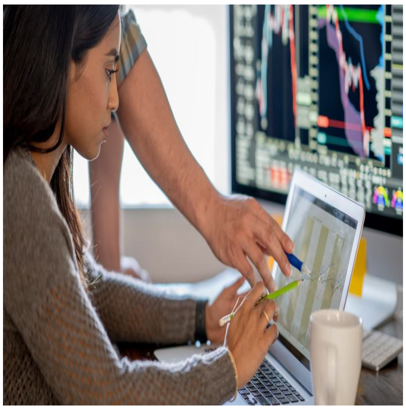

Condos Have Joined The Race! Buy This 1 REIT To Capitalize

Description

The Canadian housing market is too hot to touch – The statement has been repeated so many times over the past few weeks that it might no longer be considered "news." Even the speculation around an impending housing crash is dying down, and people are now wondering whether the prices might stay this high permanently.

But there *is* some new news in the residential real estate, and it's about Toronto's condo market.

Condo sales spike

Last year, the condos in and around Toronto saw a sharp decline in interest. Buyers focused more on suburban houses that offered more space instead of buying small condos near the city centre. Low immigration numbers also contributed to the situation. With interest rates at an all-time low, more people made a move to buying instead of renting, which also hurt the condo section of the housing market.

The situation has been changing since the beginning of 2021. The asset class finished the first quarter quite strong, i.e., with an 80% hike in the sales numbers compared to the first quarter of 2020. The reasons behind this recovery can be traced back to the economic and "medical" recovery as a whole. The fear of the pandemic is abating, and once immigration numbers start to rise back to their former levels, the interest in condos is only expected to increase.

A REIT to consider

Even though most condo/apartment-focused REITs have a corporate structure that's oriented more towards rental income than selling, the spiked interest in the asset-class might offer the boost REITs like **Canadian Apartment Properties** (TSX:CAR.UN) needed for a full-fledged recovery. Even after more than 12 months, the once growth stock still hasn't been able to recover its pre-pandemic valuation.

The REIT has an impressive, geographically diversified portfolio, thanks to its European subsidiaries. The company managed to retain an impressive occupancy rate throughout 2020 and ended the year with a 97.5% occupancy rate. The individual rate was better for apartments and worse for Mobile Home Communities.

The REIT's current portfolio holds about 65,000 residential rental suites. Most of its Canadian properties (about 43%) are concentrated in Toronto. Montreal and Vancouver are the next largest hubs, making up 12% and 9% of the portfolio, respectively. This concentration of residential suites in thriving metropolitans is actually a boon for the company.

An influx of both people migrating from suburbs and small towns to the big cities and foreign immigrants will ensure that the REIT might be able to maintain a decent occupancy rate and grow its rental income steadily over time.

The REIT offers a relatively modest yield but enticing growth potential. It has a ten-year CAGR of almost 16%. It's a sustainable and powerful growth rate, and if the REIT can keep it up for a decade or so, you might experience considerable growth.

Foolish takeaway

One reason why condos might be bouncing back is that people still want to buy homes and the detached homes are either too expensive, or there is not enough inventory to go around, especially in a city like Toronto. Relatively discounted condo prices are another reason, though it might not age well if condos keep flying off the inventory like they are now.

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