



Are the High Dividend Yields of These 2 REITs Safe?

Description

Real estate investment trusts (REITs) are some of the most popular places investors go to for current income. REITs earn rent from their diversified portfolios of properties which spread the risk. Compare this to the risks faced by investors who buy individual rental properties.

Moreover, you can choose the type of REIT you want to own. For example, there are REITs that focus on residential, office, industrial, retail, hotel, healthcare, self-storage, or data-centre properties.

It's not uncommon to find REITs with yields of +7%. In fact, **NorthWest Health Prop Real Est Inv Trust** ([TSX:NWH.UN](https://www.nwhi.com)) and **Cominar REIT** (TSX:CUF.UN) offer yields of ~7.5% and ~10.9%, respectively.

However, some yields are riskier than others. Let's see if these two REITs offer safe yields.



NorthWest Healthcare Properties REIT

The REIT has a global portfolio of healthcare properties with a weighted average lease expiry of roughly 11 years, which makes its cash flow generation relatively stable.

By asset type, NorthWest Healthcare Properties REIT generates roughly half of its net operating income (NOI) from medical office buildings and the other half from hospitals. Geographically, the REIT generates 39% of its NOI from Canada, 28% from Brazil, 26% from Australasia, and 7% from Germany.

NorthWest Healthcare Properties REIT's weighted average interest rate is 4.32% and most of its debt (82.9%) is fixed. Moreover, the company borrows in the local currency when it invests, which reduces foreign exchange risk. Additionally, the REIT has rental indexation for some of its leases, which act as a currency hedge.

NorthWest Healthcare Properties REIT's recent portfolio occupancy was 95.7%, and it's estimated to have a payout ratio of up to 86% this year. So, there's a margin of safety for its distribution yield, and the company's ~7.5% yield should remain intact.

Cominar REIT

Cominar REIT is the largest diversified REIT in Canada. It generates rent from office, retail, and industrial and mixed-use properties, and its recent portfolio occupancy was 92.3%.

Management runs the company with conservative financial leverage and seems to be committed to paying the distribution, which it has at least maintained since 2000.

Unfortunately, Cominar REIT has been stretching its payout ratio as it has sold off non-core assets. Its payout ratio is estimated to be about 116% this year. If the company doesn't reinvest enough proceeds in time, it might have trouble maintaining its distribution as it is now.

Investors should be extra cautious with any REITs that have a payout ratio of over 90%.

Investor takeaway

I'm not saying that Cominar REIT will cut its dividend, because there are ways companies can pay out high yields despite having a stretched payout ratio.

However, if you're looking for a safe dividend, consider NorthWest Healthcare Properties REIT over Cominar REIT, despite the latter having a higher yield.

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1. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)

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