Worried About the Property Bubble? Buy 3 REITs to Stay Safe

Description

Different experts have different opinions about Canada's housing bubble. Some believe that the housing market is gently cooling off — i.e., the bubble is "shrinking" — not popping off. Others, like the one that performed the recent *Oxford Economics* analysis, believe that property prices are higher across the board — i.e., on a global level — but the largest bubble (Canada is the second largest) is likely to pop earlier than others because of something called a "duration effect."

No matter what side you agree with, it's clear that the bullish housing market is coming to an end and the rapid rise of property prices and rent will finally slow down. And if you are worried about how this trend will impact your real estate investments (even if they are through a REIT), you might consider building a more commercial-leaning portfolio.

A retail-focused REIT

As one of the largest commercial REITs in the country, **RioCan REIT** (TSX:REI.UN) exudes stability. The stock was very stable before the pandemic-driven market crash, and even though it struggled for a few months after the crash, it's now well on its way to reaching its pre-pandemic valuation. The growth momentum resulted in the 51% growth of the stock in the last 12 months.

If you buy now, the stock is likely to offer some more capital apperception before it reaches its new "stable" point, and if the stock repeats the pre-pandemic pattern, it will most likely stay static near that point. The 4.2% yield is quite attractive, especially if you disregard the fact that the REIT recently slashed its dividends quite brutally (from $0.12 per share to $0.08 per share).

On a positive note, the REIT might not cut its dividends anytime soon, and it will most likely try to raise the payouts to the former number.

A health-property REIT

Health properties are a specialty asset class within the commercial real estate sector and a very stable one. This makes REITs like **NorthWest Health Properties REIT** (TSX:NWH.UN), with its mouthwatering 6.1% yield, an attractive choice. The REIT might offer some capital appreciation as well. It recovered quite swiftly after the 2020 crash, and it has a five-year CAGR of 12.5%.

The dividends seem pretty safe as well, with the payout ratio at 56.7%. Another great thing about this REIT is that its 189 properties portfolio is spread out across five countries. The geographical diversification makes NorthWest even more sheltered from the local housing market than its status as a commercial property.

An industrial REIT

If you are looking for a growth-oriented REIT, **Dream Industrial REIT** (TSX:DIR.UN) might be the asset to go for. The REIT has returned over 150% in the last five years, and the five-year CAGR is at 20%. It's also quite fairly valued right now and offers a decent 4.3% yield, making it a powerful combination of dividends as well as capital appreciation potential.

The portfolio of this industrial REIT is made up of 186 assets and boasts a committed occupancy of 97.2%. And since industrial leases (even if they are for logistics or light industrial properties) tend to run longer than other commercial REITs, the tenant outlook seems robust and stable. The REIT is focusing on distribution and urban logistics properties, making it ideal for an e-commerce-heavy market.

Foolish takeaway

Creating a commercial REIT portfolio with generous dividends and decent capital appreciation potential can be a powerful shield against the housing market crash, correction, or simply a cool-off that might disrupt or slow down the real estate market. Even if the whole REIT segment doesn't enter the "bear market" phase, a housing bubble pop might put some assets up at a discount.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:DIR.UN (Dream Industrial REIT)
2. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)
3. TSX:REI.UN (RioCan Real Estate Investment Trust)

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