Housing Sales Get Hammered: Should You Still Buy REITs?

Description

Will Canada's housing bubble burst in 2022? Industry experts said the 41% plunge in home sales in Toronto last month is a tell-tale sign. Apart from higher borrowing costs, the proposed two-year moratorium on foreign ownership could cool the red-hot real estate market.

Kevin Crigger, president of the Toronto Regional Real Estate Board (TRREB), said, "Based on the trends observed in the April housing market, it certainly appears that the Bank of Canada is achieving its goal of slowing consumer spending as it fights high inflation."

Crigger added that some prospective homebuyers are also delaying purchases due to rising negotiated mortgage rates. Still, many first-time homebuyers hope that housing prices would level up soon. The federal government is also working to correct the market imbalance by implementing measures to increase supply or inventory.

On the investment front, real estate investment trusts (REITs) on the spotlight too. There are concerns that the asset class will experience a backlash due to recent developments. However, the worries might be imagined than real because REITs perform well during high inflation. Moreover, the top lessors in Canada are reporting strong financial results and robust demand.

Recovering retail space

RioCan (TSX:REI.UN) is among the attractive picks in the real estate sector right now. The $6.56 billion REIT owner and operator of mixed-used properties is slowly recovering from the pandemic's fallout. In Q1 2022, the committed occupancy rate rose to 97%, while net income jumped 50% to $160.1 million versus Q1 2021.

Notably, the 99.1% rent collection for the quarter was in line with pre-pandemic levels. RioCan's president and CEO Jonathan Gitlin said, "We continued to advance our strategic objectives from a position of strength, driven by the quality of our portfolio, resilience of our tenants, and capacity to execute our growth initiatives."

Gitlin also noted the strong demand for retail space in Q2 2022. He said that rising demand stems from a lack of new and well-positioned retail space built over the last decade. He disclosed that American and European firms expressed interest in the REIT and are prospective tenants.

As of May 11, 2022, this real estate stock trades at $21.18 per share and pays a lucrative 4.86% dividend.

Robust leasing momentum

Industrial REITs are steady performer thus far in 2022, and **Dream Industrial** (TSX:DIR.UN) is the standout in this sub-sector. In Q1 2022, the $1 million REIT reported a net income of $442.88 million, which represents a 364.9% increase compared to Q1 2021. The funds from operations grew 62.2% year over year to $56.63 million.

Apart from a robust leasing momentum, attractive rental spreads, and solid contractual rent growth, the upgrading of portfolio quality is ongoing. Dream's CFO, Lenis Quan, said, "We have focused on enhancing the flexibility of our balance sheet by transitioning to a primarily unsecured financing model."

Based on market analysts' forecasts, the current share price of $13.59 could climb 36.5% to $18.55 in one year. If you invest in Dream Industrial today, the dividend yield is 5.19%.

Profitable investments

While interest rate hikes are pushing potential buyers to the sidelines, REITs remain profitable investment options. RioCan and Dream Industrial can provide rental-like income at a lower capital outlay.

CATEGORY

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