



## Dream Office Real Estate Investment Trst: Is the 12% Yield at Risk?

### Description

**Dream Office Real Estate Investment Trst** ([TSX:D.UN](#)) is getting hammered, and investors who think the big distribution is sustainable might want to pinch themselves.

### GTA strength

Dream Office REIT operates more than 24 million square feet of office space in urban centres right across Canada.

The real estate portfolio contains 176 properties with an average occupancy rate of 93%. On the surface, those numbers look pretty good, and investors might be tempted to believe the distribution is extremely safe.

The company's largest presence is in the GTA where economic conditions are reasonably strong and demand for office space in the downtown core is robust.

The company's flagship asset is Scotia Plaza, a towering skyscraper located right in the heart of downtown Toronto. The building is 99.7% leased and represents a full 15% of Dream Office REIT's net operating income. The main tenant, **Bank of Nova Scotia**, leases 60% of the building.

Dream Office REIT has 26 downtown Toronto properties that contribute 30% of the company's overall operating income.

The company's other 150 buildings are the reason for some concern.

### Warning signs in Alberta

Alberta represents 26% of Dream Office REIT's net operating income. Calgary is responsible for 18% of that and Edmonton kicks in the other 8%.

Oil companies continue to lay off staff, and the sense in the patch is that things are going to be pretty rough for an extended period of time.

This has led to a lot of empty space in Calgary's top office buildings. Energy companies are now sub-leasing some of the locations for 50% of their original cost in an attempt to mitigate the losses while the lease agreements run their course.

That's bad news for the building owners.

Dream Office REIT's latest investor presentation indicates that contracts for 10.2% of its total leasable area, or about 2.5 million square feet, will expire in Calgary and Edmonton during the next three years.

According to the company's documents, it has 2.7 million square feet of space in Calgary, so a large part of the portfolio in that city is set to come up for renewal very soon.

If oil prices don't turn around, Dream Office REIT could be looking at empty buildings in the near future, or at the very least, significantly reduced lease rates.

The story gets worse.

Developers are putting the finishing touches on five brand new buildings that will add two million square feet of office space in Calgary in the next three years.

### **Debt concerns**

Dream Office REIT has \$3.1 billion in total debt. The average term to maturity is 3.9 years, so the company will have to replace those notes with new debt very soon. With interest rates expected to start moving higher, Dream Office REIT could end up paying more for its money in the coming years.

### **Is the distribution safe?**

The market is sending investors a big signal that the dreamy distribution might not be as safe as some pundits would have you imagine. If the economy continues to weaken, the company's vacancy rate in other markets could also start to creep up.

At this point, investors should be cautious when buying the stock for the yield.

### **CATEGORY**

1. Dividend Stocks
2. Investing

### **TICKERS GLOBAL**

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

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