2 Real Estate Stocks to Buy in a Housing Correction

Description

Canada's housing bubble has endured for longer than many anticipated. Several industry experts and investment gurus expected the bubble to pop in the last two years, but it didn't. And even though the Bank of Canada raised the interest rates before the U.S. in order to rein in the housing market (among other things), it's far from under control.

But the change didn't come soon enough. The low interest rates drew enough investors and investment capital to muscle a typical home buyer out of the market. And one endorsement of how far removed the Canadian housing market is from the norm is that the cost of a typical home in Canada is almost double that in the U.S.

If a correction *is* on the horizon, retail investors in Canada, most of whom can't access the actual real estate assets anyway, should look into the suitable real estate investments they can buy at a discount. And there are two that stand out from the crowd.

An apartment REIT

Canadian Apartment Properties REIT (TSX:CAR.UN) is currently the largest REIT by market cap with an enormous asset base. This $8.16 billion REIT currently owns a portfolio of 67,500 residential suites that it directly owns or manages for others. It boasts an occupancy rate of 98.1%, which is quite phenomenal considering the size of this REIT's portfolio.

The stock is already experiencing a 24% decline from its 2021 peak. Even though it's quite a catch at this current discount, it might become even more lucrative an investment if the stock declines further in the event of a correction.

You might be able to lock in a much higher yield than the current 3%, and the growth, plus its typical recovery pace, will offer quite strong capital appreciation if you hold on to the REIT for long enough.

A Western-Canada-based multi-family property manager

Another real estate company with a heavy residential focus is **Mainstreet Equity** (TSX:MEQ). It acquires and manages relatively smaller multi-family properties that can offer better rental yield if properly repositioned and managed. It has acquired a decent enough portfolio over the years — 406 properties (15,640 residential suites) in 18 cities.

The stock has mostly been on the rise since 2009, though the growth has picked up pace in the last five years. The stock has grown about 319% (at its best), and it has been quite evenly distributed before and after the 2020 crash, which shows that the post-pandemic growth phase has been more than just a recovery-fueled bullish momentum.

However, its focus on multi-family properties is why its vulnerable to a housing market correction. Its portfolio might devalue significantly, and even rental income might have to be corrected for the market. Still, the core strengths of the portfolio will remain relevant, and the stock is highly likely to bounce back.

Foolish takeaway

The two real estate investments are already discounted, but you can always seek a better deal. An even lower price point and valuation will make them a smarter buy from both capital appreciation and dividend yield perspectives.

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