Property Bubble Deflating: 2 Stocks Might See a Minor Correction

Description

The Canadian property bubble has been growing for over two decades (about 24 years) without experiencing a significant correction. Very few (if any) countries have experienced a property bubble like this in recent history, and it was on the verge of spiraling out of control.

Thankfully, the local real estate market is going through a relatively controlled cool-off period. The bubble is deflating, and while it's still "inflated" enough for a hard pop that is capable of severely impacting the economy, the slow deflation gives the market and different stakeholders enough time to adjust.

But that doesn't mean businesses associated with the real estate market won't feel any impact or absorb some of the fallout from this deflation. Mortgage companies might experience a drop in new customers, and REITs might experience a slight drop in the total asset value. And if that slight decline reaches the stock valuation, some of them might become very attractive buys indeed.

A mortgage company

MCAN Mortgage (TSX:MKP) is one of the most generous dividend stocks currently trading on the TSX right now, despite the fact that it has grown beyond its pre-pandemic valuation. The company is offering a mouthwatering 7.7% yield at a very attractive valuation (price-to-earnings ratio is 6.3). And if the stock sees a correction, the yield could easily go 8% or up, unless the company decides to slash its dividends.

MCAN is a loan company established under the Trust Act, which gives it "governmental" weight and credibility. The company offers residential mortgages as well as commercial loans, making its portfolio a bit diversified. This might also shield the company from the worst impact of a housing crash (if there is one in the near future).

MKP has minimal capital growth prospects, and even if the stock dips due to a correction, the most you can expect is recovery-fueled growth.

A real estate company

Tricon Residential (TSX:TCN) is a Toronto-based, housing-facing real estate company that owns over 31,000 single-family and multi-family residential properties in North America. The company's footprint is quite U.S. heavy, and in Canada, it only has properties in Toronto.

So, even though it's a pure-play residential company, the U.S.-facing portfolio might prevent the company's revenues and the stock from sinking, even if the housing market goes through a brutal correction phase.

While Tricon also offers dividends, its 1.7% yield is not high enough to become a deciding factor. However, its growth momentum after the pandemic has been quite powerful, especially considering the stock's previous capital growth history. It grew almost 57% in the last 12 months, and it's currently trading at a 33% premium from its pre-pandemic value.

Foolish takeaway

Both real estate stocks are mostly sheltered from the worst that the deflating housing market might offer. That doesn't mean they might not experience a correction along with the rest of the sector that makes them even more attractively valued than they are now. And once the correction phase is over, housing regains its traction and enters its next bull market phase; these stocks might offer pretty neat returns via recovery.

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