2 Stocks to Consider for the Looming Real Estate Correction

Description

Canadian cities are topping the real estate charts around the globe, but not in a good way. The Switzerland-based investment banking company UBS publishes a report on the UBS Global Real Estate Bubble Index every year. This year, two Canadian cities have landed in the top 10: Toronto and Vancouver. Both are in the "bubble risk" rating, with an index value of 2.02 and 1.66, respectively.

And it's not the first time. Many global indexes have marked Canada's housing market as dangerous, second only to New Zealand, where the government is taking on much more aggressive measures to control the market.

In Canada, the housing growth led the economic recovery and is still contributing towards revitalizing the economy. But the higher it soars, the higher the risk of a correction turning into a crash will rise as well. And as an investor, you may consider balancing out your real estate assets/stocks or starting with the assets that lower your exposure to the Canadian housing market.

A growth-oriented REIT

Summit Industrial Income REIT (TSX:SMU.UN), as the name suggests, offers you exposure to industrial assets — a segment of commercial real estate that's gaining a lot of momentum lately. That's because light industrial properties, which include logistics and warehouses, are highly sought after thanks to the e-commerce growth. And REITs that have these properties in their portfolio are seeing values rise at an incredible rate.

Take Summit Industrial as an example. The stock has risen quite consistently over the last 12 months. And its post-pandemic growth has been nearly as consistent as its pre-pandemic growth. And the best part of it is that the finances are keeping up with the stock growth, so the stock is very tastefully undervalued.

It's currently trading at a price-to-earnings ratio of just 4.3 and a price-to-book ratio of 1.6 times. And despite the powerful 10-year CAGR of 39%, the 2.39% dividend yield is not too paltry.

A high-yield REIT

If you are trying to find a REIT that offers the returns in the form that's typical to the REITs — i.e., high-yield — then consider **Inovalis REIT** (TSX:INO.UN). It shields its investors from the Canadian housing market in two different ways: asset class and geography. The REIT has a European portfolio of office properties. Making them as far removed from the Canadian housing market's influence as potentially possible for a Canadian-based REIT.

And the yield is magnificent. The 8.5% yield is enough to help you get about over $100 tax-free monthly income if you invest just $15,000 from your TFSA into this REIT. The REIT doesn't offer capital growth potential even vaguely comparable to Summit Industrial, but it does offer stability and maybe enough growth to outpace inflation.

Foolish takeaway

The housing market correction or crash is coming, and it might be a good idea to start looking into prospective assets that might become very attractive at the height of the crash. You might be able to get some of the most attractive dividend stocks and high-yield REITs at a discount and will have a chance of locking in amazing yields.

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