3 Reasons This Is a Safe Place to Park Your Money for High Income

Description

The safest place to park your money for a period is in a guaranteed investment certificate (GIC). Typically what happens is you lock in, say, $1,000 or more of your money with a financial institution and they pay you interest.

Right now, the best rate I can find for a one-year GIC is 3%. Locking in $10,000 earns $300 of interests in a year. Notably, though, interests are taxed at your marginal tax rate.

In the stock investing world, one of the safest places to park your money for high income is in real estate investment trusts (REITs). However, you've gotta be very picky.

I think **NorthWest Healthcare Properties REIT** (TSX:NWH.UN) is a perfect idea for conservative income investors for a few reasons.

A defensive portfolio

NorthWest Healthcare Properties is in the defensive asset class of healthcare REITs. Specifically, it generates about 54% of its net operating income from medical office buildings and 46% from healthcare facilities, including hospitals.

The REIT's sturdy portfolio is characterized by high occupancy (96.7% at the end of 2018) and a long weighted average lease expiry of 12 years. Additionally, 72% of its NOI is annually indexed to inflation.

In combination, it means that NorthWest Healthcare Properties generates stable income with organic growth, which leads to a fairly safe cash distribution.

A diversified portfolio

NorthWest Healthcare Properties recently expanded its portfolio and now consists of 156 properties. Compared to about a year ago, the REIT is also more geographically diversified.

It now generates 32% of its NOI from Canada, 27% from Australasia, 25% from Brazil, and 16% from Europe versus 31% from Canada, 39% from Australasia, 23% from Brazil, and 7% from Europe.

By investing in this one investment, investors are investing in the megatrend of a growing global aging population.

A high yield that's favourable taxed

NorthWest Healthcare Properties' normalized adjusted funds from operations payout ratio was 90% in 2018. At $11.30 per unit, the REIT offers a 7.08% yield, which is hard to beat.

What's noteworthy is that the REIT's cash distribution is much more favourably taxed than interests from GICs. For example, in 2018, 55% of its cash distributions were return of capital and 45% were capital gains. The former reduced unitholders' cost basis, while the latter was taxed like capital gains (i.e., 50% were taxable).

Investor takeaway

Bank of Nova Scotia recently increased NorthWest Healthcare Properties' one-year price target to $12, which represents 6.2% near-term upside potential. This indicates the REIT is fairly valued.

Our goal in the investment is a high, stable income. The REIT doesn't disappoint in that aspect. That said, to increase your margin of safety, for the purpose of capital preservation, income investors should consider buying the defensive stock on a dip to $10.60-10.80 per unit.

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

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