Should You Buy REITs if the Housing Market Crashes?

Description

The COVID-19 pandemic has been raging for several months now, and we're past the second month of lockdown with no signs of the pandemic slowing down. The economy is taking massive hits as a result of the novel coronavirus. Stocks from sectors throughout the economy are suffering.

Real Estate Investment Trusts (REITs) listed on the **Toronto Stock Exchange** seems to be among the worst affected due to the pandemic. The **BMO Equal Weight REITs Index ETF** mirrors the performance of an equal weight Canadian REIT index. It has lost 23.35% from the start of the year. Canadian hotels and retail REITs are taking the brunt of the impact.

COVID-19 and the housing market

The Canadian housing market has long been in a bubble, and the pandemic could lead to a housing market crash. Amid such an environment, you might be wondering if you should buy REITs.

Due to the economic shutdown, millions of Canadians have been laid off and are seeking government support through CERB payments and unemployment benefits. It is affecting their ability to pay off their debts and mortgages that can lead to severe issues for banks with significant mortgage exposure.

While the stimulus package by the government and mortgage deferrals are managing to control the situation currently, a housing market crash can occur with grave consequences. However, not all REITs are meant to suffer in the event of a housing market crash.

There are Canadian REITs you can own during a challenging market environment like the **NorthWest Healthcare Properties** (TSX:NWH.UN).

NorthWest Healthcare Properties

NorthWest Healthcare is a Canadian REIT that can typically be a safe investment to consider in times of market volatility. An ideal characteristic to consider when you are looking for reliable stocks during challenging economic environments is the possession of solid fundamentals.

NorthWest's performance throughout 2019 indicates that the REIT is in a fantastic operational and financial position. The REIT had an occupancy rate of an impressive 97.3% by the end of 2019 and a weighted average lease expiry of 13.8 years. The REIT ended the year with a solid balance sheet due to a strong performance.

It exhibits the certainty of NorthWest Healthcare's earnings. The REIT is in the process of selling non-core assets located in Europe and Australia to boost its cash holdings. With the deals going through, the REIT stands to increase its cash holdings by $237 million. The REIT also expects to generate another $181 million in net proceeds from asset sales during Q2 2020.

Such characteristics paint the picture of stock that's ill-suited to ride out the recession in excellent shape.

Growth prospects

NorthWest has more going for it beyond its solid 2019 performance. During 2019 and in early 2020, the REIT completed a series of acquisitions, including the purchase of 11 freehold hospital properties in Australia for $1.2 billion and $167 million worth of hospital real estate in the U.K.

It means that NorthWest is in an ideal position to profit from a possibly imminent increase in demand for healthcare facilities and aging populations in both countries. It can allow the REIT to boost their earnings along with initiatives on developing core properties and unlocking synergies.

Foolish takeaway

Many REITs will suffer in the event of a housing market crash. That said, there are certain REITs trading on the TSX capable of weathering the storm better than the rest.

NorthWest could be an ideal stock to consider if you want exposure to real estate without the risk of the housing market crash.

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TICKERS GLOBAL

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

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Author
adamothman