Housing Market Tanking? This REIT May Provide Safety

Description

It's almost June and the Canadian housing market is still in a slump. The latest data on that front comes from **Equifax**, which reported that Canadians are taking out fewer — and smaller mortgages — than in previous years. The numbers showed that, in the most recent reporting period, Canadians took out $58 billion in new mortgages, down 8.4% compared to the same quarter a year before, and 12% from 2016.

This comes after earlier reports that showed a decline in housing prices (especially in Vancouver) and a slowdown in mortgage growth to a 17-year low.

Equifax's numbers don't inspire confidence in the real estate market, to put it mildly. However, it should be noted that housing is just one segment of that market. The commercial real estate market is worth $14 to $17 trillion in the U.S. alone, and it's growing faster than residential real estate. In addition, commercial real estate is highly differentiated, with many different types of properties available (offices, malls, strip malls, big box stores, etc).

In this article I'll be looking at one REIT with an unconventional niche that's about as far from residential as you could imagine.

Northwest Healthcare Properties REIT (TSX:NWH.UN)

Northwest Healthcare is a REIT that focuses on healthcare properties. The company has a portfolio of 149 income-producing hospitals, medical clinics and healthcare offices. This highly specialized niche provides a kind of moat, as the company is one of the few in Canada that focuses specifically on healthcare. The company's high geographic diversification also provides a buffer against losses in any one market: it owns properties in Canada, Brazil, Germany, Australia and New Zealand.

Incredible stability

The healthcare sector is noted for its stability. In Canada, it is largely government funded, and what isn't funded is usually covered by private insurance, which makes the healthcare industry very reliable in terms of income and, by extension, demand for office/clinic space. In light of this, it's no surprise that Northwest Healthcare reports higher occupancy rates than the average REIT: in Q1, it reported an astounding occupancy rate of 98% compared to the industry-wide average of 93%.

Recent results

Northwest Healthcare's Q1 results were solid across the board. In the quarter ended March 31, assets grew to $4.7 billion from $4.6 billion in December, while total liabilities actually declined. Funds from operations grew to $91 million from $88 million a year before and $89 million three months prior. The company technically reported a $54 million net loss, but that was almost entirely due to non-cash items (e.g., fair value adjustments) and does not reflect the company's operating results.

Foolish takeaway

I don't personally invest in REITs, but if I did, Northwest Healthcare would be one of my top picks. Not only does it have a high dividend yield, but it's also up 25% this year, so it has rewarded investors richly. The REIT's high occupancy rate is a major plus and its financial stability is better than average. As far as the Q1 net loss goes, remember that REITs, as income-generating investments, are usually evaluated based on operating metrics rather than net income.

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Date
2025/09/19
Date Created
2019/05/28
Author
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