Should You Buy Dream Office Real Estate Investment Trst for the 11.3% Yield?

Description

The REIT sector is taking it on the chin this year, and **Dream Office Real Estate Investment Trst** (TSX:D.UN) is certainly feeling the pain.

Let's take a look at the company to see if its dreamy distribution deserves to be in your portfolio.

Company profile

Dream Office REIT owns 24.1 million square feet of office space in urban locations across Canada.

The portfolio consists of 176 properties with 93% average occupancy. The largest part of the portfolio is located in the GTA where the company owns 9.6 million square feet of space. Eastern Canada accounts for 5.9 million square feet, and the remaining 8.6 million square feet is located in western Canada.

The average remaining lease term on the entire portfolio is five years.

Oil patch problems

Economic woes, specifically in Alberta, have put pressure on the stock.

Dream Office REIT gets 26% of its net operating income from Alberta, with 18% coming from Calgary and 8% derived from buildings in Edmonton.

The situation in the oil patch continues to get worse, and energy companies stuck with lease agreements on empty space are now subleasing for as low as 50% below the original cost.

That doesn't bode well for building owners who have leases expiring in the near term.

According to its latest investor presentation, Dream Office REIT indicates 10.2% of its gross leasable area, or about 2.46 million square feet of space, will expire in Calgary and Edmonton over the next three years. The company has a total of 2.7 million square feet of space in Calgary, so a significantpart of that portfolio is at risk of being empty or rented out for significantly less money on renewal.

To make things worse, five new office towers are expected to add more than two million square feet of space to the Calgary market in the next three years.

Balance sheet

Dream Office REIT has $3.1 billion in total debt with an average term to maturity of 3.9 years, so most of the obligations will have to be replaced with new notes very soon. Interest rates are expected to start creeping up as early as next year, so that could translate into higher debt costs going forward.

Stronger markets

Things don't look great out west, but the company's GTA portfolio is doing well. Dream Office REIT's landmark building, Scotia Plaza, is 99.7% leased and represents 15% of the company's total net operating income. The core tenant, **Bank of Nova Scotia**, leases 60% of the building.

Dream Office REIT's 26 buildings located in downtown Toronto represent 30% of the company's total operating income.

Should you buy?

The company owns fantastic properties in strong locations that should do well over the long term.

However, with a yield of 11%, investors have to be careful because the market is rarely wrong when things get to this level. The overall economic situation in the country is not great right now and the pain in the oil patch is likely to get worse.

For the moment, I would avoid the stock and look for other yield opportunities that carry less risk.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

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