



## If Canada's Real Estate Bubble Bursts, What Happens to REITs?

### Description

Pundits, analysts, and interested observers have all said the same thing about Canadian housing for years now: we're in a bubble.

Although talk of a bubble has gradually become louder and louder, the market isn't really listening. Toronto, the country's largest real estate market, consistently posts double-digit gains in property values.

Up until a month ago, Vancouver's real estate market was doing even better than Toronto's. Then the province of British Columbia passed a 15% tax on any properties purchased by foreign buyers—a law that has hit the top end of the market in the city hard.

Other markets across Canada are starting to show some cracks. Places such as Calgary, Edmonton, and Regina are reeling after oil's decline hurt purchasing power. Other cities are doing better, but, with the exception of Toronto, prices are mostly stagnant or up slightly across Canada.

There's more. The Canada Revenue Agency has announced that it plans to go after high-end house flippers who are allegedly breaking tax laws. Many think this could be the tipping point, especially in Toronto, where rumours say the activity is rampant.

Add all of these factors together, and we have a housing market that could be reeling just a few months from now. Just how exactly will REITs hold up in such a scenario?

### Apartment REITs

It's easy to argue that falling real estate prices could actually be positive for Canada's largest apartment REITs.

The logic goes something like this.

If the price of real estate is heading down, nobody wants to buy. Who wants to put themselves in the position to lose potentially tens of thousands of dollars? Since people still need a place to live, they'll

choose to rent their shelter rather than buying it.

This would create more demand for apartments, which would drive up rents.

One REIT well positioned to take advantage of such a trend is **Canadian Apartment Properties REIT** ([TSX:CAR.UN](#)). It has nearly 50,000 residential suites and sites in its portfolio with 51% of properties in Ontario. Another 22% are in Quebec. Much of its Ontario exposure is either in or close to Toronto.

But at the same time, it's likely the value of its apartments would fall. The market for whole apartment buildings is a little different than individual condos, but the same forces ultimately affect both.

**Boardwalk REIT** ([TSX:BEI.UN](#)) is heavily exposed to Alberta. Approximately 60% of its units are in the province. As weakness in the oil and gas sector continues to weigh down Alberta's overall economy, Boardwalk is seeing rents and occupancy fall. It's nothing the company can't handle, but this has still caused the share price to decrease from a high of over \$70 per share to below \$50 today.

If Toronto's economy continues to stay relatively strong during a real estate decline, Canadian Apartment Properties will likely emerge somewhat unscathed. If crashing real estate brings the economy with it, that's not going to be good news for shareholders.

### What about other REITs?

Office REITs aren't really competing with the same forces as apartment REITs. Sure, some businesses like to own their office space, but most have realized freeing up capital for other uses is the better choice. Most industrial clients are the same way.

They're affected by other factors, namely interest rates and the health of an economy. **Dream Office REIT** shares are down because of weakness in Calgary. **Allied Properties** has performed much better because most of its space is located in Toronto and Montreal—two markets that are performing much better.

Office and industrial REITs will likely perform much better than residential ones if the housing market collapses. But with increased rental demand from spurned former homeowners, residential REITs could end up weathering the storm just fine. And perhaps most importantly for investors, they should have no reason to even consider stopping those sweet dividend payments.

### CATEGORY

1. Dividend Stocks
2. Investing

### POST TAG

1. Editor's Choice

### TICKERS GLOBAL

1. TSX:BEI.UN (Boardwalk Real Estate Investment Trust)
2. TSX:CAR.UN (Canadian Apartment Properties Real Estate Investment Trust)

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## Author

nelsonpsmith

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