Income Investors: Don’t Miss Out on This Hidden Gem

Description

They say the only two certainties in life are death and taxes. And while there are no stocks to invest in the former, there are plenty of stocks to invest in the latter — especially if you are an income investor. I am, of course, referring to safe and profitable healthcare REITs, particularly those in the senior-living sector.

Demographic trends paint a bullish picture

According to research from **National Bank**, there are several underlying factors that build a bullish case for senior-housing REITs. First and foremost, Canada is in the midst of a demographic shift as residents aged 65 years and older have eclipsed the number of people under the age of 14 for the first time in our country’s history. Moreover, as per the World Bank, the portion of Canada’s population aged 75 years and older in 2016 was 7.1% and is expected to grow to 13% by 2035 — far outpacing Canada’s overall growth rate of 14%.

Furthermore, according to the Canada Mortgage and Housing Corp. (CMHC), 9.1% of those aged 75 years or older occupied retirement facilities in 2016. As the senior population effectively doubles within the next 20 years, we can expect demand for senior-living facilities to increase.

Finally, although the level of affluence among seniors has increased 70% from 1999 to 2016 (median net worth of $270.7 thousand versus $460.7 thousand), elevated housing prices in major Canadian metropolitan areas mean that seniors are more inclined to lock in the price appreciation of their homes and maximize their retirement period through residency in a care home.

Enter Chartwell Retirement Residences

As far as senior-housing REITs go, the Canadian selection is quite slim; there are only a handful of public names. Moreover, the entire sector is quite fragmented with the 15 biggest names controlling just 43% of the market.

However, one name that stands out is **Chartwell Retirement Residences** (TSX:CSH.UN), which happens to be the biggest senior-housing REIT in Canada with 25,000 suites and a $3 billion market cap to its name. As the largest senior-home operator in Canada, Chartwell’s name represents a stable stream of cash flow as well as access to a talented management team which has led the company to outperform the TSX REIT average, more or less, in terms of quarterly same-property net operating income since 2010.

Furthermore, income investors will be happy to note that the REIT’s feverish acquisition activity is expected to slow down after the $800 million in aggregate expenditures it spent to strengthen its foothold in eastern Canada. This means that with a payout ratio of just 67% of adjusted funds from operations, investors can expect dividend increases in the coming quarters.

The bottom line

With the Bank of Canada expected to keep yields low in the near term, REITs and other income stocks have begun to look more attractive for defensive investors. If you're looking for a stable source of income, then the payouts from senior-housing REITs such as Chartwell are about as certain as death and taxes.

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1. Editor's Choice

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1. TSX:CSH.UN (Chartwell Retirement Residences)

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ajtun