



3 Office REITs With 10% Yields

Description

Wouldn't you just love to invest in real estate properties and collect rent that's delivered to your account without having to lift a finger? Well, that can become a reality today.

You can invest in real estate investment trusts (REITs) that own, manage, and collect rent from real estate properties. By buying REITs, your portfolio can gain exposure to real estate.

In fact, there are three REITs that yield 10% today.

Dream Global REIT (TSX:DRG.UN) owns and operates offices and mixed-use space in Germany. Its assets are diversified across 214 properties, with a focus in seven major cities including Frankfurt, Hamburg, and Berlin.

Fundamentals look stronger than ever. At the end of September 2015 compared with December of 2014, the REIT had average in-place net rent per square that increased by 6.8%, which is 3.7% higher than market rents. At the same time, its occupancy rate has improved by 1.5% to 86.8%.

However, the units have retreated by 23% from its 52-week high. Today the REIT yields 10% at \$8 per unit.

NorthWest Health Prop Real Est Inv Trust (TSX:NWH.UN) owns healthcare real estate in Canada, Brazil, Germany, Australia, and New Zealand. Specifically, it has interests in 123 properties with eight million square feet of gross leasable area of \$2.5 billion.

Specifically, 33% of its net operating income (NOI) comes from hospitals and 67% comes from medical office buildings. Geographically, 55% of NOI comes from Canada, 23% comes from Brazil, 12% comes from Germany, and 10% comes from Australasia.

Currently, it's making accretive expansions in Australia, having completed about 34% of the \$77 million projects. So far, it has generated a rent increase of roughly \$2.5 million, which is improving same-store NOI. The rest of the expansions are expected to be completed by the second quarter of 2016.

Further, 16 assets in Canada are being held for sale. Of its remaining assets, the REIT has a 95.8% occupancy rate.

NorthWest Health Prop Real Est Inv Trust just finished buying back and canceling \$700,000 units with an average unit price of \$8.01, which is a discount of about 15% to its third-quarter net asset value of \$9.49 per unit.

Today the REIT yields 10% at \$8 per unit.

Slate Office REIT (TSX:SOT.UN) focuses on high-quality, non-trophy office properties in major office markets in Canada. The REIT believes greater value can be found in these non-core assets, which make up two-thirds of the Canadian office inventory. For example, these assets have lower replacement costs and higher cap rates than core office properties.

At the end of November Slate Office just sold \$56.2 million industrial and retail properties. Currently, 86% of its NOI comes from office properties.

Since the third quarter of 2014, Slate Office has diversified from 28 properties of 1.8 million square feet to 48 properties of 5.1 million square feet. After acquiring the **Fortis** portfolio in Atlantic Canada, Slate Office is now diversified geographically across Atlantic Canada (48%), Ontario (30%), and western Canada (22%).

Its top 10 tenants that contribute 45% of portfolio revenue are investment grade. As well, they include quality tenants such as **Bell Canada**, the federal government, and four provincial governments.

Slate Asset Management L.P. owns about 19% of the REIT, so unitholders can be assured that management's interests are aligned with unitholder's interests.

Today, Slate Office yields 10.7% at \$7.01 per unit.

Tax on income

REITs pay out distributions that are unlike dividends. If you wish to avoid the tax-reporting hassle, buy REITs in a TFSA or an RRSP. Investors may be interested to know the return of capital portion of REIT distributions is tax deferred until unitholders sell or until the adjusted cost basis turns negative.

Conclusion

All three office REITs have high yields of 10%. However, high yields typically come with higher risk. For example, their payout ratios are high, so there's little margin of safety for their high yields. Still, they could make sense as a small part of a diversified portfolio to boost income.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)
2. TSX:RPR.UN (Ravelin Properties REIT)

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