How to Monitor Dream Global REIT for its Income

Description

Adding **Dream Global REIT** (TSX:DRG.UN) to your portfolio will give you exposure to Germany and likely boost your income, but before you decide to invest in it or not, let's take a look at its business first.

The business

The real estate investment trust (REIT) has more than 200 office and mixed-use space properties primarily in Germany. Last year it invested in a property in a joint venture in Vienna, Austria. In total, Dream Global has $2.8 billion of assets across 13.5 million square feet of gross leasable area.

It focuses on seven major office markets in Germany, including the cities of Hamburg, Dusseldorf, Cologne, Frankfurt, Stuttgart, Munich, and Berlin. In February it acquired a property in Essen and another in Munich. Both had high occupancy rates of 96% compared to Dream Global's portfolio occupancy of 88%.

As mentioned, Dream Global also participates in joint ventures. At the end of the first quarter Dream Global had a 50% interest in nine properties and 10% interest in another.

Top tenants

Deutsche Post has a BBB+ credit rating and is Dream Global's top tenant. Although there's concentration risk in this top tenant because it contributes 22% of the REIT's annual gross rental income (GRI), the concentration risk has been significantly reduced from 2011's 85% contribution.

Dream Global's remaining top nine tenants contribute between 1.2% and 3.4% of GRI, including the Government of Hamburg, the Government of Dusseldorf, and companies such as ERGO Direkt Lebensversicherungs AG, **BNP Paribas Fortis SA/NV**, and Google Germany GmbH, which have A-grade credit ratings.

Is its distribution safe?

Dream Global has a short history as it had its initial public offering in August 2011. However, it has maintained its monthly distribution so far.

Based on the REIT's first-quarter diluted funds from operations (FFO) per unit, its payout ratio was 100%. The distribution reinvestment plan (DRIP) participation of 13% managed to bring the actual payout ratio down to 97%, which is cutting it very close. At $9.24 per unit, Dream Global yields almost 8.7%.

Improving fundamentals

There are things to cheer about, though. With record-low mortgage rates in Germany, Dream Global has been able to reduce the cost of borrowing. For example, the REIT's most recent financing of an asset in Munich has a fixed interest rate of 1.07% for a seven-year term.

From Q4 2014 to Q1 2016, Dream Global's occupancy rate increased 2.7% to 88%. Its average rental rates have also been increasing.

Debt

Dream Global's interest coverage ratio was 2.78 times, and its debt to gross book value was 55% in the first quarter. These ratios were less favourable than in the first quarter of 2015. However, the REIT reassured investors that this is a temporary phenomenon due to the use of its revolving credit facility to partially fund its first-quarter acquisitions.

Conclusion

Dream Global's 8.7% yield is enticing. However, investors buying it for income should watch three things.

First, ensure Deutsche Post remains financially healthy and note if Dream Global continues to reduce its exposure to this top tenant to further reduce concentration risk.

Second, keep a watchful eye on Dream Global's payout ratio and DRIP participation. With a payout ratio that has little to no margin of safety, if the REIT's FFO falls or its DRIP participation falls, Dream Global's distribution could be in danger.

Lastly, watch for any uptick in interest rates in Germany. Higher interest rates would mean greater interest expense, making it more costly for Dream Global to borrow.

CATEGORY

1. Dividend Stocks
2. Investing

Category

1. Dividend Stocks
2. Investing

Date
2025/08/25
Date Created

2016/07/22
Author
kayng