Which Is the Better Office REIT: Dream Office REIT or Allied Properties REIT?

Description

The typical retail investor is unlikely to buy office buildings to rent out because it involves a lot of work, including scouting out a good location, managing the properties, and advertising for potential tenants. Once a potential tenant shows interest, you also have to do background checks on them to ensure they're able to pay the rent every month.

However, you don't have to do any of that work if you buy shares in a real estate investment trust (REIT). Between **Dream Office REIT** (TSX:D.UN) and **Allied Properties REIT** (TSX:AP.UN), which one should you consider today? First, let me introduce you to the two office REITs.

Dream Office REIT

Dream Office REIT is one of Canada's largest pure-play office REITs. Its tenants includes municipal, provincial, and federal governments as well as Canada's major banks, three of Canada's prominent law firms, and small- to medium-sized businesses across Canada.

With over 2,200 tenants, Dream Office's risk of exposure to any single large lease or tenant is mitigated. Further, 17.5% of its total rental revenue comes from the government and government agencies that provide stable and quality cash flows.

Allied Properties REIT

Allied Properties REIT owns and manages a portfolio of mainly Class I office properties in the urban areas of Ville de Quebec, Montreal, Ottawa, Toronto, Kitchener, Winnipeg, Calgary, Edmonton, Vancouver, and Victoria.

Class I office properties offer a compelling value proposition to tenants in that they

- are close to central business districts and are well served by public transportation;
- have distinctive internal and external environments that help tenants attract, motivate, and retain employees; and
- have significantly lower gross occupancy costs than space in office towers (sometimes up to 50%

lower).

Comparing the two REITs

Yield: The higher the yield, the more income shareholders receive today. Dream Office yields 9.1% at $24.50 per unit, while Allied Properties yields 4.1% at $35.50.

Distribution growth: Other than giving more income back to shareholders, distribution growth also encourages price appreciation of the security. From 2004 to 2014 Dream Office's distribution increased by 1.8%, while Allied Properties increased by 24.8%.

Funds-from-operations growth: A healthy distribution is supported by growing funds from operations (FFO). From 2004 to 2014 Dream Office's FFO per unit increased by a compounded annual growth rate (CAGR) of 2.2%. On the other hand, Allied Properties's FFO per unit increased by a CAGR of 3.3% in the same period.

Additionally, in the past three years, Dream Office has hardly grown in that aspect, while between 2011 and 2014 Allied Properties grew its FFO per unit by a CAGR of 14.8%.

Payout ratio: The lower the payout ratio, the safer the yield. Dream Office's payout ratio is about 78%, while Allied Properties's is about 67%.

Valuation: Dream Office is trading at a multiple of 8.4, while Allied Properties is trading at a multiple of 16.1. However, since Allied Properties is expected to experience higher growth, the higher multiple is reasonable. Looking at their historical multiples, Dream Office is trading at a slight discount, while Allied Properties is fairly valued.

Tax-deferred income: If a big percentage of the distribution consists of return of capital, buying the REIT in a non-registered account results in that portion being tax-deferred. In 2013 and 2014 Dream Office's distribution had 54-73% as return of capital. Between 2004 to 2014 Allied Properties's return of capital made up 54-94% of the distribution.

In conclusion

If you have room in a TFSA, it makes sense to have your investments there to avoid any taxes. However, if you run out of room, it might make sense to buy one of these REITs in a non-registered account to defer some of the taxes on the income.

To be honest, I was attracted to Dream Office's high yield when I started a position in it. If I had to choose between the two today, I would go with Allied Properties for its higher growth.

Still, if you're looking for current income, you'd probably want to go with Dream Office because its yield is double Allied Properties's. However, Allied Properties offers higher growth as well as a safer income.

Of course, since one offers higher income and the other higher growth, it doesn't hurt to buy both for blended yield and growth.

CATEGORY

1. Dividend Stocks

2. Investing

TICKERS GLOBAL

1. TSX:AP.UN (Allied Properties Real Estate Investment Trust)
2. TSX:D.UN (Dream Office Real Estate Investment Trust)

Category

1. Dividend Stocks
2. Investing

Date
2025/08/18
Date Created
2015/07/01
Author
kayng