



Income Investors: Collect \$1,000 Per Month From Dream Office Real Estate Investment Trst

Description

There's a reason why many investors have used real estate to get rich.

There are numerous advantages to owning the asset class. People are always going to need a place to live. It's easy to borrow large amounts of money to buy it. And it's been remarkably consistent over the last two decades with prices going up each year like clockwork.

But there are also issues. Anybody who's ever had to boot out a non-paying tenant knows it takes work. Property managers exist, but they take a portion of the profits. And it's really hard for a regular investor to diversify outside one city.

I have a better solution. REITs give investors great income, and investors don't have to do any of the work. REITs are true passive income.

Let's take a closer look at how investors can use **Dream Office Real Estate Investment Trst** ([TSX:D.UN](#)) to really supercharge their income.

Why Dream?

The company is Canada's largest pure-play owner of office properties, owning nearly 21 million square feet worth of space spanning 148 different buildings. The company has focused on buying high-quality real estate in the downtown core of Canada's major cities with an emphasis on Calgary and Toronto.

The Toronto exposure has worked out pretty well. Calgary? Not so much. Dream was hit especially hard when oil companies that call Alberta's largest city home aggressively downsized. Retail and industrial real estate in the city held up much better than office space.

This weakness is showing up in Dream's results. In 2014, the company had 93% occupancy. These days, that number is below 89%; many investors are convinced it'll fall even further. There are a few new buildings that will open in Calgary over the next couple of years which are bound to put pressure on Dream's holdings in the city.

But it's not all bad for Alberta. Energy prices seem poised to rebound. Most head office cuts are done by now. And Dream is offering incentives to keep tenants in Calgary.

Dream did cut its dividend earlier in 2016, slashing the payout from \$0.186 per share each month to the current level of \$0.125. The dividend today is less than 60% of funds from operations, meaning it's quite safe, even if Calgary continues to be weak.

Collect \$1,000 per month

For wealthy investors, getting \$1,000 per month from Dream Office REIT is easy. Shares currently yield 7.9%. All investors need to do is pick up 8,000 Dream shares—an investment valued at \$152,880, less brokerage commissions.

For those of us without \$153,000 kicking around, we have to be a little more innovative.

There is a way regular investors can use leverage to turn a comparatively small amount of their own money into a big position in Dream.

Say someone had \$50,000 to invest today. They could then borrow an additional \$50,000 from the bank, using their home (or other asset) as collateral. We're now up to \$100,000 in capital.

This person could then take that \$100,000 and put it in a margin account, borrowing an additional \$52,880 to complete the investment. Certain brokerages only charge 2% on margin debt.

This plan is a little risky, but no more so than putting 30% down on a rental property—something people do all the time. And since Dream has a diverse portfolio that covers Canada, we can even argue it's less risky than buying local real estate.

There are other advantages too. A \$103,000 loan at an average cost of 2.5% would cost \$2,575 in annual interest—an amount that would be fully tax deductible. It would generate \$12,000 in income. Without putting an extra nickel in the account, an investor could expect such an investment to pay itself off in less than 10 years.

The bottom line

I'm a firm believer in buying REITs versus physical rental properties. REITs are the only way to get exposure to real estate without doing any of the work. And if investors are feeling a little frisky, they can use the same leverage strategies to buy those REITs, creating a huge income stream in the process.

CATEGORY

1. Dividend Stocks
2. Investing

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