3 Stocks to Watch as Real Estate Heads for a Correction

Description

The real estate sector is slowing down, finally. That doesn't mean the prices are going down at any appreciable rate, or they will go down enough to make housing more affordable any time soon, but the bubble is slowing. It's a good thing, because a burst would have been catastrophic for the economy, which relied quite heavily on real estate for recovery.

And a correction means that you might be able to find some decent real estate stocks with a discount tag.

A powerful growth stock

FirstService (TSX:FSV)(NASDAQ:FSV) is where service meets real estate and creates growth — a lot of powerful and overpriced growth, but it's impressive nevertheless. The stock has returned 287.5% to its investors in the past five years, and its growth pace has only expedited after the pandemic. The "FirstService" difference is that the stock hasn't cooled off yet. It's still going, powered by the post-pandemic recovery momentum.

At a price-to-earnings ratio of 73 and a price-to-book ratio of 11.3 times, FirstService is aggressively overpriced, but if you consider the consistency of its growth, its newly claimed aristocrat status, and its impeccable financial growth (25-CAGR for revenue is 19%), the expensive price tag seems justified. It has an influential position in its niche market, and if the upcoming real estate slump puts a discount tag on the company, you should consider buying it.

A mortgage company

Mortgage companies are also expected to be impacted by the slowdown in the real estate frenzy. Fewer people buying properties means fewer mortgages, which might reflect in the finances and stocks of companies like **First National** (TSX:FN). As Canada's largest non-bank mortgage lender, the company is quite exposed to the housing market, and its stock is already on its way down.

The stock peaked in May, and it has fallen by over 13% since then. The recent slump has already made its yield quite attractive (5.1%), and if it keeps slumping alongside the rest of the market, you might be able to lock in an even better yield. The financials are strong, and considering its payout ratio of 51%, it would be a long time before its payouts are in any trouble. So, keep an eye on the stock and be ready to buy the dip.

A credit company

Home Capital Group (TSX:HCG) is a Toronto-based holding company with a few subsidiaries and loan products, including mortgages. These mortgages expose the company to a housing market crash or correction. It also offers commercial mortgages, which offsets the risk somewhat.

The company has experienced strong growth recently and has grown over 72% in the last 12 months. But the stock is still worth considering thanks to its very attractive valuation. At its current level, it's almost undervalued, and if it dips, the price might become even more appealing. The financials are pretty strong, and the revenues have steadily increased for four consecutive quarters.

Foolish takeaway

Not all three stocks are undervalued, but they might become undervalued in the next few months. Buying the dip will also help you lock in a better yield for First National, and you will be able to cage FSV's explosive growth potential at a bargain price. It's important to time the market right. If you buy too early, you will not get the best out of the dip.

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TICKERS GLOBAL

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