



Revealed: This REIT Could Be a Massive Winner in 2020

Description

One of the biggest winners from the REIT sector in 2019 has been **Dream Global REIT**.

Shares quietly marched higher from January to September, first passing \$12 each and then \$13. The stock had just quietly marched beyond \$14 when the company announced it had agreed to be acquired by various **Blackstone**-managed real estate funds. As part of the \$6.2 billion total transaction, shareholders will get \$16.79 per share. The deal is expected to close by the end of the year, meaning Dream Global shareholders can expect close to a 50% total return in 2019.

That is an absolutely stellar return, especially for a sector as boring as [real estate](#).

While it's definitely too late to get in on the Dream Global REIT — except for a little bit of merger arbitrage action, I suppose — there's a similar REIT that offers many of the same things Dream Global does, including exposure to key European office markets, a solid balance sheet, and potentially undervalued shares. In fact, this REIT might even be next to be acquired, which would likely result in a very attractive takeover premium.

Let's take a closer look at this situation that could potentially be very profitable for your portfolio in 2020.

Enter Inovalis

Inovalis Real Estate Investment Trust ([TSX:INO.UN](#)) owns 14 different office properties in major cities in France and Germany, spanning a little more than 1.3 million square feet of gross leasable space. Eight properties are located in the Paris metro area, while the other six are scattered across Germany.

Occupancy is hovering around 93%, a number that is a little low because the company is redeveloping some space. Look for occupancy to increase to the 95% range in the next 12-18 months.

There's a lot to like about both these European economies. Both have ultra-low interest rates, which makes now an attractive time to acquire property. Both nations have posted solid GDP growth with

similar rates of expansion expected over the next couple of years. And we must remember, Brexit could easily drive more investment away from Britain, with France and Germany being two logical replacement choices.

One thing to remember about Inovalis is the company has entered various joint ventures on some of its properties, taking care of the management while having a minority ownership position. This opens up a couple of interesting growth paths, including becoming a real estate manager of choice for big investors (while retaining a smaller share of ownership), or buying portions of buildings from partners it already owns.

The company has been doing a little maneuvering to get its balance sheet in order, resulting in a debt-to-assets ratio now just over 50%. This level is actually a little better than it seems, since interest rates are so low over in Europe.

Recent quarterly results were solid as well. Funds from operations checked in at \$0.21 per share, a marked improvement from the first quarter.

The upside potential

The bull case here is obvious. Institutional investors want to acquire European real estate. An easy way to do so is to just gobble up Inovalis shares.

One potential bidder could be the REIT's asset manager. The parent Inovalis SA owns more than \$2 billion worth of real estate itself and through joint partners, and manages an additional \$3 billion or so for outside clients. The REIT has a market cap of just under \$250 million, which wouldn't be much for the parent company. And remember, the parent already owns some 10% of shares.

Shares also trade at a 12% [discount to book value](#), while Dream Global was taken out at a premium to book value. This implies 15-20% upside potential.

Finally, shares pay a nice 7.8% dividend while you wait — a great consolation prize in case a takeover offer doesn't materialize.

The bottom line

Inovalis has many of the qualities that got Dream Global REIT acquired. Even if that doesn't happen in 2020, I'd bet bullish investors will still bid shares higher. Combine that with the stock's succulent dividend, and that's a good recipe for nice returns.

CATEGORY

1. Dividend Stocks
2. Investing

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1. Editor's Choice

TICKERS GLOBAL

1. TSX:INO.UN (Inovalis Real Estate Investment Trust)

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