



REITs With High Yields up to 12.2%

Description

Due to the low oil-price environment, real estate investment trusts (REITs) that own a meaningful portion of their properties in resource provinces are being penalized by the market. These REITs include **Dream Office Real Estate Investment Trst** ([TSX:D.UN](#)) and **Northview Apartment REIT** (TSX:NVU.UN).

As a result, they now have historically high yields.

Dream Office REIT yields 12.2%

Dream Office REIT gets about 26% of its net operating income from Alberta, 18% from Calgary, and 8% from Edmonton. The market fears the low oil-price environment will result in lower occupancy rates in resource provinces. It's a valid concern.

In the second quarter, Dream Office's occupancy rate for downtown Calgary was 88.2%, which is higher than the industry's average of 87%. Similarly, the REIT's occupancy rate for suburban Calgary was 90.1%, which is higher than the industry's average of 83.2%. However, both occupancy rates have declined from the 96% occupancy level that was seen in the second quarter of 2014.

With recent downgrades of the REIT, Dream Office is now priced at multi-year lows. At \$18.30 per unit, it yields 12.2% and has a price-to-funds-from-operations ratio (P/FFO) of 6.5. During the financial crisis in 2008, it reached a P/FFO of four at about \$12 and yielded over 17%.

On the bright side, roughly 27.5% of Dream Office's gross rental revenue comes from quality tenants with credit ratings of BBB+ or higher. These tenants include **Bank of Nova Scotia**, **Telus Corporation**, the federal government, and several provincial governments.

The REIT has maintained its distributions since it started paying them in 2003. Based on the adjusted funds from operations, Dream Office's payout ratio is 95%. So, that leaves little margin of safety for its distributions.

Northview Apartment REIT yields 8.9%

Northview Apartment REIT has more than 24,000 residential suites across eight provinces and two territories; 25% of its revenue comes from Nunavut, 22% comes from Alberta, and 21% comes from the Northwest Territories.

Northview Apartment REIT is now priced at multi-year lows. At \$18.30 per unit, it yields 8.9% and has a P/FFO of 7.5. During the financial crisis in 2008, it reached a P/FFO of 8.3 at about \$16.3 per unit and yielded over 9%.

The REIT has maintained and slowly increased its distributions. From 2002 to 2014, the annual payout increased from \$1.15 to \$1.63 per unit. Northview's payout ratio of about 70% gives some margin of safety for its distributions.

In conclusion

Because of the risk of a prolonged low oil price, the market is pricing in the risk of a potential distribution cut from these REITs. If you're willing to take that risk, you can buy shares today.

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

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1. Dividend Stocks
2. Investing

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1. Editor's Choice

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