Dream Office Real Estate Investment Trst: Will the Dividend Be Cut Again?

Description

Any time a company cuts the dividend, it can be an incredibly frustrating moment. Not only are you earning less money on your investment, but now you have to question whether the company is still sound or if there are more cuts coming.

That's the case with **Dream Office Real Estate Investment Trst** (TSX:D.UN). In February 2016, the company announced that it was cutting its distribution from $2.24 per year to $1.50 per year. Just a few months ago, Dream Office announced it was forced to cut the dividend again from $1.50 to $1.

What's going on? Is the dividend going to be cut again? Or are we finally on the other side of this mess?

Dream Office was a great investment when oil prices were high. The company's tenants in Alberta were doing just fine, and it was generating enough revenue to pay such a lucrative dividend. But, when oil prices tanked, Dream Office soon suffered. Cash flow began to dry up, so it did what it had to do — it cut the dividend.

Dream Office cut the dividend again over the summer because it was in the middle of a strategic restructuring. The restructuring included selling properties it viewed to be outside its core portfolio, which included many of those Albertan properties. Dream Office felt that it was smarter to be a smaller company with great properties than a large company with bad properties.

But that meant the dividend needed to get cut to ensure that the company could afford the transition.

Dream Office originally planned to sell $1.2 billion over three years starting in February 2016. A year later, it had expanded its goal to sell even more of its properties. Now the company expects that by the end of 2017 it will have sold $3.2 billion in properties.

The major deal that just closed is the sale of Scotia Plaza, 100 Yonge Street, and other assets to its business partners in those properties. All told, the gross disposition price was approximately $1.4 billion, which is a good return on those assets.

In exchange for the funds, Dream Office has been buying back shares in an immense fashion. Since the strategic restructuring started, it has bought back 77,224,424 REIT A units, accounting for 21.3% of the business before the restructuring started.

This does two things for investors, and it makes me feel comfortable with the dividend.

First, it boosts the NAV since there are far fewer shares, giving current investors a nice capital return. We can see that the stock has increased by over 11% since the middle of July. And second, by reducing the number of shares, the amount the company pays for dividends is smaller, so it ensures the company doesn't overextend itself.

So, I don't think the dividend will be cut again. But, should you buy Dream Office? Even now, you're getting a 4.75% yield, which is pretty lucrative. On top of that, you'll be holding stock in a company that is much leaner and focused on high-quality properties. Management believes the first stage of its strategy — the selling — is over, so now it'll focus on core growth.

I believe Dream Office has a bright future ahead of it, but it's going to take time for investors to feel better about the dividend cut. Fortunately, I don't see another one coming.

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