dream alternatives DRA.UN-TSX

DREAM ALTERNATIVES REPORTS THIRD QUARTER RESULTS AND SOLID EXECUTION ON ITS STRATEGIC PLAN

This press release contains forward-looking information that is based upon assumptions and is subject to risks and uncertainties as indicated in the cautionary note contained within this press release.

TORONTO, November 6, 2019, DREAM HARD ASSET ALTERNATIVES TRUST (TSX: DRA.UN) ("Dream Alternatives", "we" or the "Trust") today reported its financial results for the three and nine months ended September 30, 2019.

"We continue to focus on increasing the quality and net asset value of the Trust," said Michael Cooper, Portfolio Manager. "We continue to recycle capital from non-core assets to concentrate on our portfolio of best in class real estate developments, primarily located in Toronto, while repurchasing units to return capital to our unitholders. We have made important progress on our developments and income-producing properties, which we expect will be reflected in increases of our net asset value come year end through our annual external appraisal process and plan to buy back a further $66 million of units in 2020, as previously announced."

For the three months ended September 30, 2019, the Trust reported net income of $2.9 million up from $1.0 million in the comparative period. The increase was primarily due to income contribution from Axis Condominiums, lower depreciation, and unrealized foreign currency gains, and was partially offset by fair value losses related to non-core income properties. For similar reasons, in the nine months ended September 30, 2019, the Trust generated net income of $12.4 million, an increase of $5.5 million from the prior year period, in addition to reduced earnings from the lending portfolio due to loan repayments.

Key Achievements

During and subsequent to the three months ended September 30, 2019, the Trust successfully disposed of $131.7 million in gross assets, consisting of the Trust's Canadian renewable power portfolio and the co-owned industrial buildings in Western Canada. The Trust is continuing to progress through sale negotiations on the U.K. wind portfolio and additional non-core assets. The sale of these assets will assist the Trust in achieving its commitment to the unit buyback program as outlined in the strategic plan announced on April 23, 2019.

During the three months ended September 30, 2019, the Trust announced the completion of its substantial issuer bid ("SIB"), which was the first tranche of the Trust's commitment to repurchase up to $100.0 million of units. The Trust purchased for cancellation 4.0 million of its units for an aggregate purchase price of $32.0 million. The Trust funded the SIB through a combination of cash on hand and its existing revolving credit facility. As at September 30, 2019, the Trust had a cash balance of $7.6 million and funds available under its revolving credit facility of $29.1 million. Subsequent to the three months ended September 30, 2019, the revolving credit facility was fully repaid with net proceeds from asset sales. Assuming current market conditions and the expected successful execution of non-core asset dispositions, we anticipate that the second and third SIBs will be launched in 2020 at prices of $8.25 and $8.50 per unit, respectively.

During the three and nine months ended September 30, 2019, the Trust invested $8.8 million and $26.1 million, respectively, including transaction costs, into various development projects. As of September 30, 2019, approximately 80% of the Trust's book equity was comprised of core investments across Toronto, the Greater Toronto Area, and our Zibi development in Ottawa/ Gatineau. Notable highlights for the Trust's development projects are detailed below.

In the three months ended September 30, 2019, the Trust entered into an agreement with Anishnawbe Health Toronto to develop a mixed-use project ("Block 10") within the Canary District, adjacent to the West Don Lands and Distillery District in downtown Toronto. As at September 30, 2019, the Trust, along with Dream Asset Management Corporation ("DAM"), together hold a 33.3% interest in the 225-unit residential rental component of Block 10, with the remainder owned by Kilmer Van Nostrand Co. Ltd. ("Kilmer") and Tricon Capital Group ("Tricon"), the same partnership group as our West Don Lands development. Upon completion, collectively, the Trust, DAM, Kilmer and Tricon will own over 2,000 residential rental units and 321,000 square feet ("sf") of commercial/retail space across the West Don Lands and Canary District. Upon completion, DAM and Kilmer will have developed 2,000 condominium units together in the area. Consistent with other projects, the Trust owns a 25% interest in the residential rental component of Block 10 with DAM owning 8.3%.

During the three months ended September 30, 2019, the Trust closed on $357 million of financing (at the project level) related to its purpose-built rental community in the West Don Lands as part of CMHC's Rental Construction Financing initiative. Construction on the first block (“Block 8”) commenced in the fourth quarter of 2019 and will comprise 770 rental units, of which 30% are affordable. The community will focus on accessibility, affordability and sustainability. The Trust has a 25% interest in the West Don Lands development alongside the above noted partnership group.

During the three and nine months ended September 30, 2019, the Trust’s equity investment in Axis Condominiums in downtown Toronto generated earnings of $4.6 million and $14.9 million, respectively, as the project completed unit occupancies. We are extremely pleased with the success of the investment, which has generated an IRR for the Trust of approximately 60%.

Development projects are key drivers of future growth for the Trust and are expected to generate attractive returns and future cash flows as milestones are achieved. The Trust expects its development projects will provide attractive profits to the Trust upon their respective completion dates and will contribute to increased value for unitholders over the longer term. The Trust generally targets a pre-tax IRR of at least 15-20% on new equity investments in residential and mixed-use development projects.

Unitholders' Equity

As at September 30, 2019, total unitholders' equity of $7.99 per unit decreased compared with $8.05 per unit as at June 30, 2019. The decrease in total unitholders' equity was primarily due to distributions to unitholders exceeding the Trust’s net income of $2.9 million during the three months ended September 30, 2019, which was expected as many of the Trust’s projects are currently in either the development or pre-development stages and will contribute income upon completion in future periods. The Trust had 68,446,743 units outstanding at September 30, 2019, compared with 72,038,551 units at June 30, 2019, due to the aforementioned SIB.

Net Asset Value ("NAV")

The NAV per unit was $8.43 at September 30, 2019, compared with total unitholders' equity of $7.99 per unit. The variance was due to a market value adjustment of $29.9 million (June 30, 2019 - $35.7 million), which was a result of market value gains related to the Trust's equity accounted investments and renewable power portfolio. The decrease in the market value adjustment from last quarter was due to depreciation related to the renewable power portfolio and realized income from the Axis investment, which resulted in a reduction in the market value adjustment, as it is now reflected in book value.

As part of our year end appraisal process, we anticipate changes to NAV and unitholders' equity due to events which have occurred subsequent to quarter end. Some of these events include Waterfront Toronto’s appraisal for the 12-acre Quayside site for $49 million per acre ($223/foot), which is immediately adjacent to our 5.3-acre Lakeshore East development. Quayside is proposed for a 2.65 million sf development by Sidewalk Labs. In addition, in October 2019, Dream submitted a rezoning application in respect to 49 Ontario Street, to pursue redevelopment of the site, which is currently valued as an income-producing office property within our condensed consolidated financial statements.

The Trust believes that incorporating a market value adjustment is a more useful measure to value development assets. As development projects progress toward completion and/or reflect information from recent market transactions, we expect both unitholders' equity and NAV to increase based on expected growth and cash flows from these investments. The Trust relies on NAV per unit as a measure of value creation including the market value adjustments on its equity accounted investments and renewable power projects. The closest IFRS measure to NAV per unit is unitholders' equity per unit. For further details and reconciliations regarding non-IFRS measures, where applicable, to the condensed consolidated financial statements, please refer to the "Financial Overview" section in the Management's Discussion and Analysis ("MD&A") under the heading "Reconciliation of Net Asset Value to Total Unitholders' Equity".

Cash Generated from Operating Activities

Cash generated from operating activities for the three months ended September 30, 2019 was $9.3 million compared with $10.4 million in the same period in the prior year. The decrease of $1.1 million in cash generated from operating activities was primarily due to leasing incentives and initial direct leasing costs related to higher leasing activity in our core income properties, compared to the same period in the prior year.

Other Operating Highlights in Q3:

Development and Investment Holdings

For the three months ended September 30, 2019, development and investment holdings generated net income of $5.5 million compared with a net loss of $0.2 million in the same period in the prior year. The increase relative to the prior year was due to earnings from equity accounted investments.

Lending Portfolio

For the three months ended September 30, 2019, the lending portfolio generated net income of $3.6 million compared with $4.2 million in the same period in the prior year. The decrease was due to a lower loan balance outstanding in the current period. As at September 30, 2019, the lending portfolio consisted of 9 loans aggregating to a total outstanding balance of $139.2 million with a weighted average effective interest rate of 9.2%. Subsequent to September 30, 2019, a loan of $45 million was repaid.

Income Properties

For the three months ended September 30, 2019, income properties generated a net loss of $4.8 million compared with net income of $1.4 million in the same period in the prior year. The variance was primarily attributed to a fair value loss of $6.3 million recognized on a non-core income property.

Discontinued Operations - Renewable Power

As part of the strategic plan to dispose of the Trust's renewable power portfolio and the commencement of formal marketing, results for the segment were presented as discontinued operations in the second quarter of 2019. For the three months ended September 30, 2019, the renewable power portfolio generated net income of $3.4 million, an increase of $2.3 million relative to the prior year. This increase was primarily driven by a reduction in depreciation expense, which is no longer recorded in the condensed consolidated statement of net income as a result of the classification as discontinued operations.

Other(1)

The Other segment recorded a net loss of $4.9 million for the three months ended September 30, 2019 compared with a net loss of $5.5 million in the same period in the prior year. For the three months ended September 30, 2019, income tax expense was $0.4 million compared to $1.9 million in the comparative period. The variance was primarily due to a deferred tax recovery related to fair value losses recorded during the current period.

Selected financial and operating metrics for the three and nine months ended September 30, 2019 are summarized below:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	**2019**	2018
Consolidated results of operations				
Net income (loss)	**$ 2,855**	$ 1,008	**$ 12,408**	$ 6,907
Net income (loss) from continuing operations	**(576)**	(158)	**3,844**	3,572
Net operating income ("NOI")(2)	**10,871**	7,289	**33,543**	20,625
Cash generated from (utilized in) operating activities	**9,322**	10,352	**23,547**	15,582
Net income (loss) per unit(2)	**0.04**	0.01	**0.18**	0.10
Net income (loss) per unit from continuing operations(2)	**(0.01)**	—	**0.06**	0.05
Cash generated from (utilized in) operating activities per unit(2)	**0.14**	0.14	**0.34**	0.22
Distributions declared and paid per unit	**0.10**	0.10	**0.30**	0.30
Units outstanding – end of period	**68,446,743**	72,349,201	**68,446,743**	72,349,201
Units outstanding – weighted average	**71,173,761**	72,305,841	**70,506,607**	72,335,419

The table below provides a summary of the Trust's portfolio as at September 30, 2019, including total unitholders' equity and NAV(2):

As at September 30, 2019	**Total unitholders' equity**	**NAV**(2)
Development and investment holdings, including equity accounted investments	$ 265,735	$ 292,733
Lending portfolio	139,195	139,195
Income properties	97,304	97,304
Renewable power - discontinued operations	62,688	69,946
Other, including tax(3)	(17,974)	(22,326)
Total unitholders' equity / NAV(2)	**$ 546,948**	**$ 576,852**
Total unitholders' equity / NAV per unit(2)	**$ 7.99**	**$ 8.43**

About Dream Alternatives

Dream Alternatives provides investors with access to an exceptional portfolio of real estate development opportunities and alternative assets that would not be otherwise available in a public and fully transparent vehicle, managed by an experienced team with a successful track record in these areas. The objectives of the Trust are to build and maintain a growth-oriented portfolio, provide predictable cash distributions to unitholders on a tax-efficient basis, and grow and reposition the portfolio to increase NAV per unit over time. For more information, please visit: www.dreamalternatives.ca.

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Footnotes

(1) Includes other Trust amounts not specifically related to the segments.

(2) NOI, net income (loss) per unit, net income (loss) per unit from continuing operations, total unitholders' equity per unit, cash generated (utilized in) operating activities per unit, NAV and NAV per unit are non-IFRS measures. Please refer to cautionary statements under the heading "Non-IFRS Measures" in this press release.

(3) Includes the Trust and other segment level cash and net working capital balances. As at September 30, 2019, NAV includes deferred income tax adjustment of $4.4 million related to the market value adjustments for equity accounted investments and renewable power assets.

Non-IFRS Measures

The Trust's condensed consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). In this press release, as a complement to results provided in accordance with IFRS, the Trust discloses and discusses certain non-IFRS financial measures including NOI, net income (loss) per unit, net income (loss) per unit from continuing operations, cash generated (utilized in) operating activities per unit, market value, NAV, NAV per unit, as well as other measures discussed elsewhere in this release. These non-IFRS measures are not defined by IFRS, do not have a standardized meaning and may not be comparable with similar measures presented by other issuers. The Trust has presented such non-IFRS measures as Management believes they are relevant measures of our underlying operating performance and debt management. Non-IFRS measures should not be considered as alternatives to unitholders' equity, net income, total comprehensive income or cash flows generated from operating activities, or comparable metrics determined in accordance with IFRS as indicators of the Trust's performance, liquidity, cash flow and profitability. For a full description of these measures and, where applicable, a reconciliation to the most directly comparable measure calculated in accordance with IFRS, please refer to the "Financial Overview" and "Non-IFRS Measures and Other Disclosures" in the Trust's Management's Discussion and Analysis for the three and nine months ended September 30, 2019.

Forward-Looking Information

This press release may contain forward-looking information within the meaning of applicable securities legislation, including statements relating to our objectives, strategies to achieve those objectives, our beliefs, plans, estimates, projections and intentions, and similar statements concerning anticipated future events, future growth, results of operations, performance, business prospects and opportunities, as well as statements regarding our strategic plan, our unit buyback program (including the amounts to be deployed, the timing, price and size of any offers to unitholders), our expected sources of funding for our unit buyback program, our expectations regarding our capital recycling programs, our plans and proposals for future development projects, including projected sizes, density and uses, and expected manner of funding thereof; development timelines including commencement of construction and/or revitalization of our development projects, expected timing on occupancy and returns on our development investments, proposed methodologies for valuing investments and timing of appraisals, anticipated effect of our developments on our NAV, unitholders' equity, growth and cash flows in future periods, our targeted IRR for development projects, expected profits from our development projects, our expectations of changes in our NAV in future periods. Forward-looking information is based on a number of assumptions and is subject to a number of risks and uncertainties, many of which are beyond the Trust's control, which could cause actual results to differ materially from those that are disclosed in or implied by such forward-looking information. These risks and uncertainties include, but are not limited to: general and local economic and business conditions including foreign exchange rates; employment levels; mortgage and interest rates and regulations; the uncertainties around the timing and amount of future financings; regulatory risks; environmental risks; consumer confidence; the financial condition of tenants and borrowers; local real estate conditions; adverse weather conditions and variability in wind conditions and solar irradiation; reliance on key clients; partners and personnel; the uncertainties of acquisitions and new projects; inflation; and competition. All forward-looking information in this press release speaks as of November 6, 2019. The Trust does not undertake to update any such forward looking information whether as a result of new information, future events or otherwise. Additional information about these assumptions and risks and uncertainties is disclosed in filings with securities regulators filed on SEDAR (www.sedar.com). These filings are also available at the Trust's website at www.dreamalternatives.ca.