Two Office REITs To Boost Your Income

Description

Real estate is one of the best ways for income investors to bring in consistent income. And while owning major commercial real estate would be an amazing feat for any investor, the reality is, for many of us, we simply cannot handle it. Either we don't have the resources to make that kind of acquisition or we simply lack the property management understanding.

Fortunately, there are two real estate investment trusts that offer solid opportunities for office real estate exposure.

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

This is one of my favorite REITs, primarily because of the slight discount it trades at. Its net asset value (NAV) is approximately $22.48 (though this fluctuates as properties are sold), but it currently trades just a bit over $20. Therefore, you're getting a couple bucks of "free" company.

For those that haven't paid attention to Dream Office in a while, there might be a sour taste because of last year's distribution cut. However, this was a necessary move. With oil prices tanking, its occupancy rate in Alberta dropped and it was effectively paying out more than it was bringing in. Now, though, the company is in a much stronger position and is in the process of selling non-core properties. The theory is simple: if the market won't value the buildings, it will value hard cash held on the balance sheet.

Here's what to expect over the coming years … Management will continue to shed assets, with $400 million in various stages of negotiation as of February. The company will also look to buy back its shares, resulting in a leaner company. It has already done this, spending $80.2 million for 4.2 million shares during 2016.

During all of this, investors can feel comfortable getting a 7.49% yield. At some point, as oil prices increase or management reduces the outstanding shares, the company's share price will increase.

Allied Properties Real Estate Investment (TSX:AP.UN)

This REIT is one that I've been reading about quite a bit over the past couple of months. Allied focuses its resources on the major Canadian cities, which reduces volatility primarily because of natural urbanization as seen across multiple economies.

It has 150 properties with a total of 11.9 million square feet. Toronto and Montreal account for 39% and 36% of leasable area. Calgary adds another 8.5%, Kitchener adds 4.5%, Winnipeg is 2.9%, and Edmonton, Vancouver, Quebec, and Ottawa each are 2.4% or less. Across the entire network, it has an occupancy ratio of 92.1%. Its strongest is Toronto at 95.2% and its weakest is Quebec City at 61.1%, but this is only 223,407 square feet.

It has also seen its funds from operations grow from $2.09 in 2014 to $2.13 in 2016, with net income increase from $2.13 to $4.01 in the same time. Growing funds from operations and net income is important because Allied has a distribution to pay. It currently yields 4.08%, which is good for $0.1275 per month. Even better, the distribution is growing. In 2014, it paid $1.41 in distributions for a full year; this year, investors should expect $1.53.

But which is the better one?

Frankly, I'd own both. Dream Office yields better and has a nice discount compared to NAV, but I like Allied Properties' strategy of focusing on the core cities and the fact that its distribution is increasing. If I was buying, I'd have exposure to both.

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