Will China Evergrande Tank the Global Economy?

Description

China Evergrande (SEHK:3333) is the topic of the hour. Set to default on its debts, it is wreaking havoc on global markets. As of this writing, all major stock indexes were down significantly in pre-market trading. China's hang seng index, which trades overnight in North American time zones, closed the day down 3.3%.

It's going to be a rough week. There's guaranteed to be fallout from Evergrande's implosion, and it's going to affect stocks. The question is, how bad will it get? With the Evergrande situation, many of the world's biggest financial institutions are at risk. It does not look like Evergrande will be getting a bailout, so it will go into default. The company doesn't have enough liquidity to pay its debts quickly. So if bondholders do get paid, it will only be far in the future, after massive asset sales have occurred.

Why some think Evergrande could tank the global economy

Many people think that Evergrande could collapse the global economy as U.S. banks did in 2008. Evergrande has a whopping $300 billion in debt owed to financial institutions all over the world. Major Chinese, U.S., and European banks could lose money over this. And as 2008 showed, when banks experience losses, economic contagion ensues.

The 2008 financial crisis started when sub-prime mortgages went into default and banks and other financial institutions started taking losses. The losses were compounded by losses on derivatives built on mortgages and mortgage-backed securities. By the time all was said and done, $8 trillion in stock market value was wiped out.

A safer kind of real estate investment

With the Evergrande situation spiralling out of control, China's real estate market is looking un-investible. Certainly by the time all of this is said and done, billions of dollars in investor money will go up in smoke. It remains to be seen whether the global economy will collapse because of Evergrande, but it's clear that China's real estate and banking industries are in some turmoil.

Canadian real estate, on the other hand, is looking pretty safe. Canada's housing market is hot and some think it is in a bubble. But the economic fundamentals are sound. If you look at REITs like **NorthWest Healthcare Properties REIT** (TSX:NWH.UN), for example, most of them have great fundamentals. Their balance sheets are strong, their liabilities are within reason, and their assets are increasing in value.

That goes for all REITs, even ones like mall REITs that got hit hard by the COVID-19 pandemic. But healthcare REITs like NorthWest are particularly safe. Since they lease space to healthcare providers, their revenue is ultimately paid by the government. That gives their clients unparalleled ability to pay. This was shown in NWH.UN's most recent quarter.

In the quarter, the REIT boasted a 97% collection rate, high occupancy, and modest growth in funds from operations (FFO) and net asset value (NAV). These are the qualities you want to look for in a real estate investment. And there are plenty such real estate investments out there for Canadian investors.

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

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