Are These 3 REITs That Yield 7% Too Good to Be True?

Description

In 2015 it's really easy to get nervous about dividend yields greater than 5%.

Think about the competing sources of income. To get more than 1% on a GIC or a government bond, you have to lock your money up for years. Corporate bonds aren't much better, unless you're willing to tie up your money for a decade or longer. Even most stocks are only in the 2-3% range, with a select few getting higher.

But there are deals out there where you can collect dividends that are really high, and can still count on these payers to keep paying. These investments do carry risk, but as part of a well-diversified, income-generating portfolio, there isn't much danger. If a stock has a 3% position in your portfolio and it falls 20% because of a dividend cut, it isn't the end of the world.

Here are three REITs that I think have a pretty good shot at maintaining payouts north of 7% annually. That's good news for anyone looking for income.

Dream Office REIT

Dream Office REIT (TSX:D.UN) is one of Canada's largest pure-play office space REITs. The company owns more than 24 million square feet worth of leasable area, spread out over 177 different buildings. Some of the company's holdings include the Telus Tower in Calgary and the Scotia Plaza in Toronto, two of the largest office buildings in each city.

Yet shares of the company trade at a discount of nearly 20% compared to book value, as well as only trading 10 times the company's funds from operations, a key measure of profitability for REITs. Investors are concerned about certain markets like Calgary and Toronto. The company's occupancy ratio, which is currently at around 91%, is a little light. Investors would like to see it closer to 95%.

But from our point of view, that makes shares pretty cheap. Even at 91% occupancy, the company’s8% dividend is sustainable, with the payout ratio at about 80% of its funds from operations. That’spretty comparable with Dream’s peers, actually. It also means occupancy could theoretically drop tobelow 90% and the payout wouldn’t suffer.

Artis REIT

Kind of like Dream, shares of **Artis Real Estate Investment Trust** (TSX:AX.UN) are suffering partly because of perceived weakness in Alberta and Saskatchewan.

But in reality things aren’t so bad. The company owns 26 million square feet worth of office, retail, and industrial property, with just 30% of the portfolio in high-risk areas. The majority of assets are located in Ontario, with B.C. and the U.S. also having a significant share. U.S. results could even make up for weakness in the prairies, thanks to the decline of the Canadian dollar.

Artis boasts an occupancy rate of 95%, and a payout ratio of just 76%. For a stock that yields 7.2%, that’s not a bad combination. While it does have some oil exposure in the at-risk markets, it’s mostly office space, which tends to be more stable.

I’m not overly concerned about Artis’ payout either. Things have to get very bad in Alberta before it’s at risk.

Dream Global REIT

Ever dream of buying real estate in Germany? **Dream Global REIT** (TSX:DRG.UN) gives investors that chance. It owns 266 properties in Deutschland, covering nearly 15 million square feet in space. It has a diversified tenant base, with one exception—Deutsch Post occupies nearly 30% of its total leasable area. It was once 85%, so at least progress is being made.

In 2014 the company reported a payout ratio of more than 90%. That’s a little high, but is certainly sustainable. The issue is the exchange rate between the Canadian dollar and the Euro. So far in 2015, that’s been a positive, which is leading to nice returns. But it won’t always be that way.

Which is why I think Dream Global REIT and its 7.7% might be the riskiest 7% yielder, at least in the long term. The short-term outlook is great; I just worry about the inevitable currency swing in the other direction.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:AX.UN (Artis Real Estate Investment Trust)

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

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/09/28
Date Created
2015/04/24
Author
nelsonpsmith