



Income Alert: Get a Safe 7.6% Yield

Description

NorthWest Health Prop Real Est Inv Trust ([TSX:NWH.UN](https://www.tsx.com/quote/NWH.UN)) has a portfolio of about 141 properties, totaling 9.5 million square feet and \$3.9 billion of assets.

Income investors would love the healthcare real estate investment trust (REIT) and its tax-favourable distribution. Since 2010, the REIT has paid mostly tax-deferred distributions in the form of return of capital.

This means that unitholders holding the units in a taxable, non-registered account have been enjoying most of the distribution without having to pay much in taxes.

Unitholders simply keep track of the reductions of their adjusted cost basis according to the amount of return of capital they receive.

So, they pay little tax on the distributions until they sell or their adjusted cost basis turns negative, at which time they're taxed like capital gains — half of the amount at your marginal income tax rate.

The REIT currently offers a safe, juicy yield of 7.6%.

hospital beds type unknown

Recent developments

In October 2016, Northwest Healthcare Properties closed its acquisition of the Brazil Hospital, Santa Helena which is operated by Rede D'Or.

In January, the REIT successfully completed a public offering that raised gross proceeds of \$86.3 million at \$10.10 per unit. Some of those funds went into the acquisition of two German properties in the first quarter.

Diversification

The REIT became more diversified in 2016. It now earns about 41% of its net operating income (NOI)

from Canada, 31% from Brazil, 22% from Australasia, and 6% from Germany.

Brazil and Australasia are great areas of growth because they are expected to deliver same-property NOI growth of about 10-12%.

By asset mix, Northwest Healthcare Properties generates roughly an equal amount of NOI from hospitals and medical office buildings and others.

Top tenant

It's noteworthy that Northwest Healthcare Properties generates 19.5% of its gross rental income from Rede D'Or, which has a high Fitch AA+ rating. Rede D'Or operates two hospitals that total 475,000 square feet, have 294 beds, and 22 surgical units.

They have rental increases that are indexed to annual inflation and a lease term of about 25 years. Moreover, the hospitals are 100% occupied. Altogether, this tenant generates safe, increasing rental income for the REIT.

Distribution safety

Northwest Healthcare Properties maintains a high occupancy of 95.6% with an IFRS cap rate of 7%. Its international portfolio has a higher occupancy north of 98%.

Based on the REIT's normalized adjusted funds from operations per unit, its payout ratio is sustainable at 87%. Having a weighted average lease expiry of about 11 years helps maintain the stability of the REIT's cash flows.

Investor takeaway

Northwest Healthcare Properties continues to grow its portfolio. Based on its normalized net asset value per unit of \$12.10, the REIT is discounted by about 13%. So, the REIT is moderately discounted. Moreover, it offers a safe yield of 7.6%. Any dips would be a good opportunity to get juicy income.

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kayng

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