How to Sidestep the Current Real Estate Bubble

Description

Looking at how the price of real estate has exploded over the past year is something that is leaving a growing number of investors both surprised and shocked.

The average price of a home across Canada is now in excess of $500,000, but, granted, that's not as bad as the hot markets in Toronto and Vancouver. In Toronto, the average price of a home is now in excess of $800,000; a detached home in the 416 area of the GTA could be worth well over $1.2 million.

It looks like the dream of home ownership or purchasing an investment property to rent out is moving further out of reach for most, including the top 2% earners in the country.

So, what is a potential investor to do? Turn to REITs, and more specifically, **Dream Office Real Estate Investment Trst** (TSX:D.UN).

Meet Dream Office

Dream has a focus on primarily office space holdings scattered across the major metro areas of the country. In terms of tenants, Dream has leased out space to some of the largest companies in business in the finance, technology, and energy sectors, which means the chances of prolonged vacancies are unlikely.

Last year, Dream ran into issues meeting an overly generous distribution, while it was coping with a significant fair-value loss of nearly $750 million worth of properties hit by the weakness in the Albertan economy.

Dream also put forth an ambitious plan to divest non-core assets to pay down debt and shore up the finances. That plan also called for Dream to reduce the monthly distribution to $0.125 per share, which still provides an impressive, but now sustainable, yield of 7.85%.

This is where things get interesting.

What followed was a sell-off in which Dream lost 20% of its value as investors ran for safety. Ironically, this also left Dream with a net asset value (NAV) across all properties at a significant discount. Keep in mind that with the stock trading below the NAV, investors were able to buy into some of the hottest business real estate in the market below value and reap a healthy monthly distribution as well.

Dream has nearly made up for last year's loss, but, at the current stock price of $19, it's still trading below the book value. Even more impressively, the write-down on the Albertan properties is not factored into that price, meaning that as the economy begins to improve there, and those units get leased, Dream will realize additional revenue gains and appreciate further.

Or, as the company has suggested previously, it could stick with the original plan to divest the holdings. Either way, Dream stands to reap significant revenues.

Is Dream a good investment?

Provided that Dream continues to divest non-core assets, the company stands to continue down the path to a healthy yet sustainable growth. Additionally, while the NAV discount has been minimized over the past few months, there is still some advantage to buying in to Dream at current price levels.

In my opinion, Dream is a great addition to any portfolio, particularly for investors seeking long-term growth and income.

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

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