Looking for the Next Dream Investment?

Description

Dream Office Real Estate Investment Trst (TSX:D.UN) has rewarded medium-term investors much more than long-term investors. The issues management have run into included a payout ratio that was simply too high, and too many investors wanting to reinvest the dividends into more units, thereby expanding the share base.

Over one year ago, management cut the monthly payout drastically and ceased offering the dividend-reinvestment plan. With several quarters between then and now, shares have come back quite nicely considering the underlying business is an office REIT. REITs are oftentimes less volatile than most stocks.

Shares moved off lows of $16 per share to the current price of approximately $19, offering new investors a dividend yield close to 8%. Investors could have received a return close to 25%, encompassing both the capital appreciation and the dividend. To boot, shares, which have a tangible book value close to $22, are currently trading at a discount at the current price of $19.

As time moves forward and the gap closes, the question becomes, “What’s next?”

The next dream

Enter **Slate Office REIT** (TSX:SOT.UN). Trading at a price close to $8 per share and offering new investors a yield close to 9.25%, shares of this REIT trade at a slight discount to tangible book value. The tangible book value per share is approximately $8.50. Although this 5% discount may not seem attractive as the discount offered at Dream Office, the reality is that Slate Office REIT doesn’t come with any baggage or negative sentiment.

For fiscal 2016, the company paid out 87.6% of AFFO (adjusted funds from operations) — a solid number which declined from 2015’s percentage of 95.9%. AFFO is a measurement of funds available to shareholders for distribution after the expenses have all been paid.

The reason AFFO is measured separately for REITs is because the mortgage repayments are negative cash flows but are not considered expenses. The principle repaid on a mortgage is simply the reimbursement of capital already loaned to the company. The interest charged is considered an expense.

The fantastic news for investors is that at current levels the dividend-payout ratio and share price look to be 100% sustainable. Although the company announced a recent equity offering and acquisition, investors may just be getting a great bargain at these levels. Going back to Dream Office, however, it is important to note the announcement of the reduction in dividends paid (one year ago) was met with an increase in the share price.

Given the current situation at Slate Office REIT, the company has the opportunity to continue paying out cash to shareholders or retain the money for expansion. Either way, shareholders may be the benefactors of the end result — and that's a win-win.

CATEGORY

1. Dividend Stocks
2. Investing

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ryangoldsman