3 Stocks to Track as Housing Weighs Down GDP

Description

Canadian real estate is slowing down. The boom that followed the pandemic and frantic buying trend is now turning into a more "paced" real estate market. The benefits of a relatively slow housing market might not manifest fast enough to make the property more affordable for an average Canadian, but its negative impact is already visible.

The real estate market (both rental and leasing) makes up about 13% of the GDP. And this is a hefty enough portion to weigh down the GDP if it starts to slide down faster.

As an investor, you might want to keep an eye on some businesses associated with the real estate market and pounce when the timing is right.

A management and consultancy company

WSP Global (TSX:WSP) is barely connected to Canadian real estate. The real estate consultancy and solutions are just one part of its offerings, but it's not an inconsequential revenue source. In the second quarter of 2021, the company generated 18% of its Canadian revenue from its property and building segment (real estate).

Still, a major real estate crash has the potential to weigh down a company like WSP Global as well. And if you missed your chance of adding this powerful growth stock to your portfolio during the pandemic (when it dipped over 34%), a housing crash and the slight dip it might trigger in the stock would be in your favour.

A mortgage company

The relationship between the mortgages and the housing market is quite simple. More buyer activity is directly proportional to more mortgages, which is great for companies like **MCAN Mortgage** (TSX:MKP). The company happens to be an amazing buy right now, especially for dividend investors. It's offering a mouthwatering 7.5% yield at an incredibly safe payout ratio of 42.3%.

It's a relatively trustworthy stock as well, because it sustained its dividends during 2020 when its payout ratio crossed the 100% threshold for the first time in the decade. It also rewarded its investors with a special dividend in early 2021. And this amazing dividend stock is currently available for a heavily discounted valuation.

If the housing market crashes or slows down too much, the stock *could* dip quite a bit, which might push the yield into double digits. And if the company can maintain its dividends even then, it would be an amazing buy.

A real estate investment company

If you are looking for more direct exposure to the housing market, **Tricon Residential** (TSX:TCN) might be worth considering. The company owns about 33,000 single-family and multifamily homes in the U.S. and Canada. And since the bulk of its portfolio is concentrated in the U.S., the stock offers you clear exposure to the housing market but only limited exposure to the Canadian housing market.

Still, a sudden drop in prices or rents (which will affect the rental income the company relies upon for revenue) might push the stock down. This will be great for value investors and dividend investors alike because the stock's current fair valuation will become a more attractive "undervalued bargain," and the current 1.6% yield might rise to 2% or higher.

Foolish takeaway

Experts and economists have been warning about the housing bubble in Canada for several years now, and the current slowdown in market activity and price growth is significantly better than the crash many were predicting. But if a housing crash *is* coming (though there is a relatively small chance), it will bring down the real estate sector, and you will have access to a much larger pool of attractively valued dividend stocks.

CATEGORY

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2. Investing

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3. TSX:WSP (WSP Global)

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