Have Dreams of Yield With Dream Office Real Estate Investment Trst

Description

There's no denying that I've been particularly excited about **Dream Office Real Estate Investment Trst** (TSX:D.UN) over the past few months. I believe that investors are beginning to realize that this REIT might be the real deal.

For those who are unaware, a REIT is a special type of investment whereby the bulk of the company's revenue is derived from real estate. In Dream Office's case, that comes from commercial real estate throughout Canada. They're special because they pay the vast majority of their profits to investors in dividends is highly lucrative.

If you look at the stock, it's easy to see that in the first half of 2015 the stock traded at close to $30 a share; however, by the beginning of 2016 that had cratered down to about $15/share. The primary reason for this is because Dream Office has quite a bit of its assets in oil-producing regions; therefore, when the price of oil plummeted, investors were concerned that Dream Office would experience problems with its tenants breaking leases.

And if we look at the occupancy rate of 91.4%, investors were right to be nervous. Earnings were weak and its dividend was going to cost more than it was able to earn in a year. In other words, it would have had to pay $2.24 in dividends with an earning guidance of only $2.20-2.30. Therefore, it cut the dividend from $0.125 per share to $0.1867 per share–a 33% trim.

But now Dream Office is primed for success.

Dream Office is incredibly cheap. At the end of the first quarter, management estimated that the net asset value was $30.31, which means that if you valued all of the real estate it owns and it traded appropriately, the shares should be right around $30.31. Yet it trades at $19.66. If it were to increase by that much, investors would see a 35% improvement on their investment. That's a big discount.

To get around this, management has decided to start selling its non-core assets. This is a tactic companies use when investors are not valuing the assets they own. Dream Office can then reinvest those funds into the company either by reducing debt, buying back shares, paying a special dividend, or acquiring core-type assets.

The company plans to sell $1.2 billion, of which $212 million has already been sold in May with $200 million in line to be sold next. While management hasn't revealed what it will do with this cash, the sales should prove to be very lucrative.

Dream Office's non-core assets don't earn as much as its core ones; therefore, the 7.63% yield the company currently pays is in a secure position even as it cuts some of its properties from the portfolio. So long as its payout ratio stays in the 65-75% area, which it should, investors shouldn't be too concerned about the yield.

All in all, Dream Office has dealt with some tough times and was forced to cut its yield. However, with management starting to sell assets in an attempt to bring shares closer to NAV, investors should hop into this discounted company. You'll get to enjoy the lucrative dividends while the shares increase in value.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

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