Dream Unlimited ("Dream") is a real estate developer in Canada, focusing primarily on condominiums, mixed-use properties and master-planned communities. It also has an asset management business that manages publicly-traded REITs. Our investment thesis for the company has always been rooted in the belief that the market value of its assets and its asset management business far exceeded what was reported on the company's balance sheet. This is made all the more compelling when one considers that the company routinely trades at a discount to book value, despite earning a reasonable, steady return on equity. There have been a number of recent transactions that have highlighted for the first time that our thesis is not only correct, but that the valuation upside is potentially much greater than we had estimated. Despite this, Dream shares now trade at prices last seen before these transactions were announced.

As an example of the type of value-unlocking transaction we are speaking of, let us first consider Dream Global REIT, a publicly-traded entity managed by Dream that was sold to Blackstone in September 2019. This transaction was the first glimpse of the incentive fees that can be earned by the asset management business when it liquidates an investment. In this case, Dream earned C$379 million as its management incentive fee (relative to Dream's market capitalization at the time of approximately C$850 million), as well as a fee to terminate its management contract. It was also a shareholder in the company and participated in the 15% annualized return it generated since Dream Global went public in 2011. Due largely to this transaction, Dream's book value per share increased from C$9.78 as of September 30, 2019, to C$13.12 as of December 31, 2019. In addition, the company used part of the proceeds to tender for 10,000,000 shares, nearly 10% of the shares outstanding, for CAD11.75 per share. Prior to the transaction, the shares traded for just over C$8 per share, which, incidentally, is where they trade at the time of this writing. It should be noted that Dream manages other publicly-traded REITs that may offer similar upside.

The company also recently announced a partnership with a developer in Western Canada, to whom it will be selling a large block of undeveloped land. The sale will generate proceeds of C$84 million. This is only a portion of the company's land portfolio in Western Canada, and additional sales are likely, as Dream has stated that it intends to repatriate capital from this market and invest in other, faster growing regions.

Both transactions emphasis that the value of Dream's assets far exceeds what is reported on its balance sheet. With the asset management business, for example, there is no asset value given to the incentive fees it has the ability to earn. As to the land portfolio, these assets are held at their original cost until they are developed, yet, as this most recent transaction shows, the current market value for even its undeveloped land can be multiples (in this case, a 190% increase when adjusted for the retained interest) of the original purchase price.

Dream recently stated that it is also exploring sales for other non-core assets and that it will continue to use any proceeds to repurchase shares, increase its ownership in the publicly-traded REITs it manages, and pay down debt, which is already quite manageable (debt to total assets was reduced to 24.6% from 36.4% the prior quarter). The remaining debt consists primarily of mortgages and building loans, which only have recourse to specific properties, and the company has over C$320 million of capacity on its credit facility, thus leaving it with more than enough liquidity to ride out whatever market disruptions may come in the coming months. When one further considers that the current valuation (0.6x price/book value per share and a single-digit multiple of normalized earnings, which can be lumpy given the nature of this business) allows investors to purchase a valuable real estate portfolio at a significant discount to net asset value and that these assets are also an ideal hedge against any inflation that may result from the fiscal response to COVID-19, we are happy to own Dream going forward.

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