Dream Office Real Estate Investment Trst: How Is the Rebuild Going?

Description

Dream Office Real Estate Investment Trst (TSX:D.UN) has been in a major rebuild since the beginning of 2017. The rebuild has been necessary because the company was suffering from an over-investment in oil-rich parts of the country, which suffered when oil prices tanked.

Prior to deciding to rebuild, 53% of Dream Office's IFRS value was in Toronto, with other cities holding the rest. The goal was to boost the IFRS value in Toronto to 62%, with 14% in Montreal, 13% in Calgary, and the rest in a few other regions around Canada.

So, how has the company been doing?

Since early 2016, the company has sold $3.3 billion of properties. In December 2016, the company had 121 properties with 17,233,000 square feet of gross leasable area. At the end of 2017, it had 42 properties with a gross leasable area of 8,188,000 square feet. The average in-place and committed net rent per square foot increased from $20.94 last year to $21.02 this year, but the committed occupancy rate dropped from 89.5% to 86.1%, which management blamed on major vacancies in properties in Saskatchewan.

Michael J. Cooper, the new CEO, said in the most recent earnings release, "we have re-positioned our business to increase our downtown Toronto presence, which is one of the healthiest office markets in the world, to about 60% of our overall value." The portfolio is much leaner and has a more targeted focus on Toronto.

But is Dream Office worthy of your investment dollars?

It hasn't been an easy rebuild for Dream Office. The company was forced to cut its dividend in 2017, which reduced the total distribution to $1 per share. Any time a company has to trim its distribution, it gives investors pause. However, the company was simply not bringing in enough cash to pay the dividend, and since the number of buildings in the portfolio was being reduced, management needed to ensure it could pay the yield.

Fortunately, I believe the 4.65% yield is relatively safe. With the bulk of the rebuild behind it, and with a leaner company, it should be able to continue paying its dividend. However, I won't be completely confident until I see that occupancy ratio increase. Having nearly 15% of the portfolio not generating revenue (and cash) is concerning.

And then there's the NAV. According to Dream Office, its portfolio is worth $23.46 per share. With shares trading at $21.50, that means you'd be investing at a little over an 8% discount. Said another way, for every share of Dream Office you buy, you also get nearly $2 in free real estate (the difference of $23.46 and $21.50).

Dream Office has been a roller coaster, and it could still be a bumpy ride as the year progresses. However, the strategy appears to be paying off, and investors are able to buy this stock far closer to NAV than what it used to trade at. With that in mind, I think owning shares of this stock is worth your money.

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jaycodon