Why Dream Office Real Estate Investment Trst Has Fallen +6% Intraday

Description

Today Dream Office Real Estate Investment Trst (TSX:D.UN) released its second-quarter results. The real estate investment trust (REIT) continues to be dragged down by its Alberta portfolio, which contributes 27% of its net operating income (NOI).

Alberta challenges

Alberta continues to experience challenges, and from Dream Office REIT's second-quarter report, the economic uncertainty and weakness in the Albertan office sector may be longer than anticipated.

Due to its Albertan portfolio, Dream Office recorded a fair-value loss of $675.3 million and $748.4 million, respectively, for the three- and six-month periods ended June 30, 2016.

Occupancy

Dream Office's in-place occupancy rate declined 1.4% to 87.7% compared with the prior quarter. Excluding the impact of Alberta, the in-place occupancy would have declined 0.3%.

Essentially, Dream Office began to experience a downtrend in its portfolio occupancy since the third quarter of 2015. Compared with the same period in 2015, the second-quarter in-place occupancy declined 3.3%.

That said, Dream Office's core portfolio, which contributes about 40% of its NOI, continues to do well. This portfolio, which is primarily located in downtown Toronto, had an in-place and committed occupancy of 98% with a weighted average lease term of almost six years.

Progress

Dream Office has renewed 95.4% of its maturing leases for this year from its core portfolio and achieved 10.4% higher rental rates compared to the expiring rates. The REIT has also secured 65% of the 2017 lease maturities in its core portfolio.

As a part of its strategic plan announced in February, Dream Office has sold 36% of the $1.2 billion non-core assets it'd planned to sell within three years. Another 10% of the $1.2 billion are under contract or in discussion.

Dream Office aims to sell these assets at roughly their carrying values and has managed to do so so far.

Distribution

At about $17.30 per unit as of writing, Dream Office yields almost 8.7%. Based on the funds from operations per unit the REIT is expected to earn this year and the elimination of the distribution-reinvestment plan, Dream Office's payout ratio would be about 68%, which makes its distribution safer than it was before.

Conclusion

As Dream Office stated in its letter to unitholders, "Since July of 2014, the oil and gas industry has realized significant financial deterioration … our assets in Alberta relied on a recovery in market fundamentals in order to improve their leasing profile and/or liquidity in the private markets."

As of the end of the second quarter, Dream Office expects more challenges ahead in Alberta. Since about a quarter of the REIT's NOI comes from Alberta, the negative outlook dragged the shares down.

That said, the REIT continues to make efforts in its leasing activities and to sell some of its non-core assets at carrying value with a primary focus to reduce debt and strengthen its balance sheet.

In the meantime, Dream Office's almost 8.7% yield looks safer than it was before.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

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