1 Top Defensive REIT I'd Buy Today

Description

Generally, real estate is a strong, defensive, and resilient alternative investment during recessions, but not all real estate investment trusts (REITs) fare very well during economic downturns.

Hotel operators suffer from too short "contracts" as bookings quickly dry up. Apartment owners face some challenges too if economic troubles drag on for longer, as tenant contracts are usually for one year.

However, I'm looking at one top-quality Canadian REIT that has strong defensive attributes but a deep price discount, which makes it a screaming buy today.

A top-quality defensive REIT

NorthWest Healthcare Properties (TSX:NWH.UN) is a well-managed, highly defensive healthcare facility landlord owning 175 properties comprising 14.5 million square feet geographically diversified across Canada, Germany, Brazil, Australia, New Zealand, the Netherlands, and, recently, the United Kingdom.

The trust leases its properties to critical "cure" healthcare service providers like hospitals, post-acute rehabilitation, outpatient, and life sciences tenants. These healthcare categories enjoy significant government support.

About 85% of the trust's revenues are now provided by public healthcare funding. Governments in Australia, the Netherlands, Germany, and the United Kingdom announced programs to expand the capacity of their respective public hospital systems in response to the COVID-19 pandemic by entering into direct arrangements with private hospital operators.

Strong tenant-retention rate during a pandemic

Deep into the COVID-19 pandemic, NorthWest Healthcare's property portfolio occupancy levels remained strong at 97.3% going into April. The 1,900 tenant portfolio remains intact, with a strong 14 years in remaining lease terms. Most of the leases are inflation-indexed.

Management recently revealed that tenants representing up to 93% of the contracted net-rent will meet their rent obligations for the month of April. Only a few tenants are negotiating temporary rent deferrals, and some of them will be eligible for government-support programs.

The good thing is, the few tenants who are negatively impacted by the COVID-19 pandemic, as some appointments get deferred, will become extraordinarily busy when healthcare systems resume full service after the pandemic. Backlogs are accumulating, and doctors could become overwhelmed by unmet needs after COVID-19 is gone. Not much rent may be lost overall.

Growing earnings, better cash flows, and lower leverage

NWH's same-property net operating income is expected to grow by 5.8% in the long term. Revenue from asset management is expected to increase after strong growth in fee-bearing capital to $8 billion in 2019.

The asset management portfolio currently has $11.5 billion in capital commitments. Increases in assets under management will contribute directly to earnings and distributable cash flows in the future.

Further, the trust continues to develop new properties, and this will be accretive to operating income, too.

Most noteworthy, NWH is currently deleveraging its capital structure towards investment grade metrics. Management expects the debt level to decline to 42.4% by end of this year. Lower leverage and increasing operating earnings will see NWH become an investment grade-rated REIT soon, and income investors will love the relative distribution safety attached to such a status.

Management is shoring up the trust's liquidity resources by over 180% this quarter. Trustees plan to initiate a normal course issuer bid to buy up to 10% of the trust's public float, while taking advantage of the current decline in the unit price and 30% deep discount to net asset value (NAV) per unit.

Buy the high yield before it's gone

The 2020 stock market sell-off punished NorthWest Healthcare Properties REIT's units, too. However, normal valuations could return to top-quality defensive assets soon. The trust's units have mostly traded at their NAV, which sat at $13.17 exiting 2019. The 30% discount to fair value on its units could soon go away.

Buying the top defensive REIT's units today could generate some good capital gains, as the stock market recovers. Investors could lock in a juicy 8.6% distribution yield on a soon-to-be-investment grade real estate operator.

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