Toronto Home Sales Down 2.9%: Is a Real Estate Crash Coming?

Description

Real estate investment trusts (REITs) are companies with stocks reputed for delivering high yields and decent distributions of dividend income to investors. Canada's REIT industry consists of investment trusts with a pretty decent performance over the years. Since they are investment trusts, REITs are obligated by law to maintain a high percentage of taxable income to pay shareholders.

REITs allow investors interested in the real estate industry to reap benefits without directly owning and operating any properties. For a lazy landlord, that can be the perfect way to earn passive income based on the performance of the trust and the industry without dealing with all the hassle.

The real estate sector

The introduction of regulatory restrictions for mortgages at the start of 2018 had an impact on the real estate market. The new rules resulted in an industry-wide pullback in terms of home sales, and REITs were reeling from its effects. In October, however, the industry resumed its momentum after seven consecutive months of gains.

Home sales in Vancouver and Calgary were both up 5.9% and 2.1%, respectively. Meanwhile, sales in Ottawa continued to expand at a moderate pace, while Montreal saw little change in the number of homes sold.

The residential market has managed to climb back above its 10-year average this year, and it is contributing to the overall economy of the country. The sales-to-new listings ratio also went up by 64%, which means sellers enjoy more favourable conditions in the market.

The housing sector was becoming a hindrance to economic growth over the past couple of years. Rising prices did not help the situation, and we saw the effects last year. The bounce back is hopeful. Still, the fact that home sales in Toronto went down by a significant margin of 2.9% shows that there is still reason for you to be cautious.

A defensive stock to consider

Whenever there is the slightest uncertainty, it is reasonable to reconsider your position and invest in stocks that are defensive. While I cannot say for sure if the housing market will experience a crash any time soon, Toronto hitting the lowest figures in home sales since February is worrisome.

The Canadian market is still coming to terms with the impact of taxes on foreign buyers and tighter mortgage rules. Stocks like **Allied Properties REIT** (TSX:AP.UN) can offer investors a more secure option to consider in case there is a housing crash. The portfolio for Allied Properties consists of 188 office buildings in large metropolitan Canadian cities.

Most of these office buildings are Class I buildings, making them desirable office spaces that are further boosted by a 96.2% occupancy rate. Allied Properties is a Dividend Aristocrat, delivering dividend growth for more than seven straight years now. The company is expected to raise dividends further in December 2019.

The REIT has grown AFFO by 22% over the first nine months of the year, and the payout ratio has dropped to a healthy 34.57%. With robust performance, the company has a better chance of continued dividend growth for investors.

Foolish takeaway

With prices soaring in the housing market and the overall segment showing signs of uncertainty, I feel that it is a better idea to consider a more defensive position in the real estate sector. Allied Properties is a REIT that could offer you safer grounds through its phenomenal performance and a vast portfolio.

CATEGORY

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1. TSX:AP.UN (Allied Properties Real Estate Investment Trust)

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Date
2025/07/03
Date Created
2019/11/26
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