How to Time Your Investment in This Hot Sector

Description

Chartwell REIT (TSX:CSH.UN) is in one of the hottest sectors one can possibly be in right now: senior living/retirement homes. They haven't seen a great performance in recent years compared to most of its peers, however. While this is something that has baffled many investors, it's something I've predicted in the past.

Why? There are a few reasons that this may not be so obvious on the surface.

An increasing supply

One interesting aspect of Chartwell's business is that there are surprisingly supply and demand fundamentals. These are the opposite of what many may believe is the case.

As it turns out, Chartwell's success, and the success of its competitors over the past decade has resulted in a significant amount of building in the senior living and retirement homes niche.

This building has continued to come online in recent years, plugging up the market with vacancies and creating a dearth of options for those considering retirement living solutions, increasing the vacancy rate of operators like Chartwell.

Chartwell's operations are centred in Ontario, and this is a market that many analysts believe has been somewhat overbuilt.

The future may be bright

The long-term prospectus for Chartwell and its peers certainly remains strong, as baby boomers are certainly retiring.

Also, baby boomers are living longer — and their kids are often working two jobs just to pay the bills. These factors will certainly drive up the need for high-quality and affordable retirement living solutions for seniors.

However, the reality remains that the glut of inventory sitting in the market will need to get cleaned up before any sort of growth conversation can happen here.

A big part of the growth story for companies like Chartwell is the design and construction of new facilities for their target market.

For those with a very long-term investing time frame, companies like Chartwell are great options to generate income over time — I would just hold off on this name until the aforementioned glut gets cleaned up.

As an income option, Chartwell provides a decent yield around 4%, but investors will know that this is a relatively muted yield. Most investors looking at Chartwell will be looking for growth given the long-term value of senior living properties.

Thus, investors in a REIT like this will be sacrificing yield for growth that may or may not materialize due to the macro factors I pointed out before.

Bottom line

The senior living and retirement home space is certainly a lucrative one, and investors considering making a very long-term investment in this sector can't be faulted for choosing Chartwell — the largest player in this industry in Canada.

For those looking to time an investment in Chartwell, I would wait one or two years to see the supply/demand relationship improve in Ontario.

I would recommend looking for dips and opportunities to buy then, as I believe this stock has a real chance of dipping more in the near term.

Stay Foolish, my friends.

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