1 REIT Sub-Sector Might Spring Back to Life in 2022

Description

Real estate investment trusts (REITs) are reliable passive income providers and alternative options to owning physical properties. The asset class has eight sub-sectors, although some fell from investors' favour in 2020 due to the COVID-19 pandemic.

The retail, commercial, and hospitality sub-sectors suffered the most because of government-mandated lockdowns and social distancing directives. Also, the shift to work-from-home hurt office REITs. Fast-forward to March 2022, and landlords in this space hope their leasing businesses will thrive again.

Dream Office (TSX:D.UN) and **Allied Properties** (TSX:AP.UN) are pure office REITs. The two real estate stocks could spring back to life as more workers return to the usual face-to-face office environment.

Investors can include the REITs in their watchlists as many employers prepare to bring back their employees to the traditional workplace. The increased activity should translate to improved operating performance.

Price target upgrade

While the number of returning office workers is still relatively small, the trend is welcome news for Dream Office. Scott Fromson, an analyst at **CIBC** Capital Markets, said, "The REIT is seeing a return-to-office resumption through increasing tenant activity and parking volumes."

Fromson adds, "The pick-up in touring activity reflects downtown re-migration and should translate into higher leasing volumes and rental rates." Currently, the real estate stock trades at $28.35 per share. Fromson recommends a buy rating and raised his 12-month price target to $31.50 (+11%). If you invest today, the dividend yield is a decent 3.48%.

The $1.26 billion REIT has 29 active properties. In 2021, net income fell 13% to $154.2 million versus 2020. However, it grew 73% to $26.88 million in Q4 2021 compared to Q4 2020. As of December 31, 2021, the occupancy rate is 85.5%. Michael J. Cooper, CEO of Dream Office, said, “Our business has shown operational and financial resilience through the last two years of the pandemic.”

Dream Office boasts well-located, unique boutique office buildings. According to Cooper, the REIT will continue to improve its buildings through modernization and decarbonization. Its CFO, Jay Jiang, said, “Our balance sheet is very well positioned in 2022 to execute on the capital programs to continue to improve the value and quality of our portfolio.”

Encouraging sign

Allied Properties shouldn’t be far behind Dream Office in the recovery period. Performance-wise, the real estate stock is up 5.52%. At $46.07 per share, would-be investors can partake of the 3.73% dividend. In 2021, rental revenue increased 1.1% versus 2020, although net income dropped 11.5% to $443.15 million.

An encouraging sign going in 2022 was the 91% increase in net income in Q4 2021 compared to Q4 2020. The REIT also collected 97.6% of the total rent due for the quarter. Its president and CEO, Michael Emory, said, “2021 was a strong year operationally and financially for Allied.”

The $5.65 billion REIT owns and operates distinctive urban workspaces (about 200 properties). Management forecasts low-to-mid-single-digit percentage growth for 2022.

Threat to office REITs

Office REITs would enjoy higher occupancy rates with the total return to the office environment. Unfortunately, it won’t be realizable any time soon. A published report by Amazon Business says 57% of Canadians prefer a hybrid work model. Moreover, 43% will seek other jobs if employers mandate full-time office work.

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