Why Dream Office Real Estate Investment Trst Is on My Watchlist

Description

Real estate is a very sensitive issue across the country of late for vastly different reasons. Vancouver and Toronto are reeling from a white-hot market that is starting to cool, and Alberta is coming to grips with the aftereffects of the slowdown in the oil industry, which caused prices there to cool as well.

If that weren't enough, several of the big banks have also announced measures relating to mortgages, which could make them cost significantly more for those who own homes and push home ownership even further out of reach for those who don't.

One reason many people turn to real estate is because of the income-producing potential that it can provide. Unfortunately, the constant worries about chasing down tenants for rent, conducting repairs, paying property taxes, and keeping properties rented can be a challenging task, if not a full-time job at times.

This where REITs come into play. They represent the closest thing an investor can get to being a landlord without worrying about fixing things or chasing down tenants. One company in the REIT landscape that has caught my attention recently is **Dream Office Real Estate Investment Trst** (TSX:D.UN).

Meet Dream Office Real Estate Investment Trst

Dream deals in predominately commercial office properties and has a portfolio of over 20 million square feet concentrated around the major urban and business centres of Canada.

Approximately 40% of the company's net operating income comes from a little under a third of that 20 million square feet–which Dream refers to as its core properties. Collectively, those core properties also account for nearly half of the value of the properties that Dream as.

Because Dream deals with commercial rentals that are in major business areas, the company counts on some of the largest businesses in the country as tenants, including leaders in the finance, energy, and technology sectors. This is important because these types of companies are less likely to pick up and leave, which translates into a solid stream of revenue for the company.

Wasn't Dream in trouble? Why is this good?

Earlier this year, Dream took a hit, devalued some of its portfolio, slashed its distribution, and eliminated a distribution-reinvestment plan. Ouch.

But that's where the bad news ends. Dream has since worked on a transition plan that has seen the company target over $1 billion in non-core properties that could be sold to pay down debt. There are two points that investors should take into consideration with respect to Dream.

First, the properties that were devalued are, for the most part, in Alberta. The market there is still recovering from an overall weakness in the oil industry. But the market there will recover, and when it does, those properties will begin to appreciate and push Dream's stock back up.

Second, when the string of bad news hit, Dream's stock dropped. And while the stock has steadily risen since then, the value of the company is still fairly far off from what the value of the assets it owns. By some accounts, there's a nearly 20% difference between the two.

Is Dream a good investment?

In my opinion, Dream is a great investment opportunity. The fact that we are referring to prime commercial real estate with large chunks of downtown Toronto and Calgary for a 20% discount is very compelling. And despite a cut to the distribution earlier in the year, Dream still pays out $0.125 per share on a monthly schedule, resulting in a very handsome 7.93% yield.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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