Bullish on Real Estate? 1 Defensive REIT to Buy Now

Description

Back at the end of July, *Bloomberg Economics* released a new housing bubble index designed to pinpoint which countries were most at risk from a market correction. Along with New Zealand, Canada found itself right at the top of the list. Based on factors that covered key data sets such as household credit and the price-to-rent ratio, Canada's housing market was deemed unsustainable.

So, should investors still seek exposure through real estate investment trusts (REITs) for defensive, passive income? To answer this question, one has to take in both the bull and the bear case for the domestic housing market and then identify which REIT types are safest.

A bullish outlook for Canadian housing

The figures look alarming: Canada's price-to-rent ratio of 195.9% is almost double what it was in 2015, and the domestic price-to-income ratio is also fairly high at 155.3%. And yet the market generally remains bullish, with pundits split between a wait-and-see (but still get-ready-to-buy) attitude and optimistically calling for a full-on rebound.

The Canadian Real Estate Association (CREA) recently made some compelling points in a statement in which it raised expectations for the coming year: "Population and employment growth have both remained supportive and the unemployment rate remains low. At the same time, expectations have become widespread that the Bank of Canada is unlikely to raise interest rates over the rest of the year and into next."

However, while home sales are up, would-be buyers eyeing the world economy — and, in particular, the warning signs of an American recession — have a hard decision to make. Renting is still a popular option, and gaining exposure to revenue from the rental market is a strong route to defensive dividends . Not all apartment REITs are equally appealing, though, with high debt being one of the common red flags to watch out for.

A strong play for defensive income

Canadian Apartment Properties REIT (TSX:CAR.UN) is strongly focused on residential properties, including multi-unit buildings, apartments, manufactured home communities, and townhouses. These properties tend to be situated near Canadian cities and cater to the middle-tier to luxury markets, making for an attractive asset base, while a reduced level of debt down to 60.5% of net worth over the last five years makes for a stable buy relative to the Canadian REIT space.

With revenue drawn from leased units, CAPREIT is seen as strongly defensive as cities such as Montreal and Toronto continue to expand and with them the high-end rental market. Adding to the attraction, CAPREIT pays a moderate but well-covered dividend yield of 2.53%. The distribution is well established and has a decent track record of coverage with average annual growth in income of 33.1% over the past five years.

The bottom line

With the CREA revising its outlook for the coming year amid strong population and job growth data, plus the expectation that the interest rate will either hold or be lowered, the Canadian housing market looks solid for now. Rental revenue remains a popular source of defensive dividends, meanwhile, and could satisfy a long-term, low-risk investor eyeing the global economy with caution.

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