dream alternatives DRA.UN-TSX

DREAM ALTERNATIVES REPORTS FOURTH QUARTER RESULTS AND UPDATED ANNUAL NAV

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, February 18, 2020, DREAM HARD ASSET ALTERNATIVES TRUST (TSX: DRA.UN) ("Dream Alternatives", "we" or the "Trust") today reported its financial results for the three months and year ended December 31, 2019.

For the three months ended December 31, 2019, the Trust reported net income of $19.9 million up significantly from $7.0 million in the comparative period. The increase of $12.9 million was attributable to an increase in net fair value gains of $20.6 million in the period, primarily due to an increase in value of 49 Ontario Street, due to the asset's redevelopment potential. Additionally, during the three months ended December 31, 2019, the Trust recognized an increase of $7.4 million of income from equity accounted investments, which was primarily driven by net fair value gains recorded at the investment level, as supported by third-party appraisals. Partially offsetting the above-noted net fair value gains were $5.9 million of losses related to non-core asset dispositions, a $2.4 million provision on the lending portfolio, an increase in foreign exchange losses of $3.0 million and an increase of $4.3 million of income taxes related to fair value gains in the period.

For the year ended December 31, 2019, the Trust recognized net income of $32.3 million, an increase of $18.4 million from the prior year due to an increase in net fair value gains of $17.3 million on income properties, increased income of $22.1 million from equity accounted investments driven by income contributions from Axis Condominiums which occupied during the year and the aforementioned fair value gains at the investment level, partially offset by $5.9 million of losses related to non-core asset dispositions, a $2.4 million provision on the lending portfolio, an increase in foreign exchange losses of $4.2 million and an increase of $7.4 million of deferred income taxes in the year.

"In 2019, the total return to unitholders was over 31%. We are pleased with our returns, the successful execution to date on our strategic plan and exceptional quality of real estate and developments that we own in the Trust," said Michael Cooper, Portfolio Manager. "The disposal of our remaining non-core assets has completed the transformation of our business to one with a core focus on owning and developing exceptional real estate with over 70% of the Trust's net assets located in downtown Toronto and the GTA. We continue to progress through valuable milestones on our developments, most notably in Toronto, as seen through increases in value, as supported by third-party appraisals."

Key Achievements

As announced in February 2019, management of the Trust committed to a strategic plan to narrow the gap between the trading price of the Trust’s units and net asset value ("NAV")[(2)], while continuing to build the underlying value of the business. We are pleased with our progress to date as discussed below.

In the year ended December 31, 2019, the Trust successfully disposed of all its non-core assets, including its entire renewable power segment and certain non-core income properties comprising over 380,000 square feet ("sf") of gross leasable area ("GLA"). Aggregate cash proceeds of $111.5 million were generated from these asset sales.

During the year ended December 31, 2019, the Trust successfully completed its first substantial issuer bid ("SIB"), which was the first tranche of the Trust's commitment to repurchase up to $100 million of units. The Trust purchased for cancellation 4.0 million units for an aggregate purchase price of $32.0 million. Subsequent to December 31, 2019, the Trust announced its intention to commence its second SIB, pursuant to which the Trust has offered to purchase from unitholders of the Trust up to 4.0 million units at a price of $8.25 per unit for an aggregate purchase price of $33.0 million. The offer commenced on February 7, 2020 and will expire on March 16, 2020.

As at December 31, 2019, the Trust had a cash balance of $117.8 million and funds available under its revolving credit facility of $9.3 million, which will fund the upcoming SIB and future investments in the Trust’s existing development projects. The Trust’s debt to total asset value as at December 31, 2019 was 12.8%, down from 19.0% as at September 30, 2019 and 24.4% as at December 31, 2018.

During the three months and year ended December 31, 2019, the Trust invested $20.5 million and $47.4 million, respectively, including transaction costs, into its existing development opportunities which have continued to progress towards key milestones and/or completion. Notable highlights for the Trust’s development projects are detailed below.

During the three months and year ended December 31, 2019, the Trust's equity investment in Axis Condominiums in downtown Toronto generated earnings of $1.4 million and $16.3 million, respectively, as the project completed unit occupancies. We are extremely pleased with the success of the investment, which has generated an internal rate of return ("IRR") for the Trust of approximately 60%.

During the three months and year ended December 31, 2019, the Trust invested an additional $10.8 million in the Trust's Hard Rock/Virgin Hotels Las Vegas ("Hard Rock") investment. As at December 31, 2019, the Trust's 10% investment in Hard Rock had a fair value of $48.6 million. Subsequent to December 31, 2019, the Hard Rock closed to the public and construction began on the redevelopment/conversion of the property. The grand re-opening as The Virgin Hotels Las Vegas is slated for late 2020.

In the year ended December 31, 2019, development continued to progress on our Zibi development. Zibi is a 34-acre mixed-use waterfront development along the Ottawa River in Gatineau, Quebec and Ottawa, Ontario. The project is a multi-phase development that includes over 4.0 million sf of density consisting of over 1,800 residential units and over 2.0 million sf of commercial space. Land servicing on both the Ontario and Quebec lands continues and construction is underway on the project's next residential building, Kanaal, a 71-unit condominium building in Ottawa that is expected to occupy in 2020. In total, there is over 630,000 sf of residential rental, retail and commercial space in various planning / development stages at Zibi, of which 78% of the retail and commercial space has been pre-leased as of December 31, 2019. Tenants include the Federal Government of Canada and Spaces, an Amsterdam-based creative workspace provider. Spaces will open two new co-working facilities in the Zibi development with approximately 29,000 sf of vibrant flexible workspace in downtown Gatineau and approximately 26,000 sf of co-working space in the Ottawa waterfront, which will be connected by a second storey walkway.

During the year ended December 31, 2019, the Trust, as part of CMHC's Rental Construction Financing initiative, closed on $357 million of financing (at the project level) on its first block ("Block 8") of its purpose-built rental community in Toronto's West Don Lands neighbourhood (''West Don Lands''). Construction on Block 8 commenced in the fourth quarter of 2019 and will comprise 770 rental units, of which 30% are affordable. As a result of progress achieved to date on Block 8, a fair value gain of $21.3 million (at 100% project level) was recognized in the fourth quarter of 2019, as supported by a third-party appraisal. The Trust has a 25% interest in the development.

During the year ended December 31, 2019, the Brightwater development reached a key development milestone as Mississauga City Council unanimously approved the rezoning of the entire site. Brightwater is a 72-acre waterfront development in Mississauga's Port Credit. Highlights of the draft master plan proposal include nearly 3,000 residential units and 400,000 sf of commercial space upon completion. In 2019, significant advancements were also made on environmental clean-up with the source remediation program now complete and vertical construction expected to commence in 2021. The Trust has a 23.3% interest in the project.

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 December 31, 2019, total unitholders' equity per unit of $8.25 increased compared to total unitholders' equity per unit of $7.99 as at September 30, 2019 and $8.13 per unit as at December 31, 2018. The increase in total unitholders' equity per unit for the three months and year ended December 31, 2019, was primarily due to the aforementioned increase in net income which exceeded the Trust's distributions to unitholders.

Net Asset Value ("NAV")(2)

As at December 31, 2019, the NAV per unit(2) was $8.75 compared with total unitholders' equity of $8.25 per unit. The variance was due to a market value(2) adjustment of $34.0 million (September 30, 2019 - $29.9 million) which included the net impact of market value gains on equity accounted investments. Market value gains recorded during the fourth quarter of 2019 primarily related to the Brightwater and Lakeshore East developments, as supported by independent third-party appraisals. The market value gain on the Lakeshore East development was the result of land appreciation, as supported by market comparables, including Waterfront Toronto's appraisal for the 12-acre Quayside site, which is immediately adjacent to our 5.3-acre Lakeshore East development. The market value gain on the Brightwater development was a result of progress on the investment along with significant milestones met during the period which included the achievement of municipal approvals, as discussed above. The above-mentioned market value gains were partially offset by a corresponding increase in the related deferred tax adjustments and the decrease in the market value adjustment related to the completion of the Axis Condominium project and the disposition of the renewable power portfolio as the realization of income and losses, respectively, are now reflected in book value.

As at December 31, 2019, the NAV per unit of $8.75 was comparable with NAV per unit of $8.74 in the prior year. As discussed above, fair value gains recorded during the year were offset by the Trust's distributions to unitholders as well as the net decrease in market value adjustments primarily related to the sale of the renewable power portfolio. Given the long-term nature of the Trust's development investments the Trust believes providing annual updates to NAV is more useful to readers. Going forward, the Trust will disclose NAV on an annual basis only, timed with the external appraisal process which occurs at year end.

Market value adjustments are reflected only in NAV, which is a non-IFRS measure. The Trust believes that incorporating an annual 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 annual NAV per unit as a measure of value creation including the market value adjustments on its equity accounted investments. 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 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 - Continuing Operations

Cash generated from operating activities (continuing operations) for the three months ended December 31, 2019 was $3.1 million compared with a minimal balance generated from operating activities in the same period in the prior year. The increase was due to the settlement of the asset management fees payable to DAM, pursuant to the Management Agreement, in units which commenced during the second quarter of 2019.

Cash generated from operating activities (continuing operations) for the year ended December 31, 2019 was $28.6 million, an increase of $21.0 million compared to the prior year due to the net impact of working capital changes primarily related to the receipt of cash advances from the Axis Condominium development.

Other Operating Highlights in Q4 and YE 2019:

Development and Investment Holdings

For the three months and year ended December 31, 2019, development and investment holdings generated net income of $8.0 million and $19.4 million, respectively, compared with $3.8 million and $0.9 million, respectively, in the same periods in the prior year. During the three months and year ended December 31, 2019, the Trust's share of income from equity accounted investments included income generated from the completion of the Axis Condominium project and net fair value gains recorded at the investment level supported by third-party appraisals, with no similar adjustments recorded in the comparative periods.

Lending Portfolio

During the three months and year ended December 31, 2019, the Trust recognized a net loss of $0.4 million and net income of $10.4 million, respectively, on the lending portfolio, a decrease from net income of $3.6 million and $15.6 million, respectively, in the same periods in the prior year. The decrease was primarily attributable to a lower loan balance outstanding compared with the prior periods. Additionally, in the three months ended December 31, 2019, a loan loss provision of $2.4 million was recognized relating to a loan, the value of which was determined based on the net realizable value of the underlying real estate properties and estimated transaction costs.

Income Properties

During the three months ended December 31, 2019, the Trust recorded net income of $22.8 million compared with $2.1 million in the same period in the prior year from its income properties portfolio. The increase relative to the comparative period was driven by net fair value gains of $21.1 million in the period, primarily due to an increase in value of 49 Ontario Street. The Trust has recently submitted a rezoning application in respect of the site to pursue increased density of the asset.

During the year ended December 31, 2019, the Trust generated net income of $21.1 million compared with $9.3 million in the prior year. The increase was primarily due to the above-mentioned net fair value gains, partially offset by fair value losses of $6.1 million recorded on non-core income properties which were sold in 2019. In addition, the variance was due to $4.8 million of income and fair value gains recorded in the prior period related to marketable securities, which were disposed at the end of the second quarter of 2018.

Other[1]

The Other segment recorded a net loss of $6.2 million for the three months ended December 31, 2019 compared with a net loss of $2.2 million in the same period in the prior year. The Other segment recorded a net loss of $23.0 million for the year ended December 31, 2019 compared with a net loss of $14.9 million in the prior year. The variances were primarily due to an income tax expense of $3.0 million and $7.1 million recorded for the three months and year ended December 31, 2019, respectively, related to the above noted increase in net income.

Selected financial and operating metrics for the three months and year ended December 31, 2019 are summarized below:

	Three months ended December 31,		Year-ended December 31,	
	2019	2018	**2019**	2018
Consolidated results of operations				
Net income	**$ 19,923**	$ 6,995	**$ 32,331**	$ 13,902
Net income from continuing operations	**24,133**	7,293	**27,977**	10,865
Net operating income ("NOI")[2]	**5,372**	8,092	**38,915**	28,717
Cash generated from operating activities from continuing operations	**3,062**	7	**28,597**	7,609
Net income per unit[2]	**0.29**	0.10	**0.47**	0.19
Net income per unit from continuing operations[2]	**0.35**	0.10	**0.41**	0.15
Cash generated from operating activities from continuing operations per unit [2]	**0.04**	—	**0.42**	0.10
Distributions declared and paid per unit	**0.10**	0.10	**0.40**	0.40
Units outstanding – end of period	**68,763,987**	72,592,822	**68,763,987**	72,592,822
Units outstanding – weighted average	**68,581,227**	72,437,648	**66,690,503**	72,361,187

The table below provides a summary of the Trust's portfolio as at December 31, 2019, including total unitholders' equity and NAV[2]:

As at December 31, 2019	**Total unitholders' equity**	**NAV[2]**
Development and investment holdings, including equity accounted investments	$ 292,447	$ 332,853
Lending portfolio	64,705	64,705
Income properties	111,175	111,175
Other, including tax[3]	99,224	92,859
Total unitholders' equity / NAV[2]	**$ 567,551**	**$ 601,592**
Total unitholders' equity / NAV per unit[2]	**$ 8.25**	**$ 8.75**

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.

For further information, please contact:

Pauline Alimchandani
Executive Vice President & Chief Financial Officer
416 365-5992
palimchandani@dream.ca

Derrick Lau
VP Strategic Finance
416 365-2364
dlau@dream.ca

Footnotes

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

(2) NOI, net income (loss) per unit, net income per unit from continuing operations, total unitholders' equity per unit, cash from generated operating activities from continuing operations per unit, market value, NAV and NAV per unit are non-IFRS measures. Please refer to the 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 December 31, 2019, NAV includes a deferred income tax adjustment of $6.4 million related to the market value adjustments for equity accounted investments.

Non-IFRS Measures

The Trust's 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 per unit, net income per unit from continuing operations, cash generated from operating activities from continuing operations 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 (continuing), 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-Reconciliation of Net Asset Value to Total Unitholders' Equity" and "Non-IFRS Measures and Other Disclosures" sections in the Trust's Management's Discussion and Analysis for the three months and year ended December 31, 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 and our commitment to repurchase up to $100 million of units; our expectations regarding *the commencement of our second SIB and the terms thereof, including the maximum number of units we may purchase under the offer and timing for completion of the offer; 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 pre-tax IRR for development projects, expected profits from our development projects, and 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;; 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 February 18, 2020. The Trust does not undertake to update any such forward looking information whether as a result of new information, future events or otherwise, except as required by law. 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.*