



Dream Office Real Estate Investment Trst Just Signaled to Investors Now Is the Time to Sell

Description

Companies send signals to investors all the time; this topic continues to be studied by academics more and more as investors yearn for ways to interpret new data.

The standard textbook examples of market signals are typically stock issuances and share buybacks. When a company announces it will be issuing stock, the business is generally signaling to the market that its shares are overvalued. Alternatively, when a company announces share buybacks, it generally sends a signal to investors that shares may be undervalued.

When a business built on creating a portfolio of quality office real estate begins to sell some of its most prime properties to raise cash while reducing its dividend, I would generally consider that signal to be more negative than positive, regardless of how unsustainable the dividend was or how the cash raised could be used to buy back shares.

Dream Office Real Estate Investment Trst ([TSX:D.UN](#)) is one of the few REITs I have been overly bearish on of late for a few reasons, and its latest strategic move made me scratch my head for a number of reasons.

First, when I think about why an office REIT would go about selling arguably its best asset, an asset which is productive and should theoretically produce higher rates of income and capital appreciation relative to other assets, I wonder if the asset was overvalued. If the REIT considers the asset overvalued, does it believe other assets in its property portfolio are overvalued?

Second, if Dream Office is not intending to invest the proceeds of the sale into other profit-producing properties, but is paying these proceeds out to shareholders in the form of an accelerated share-buyback program, does that not further indicate to the market that the company has little faith in its ability to generate value at current property price levels, and that the list prices of its current portfolio of real estate may be fundamentally overvalued?

Pundits opposing the idea that a real estate bubble exists in Canada may continue to fester in the joy

of low interest rates and skyrocketing prices in Toronto and Vancouver; however, if no bubble exists, it boggles my mind as to why Dream Office is selling prime assets while choosing to buy back shares instead of jumping at the opportunity to reinvest the proceeds.

Stay Foolish, my friends.

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