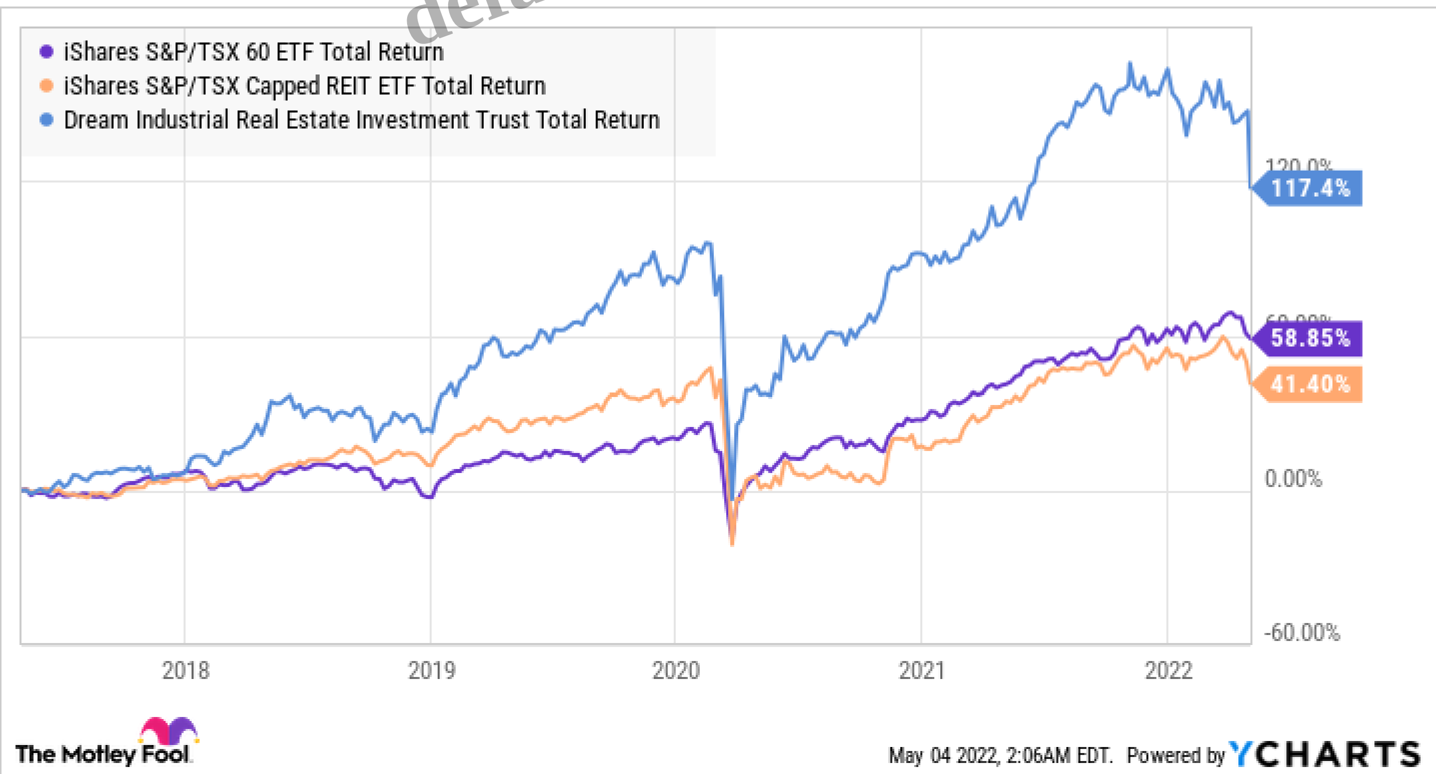
# Dream Industrial REIT Q1 2022 Earnings Results: Investor Takeaways

## Description

Industrial real estate investment trusts (REITs) have generally been a decent place to park investors' money because of the demand for warehouse space from the e-commerce trend. Specifically, an investment in **Dream Industrial REIT** (TSX:DIR.UN) stock would have delivered roughly 16.8% annually, including approximately 5% from its generous monthly cash distribution and the rest from stock price appreciation. Essentially, its returns roughly doubled that of the Canadian stock market and grew at 1.8 times that of the Canadian REIT sector in this period.






DIR.UN, XRE, XIU Total Return Level data by YCharts

## Dream Industrial REIT valuation and dividend

As of the market close yesterday, before the release of its first-quarter (Q1) financial results, the monthly dividend stock had already experienced a meaningful correction of 18% from its 52-week high to $13.90 per unit. According to Yahoo Finance, the 12-month analyst consensus price target is $19.43 per unit, which suggests the Canadian REIT is undervalued by about 28%.

Additionally, Dream Industrial REIT's 5% yield is competitive against its peers. (**Granite REIT** and **Summit Industrial Income REIT** yield about 3.4% and 2.9%, respectively.) The industrial REIT has at least maintained its cash distribution every year since 2013.

## Dream Industrial REIT Q1 2022 results

Dream Industrial REIT has been expanding its portfolio. Specifically, at the end of Q1, it had 244 assets versus 186 assets in Q1 2021, increasing its gross leasable area by 54% to 44.4 million square feet. The fair value of its investment properties also crossed the $6 billion mark.

Additionally, its occupancy rate improved by 1.5% to 98.7% versus Q1 2021. Year over year, its average rent per square foot roughly increased by 4.8% in Canada, but for its European portfolio, the average rent declined 7.7%. Though, it was a 1.7% improvement from Q4 2021.



Dream Industrial REIT's weighted average lease expiry at the end of the quarter was 4.6 years, which ensures stable cash flow generation over the next few years and the opportunity to increase the rent when negotiating new leases.

The net income isn't a telling metric of the Canadian REIT's operating performance, because it included the big jump in fair-value adjustments to its investment properties. The REIT won't directly benefit from these adjustments unless it sells its properties (and at those prices). While it's nice to see a big jump in net income, investors should focus more on the following operating results.

Dream Industrial REIT's net rental income rose 40% year over year to $65.3 million. Its comparative net operating income rose 10% to $41.8 million. Its funds from operations (FFO) jumped 62% to $56.6 million. It's always good to see growth. On a per-unit basis, FFO jumped about 16% to $0.22, improving its Q1 payout ratio to about 77% versus 89% in Q1 2021.

## Foolish investor takeaway

Dream Industrial REIT enjoys an investment-grade credit rating of BBB from DBRS. Its financial position has improved from a year ago with a lower debt-to-asset ratio, a higher interest coverage ratio, and greater available liquidity, including $290 million in cash and cash equivalents.

The Canadian REIT trades at a reasonable valuation and offers an above-average yield in the REIT sector. It's a good buy here for investors looking for a defensive name to benefit from the e-commerce trend.

Notably, the REIT's cash distribution is taxed differently from dividends. For example, last year, its cash distribution was 40.17% return of capital (which reduces unitholders' adjusted cost basis for shares held in taxable accounts) and 49.70% was foreign income (which could experience foreign income taxes).

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