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Health-Care Property Owners May Lead U.S. REIT Dividend Boosts
2011-01-25 05:01:00.4 GMT

By Brian Louis

Jan. 25 (Bloomberg) -- Health-care property owners may lead dividend increases by U.S. real estate investment trusts in the first quarter, buoyed by profit growth after more than $11 billion in acquisitions announced last year.

Five of 12 health-care REITs, including the two largest by market value, HCP Inc. and Ventas Inc., may raise payouts by the end of March, data compiled by Bloomberg show. That portion of companies, at 42 percent, is the highest of any group of U.S. REITs that own property, according to Bloomberg forecasts, which are based on factors including earnings and options prices.

Owners of hospitals, medical office buildings and nursing homes in North America had the biggest percentage of dividend increases last year, with 69 percent raising payouts, according to SNL Financial in Charlottesville, Virginia. That was the first year the group has led since at least 2005. The companies are able to lift dividends because of the predictability of their earnings, which come mainly from fixed rent increases, said Robert Mains, an analyst with Morgan Keegan & Co.

“As these companies grow their earnings, and we expect them to grow them modestly, we expect the dividends to follow along,” Jeff Theiler, an analyst at Green Street Advisors, a Newport Beach, California-based real estate research company, said in a telephone interview. “It was an outsized year for acquisitions.”

Higher Dividend Yield

Health-care property companies trailed gains in the overall Bloomberg Real Estate Investment Trust Index in 2010, keeping the dividend yield of the group higher than that of office, regional mall and apartment owners. The Bloomberg REIT health- care index increased 13 percent last year, while the broader measure gained 25 percent.

The dividend yield for the Bloomberg REIT Healthcare Index was 5.3 percent as of yesterday, compared with 3.1 percent for office owners, 1 percent for hotels, 3.1 percent for apartment companies, and 3.8 percent for industrial landlords.

U.S. law requires REITs to distribute at least 90 percent of their annual taxable income to shareholders through dividends.

Other types of property owners may be slower to boost dividends after the U.S. recession increased vacancies and lowered income from commercial real estate. Almost 60 U.S. REITs cut or suspended their dividends in 2009, the year the recession ended, according to SNL. That was the most since 2000.

Four of the 13 members of the Bloomberg apartment index are projected to raise their next dividend, according to Bloomberg data. Three of the 17 companies in the office property index may have higher payouts, the data show. None of the members of the industrial and hotel indexes are projected to have increases.

'Measured' Steps

"Management teams don't want to get ahead of themselves," Richard Anderson, an analyst with BMO Capital Markets in New York, said of dividend increases. "You're seeing it happen, but in a measured way."

Health-care REITs generally have longer leases with tenants compared with other types of owners, such as office-building landlords, and are less susceptible to economic slumps, said Morgan Keegan's Mains, based in Saratoga Springs, New York.

The companies are making purchases as health-care providers focus on running their businesses, Anderson said.

"They're not supposed to be real estate owners," he said of health-care companies.

Health-care REITs announced $11.25 billion in acquisitions last year, led by HCP's $6.1 billion planned purchase of real estate from HCR ManorCare Inc., according to Bloomberg data.

HCP, which has $13.4 billion in market value, will add 338 nursing homes with the acquisition.

Adding to FFO

The purchase may increase full-year funds from operations, a measure of cash flow, by 47 cents a share, the Long Beach, California-based company said in December. HCP expects the deal to be completed this quarter.

HCP's next dividend will increase to 47.5 cents a share from 46.5 cents, according to the Bloomberg forecast. The company last raised its payout in February, from 46 cents.

Thomas Herzog, HCP's chief financial officer, didn't return two telephone messages seeking comment.

Ventas, with $8.4 billion in market value, agreed to buy 118 senior housing properties in October from Atria Senior Living Group for $3.1 billion, including $1.6 billion of debt.

The Chicago-based company also purchased 96 medical office buildings in July for $381 million, including the assumption of $79.5 million of debt.

Higher Forecast

Ventas in November raised its estimate for 2010 normalized funds from operations to $2.84 to $2.86 a share, compared with a previous projection of $2.75 to $2.80.

The company is forecast to raise its dividend to 55 cents a share this quarter from 53.5 cents, according to Bloomberg data.

"Dividends are an important part of delivering consistent superior total returns to shareholders," Debra Cafaro, chairman and chief executive officer of Ventas, said in an e-mailed statement. "Our board will make a decision about the Ventas dividend in the first quarter."

The Bloomberg dividend forecasts are based on seven criteria, including company guidance, regression analysis, and put-call parity from the options market. The projections had a global accuracy rate of 88 percent in the fourth quarter, compared with 76 percent for market analysts.

"REIT equity investors are obviously very much interested in the dividend," Craig Guttenplan, an analyst at CreditSights in London, said in an interview. “That’s a big part of the REIT investment proposition.”

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Health Care REITs Forecast to Increase Dividends:
HCP Inc.
Ventas Inc.
National Health Investors Inc.
Health Care REIT Inc.
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