Dream Office Real Estate Investment Trst: A Safe Investment After Recent News?

Description

For the past few months I have been trying to determine if **Dream Office Real Estate Investment Trst** (TSX:D.UN) is a safe investment. At times it paid an incredibly high 14.7% yield, which many predicted was not sustainable based on where its real estate assets are located.

Those predictions were right. Management announced that it would be cutting its dividend by approximately 33% from $0.1867 per share to $0.125. No one likes a dividend cut, but the reality was very simple: Dream Office couldn't afford to pay those sorts of yields.

Ever since oil prices started to tumble, there has been concern that Dream's assets in Calgary, Alberta, were not going to be able to generate nearly as much revenue as they had in the past. In 2015 funds from operations were $2.83. That is expected to drop somewhere between $2.20 and $2.30 in 2016. The yield would have been $2.24 for the year, which couldn't be paid.

Fortunately, now that the yield has been cut, the company is in a much better position to withstand future problems. And to ensure that the company is completely secure, it is also looking to sell non-core assets worth $1.2 billion over the next three years.

Dream also revealed that it had strong leasing commitments across the country. In Calgary specifically, it announced that 200,000 square feet had been leased. While occupancy did drop to 91.3% from 91.5%, many investors expected it to be much worse.

Think about value

But here's what investors need to think about: according to management, the net asset value per share is $32.78. If we were to calculate the value of all the properties the company owns, the stock should be trading at over $32.

Yet it trades just under $20 per share. This is a 40% discount that I believe investors should be looking to take advantage of. I have no doubts that the stock is going to continue rising now that the hard–but right–decision to cut the yield has been made. Investors will be much more comfortable knowing that Dream can afford to pay its dividends.

Here's what I expect over the next year.

Dream will sell some of its assets to bring in more cash. If investors won't value the buildings, they'll definitely value cash on the books. But along with that, I expect management to start buying back shares. If investors continue to discount the shares, Dream might as well reduce the number, which will increase the earnings per share.

All told, I expect 2016 to be a very good year for Dream Office. It made the tough decision to cut its dividend, but now that it has, the company can focus on increasing value for its investors. And along the way, investors can still get a lucrative yield that is now very secure. So yes, I believe this stock is definitely safe now and should be considered by investors.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

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