Is it Safe to Buy Dream Office Real Estate Investment Trst for the 13% Yield?

Description

Dream Office Real Estate Investment Trst (TSX:D.UN) is down more than 30% this year.

That has pushed the distribution yield to a level that income investors dream about, but new buyers should be wary of the nightmare that could be in the works.

Beware Alberta

Dream Office REIT owns more than 24 million square feet of office space spread out across 176 different properties in urban centres across Canada.

The average occupancy rate is 93%, and the company's largest presence is in popular Toronto.

On the surface, everything looks rosy, but there are issues brewing when you start to dig down into the holdings, and that's why Mr. Market is driving the stock to a new five-year low.

Alberta represents 26% of Dream Office REIT's net operating income with 18% coming from Calgary. Edmonton contributes 8%.

The rout in the energy market has forced oil and gas companies to reduce staff, and expensive office space now sits empty. In an effort to mitigate losses, some energy companies are sub-leasing their office locations for as low as 50% of the original lease agreement.

That doesn't bode well for the owners of Calgary's office buildings.

Dream Office REIT says 10.2% of its total leasable area, or about 2.5 million square feet of office space, will be up for renewal in Calgary and Edmonton in the next three years.

The company has a total of 2.7 million square feet of space in Calgary, so a significant part of the leases in the city will be expiring in the near term.

There is a risk that already empty space will not find new tenants, and the non-energy companies that have to renew will certainly demand much lower rent because they have a variety of options to choose from in the downtown core.

How much space is available?

Calgary has five new office buildings under construction right now that will flood the market with an extra two million square feet of space in the next three years.

Economic risks in other regions

There is a real risk that Alberta's woes could spread across the country. If unemployment starts to creep up in other major centres, the rest of Dream Office REIT's portfolio could be in for some difficult times.

Debt costs

Dream Office REIT has $3.1 billion in long-term debt with an average maturity of just 3.9 years. This means the company will have to hit the markets for new capital in the short-term, and the new debt might be more expensive than the current obligations.

Should you buy?

Any time the yield on a distribution gets this high, there is a serious threat of a cut. I would look elsewhere for opportunities to invest your money.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

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