3 Real Estate Stocks to Buy if the Housing Bubble Fully Deflates

Description

The housing bubble is shrinking. It's significantly better than the bubble "popping," but the long-term impact will be relatively similar. One of the effects we *might* see is some real estate stocks that are currently propped up on the unnaturally strong housing market momentum becoming discounted.

If you believe that some real estate stocks will dip once the bubble fully deflates and the housing market is somewhere around "normalcy," there are three that should be on your radar.

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A powerful growth stock

FirstService (TSX:FSV)(NASDAQ:FSV) is a Toronto-based real estate technology and service company that happens to be one of the most powerful growth stocks in the sector. It has two major business divisions and several strong brands under its banner. The company generates about 50% of its revenue by FirstService Residential, and this exposure to the housing market might impact the stock once the market shrinks down to a reasonable size.

FirstService stock has returned over 300% to its investors in the last five years alone, and its growth has been eerily consistent. But the best part about FirstService's growth is that the stock's growth overlaps quite nicely with the revenue growth. Apart from stale revenues between 2007 and 2009, the company has grown its revenues consistently year over year.

An apartment REIT

Residential assets, especially those in some of the hottest housing markets in the country, saw their value rise at an expedited pace in the last two years. But now that the bubble is deflating, some of those assets might be revalued for pricing. If that happens, apartment REITs like **Minto Apartment REIT** (TSX:MI.UN) might see a slight dip.

The bulk of Minto's 29-property (and 7,245 suites) portfolio is in three cities: Ottawa, Toronto, and Montreal. In 2020, the REIT saw a sharp decline in gains achieved on new leases and still has a decent number of suites it has to reposition.

The REIT is currently offering a modest 1.8% yield. But to balance it out, the REIT offers decent capital-appreciation potential. It grew its market value at a considerable pace before the pandemic hit and the stock market crashed. It's also quite fairly valued right now.

A mixed-use REIT

First Capital REIT (TSX:FCR.UN) is one of Canada's premier mixed-use property developers and operators. It has a presence in 150 urban neighborhoods and a total enterprise value of $8.3 billion. The company focuses on strategic locations, and most of its properties are just five minutes away from public transport and within thriving population densities.

Thanks to the virtue of its portfolio, FCR might see some devaluation and a dip in the stock when the housing market cools off properly. The stock is a bit overvalued right now, but it offers a better yield than Minto (2.3%). The capital appreciation potential is not as potent. But if you buy it during the dip, you will get both a better shot at recovery-fueled growth and a slightly higher yield.

Foolish takeaway

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The housing bubble is deflating, and it might take its toll on the economy. For the last 12 months, the housing market has been one of the primary catalysts for economic recovery. However, the pandemic is now truly behind, other sectors like travel and leisure might fill the gap left behind by the red-hot housing market.

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1. Dividend Stocks
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2. TSX:FCR.UN (First Capital Real Estate Investment Trust)
3. TSX:FSV (FirstService Corporation)
4. TSX:MI.UN (Minto Apartment Real Estate Investment Trust)

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Date
2025/07/21
Date Created
2021/07/21
Author
adamothman

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