



Buy Dream Global REIT to Boost Income: 7 Improving Qualities

Description

Rental properties are great sources of monthly income. However, not everyone has the time to manage and maintain properties. Real estate investment trusts (REITs) make it easy for anyone to earn a monthly income from real estate investing.

You can buy REITs with the right qualities that generate the income you need.

Lucrative commercial real estate investing was once only available to the few who had connections. Thankfully, investors can gain exposure to commercial real estate investing via REITs today.

Dream Global REIT (TSX:DRG.UN) offers one of the highest yields on the market. It yields 8.7% today.

Dream Global owns and operates 13.5 million square feet of office and mixed-use space in Germany and Austria. It has total assets of \$2.8 billion across a portfolio of 203 properties.

Improving qualities

For income investors, there are seven improving qualities that support Dream Global's high yield.

The improving qualities are thanks to Dream Global's efforts and the strong fundamentals in the German real estate market.

Acquisitions: In 2015 Dream Global made more than \$500 million of acquisitions, including the entry into Vienna, Austria. This leads to a more diversified portfolio of quality office assets in Europe.

Refinancing activities: In 2015 Dream Global refinanced its term loan facility from which cost savings are expected to increase adjusted funds from operations (FFO) per unit by five cents.

Strong leases and tenant retention: In 2015 Dream Global made 1.3 million square feet of new leases and renewals. The 2015 tenant retention was 79%.

Higher occupancy and increasing rent: Dream Global's occupancy rate has been improving since

2014. Increasing rental rates is also a positive for Dream Global and its shareholders.

Improving share price: Since the announcement of its first-quarter results on May 4, Dream Global shares have appreciated 4.7%. The shares are up 6% year to date.

Record-low vacancy rate: The German unemployment rate is 4.5%, which is among the lowest in the European Union. Low unemployment rate implies low vacancy rates in office buildings. In fact, Dream Global sees record-low vacancy rates and moderate new supply in Germany's seven biggest office markets that the REIT focuses on.

Record-low mortgage rates in Germany: Dream Global completed a seven-year mortgage at a rate of 1.07%. Lower interest rates imply cost savings.

Tax on the income

If you're buying REIT units in a TFSA or RRSP, you do not need to worry about the rest of this section. However, if you want to learn about REIT's tax-advantaged nature, read on.

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 of your marginal tax rate.

On the other hand, 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 changes 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 the non-registered account to be exposed to taxation.

Conclusion

Dream Global's payout ratio, based on its first-quarter diluted FFO per unit, was 100%. So, there's no margin of safety for its 8.7% yield. However, 13% of shareholders participated in the dividend-reinvestment plan, which resulted in an actual payout ratio of 97%.

To compare with an investment in a rental property, if you invest \$300,000 in Dream Global today, you'd get an annual income of \$26,100, which equates to a monthly income of \$2,175.

The REIT trades at \$9.18. If it dips to about \$8 per unit or lower, it'd be a stronger buy.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date

2025/08/21

Date Created

2016/05/17

Author

kayng

default watermark

default watermark