Don’t Miss Out on This REIT Which Pays a 7.5% Yield

Description

When investors think about **Dream Office Real Estate Investment Trst** (TSX:D.UN), they likely think of the February 2016 33% dividend cut which saw investors go from earning $0.1867 per month to $0.125. While dividend cuts can shake the trust we hold in a company, this cut was necessary because the company simply could not afford the distribution.

Fortunately, Dream Office is not the same company today that it was in February. And while the markets are still warming up to this notion, you can take advantage of a company that trades at a discount to its net asset value and, just as importantly, pays out a 7.5% yield.

Ultimately, what you’re investing in is a company that is retooling and changing its strategy. Jane Gavan, CEO of the company, said on a call, “In summary, Dream Office REIT will remain, as Michael [chairman] said earlier, a company under construction over the next two years which is going to impact our operating results.”

And this is why the opportunity exists, because others are not interested in a rebuild; however, long-term holders can stomach that sort of action. But what does this construction entail?

In February 2016, Dream Office REIT owned 166 properties with 23 million square feet. It was generating 45% of its net operating income from what it calls its “core” portfolio, which is the Greater Toronto Area and Montreal. Fast forward to May 2017, and it now has 106 properties with 67% of its net operating income coming from those two regions.

Ultimately, Dream Office REIT’s goal is to be a much smaller operation with 73% of its portfolio in the Greater Toronto Area and another 11% in Montreal. Calgary, which is a big pain point for the company, will still be in the portfolio, but it will be less important.

But why Toronto? Toronto is one of the fastest-growing cities in North America and represents 25% of Canada’s population. Further, it’s less dependent on oil prices being high to survive, so the chaos that Alberta inflicted on Dream Office REIT won’t be as much of a factor for the company.

To achieve its goal, Dream Office REIT has been selling off its non-core assets and then reinvesting those funds to pay off debt or buy back shares. So far, it has sold $1.1 billion and has another $400 million in various stages of negotiation and contract.

All in all, Dream Office REIT presents an opportunity to buy a company that has not fully recovered but has the cash flow necessary to both pay a dividend and focus on streamlining its business.

With an estimated net asset value of $22.48, you're effectively getting $2.50 in free real estate with every share that you purchase. Consider the following … if you were to spend $20,000 buying shares at today's $20, you'd have 1,000 shares. If you waited until it reached its net asset value, you'd only get 889 shares. That's a difference of over $150 in yearly income.

But understand that because this business is currently under construction, as the CEO said, there could be some temporary pain. However, when its strategy is done at the end of 2018, I expect investors will be far happier with the Dream Office REIT that they own.

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