Get 9-13% Yields From These Dreamy REITs

Description

When thinking about getting rental income, the companies that come to mind from the **Dream Unlimited Corp.** empire are **Dream Office Real Estate Investment Trst** (TSX:D.UN) or **Dream Global REIT** (TSX:DRG.UN).

Well, that's not a surprise.

Although, they are all managed by Dream Unlimited Corp., Dream Office and Dream Global have bigger scales than **Dream Industrial Real Estate Invest Trst** (TSX:DIR.UN). But which one should you buy today for a safe yield?

Dream Office REIT

Dream Office has office property assets worth $7.5 billion, equating to 24 billion square feet of gross leasable area (GLA). About 71% of the REIT's net operating income (NOI) comes from central business districts.

Its top 20 tenants have an average credit rating of AA- and include quality businesses such as **Bank of Nova Scotia**, **Bell**, **Enbridge**, the federal government, and multiple provincial governments.

Why is it so cheap?

Dream Office's price of $17.8 is 40% below its consensus net asset value (NAV) of $29.7. This is likely because 26% of its NOI is from Alberta. However, Dream Office also gets 30% of its NOI from downtown Toronto where it has a 98% occupancy rate.

Is its 12.6% distribution safe?

The REIT's strong occupancy rate of 92.8%, staggered lease maturities, and rental growth should keep its distribution safe. Additionally, its adjusted funds from operations (AFFO) payout ratio is around 95%.

Dream Global REIT

Dream Global has German office property assets worth $2.6 billion, equating to 13.2 million square feet of GLA. The REIT focuses its investments in seven major cities that include Hamburg, Munich, and Frankfurt.

Germany is a good place to invest because it is the Eurozone's largest economy and the world's fourth-largest economy. It also posts one of the lowest unemployment rates in the Eurozone.

Dream Global is trading at a discount compared with its peers.

Is its 9.8% distribution safe?

The REIT's occupancy rate of 86.8% at the end of September has improved from 2014's occupancy rate of 85.3%. When you consider that average in-place rents have increased by 7% since the fourth quarter of 2014, its distribution is safer than it was in 2014.

Dream Industrial REIT

Dream Industrial has industrial property assets of $1.7 billion, equating to 16.9 million square feet of GLA across 220 properties. Two-thirds of its portfolio is multi-tenant, offering opportunities for rental growth. Additionally, its NOI is diversified as no tenant contributes over 3.6%.

Dream Industrial has balance across building types: 42% of GLA is in warehouse and distribution, 39% is in flex industrial, and 19% is in light manufacturing.

What's more to like is that new supply is only expected to be 1%. Also, it has limited exposure to oil and gas related tenants, which make up 3.3% of GLA. Although 24% of GLA is in Alberta, its Alberta portfolio has a high occupancy rate of 97%.

Based on consensus NAV, Dream Industrial is trading at a discount of 24%.

Is its 9% distribution safe?

The REIT has an occupancy rate of 94.6% and average remaining lease terms of 4.3 years. Also, about 95% of NOI is situated in key urban locations close to major transportation infrastructure.

Dream Industrial's AFFO payout ratio has come down to 85% in the third quarter of 2015 from 2012's 94.1%. Adding that Dream Industrial forecasts AFFO to grow 4% by the end of this year, its distribution of 9% at $7.80 per unit is safe.

Tax on the income

REITs pay out distributions that are unlike dividends. Distributions can consist of other income, capital gains, foreign non-business income and return of capital. Other income and foreign non-business income are taxed at your marginal tax rate, while capital gains are taxed at half your marginal tax rate.

The return of capital portion reduces your adjusted cost basis. This means that that portion is tax deferred until you sell your units or until your adjusted cost basis turns negative. So, if you buy REIT units in a non-registered account, you'll need to track the change in the adjusted cost basis. The T3 that you'll receive will help you figure out the new adjusted cost basis.

Of course, each investor will need to look at their own situation. For instance, if you have room in your TFSA, it doesn't make sense to have investments in a non-registered account to be exposed to taxation.

In conclusion

Although yielding a few percentage points less, I think Dream Industrial and Dream Global offer safer yields than Dream Office today.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:D.UN (Dream Office Real Estate Investment Trust)
2. TSX:DIR.UN (Dream Industrial REIT)

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