Get an 11% Income From Dream Office Real Estate Investment Trst

Description

Dream Office Real Estate Investment Trst (TSX:D.UN) has been in a downtrend since 2013. It has fallen 46% from 2013's $37 level to the current $20 level. In the past year alone it has fallen 29% from $28.50 to $20. As a result of that price decline, the office real estate investment trust (REIT) now offers a very attractive income of 11%.

Is the REIT really cheap or is it a value trap? Let's take a look at its business fundamentals.

Diversified tenant base

Dream Office owns 24.1 million square feet of gross leasable area across 34 cities and 2,200 tenants. Its tenants are diversified with 22% of rental revenue coming from financial and insurance tenants and 17% coming from scientific and technical services and government tenants, respectively. The remaining 45% of revenue comes from a group of tenants in diversified industries, including 8% from mining, oil and gas.

Its top 10 tenants contribute 27.5% of its rental revenue. They all have credit ratings of BBB+ or better. They're businesses such as **Bank of Nova Scotia**, **BCE Inc.**, **TELUS Corporation**, and different levels of government.

High occupancy levels

Dream Office has historically enjoyed occupancy levels that are at least 3% higher than the national office average. In the second quarter of 2015, it didn't disappoint. The REIT posted occupancy levels of 92.8%, which was 4.2% higher than the national average in the same period.

Dividend safety

Dream Office hasn't cut its distribution since 2004. Its annual payout is $2.24 per unit. So, if you buy 100 units in a TFSA for roughly $2,024, you'll receive $224 per year. Its payout ratio is around 80%, which leaves a margin of safety for the distribution.

How cheap is Dream Office?

Let’s look at Dream Office using multiple valuation metrics. The REIT’s book value is $33.6 per unit. The recent share price is $20.2, which implies that the shares are priced 40% cheaper than the book value.

The consensus net asset value (NAV) for Dream Office is $29.7 per share. According to this NAV, the shares are discounted by roughly 32%.

In the past decade, Dream Office normally traded at a price-to-funds-from-operations ratio (P/FFO) of 10.6, while it’s priced at a P/FFO of 7.1 right now. That said, during the financial crisis, it hit a multiple as low as four.

No matter if you look at Dream Office shares from the perspective of book value, NAV, or P/FFO, it still looks cheap.

In summary

Income-hungry investors can consider Dream Office at these levels. There’s a big margin of safety for its shares, seeing that it is discounted by at least 32% according to the multiple valuation metrics that were discussed.

REITs pay out distributions that are unlike dividends. If you wish to avoid the tax-reporting hassle, you should buy REITs in a TFSAs or a RRSP.

CATEGORY

1. Dividend Stocks
2. Investing

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