Become a Global Landlord and Generate Passive Income Yielding Almost 6%

Description

In an environment where interest rates remain low and the yield of traditional income paying assets such as bonds are meagre, REITs have become the preferred investment of income hungry investors. It is not difficult to understand why.

Typically, REITs pay regular juicy distributions that are yielding well in excess of the returns from bonds, guaranteed investments, certificates and other fixed interest instruments. The decision by the Feds to put further rate hikes on hold amid growing speculation that the Bank of Canada could even cut rates in coming months has placed considerable pressure on fixed income investments, thus causing the popularity of REITs to surge. REITs are also viewed as stable relatively low risk investments, which are typically less volatile than other stocks, thereby enhancing their appeal for investors hungry for income.

An important aspect to consider when investing in REITs is using diversification as a means of reducing risk. This is because many tend to concentrate their investments in one class of property and jurisdiction. One REIT that allows investors to boost their international exposure is Dream Global REIT (TSX:DRG.UN), which owns a portfolio focused predominantly on office properties in Western Europe and pays a distribution yielding a very juicy 5.7%.

Quality Eurozone focused property portfolio

The core of Dream Global's $5.7 billion property portfolio is in the Eurozone's largest economy Germany where 73% of its properties are held, another 21% are in the Netherlands and the remaining 6% are split evenly between Belgium and Austria. The trust finished 2018 with a 91.4% occupancy rate, which was over 3% greater than a year earlier.

The trust's top tenants include major organizations such as Deutsche Post, Siemens, the City of Hamburg and Munich Re, which reduces much of the counterparty risk associated with Dream Global's portfolio.

Impressively, net rental income for the year surged by 39% year over year to $255 million, and net income almost doubled to $581 million. While the economic outlook for the Eurozone remains muted, Dream Global continues to experience solid growth. Net-asset-value has increased by a compound annual growth rate (CGAR) of 20% over the last two years, and Dream Global is focused on bolstering the value and income generating capacity of its properties.

The trust has 20 properties and 56 acres of land that it's redeveloping to improve the return those assets generate. Dream Global also has 45 properties with a combined value of around $127 million, which it classifies as non-core assets and anticipates selling over the next year with the capital raised to be used to fund higher quality acquisitions and improve existing properties.

Why buy Dream Global?

The contracted nature of Dream Global's revenue along with its wide economic moat protects its earnings while ensuring that they grow at a stable rate — this along with a low payout ratio where distributions represent around 76% of FFO supports the sustainability of Dream Global's payments and juicy yield of almost 6%.

Dream Global also has a solid balance sheet, finishing 2018 with $2.5 billion of net debt with a low leverage ratio of 41% and a healthy interest coverage ratio of five times earnings. This provides Dream Global with considerable financial flexibility, which further supports the sustainability of its distribution and makes additional accretive acquisitions.

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mattdsmith