



Why Dream Global REIT (TSX:DRG.UN) Is up 17% Today

Description

Nothing unleashes the underlying value of a stock like an outright buyout from a larger entity. That's precisely what happened to **Dream Global REIT** (TSE:DRG.UN) yesterday when **Blackstone Group** announced its offer to acquire the company.

Blackstone's offer of \$16.79 per share is an 18.5% premium to the stock's value at the close of trading Friday. This offer extends the company's valuation to \$6.2 billion, making it one of the largest real estate deals this year.

In my opinion, this won't be the last deal in the real estate space. Dream's underlying portfolio and valuation offer some clues about what where the smart money sees value. Any other real estate investment trust with similar characteristics is worth a closer look, even if it isn't an immediate buyout target.

Dream's European portfolio and undervalued stock

Although Dream Global is based in Toronto, its portfolio is exclusively European. 72% of the portfolio is based in Germany, with properties in the Netherlands contributing 23% of the total, and the rest are located in either Belgium or Austria.

Dream has also focused on office space (94% of the portfolio) and industrial properties (6% of the portfolio) rather than residential properties.

This strategy seems justified, considering the fact that household debt in Canada is at a record high this year, the house price-to-rent ratio in the United States is 108.7%. Meanwhile, office space in Germany is in tight supply, with office vacancy rates below 5% in 80 out of the country's 126 major cities in 2018, according to Deutsche Bank.

The strength of the German office market helped push Dream Global's aggregate occupancy rate to 91.8% in its most recent quarter. What made the stock more attractive was the fact that it was [trading below net asset value](#), which was reported at \$16.26.

In other words, Blackstone seems to have snatched an excellent deal for a robust portfolio in an undervalued part of the world.

Another Euro REIT

Inovalis REIT ([TSX:INO.UN](#)) manages a portfolio that seems to be based on the same investment thesis as Dream Global. The company operates 14 properties spread across France and Germany. The bulk of its portfolio is concentrated in office space located in either Paris or Frankfurt.

In terms of valuation and income, Inovalis seems to come out ahead of Dream Global. The stock is currently trading at a 10% discount to net book value per share and offers a forward dividend yield of nearly 8.2%. The debt burden is just 50.7% of book value, while the occupancy rate was reported at 91.7% as at the end of June 2019.

Inovalis is a much smaller company than Dream Global, which could be the reason why it has slipped under the radar of mainstream investors. But with such a robust portfolio, hefty payout, and attractive valuation, I wouldn't be surprised if the company is on the buyout radar of institutional investors in the near future.

Bottom line

Dream Global REIT's undervalued stock and Euro-centric portfolio made it a worthy acquisition, which is why investors should monitor its smaller rival Inovalis REIT.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BX (The Blackstone Group L.P.)
2. TSX:INO.UN (Inovalis Real Estate Investment Trust)

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