Housing Crash: Buy or Sell REITs?

Description

For the better part of the last decade, the Canadian housing market has been on a constant upward trajectory. With the price of residential properties in major Canadian cities like Vancouver and Toronto reaching new highs year after year, there was fear of a housing bubble. Analysts have been warning us of a housing market crash for years.

How is the situation unfolding? Should you buy or sell real estate investment trust (REIT) stocks? I am going to discuss the state of affairs and give you my answer to that question.

The lockdown and housing market

The Canadian economy is going through its most challenging period since the 2008 financial crisis. With a lockdown in effect, millions of people have been laid off. The average Canadian household was already struggling with an unfavourable debt-to-income ratio. Losing jobs as a direct or indirect result of the pandemic has put Canadians' financial health in an even more precarious position.

The housing market's safety came into question with rising fears of loan defaults, including mortgage payments. The inability to manage the cash flow for mortgage debts might see Canadian property owners sell properties they cannot afford. The result is a flood of new listings on the market while there would be nobody to buy up houses.

Buy or sell REITs?

With the situation leaning more toward a crash in the housing market, REITs might seem less than attractive for investors. However, not all real estate sector assets are at significant risk due to the market meltdown. There are solid REITs that can come out of the situation relatively unscathed. If you find the right stock, you can buy REITs instead of entirely removing yourself from exposure to the real estate industry.

Choice Properties REIT (TSX:CHP.UN) is a stock that I can peg to be the type of REIT to protect investor capital during a housing market crash.

The housing market crash can cause significant losses for the residential real estate segment. However, the commercial real estate segment can perform better since its revenue does not relate directly to residential real estate. Choice Properties can be ideal for investors due to its portfolio of commercial real estate properties.

Among its most substantial tenants is **Loblaw**, the largest grocery store chain in the country. With most businesses suffering during the crisis, grocery stores are faring better. The essential nature of the business is allowing companies like Loblaw to generate decent revenue, allowing it to pay the rent.

If a housing market crash happens, Choice Properties will likely see a decline in share prices. However, the REIT might not have a problem bouncing back since it has Loblaw supporting its revenue. CHP has also invested in condos and offices on properties above Loblaw locations that drive up the potential income it can earn from those assets.

Foolish takeaway

Choice Properties enjoys a decent occupancy rate. In its most recent quarterly earnings report, CHP revealed that it has $79 million in cash and $1.2 billion in excess liquidity. At writing, the REIT is trading for $11.97 per share, and it is down by almost 13% from its price at the beginning of 2020.

If a housing market crash occurs, I think it could lead to lower prices all around for REITs. It could open up the opportunity to buy a healthy REIT like CHP for a bargain. I would, however, recommend staying away from residential REITs right now.

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