Investors: Why Choose REITs Over Direct Ownership

Description

Canada's housing market slumped in 2022, as buyers stayed on the sidelines due to rising mortgage costs. Sellers also took their properties off the market because of falling prices. The Canadian Real Estate Association (CREA) expects home sales to decline 1% from last year and prices to drop almost 6% year over year.

Since the situation remains fluid, if not uncertain, purchasing real estate for investment purposes isn't advisable today. However, if you want exposure to the sector and to earn passive income, consider taking positions in real estate investment trusts (REITs). Owning shares of **NorthWest Healthcare** (TSX:NWH.UN) and **Allied Properties** (TSX:AP.UN) are your next-best alternatives.

Healthcare facilities

NorthWest Healthcare, a $2.42 billion global real estate investor and asset manager, owns and operates medical office buildings, hospitals, and clinics. The only REIT in the cure segment of the healthcare real estate spectrum rose to prominence in 2020 during the coronavirus breakout. It also forms value-added partnerships with the top healthcare operators in the world.

You can find 233 high-quality, income-producing properties across Canada, the United States, Australia, Brazil, Germany, the Netherlands, New Zealand, and the United Kingdom. NorthWest's healthcare-focused portfolio offers unparalleled global scale, diversification, and resiliency. The weighted average lease expiry is 14 years.

Medical office buildings are akin to commercial buildings, typically multi-tenant properties, and the tenants are mostly necessity-based healthcare providers. Lessees are single tenants or hospital operators for hospitals and other healthcare facilities. Since leases are long-term, inflation-indexed, and under triple net lease structures, the REIT has no material property operating cost or capital expenditure risk.

Management expects demand for its healthcare partners' essential services and spaces to house these services to increase with the aging populations and increased urban migration. An emerging class of assets is Life Sciences, and the long-term leases are with life science users focusing on research and development.

In the nine months that ended September 30, 2022, total property revenues and net operating income (NOI) increased 18.7% and 18.8% year over year to $330.3 million and $255.5 million, respectively. The REIT's 52-week high is $14,42, but it trades at only $10.04 per share and pays a fantastic 8.01% dividend.

A unique and growing niche market

Allied Properties in the office sub-sector is unique, as it focuses on developing distinctive urban workspaces and urban data centre (UDC) spaces. The $3.8 billion REIT is at the front and centre of the ongoing consolidation, intensification and development in this growing niche. Management aims to satisfy the needs of the most demanding office and retail users.

Its real estate portfolio grew through acquisitions and development activities. Today, Allied Properties operate in seven urban markets: Calgary, Edmonton, Kitchener, Montréal, Ottawa, Toronto, and Vancouver. In the third quarter (Q3) of 2022, leasing activities were pretty stable. The rental revenue and NOI increased 10.2% and 9.7% to $157.16 million and $91.67 million versus Q3 2021.

The share price has risen to as high as $48.89 and could do so again when the real estate market rebounds. You can purchase this REIT at $29.74 per share — a good entry point. The 6.04% dividend yield should compensate for the depressed price.

Unstable market

The real estate market won't stabilize if borrowing costs are too high and home prices continue to drop. That is precisely the reason investors should choose REITs over direct ownership.

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