



## Why Dream Office Real Estate Investment Trst Is My Largest Position

### Description

After recently adding to my position in **Dream Office Real Estate Investment Trst** ([TSX:D.UN](#)), I realized something. The troubled REIT had quietly become my largest position at approximately 8% of my total portfolio.

You'd think I'd be uncomfortable with this. After all, Dream's troubles are almost legendary at this point. Office space in Calgary, Dream's largest market, is about as popular as ice on the North Pole. This led the company to both cut its dividend back in February and take a massive write-down on the value of its Alberta portfolio with second-quarter earnings just a couple of weeks ago.

But I don't think things are nearly as bad as the market thinks. Here are the three main reasons why I'm very long this name and will continue to be so until it recovers to highs previously set in 2012.

### Patience

One of the biggest advantages the individual investor has over portfolio managers and hedge fund gurus is the ability to be patient. We can hold out-of-favour stocks until they recover. Portfolio managers run the risk of investors pulling out if their portfolio has too many warts.

In the company's latest quarter, net asset value was impaired from more than \$30 per share to \$23 per share, a write-off entirely because of the value of its Alberta portfolio. Overall, in 2016 the trust has decreased the value of its Alberta holdings by 45% from \$1.68 billion to \$930 million.

The company doesn't see things recovering anytime soon, either. Occupancy in the province sunk from 89% in 2015 to 84% this year. That's a big drop.

But at the same time, I doubt it's really a drop that justifies a 45% decrease in asset prices. Occupancy is down 5% but values are down 45%? That seems like a bit of an overreaction to me.

It won't happen this year or probably even next year, but eventually Alberta will recover, and so will the value of office towers in the province. Management will then write up the value of assets, giving shareholders who had the patience to get in today a nice reward.

## Catalyst

Dream's management team is making the prudent move of selling assets in more favourable locations to help shore up the balance sheet.

Out of the \$1.2 billion in assets identified as part of this plan, \$437 million has been sold by the end of Q2 with an additional \$130 million either under contract or in advanced negotiation.

The cash from these deals will be used to pay down debt, creating financial flexibility. Management has been somewhat tight-lipped about what they plan to do with the cash. Perhaps they'll go shopping in locations like downtown Toronto—places the market likes. Or maybe the company will go contrarian, hoping to pick up some bargains in Alberta.

Either way, the market will likely embrace this plan, which will hopefully allow shares to trade closer to their \$23.64 net asset value.

## Get paid to wait

Dream needed to cut its dividend. The payout ratio was approaching 100% with economic conditions deteriorating. And freeing up cash to put towards debt repayment is a prudent move.

The new payout of \$0.125 per share each month should be sustainable even if things from Alberta continue to get worse. Funds from operations for the first six months of 2016 have been \$1.33 per share, giving the company a payout ratio of just 56%. That's exactly what dividend investors like to see.

Thanks to weakness in the share price, the dividend yield is an eye-popping 9.2%. That's a key reason why I'm so exposed to the stock.

I look at it this way. If I get paid \$1.50 per share to own the stock and it takes five years to go from \$16.39 per share to \$35 per share, I have a total return of \$26.11 per share. Dividends of \$7.50 per share make a big part of that gain, and I can use them to invest in other opportunities along the way.

## Should you buy?

I think Dream Office REIT shares will be worth much more five years from now. But saying that, I also believe the ride up will be a rocky one. Risk-adverse investors may want to skip this opportunity.

## CATEGORY

1. Dividend Stocks
2. Investing

## TICKERS GLOBAL

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

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