



Dream Office REIT (DRETF)

Updated November 13th, 2023 by Samuel Smith

Key Metrics

Current Price:	\$6.5	5 Year CAGR Estimate:	14.8%	Market Cap:	\$227 M
Fair Value Price:	\$8.6	5 Year Growth Estimate:	1.6%	Ex-Dividend Date:	11/30/2023 ¹
% Fair Value:	76%	5 Year Valuation Multiple Estimate:	5.7%	Dividend Payment Date:	12/15/2023 ²
Dividend Yield:	11.1%	5 Year Price Target	\$9	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	B	Rating:	Buy

Overview & Current Events

Dream Office REIT is an open-ended Investment Trust which acquires and manages predominantly office and industrial properties in major urban areas throughout Canada, with a focus on downtown Toronto. The trust's portfolio is located primarily in Toronto, Montreal/Ottawa, Mississauga/North York, and Calgary, though it does have small exposure to other markets as well. Dream Office ownership interests include 5.5 million square feet of gross leasable area from 30 properties, which include 28 office properties, and two properties under development. Dream Office has leases with 500 tenants across Canada, a few of its larger tenants include: Government of Canada, Government of Ontario and State Street Trust. It is listed on the over-the-counter market in the U.S. under the trading symbol DRETF.

On November 9, 2023, Dream Office Real Estate Investment Trust (Dream Office REIT) reported its third-quarter results for 2023. The Trust's funds from operations (FFO) were \$13.6 million, a decrease from \$19.9 million in the same quarter last year. Net income was reported at \$13.6 million, which included \$25.1 million in net rental income and \$24.2 million in positive fair value adjustments to financial instruments. However, this was offset by a \$16.6 million fair value loss on investment properties. The diluted FFO per unit decreased by \$0.02 to \$0.35, primarily due to lower net rental income from the sale of 720 Bay Street and other factors such as one-time expenses and higher interest expenses. Comparative properties net operating income (NOI) increased by 4.4% to \$27.5 million, driven by higher in-place net rents. In terms of occupancy, the total portfolio in-place occupancy decreased slightly quarter-over-quarter. The Trust executed new leases totaling 362,000 square feet during the quarter and had conditional deals for an additional 91,000 square feet. Significant leasing activities included a commitment at 366 Bay Street for a 15-year lease with a global financial institution.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
FFO/S	\$2.58	\$2.29	\$2.05	\$1.94	\$1.60	\$1.26	\$1.28	\$1.21	\$1.84	\$1.23	\$1.07	\$1.16
DPS	\$1.60	\$1.61	\$1.61	\$1.16	\$0.99	\$0.73	\$0.77	\$0.80	\$0.80	\$0.73	\$0.72	\$0.74
Shares³	103.4	107.9	107.9	104.8	73.7	59.4	56.2	50.6	47.5	45.9	32.6	40.0

Instead of EPS, we use funds from operations per share (FFO/S) as Dream Office's primary growth metric. We use FFO/S because it more accurately reflects a REIT's true performance, as it accounts for the effects of real estate depreciation over time. Dream Office's FFO/S has been very volatile over the last decade from inconsistent funds-from-operations, and also a rapidly increasing share count to 2014-2015, and then decreasing by over 50% from years 2016-2020. Since 2016, the trust has been engaged in aggressive buybacks, dramatically reducing the shares outstanding.

We expect disruption from the work-from-home movement to weigh on growth in the years to come. Given the company's considerable exposure to high quality assets in Toronto and fairly low payout ratio, it should be able to weather the storm better than some peers but will still likely only see slow growth. While the headwinds will likely offset

¹ Estimated

² Estimated

³ In millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



Dream Office REIT (DRETF)

Updated November 13th, 2023 by Samuel Smith

much of the normal organic rent growth, buybacks should boost per-share metrics, leading us to forecast 1.6% annualized FFO per share growth through 2028.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
P/FFO	10	8.8	10.3	7.7	10.9	13.4	12.8	13.7	15.6	9.4	6.1	8.0
Avg. Yld.	5.6%	6.4%	9.2%	5.7%	3.6%	3.3%	3.5%	4.7%	4.2%	6.3%	11.1%	8.0%

Dream Office's average price to funds from operations ratio (P/FFO) has deviated significantly around its historic average of 10.6. Comparing the current P/FFO ratios to its historic averages, Dream Office is undervalued at current prices. Given the uncertainty facing the global economy and office sector right now, we are lowering our fair value estimate to 8 times FFO, which is below the current price to FFO ratio. We therefore expect valuation multiple expansion to provide a tailwind to total returns moving forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	62%	70%	79%	60%	62%	58%	60%	66%	43%	59%	67%	64%

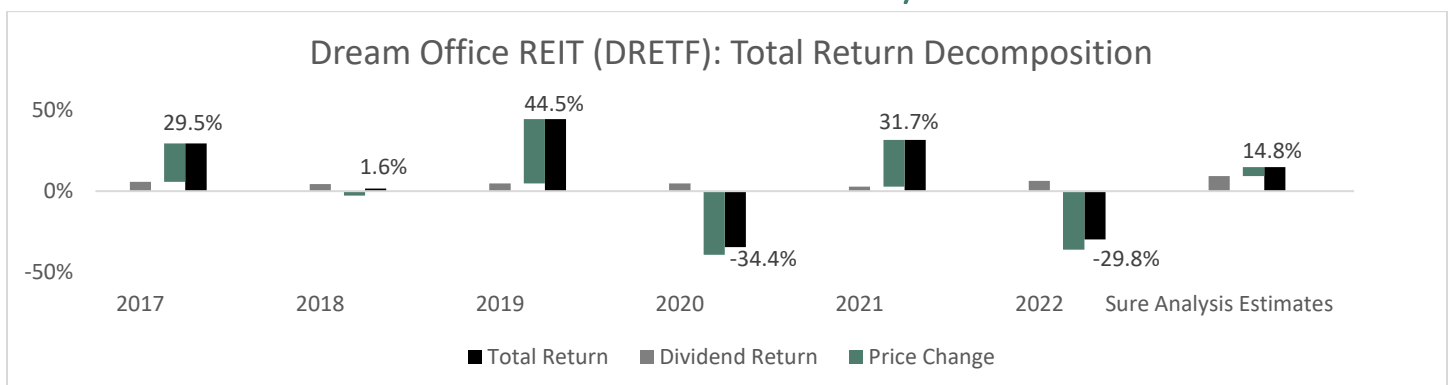
Dream Office has integrated best practices into its environmental platform since 2011. The trust has been proactively trying to reduce its environmental footprint by decreasing its resource consumption and greenhouse gas emissions. The trust also has a goal to use less energy and water to decrease waste to the environment. One way the trust cuts down on resources is by proactively developing and maintaining high-quality, energy-efficient buildings. All of Dream Office's buildings over 100,000 square feet are BOMA BEST Sustainable Buildings certified, which means the buildings are recognized in excellence in energy and environmental management and performance in commercial real estate.

Dream Office has not been around for a recession, but historically companies who operate predominantly office properties do not fare well in recessions. While local businesses are deteriorating, companies would be more likely to close offices rather than start new leases, so in a recession in the Canadian economy Dream Global should be adversely affected from potential losses of current and future tenants.

Final Thoughts & Recommendation

Overall, we expect total returns of 14.8% annually, mainly driven by Dream Office's dividend yield and FFO-per-share growth that will be further augmented by meaningful multiple expansion. We believe the REIT's quality diversified portfolio will enable it to weather the current storm and the dividend yield is very attractive. We rate Dream Office REIT as a Buy at current prices.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



Dream Office REIT (DRETF)

Updated November 13th, 2023 by Samuel Smith

Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	667	639	541	502	366	187	173	154	156	151
Gross Profit	380	364	304	278	202	102	96	84	85	82
Gross Margin	57.0%	56.9%	56.1%	55.5%	55.3%	54.4%	55.7%	54.7%	54.7%	54.1%
SG&A Exp.	29	28	17	16	8	12	10	9	9	9
D&A Exp.	5	10	12	16	17	13	11	10	10	9
Operating Profit	348	333	285	260	189	88	85	74	75	72
Operating Margin	52.2%	52.2%	52.6%	51.8%	51.5%	47.1%	49.2%	48.1%	48.3%	47.7%
Net Profit	432	144	(43)	(664)	104	122	88	132	123	49
Net Margin	64.8%	22.6%	-8.0%	-132%	28.4%	65.1%	51.2%	85.8%	78.7%	32.4%
Free Cash Flow	159	155	115	73	39	22	75	44	44	59
Income Tax	0	1	1	1	(3)	0	0	(1)	(0)	1

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	6,692	6,056	4,873	4,069	2,642	2,293	2,229	2,266	2,404	2,260
Cash & Equivalents	29	9	1	6	77	6	73	10	7	6
Accounts Receivable	7	5	2	1	5	6	3	3	3	1
Goodwill & Int. Ass.	59	53	6	5	1	1	1			
Total Liabilities	3,195	2,802	2,364	2,310	1,262	1,194	1,097	1,090	1,190	1,131
Accounts Payable	10	3	2	1	3	3	7	4	5	4
Long-Term Debt	2,957	2,668	2,170	1,965	1,088	1,032	881	936	1,006	1,011
Shareholder's Equity	3,497	3,254	2,509	1,759	1,380	1,099	1,132	1,176	1,214	1,129
LTD/E Ratio	0.85	0.82	0.86	1.12	0.79	0.94	0.78	0.80	0.83	0.90

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	6.6%	2.3%	-0.8%	-14.9%	3.1%	4.9%	3.9%	5.9%	5.3%	2.1%
Return on Equity	12.7%	4.3%	-1.5%	-31.1%	6.6%	9.8%	7.9%	11.5%	10.3%	4.2%
ROIC	6.9%	2.3%	-0.8%	-15.8%	3.4%	5.3%	4.3%	6.4%	5.7%	2.2%
Shares Out.	103.4	107.9	107.9	104.8	73.7	59.4	56.2	50.6	47.5	46.1
Revenue/Share	6.45	5.92	5.02	4.79	4.96	3.15	2.70	2.55	2.78	3.27
FCF/Share	1.53	1.43	1.06	0.70	0.54	0.37	1.17	0.74	0.78	1.28

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.