Dream Office Real Estate Investment Trst: A Huge Opportunity for Investors

Description

Real estate has traditionally been considered the ultimate long-term investment. Unfortunately, properties require investments of both time and capital to ensure that the value of the property grows over time, and, if you have tenants, chasing them down for rent every month isn't all that appealing.

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Now consider an alternative for a moment. You could be invested in hundreds of different properties and still collect a monthly distribution. You would longer carry the property risk or need to chase down tenants.

Have I got your attention yet? Good. This is what it means to invest in a real estate investment trust (REIT). REITs have grown in popularity over the past few years; they're a great way to invest in real estate without having to worry about the overheating real estate market we hear about nearly every week now.

One REIT that has grabbed my attention of late is **Dream Office Real Estate Investment Trst** (TSX:D.UN), and there is plenty to like about Dream.

Dream's portfolio

Dream boasts a portfolio of over 21 million square feet of office space that is concentrated around the major metro areas of Toronto, Montreal, Vancouver, and Calgary.

Dream's holdings in Alberta remain a point of concern for both the company and investors, as the weakened economy in Alberta has resulted in higher vacancy rates, ultimately forcing Dream to record a fair-value loss of $748.8 million, slash the distribution, and institute a strategic plan.

The write-down effectively slashed the value of the company in the eyes of some investors; the stock dropped over 20% in the past year to the current level of just over $16.

Dream also instituted a strategic plan that was focused on increasing liquidity and reducing debt. To meet those objectives, Dream reduced the monthly distribution to $0.125 earlier this year, which still provides a very impressive 8.94% yield and is also in a very manageable payout range below 60%.

As part of that plan, Dream plans to liquidate $1.2 billion worth of non-core assets by the end of 2018. To date, Dream is already a third of the way there with 17 properties fetching $437 million so far. Dream selling half of its stake in Scotia Plaza in downtown Toronto is a prime example of this.

Dream's value is set to grow

Dream plans to use the proceeds from those asset sales to pay down the debt or to reinvest into new assets should the opportunity arise. While this is the right thing to do, there's another important factor to consider: Alberta.

Oil prices are slowly starting to claw their way back upwards, which should effectively act as a catalyst to the oil-and-gas-focused economy there. When that does start to happen, all of those undervalued holdings that Dream has in Alberta–roughly 18% of the company's portfolio–will start to appreciate and, in turn, bring the stock price back up. Keep in mind that Dream's holdings are primarily high-quality, high-demand office locations, many of which have occupancy rates of over 98%.

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An important point worth noting is that Dream values its entire portfolio at over $23 per share, whereas the market values the stock at just over $16. That's a huge disconnect that could weigh in on the minds of some investors as representing a huge discount.

In my opinion, Dream is a great long-term investment for anyone looking to add a REIT with huge potential to their portfolio. The strategic plan outlined by management is the right thing to do, and, despite a significant write-down and slashing of the monthly distribution, the company still pays out one of the best distributions on the market.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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