



Which +7%-Yield REIT Has Massive Upside Potential?

Description

The market that's represented by the **iShares S&P/TSX 60 Index Fund** yields 2.1%. In comparison, office real estate investment trusts (REITs) **NorthWest Health Prop Real Est Inv Trust** ([TSX:NWH.UN](#)) and **Dream Office Real Estate Investment Trst** ([TSX:D.UN](#)) offer much higher yields.

In fact, NorthWest Healthcare Properties yields 7.4% and Dream Office REIT yields 9.1%. So, they generate 3.5 times and 4.3 times, respectively, more income than the market.

Which REIT will give you higher returns in the next few years?

NorthWest Healthcare Properties

Remarkably, NorthWest Healthcare has advanced 38% in the last year because its fundamentals are improving.

Firstly, the REIT has maintained its distribution per unit since 2012. Its funds from operations (FFO) per unit has remained more or less the same since 2012, while its adjusted FFO payout ratio has reduced from about 100% to about 87%. A lower payout ratio improves the safety of its monthly distribution.

Secondly, its portfolio is much more diversified than it was once it combined with its international counterpart in 2015. Its portfolio is now comprised of 139 properties across 9.3 million square feet throughout major markets in Canada, Brazil, Germany, Australia, and New Zealand.

NorthWest Healthcare earns 44% of its net operating income (NOI) from Canada, 28% from Brazil, 21% from Australasia, and 7% from Germany. Based on asset type, it earns 54% of its NOI from medical office buildings and 46% from hospitals.

Thirdly, NorthWest Healthcare maintains a high portfolio occupancy rate of about 96% with a weighted average lease term of about 11 years.

Lastly, the REIT has a weighted average interest rate of 4.7%, of which 87% is fixed. It also borrows in the local currency for its properties to reduce currency risk. Its annual rental indexation adjustments act

as a natural currency hedge. Its overall portfolio has a weighted average cap rate of 7.3%.

Dream Office

Dream Office has declined 23% in the last year as it's been dragged down by its Albertan portfolio, which contributes 27% of its NOI. Due to low commodity prices and adversity faced by the economy in Alberta, Dream Office recorded a fair-value loss of \$748.4 million in the first half of the year.

In February Dream Office even cut its distribution by a third. So, the REIT's annual distribution per share is \$1.50 and yields 9.1% with an adjusted payout ratio of about 77%. Going forward, the REIT has a much better chance of maintaining its new payout.

Which is a better investment today?

NorthWest Healthcare's improving fundamentals are positive signs. However, the REIT has appreciated 38% in the last year and now trades at 1.2 times its book value compared with one times its book value in 2012.

It also trades close to its net asset value (NAV) per unit of \$10.73 as noted in its August presentation. So, although its yield of 7.4% looks safe, there's little upside expected in the near term for an investment today.

That said, the REIT focuses on AAA assets in Brazil, and it expects NOI growth of 10.4% in those assets compared to the 1.6-3.8% of expected growth in its other assets.

Its Brazilian portfolio is 100% occupied with a weighted average lease term of 20.7 years. Additionally, it has two active developments in Canada, two committed acquisitions in Brazil, two development sites in Germany, and 10 contracted developments in Australasia that should contribute to growth.

Dream Office's NAV per unit is \$23.64 at the end of Q2, which indicates upside of more than 40% at about \$16.50 per unit. The REIT is also trading at a 30% discount from its book value. If the situation in Alberta improves, Dream Office's NAV and book value should also improve. Throwing in the distribution yield, Dream Office could return more than 50%!

Of the two, Dream Office offers a higher yield and has massive upside potential. As a result, if I had to choose to invest in one of them today, I'd pick Dream Office for a higher yield and higher expected returns.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:D.UN (Dream Office Real Estate Investment Trust)
2. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)

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