Looming Real Estate Correction: Risky Future or a Host of Opportunities?

Description

The Canadian real estate bubble, while it saw a bit of deflation a while ago, is still quite large, and it's still inflating. And even though it would be short-sighted to lump all Canadian real estate markets together, it's not difficult to see that *most* of the market is going upwards, albeit not at the same pace.

For example, Vancouver recently saw the most significant price growth since 2018. Toronto, however, is experiencing a potential homebuyer exodus, which might have helped cool the market down in the area. Two other markets, Hamilton and Montreal, have been identified by the Bank of Canada as property bubbles.

Even if it doesn't crash or see a correction soon, it wouldn't be too much of a stretch to say that the Canadian real estate market is "perilous." The market crashing would be a boon for people who are experiencing housing slipping away from their "affordable" grips, but it might also present a host of opportunities to investors.

And it might allow Canadian retail investors to buy amazing REITs at attractive prices.

A "residential-oriented" REIT

Even though **Canadian Apartment Properties REIT** (TSX:CAR.UN) is technically a commercial REIT, since large multifamily properties/apartment properties are considered commercial from an investment/asset perspective, the REIT will definitely feel the impact of a housing market crash. The prices of condos trail the pattern of detached housing rather loosely, but the overall "direction" is usually the same — if detached home prices go down, so do condo prices.

This is something that might affect the asset value that the REIT has access to, and it might see the overall value of their portfolio dip. However, if the prices start affecting the rents as well, the REIT might experience a hit to its income, which, in turn, might affect its ability to sustain its dividends.

The good news is that it's one of the few REITs with a rock-solid payout ratio (about 19%). So, there is a lot of room before the payouts become unsustainable. The REIT also offers solid capital-appreciation potential and is already undervalued.

A commercial REIT

Allied Properties (TSX:AP.UN), the urban workspace REIT, is already suffering from the residual impact of the pandemic. If the new COVID variant triggers another wave, the REIT wouldn't need a real estate crash to go down further. It's still trading at a 29% discount from its pre-pandemic valuation, and the yield is quite attractive at 4%. The value, however, is hovering close to fair and is not precisely undervalued yet.

The REIT has a robust business model and an intelligent approach for getting the most out of its assets. The current portfolio is worth about $10.2 billion (including underdevelopment properties) and is made up of about 194 rental properties in six different markets. The percentage of leased properties is healthy enough, and the least leased regional portfolio is Calgary based (85.4%).

Foolish takeaway

The real estate sector might experience a correction in 2022, but it's difficult to pin down a timeline or even the quarter when it might happen (based on current trends). New variables like the "Omicron"-driven market crash (if one is approaching) might further complicate the situation. However, in either case, you might be able to buy real estate dividend stocks at excellent prices and lock in high yields.

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Date
2025/08/23
Date Created
2021/12/08
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