



Canadian Real Estate Is Slowing Down: Protect Yourself!

Description

Real estate is a vital part of Canada's economy. Residential real estate investments account for 11.2% of Gross Domestic Product (GDP). If you include commercial property, construction, and rental activity, you can see how dependent our economy is on this sector.

Fortunately, Canadian real estate has been booming for three decades. This boom could be ending. Valuations have climbed to unreasonable levels across the country, while the Bank of Canada is steadily raising the interest rates. Activity has slowed down in recent weeks, and if the trend continues, Canadian real estate could be in for a severe correction.

Investors who rely on the sector for dividends and passive income should consider diversifying. Here's an alternative.

U.S. real estate

Unlike Canada, the U.S. economy is far more diversified. The real estate sector suffered a severe correction in 2008, which has made valuations more reasonable across the country. Meanwhile, higher household income and the U.S. dollar's position as a reserve currency put a floor on house prices.

Put simply, Canadian investors should consider moving their capital south of the border. **Morguard North American Residential** ([TSX:MRT.UN](https://www.morguard.com/TSX:MRT.UN)) could be an ideal target for this. This real estate investment trust (REIT) has 27 apartment complexes across the United States. Its diversified portfolio of 13,275 residential suites is spread across underrated states such as Colorado, Florida, Georgia, and Louisiana.

While the company has some exposure to Canada, it's not as large as its U.S. holdings.

After shedding more than 20% in value in the second half of last year, the REIT has started showing signs of bottoming out of one-year lows. Now, improving fundamentals and rising rents could push the stock higher.

Improving profit metrics

Morguard North American Residential has started seeing strong rent collections amid the easing of COVID-19 restrictions. Overall, rent arrears and deferrals as of December 31, 2021, shrunk to \$9 million from \$20 million as of the start of the year. Consequently, the REIT remains optimistic about seeing strong cash collections in 2022.

While net operating income in the fourth quarter shrunk to \$31.7 million from \$33.3 million, Morguard North American Residential still bounced back to profitability, posting a net profit of \$4.9 million versus a \$357.4 million net loss posted in 2020.

Valuation

The battered \$1.07 billion REIT looks like it's trading at a discount. Units of the REIT currently trade at a price-to-book value ratio of 0.50. In other words, the properties are worth *twice as much as the publicly traded shares*.

A 4.42% dividend yield is another enticing factor worth considering for the highly diversified REIT. With a [price-to-earnings multiple](#) of five, there is no doubt that Morguard North American Residential is trading at a discount.

For Canadian investors worried about the local economy, Morguard could be an undervalued safe haven.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:MRT.UN (Morguard Real Estate Investment Trust)

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