Dream Office REIT (DRETD)

Updated March 10th, 2024 by Samuel Smith

Key Metrics

Current Price:	$11.0	**5 Year CAGR Estimate:**	11.4%	**Market Cap:**	$216 M
Fair Value Price:	$14.9	**5 Year Growth Estimate:**	-1.3%	**Ex-Dividend Date:**	3/28/2024[1]
% Fair Value:	74%	**5 Year Valuation Multiple Estimate:**	6.3%	**Dividend Payment Date:**	4/15/2024[2]
Dividend Yield:	6.7%	**5 Year Price Target**	$14	**Years Of Dividend Growth:**	0
Dividend Risk Score:	D	**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 includes over 3.5 million square feet of owned and managed office real estate.

On February 15, 2024, Dream Office Real Estate Investment Trust (Dream Office REIT) reported its fourth-quarter results for 2023. The Trust's funds from operations (FFO) were $14.6 million, a decrease from $19.3 million in the same quarter last year. Net rental income was reported at $25.8 million. The diluted FFO per unit increased slightly year-over-year from $0.37 to $0.38.

Management announced a steep dividend cut as a measure to try to conserve cash to help the trust better weather current headwinds in the office real estate sector.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
FFO/S	$4.59	$4.11	$3.87	$3.19	$2.51	$2.56	$2.43	$2.46	$2.24	$2.14	***$2.13***	***$2.00***
DPS	$3.58	$3.26	$2.38	$1.97	$1.51	$1.51	$1.58	$1.57	$1.46	$1.48	***$0.74***	***$1.15***
Shares[3]	54	53.9	52.4	36.9	29.7	28.1	25.3	23.7	22.9	16.3	***16.3***	***15.0***

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 much of the normal organic rent growth, buybacks should boost per-share metrics, leading us to forecast only slight 1.3% annualized FFO per unit declines through 2029.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
P/FFO	8.8	10.3	7.7	10.9	13.4	12.8	13.7	15.6	9.4	6.1	***5.2***	***7.0***
Avg. Yld.	8.9%	7.7%	8.0%	5.7%	4.5%	4.6%	4.7%	4.1%	6.9%	11.3%	***6.7%***	***8.2%***

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

[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 (DRETD)

Updated March 10th, 2024 by Samuel Smith

the uncertainty facing the global economy and office sector right now, we are lowering our fair value estimate to 7 times FFO, which is above 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	78%	79%	61%	62%	60%	59%	65%	64%	65%	69%	***35%***	***58%***

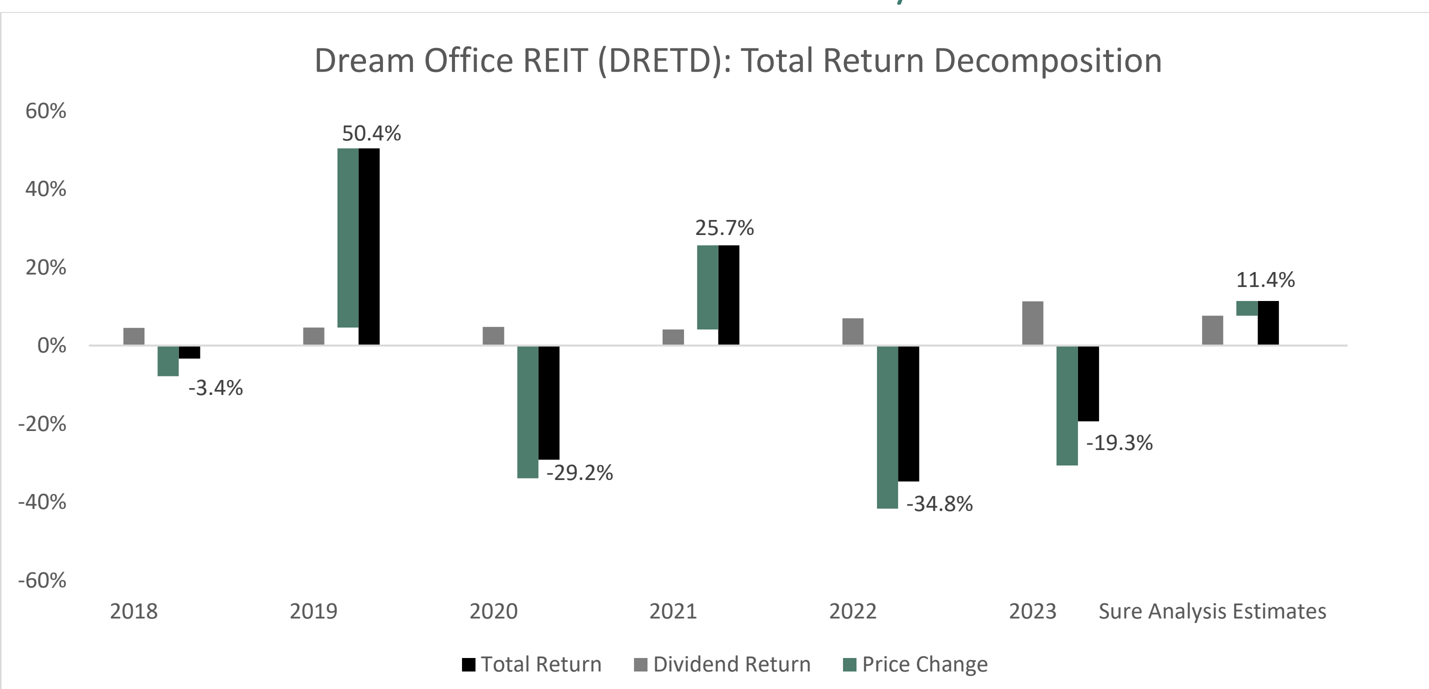
Dream Office has integrated best practices into its environmental platform since 2011. The trust has been proactively trying to reduce its environmental footprint by decreasing its resource consumption and greenhouse gas emissions. The trust also has a goal to use less energy and water to decrease waste 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 lengthy 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. In addition, it appears office occupancy levels from pre-COVID are a thing of the past for the foreseeable future.

Final Thoughts & Recommendation

Overall, we expect total returns of 11.4% annually, mainly driven by Dream Office's dividend yield 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 (DRETD)

Updated March 10th, 2024 by Samuel Smith

Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	639	541	502	366	187	173	154	156	151	141
Gross Profit	364	304	278	202	102	96	84	85	82	76
Gross Margin	56.9%	56.1%	55.5%	55.3%	54.4%	55.7%	54.7%	54.7%	54.1%	53.7%
SG&A Exp.	28	17	16	8	12	10	9	9	9	9
D&A Exp.	10	12	16	17	13	11	10	10	0	0
Operating Profit	333	285	260	189	88	85	74	75	72	66
Operating Margin	52.2%	52.6%	51.8%	51.5%	47.1%	49.2%	48.1%	48.3%	47.7%	47.1%
Net Profit	144	(43)	(664)	104	122	88	132	123	49	(57)
Net Margin	22.6%	-8.0%	-132%	28.4%	65.1%	51.2%	85.8%	78.7%	32.4%	-40.5%
Free Cash Flow	155	115	73	39	22	75	44	76	32	34
Income Tax	1	1	1	(3)	0	0	(1)	(0)	1	0

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	6,056	4,873	4,069	2,642	2,293	2,229	2,266	2,404	2,260	2,011
Cash & Equivalents	9	1	6	77	6	73	10	7	6	10
Accounts Receivable	5	2	1	5	6	3	3	3	1	0
Goodwill & Int. Ass.	53	6	5	1	1	1				
Total Liabilities	2,802	2,364	2,310	1,262	1,194	1,097	1,090	1,190	1,131	1,107
Accounts Payable	3	2	1	3	3	7	4	5	4	3
Long-Term Debt	2,668	2,170	1,965	1,088	1,032	881	936	1,006	1,011	1,010
Shareholder's Equity	3,254	2,509	1,759	1,380	1,099	1,132	1,176	1,214	1,129	905
LTD/E Ratio	0.82	0.86	1.12	0.79	0.94	0.78	0.80	0.83	0.90	1.12

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	2.3%	-0.8%	-14.9%	3.1%	4.9%	3.9%	5.9%	5.3%	2.1%	-2.7%
Return on Equity	4.3%	-1.5%	-31.1%	6.6%	9.8%	7.9%	11.5%	10.3%	4.2%	-5.6%
ROIC	2.3%	-0.8%	-15.8%	3.4%	5.3%	4.3%	6.4%	5.7%	2.2%	-2.8%
Shares Out.	54	53.9	52.4	36.9	29.7	28.1	25.3	23.7	22.9	16.3
Revenue/Share	11.84	10.04	9.57	9.93	6.30	5.40	5.10	6.51	5.67	6.29
FCF/Share	2.87	2.13	1.40	1.07	0.74	2.34	1.47	3.18	1.19	1.51

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