Buy Dream Global REIT and Gain Exposure to the German Real Estate Market

Description

What if I told you that you could gain exposure to real estate in the fastest-growing G7 economy and also earn a yield that is often well over 7%? Would you immediately start scrounging together your money so you could buy? If the answer is yes, you'll want to keep reading…

The G7 is comprised of Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States. The fact that Germany is the fastest-growing economy in the G7 is significant considering these are economic powerhouses.

Dream Global REIT (TSX:DRG.UN) is your way to gain exposure to real estate in this country (and other parts of Europe). You'll notice the name because it is part of the Dream family of REITs; however, unlike the others, Dream Global's focus is Europe.

As of June 30, 2017, the portfolio consisted of 151 properties with a gross leasable area of 12.5 million square feet. The company has pared back some of its holdings; it had 169 properties on March 31, 2017.

Its portfolio is spread across key German cities, including Hamburg, Hanover, Berlin, Dusseldorf, Cologne, Nuremberg, Munich, Stuttgart, and Frankfurt, with an additional holding in Vienna, Austria. Austria had been its focus for some time, but the company just recently made moves to expand into the Netherlands and Belgium.

Dream Global completed the acquisition of 135 office and light industrial properties in the Netherlands. The company expects this deal to be accretive by over 10% to the company's estimated 2018 FFO and AFFO per unit. It issued $300 million in new shares at a price of $10.50 per, and it raised €375 million in a debt offering. This is a major move for the company.

In Belgium, Dream Global acquired a multi-tenant office complex, the Airport Plaza, for $143.2 million. This is the in the sixth-largest office market in Europe, so it is clearly a part of the world that makes sense for Dream Global. The Airport Plaza totals 387,500 square feet of gross leasable area with 97% currently occupied at a weighted average lease term of 8.1 years.

On the topic of tenants, let's look at a big win and slight (really slight) cause for concern. In Q2, Deutsche Post, the world's largest postal service and international course, renewed its lease for 90% of its square footage — this is 2.5 million square feet. This concerns me because Deutsche Post accounts for 18% of the business. Should something happen to the company, Dream Global could suffer. Fortunately, Deutsche Post seems to be in fine standing, so that's good news for Dream Global.

With Dream Global, you'll be earning a yield over 7%. Every month, investors can feel comfortable knowing that they are receiving $0.067 per share.

However, the lack of growth in the distribution is mildly concerning. Nevertheless, with the recent acquisitions in the Netherlands, it might be time for the company to boost the dividend somewhat, though there has been no talk about this happening.

My strategy when it comes to Dream Global is quite simple: start buying shares, especially with the yield so strong. Reinvest the dividends back into more shares of the company. That Netherlands deal is going to be a big win for the company, so the future returns should be significant. Unlike other REITs in the Dream family, Dream Global is executing flawlessly.

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