Is Dream Office Real Estate Investment Trst Still a Good Investment?

Description

Investing in real estate is a tricky, but potentially lucrative investment. Dealing with all of the problems relating to maintenance of the property, such as selecting a tenant, and then chasing them down each month for rent, makes that lucrative idea more of a chore.

Now imagine a case where someone else handles the maintenance problems, but you still get a monthly cheque. Even better, rather than one property, your monthly distribution is taken from hundreds of properties that are scattered around the country.

Sound good? Well, this is what it's like to invest in a real estate investment trust (REIT).

One REIT in particular that I've been following over the past year is **Dream Office Real Estate Investment Trst** (TSX:D.UN).

Dream has a combined portfolio of over 22 million square feet that is, for the most part, focused in and around the major urban areas in the country, particularly Vancouver, Calgary, Edmonton, Toronto, Montreal, and Ottawa.

Dream maintains a sizable portfolio in Alberta, which has been hard-hit by the weakened economy there. In the first half of the year, Dream's exposure to Alberta resulted in the company recording a fair-value loss of $748.4 million, prompting the need for a company-wide strategic plan to improvement.

Dream's plan

Dream's strategic plan is focused on four core areas.

Reducing the distribution to a manageable level was the first area of concern. Dream's monthly distribution is now set to $0.12 per share, or $1.44 per year, which results in a still-impressive yield of 8.74% given the current stock price of just over $17. The main point of consideration here is that Dream's lowered payout ratio is 77%, which is more than acceptable and allows for sustainable growth.

The second point relates to Dream obtaining a credit facility to shore up liquidity of the company, which was completed earlier this year when the company received $800 million in credit.

The third and fourth items are inter-related. Strengthening the company's balance sheet through debt reduction constitutes the third, and the value crystallization of approximately $2.6 billion worth of non-core assets over the next few years that dream has already identified rounds out the four-step plan. As of last month, Dream had already disposed of 17 properties with a value of over $400 million with another $130 million of properties still under contract.

Is Dream a good investment?

Dream has been in and out of the news for the better part of the year, from the company selling half of its stake in Scotia Plaza in downtown Toronto to the write-down of over $740 million stemming from the weakness in Alberta.

The truth of the matter, however, is that the stock is not a bad investment at all. While the stock did take a hit because of the crisis in Alberta, it has steadily clawed back to the point where Dream is now only down about 15% over the past six months and just over 1% year-to-date.

The strategic plan is the right thing for the company to do, and it's already having an impact. Also, keep in mind that with approximately 30% of the company's portfolio in Alberta, an improvement in the economy there will have a drastic impact on Dream's bottom line and stock price, which is already undervalued.

In my opinion, Dream remains a great investment opportunity. Management's strategic plan should see the company back to improved results, and as the Albertan economy kicks back into gear, so too should earnings. Dream's distribution, even at the new lowered rate, still provides a very impressive income-generating opportunity.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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Author
dafxentiou