Boost Income and Growth by Diversifying Internationally With This REIT

Description

Investing in the TSX has always been fraught with risk. Not only is its performance closely correlated to U.S. markets, but it is weighted heavily towards financials and energy stocks**,** which make up 35% and 20% of the index, respectively. This lack of diversification across industries and economic sectors creates a higher degree of risk for Canadian investors.

One of the best means of reducing that risk is to diversify internationally. In an earlier article, I explained how to do this by investing in emerging markets. Another means of achieving diversification is by investing in **Dream Global REIT** (TSX:DRG.UN), which offers exposure to some of the most developed and strongest economies in western Europe.

Now what?

Dream Global offers investors the opportunity to invest outside Canada by giving them exposure to a diversified property portfolio in western Europe composed of 287 properties located in the Netherlands, Austria, Belgium, and Germany. The portfolio is centered on Germany, the continent's largest economy, where 72% of its properties by gross asset value are located.

It is important for investors to note that Dream Global's portfolio is primarily comprised of commercial office properties with many of its top tenants operating in logistics, technology, and finance. These include **Deutsche Post, DHL,** which is its largest single tenant, **Siemens,** BNP Paribas and **Alphabet** (Google). That means that it has minimal, if any, material exposure to the crisis sweeping through the retail industry, which has precipitated the collapse of several major brick-and-mortar retailers — many of which were anchor tenants for shopping malls.

As a result, Dream Global is not exposed to those risks that are weighing heavily on the outlook for retail REITs, making it a far more desirable investment.

The REIT continues to post solid operating results. For the second quarter 2017, net operating income rose by 10% year over year, while funds flow from operations shot up by an impressive 31%.

Importantly, Dream Global reported a stellar occupancy rate of 90% at the end of the quarter, which was 2.4% higher than a year earlier. Coupled with its ongoing strategy aimed at making accretive acquisitions of high-quality office properties in European markets that possess solid growth potential, this will drive further earnings growth.

Earlier this year, Dream Global completed the $143 million purchase of Airport Plaza, a multi-tenant office complex located in Brussels that houses the headquarters of NATO and the European Union. It then followed up with the needle-moving $900 million acquisition of 135 properties in the Netherlands, which is forecast to be more than 10% accretive to funds flow from operations.

That deal gave Dream Global a significant operational footprint in one of the fastest-growing European property markets, where economic growth for the June quarter was among the fastest-growing western European economies. This saw the projected 2017 GDP growth rate for the Netherlands increased from 2.4% to 3.3%. Such strong economic growth bodes well for the performance of Dream Global's properties in the country.

It is important to note that the economic outlook for Germany, where the majority of Dream Global's properties are located, is also positive. The OECD expects economic growth to remain strong and business investment to strengthen, which will underpin higher occupancy rates and further earnings growth.

So what?

The noteworthy outlook for Dream Global's operations bodes well for not only higher earnings but also the sustainability of its distribution, which yields a very juicy 7%. That, coupled with the ability to diversify into some of the fastest-growing economies and property markets in Europe, makes Dream Global a particularly appealing investment, especially for retirees and other income investors.

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