a discount of more than 20%. Investors looking for current income and possible price appreciation can consider buying its units at the current levels.

#### What can investors expect in the future?

Analysts estimate a one-year target price of \$30 to \$31.50. If you do end up buying Dream Office REIT

units in your portfolio at \$26, from capital appreciation alone, you're estimated to get a return of 15% to 21% in one year. Adding in the 8.6% yield, that's a total return of 23.6% to 29.6%.

The reason I say Dream Office REIT is a contrarian play is that from 2005 to 2014, its funds from operations increased from \$2.61 to just \$2.87 per unit. In my opinion, this has resulted in the recent price stagnation. I believe Dream Office REIT's 8.6% yield is solid, but the price appreciation potential requires more conviction.

## CATEGORY

1. Dividend Stocks
2. Investing

## TICKERS GLOBAL

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

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