



Which REIT Is a Better Bet for Income Investors: Dream Office REIT or Dream Global REIT?

Description

Owning rental properties can be a lucrative investment—but it's not for everybody. There's more to becoming a landlord than just cashing a monthly rent cheque. It's like taking on a second job. So, if you're thinking about buying a rental property, you need to understand what you're getting into.

That's why real estate investment trusts (REITs) are such great alternatives. As regular readers know, these firms own properties, collect rent from tenants, and pass on the profits to unitholders. And because they're professionally managed, there are no renters to deal with or toilets to unclog.

Dream Office REIT ([TSX:D.UN](#)) and **Dream Global REIT** (TSX:DRG.UN) are two of the most popular with investors, and it's not hard to see why. Both trusts sport top yields and pay out reliable distributions. And because each firm specializes in office properties, they open up an area of the market that is usually off-limits to ordinary investors.

So, which trust is a better bet for income? Let's see how these two firms stack up on a range of measures.

1. Yield: Both Dream Global and Dream Office sport some of the highest yields around with payouts topping out at 8.1% and 8.3%, respectively. That's seriously attractive compared with the meager yields you'll find today on GICs and government bonds. *Winner: Dream Office*

2. Payout growth: Of course, evaluating a REIT is a lot harder than just picking out the trust with the highest yield. Payout growth is also important. We want to ensure that our income stream can rise faster than inflation over time.

Unfortunately, Dream Office has hiked its distribution by only 2% in the past five years—hardly enough to keep up with rising prices. Dream Global has fared even worse. The European landlord hasn't increased its payout once since going public in 2011. *Winner: Dream Office*

3. Earnings growth: Future distribution hikes depend upon growing profits. In the real estate industry we use adjusted funds from operations, or AFFO, in lieu of earnings to measure the performance of a

business. This is calculated by adding depreciation, amortization, and other adjustments to a fund's net income.

Dream Global is benefiting from a strong German economy, which is pushing down vacancy rates and driving up rents. As a result, the firm is expected to grow AFFO by 11% this year. Dream Office, in contrast, is struggling under the weight of an office glut in Canada. The firm is only expected to grow AFFO by 2% in 2015. *Winner: Dream Global*

4. Reliability: Dependability is also important. After all, we don't want to see our income stream dry up without warning.

That said, Dream Office has paid a distribution to unitholders every month since 2002, one of the longest streaks of consecutive payments in Canada. Dream Global is developing a good track record of paying distributions, too. However, the trust only started mailing out cheques to investors in 2011. *Winner: Dream Office*

5. Safety: This year Dream Office and Dream Global are projected to pay out 90% and 110% of their AFFO to unitholders as distributions, respectively. That gives Dream Office a bit more financial wiggle room if business sours. *Winner: Dream Office*

6. Valuation: Dream Global trades at a premium 15 times forward AFFO, which could leave units vulnerable to a sell off if results disappoint. Dream Office, in contrast, now trades at only 10 times forward AFFO. In fact, the trust is so cheap, management is earning better returns by buying back its own units rather than reinvesting profits back into the business. *Winner: Dream Office*

And the results are in...

As I said, I like Dream Office and Dream Global. Both sport excellent yields, pay reliable distributions, and both deserve a place in any income portfolio.

That said, Dream Office REIT's taller yield and cheaper valuation gives it the slight edge in my books. It's the contrarian play in real estate, and any good news could send units soaring. So, if you only have room for one REIT in your portfolio, this is the trust to hold.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

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