



Canada's House Prices Cool: 1 REIT to Buy the Dip

Description

Canada's average house price fell 6.3% month over month to \$746,000 in April, as per data from the [Canadian Real Estate Association](#) (CREA). This decline came as home buyers delayed their purchases to see the impact of an interest rate hike on mortgages and house prices.

"Following a record-breaking couple of years, housing markets in many parts of Canada have cooled off pretty sharply over the last two months, in line with a jump in interest rates and buyer fatigue."
CREA chair Jill Oudil

Is this cooling of house prices good? Is it a good time to buy [REIT](#)?

House prices falling is a risk, but prices not falling is a higher risk

House prices have cooled pretty sharply in the last two months after surging roughly 50% since the start of the pandemic. The prices surged, as the record-low interest rate and stimulus money pumped in ample liquidity in the economy. People felt rich and started buying houses, thereby inflating house prices. But this house price bubble has to end at some point so that housing becomes affordable.

Oxford Economics director of economics Tony Stillo [estimated](#) house prices to decline 24% by mid-2024, as factors line up to return to affordability. House prices would be 15% above the 2020 level, even after a 24% dip. This means house price growth is normalizing, and the current dip is a correction of the unprecedented surge during the pandemic.

So, you need not worry about the fall in house prices. Instead, more decline could come as the Bank of Canada hikes interest rates. A higher risk would have been if house prices continued to rise even after an interest rate hike. A higher interest rate makes a mortgage costly, pushing a homeowner into higher debt. Had house prices continued to increase, even after higher interest rates, it could have led to a

severe recession. But that didn't happen, which means the market is balancing the higher interest rate.

Correlation between house prices and REITs

The cooling of house prices could see a correction in REIT stock prices in the short term. REITs develop properties to rent or sell them. **SmartCentres REIT** ([TSX:SRU.UN](#)) has a large portfolio of retail stores, which it leases to retailers with high creditworthiness. **Walmart** is its biggest tenant, contributing 25% towards its rental income. The REIT is developing mixed-use communities on its existing retail properties. This includes residences for rent and sale.

A majority of SmartCentres's properties are located in the Greater Toronto Area, and this area saw an 80% dip in April sales, as per CREA data. It was also the area that saw the biggest jump in house prices during the pandemic. SmartCentres sold some residential properties, but that does not impact its distribution. Its distribution comes from rental income, and most of its rental income comes from Walmart and other retailers.

Hence, the 11% dip in SmartCentres's stock price has created an opportunity to lock in a 6.3% distribution yield. The stock price fell, as investors priced in recession fears. A severe recession could impact consumer spending and, therefore, the retail industry. But SmartCentres could withstand a recession, as most of its tenants are essential goods retailers. This tenant mix helped it withstand the pandemic crisis without a distribution cut.

Should you buy SmartCentres REIT at the dip?

Recession or no recession, SmartCentres REIT is a stock to buy at a dip. It will diversify your portfolio into a different asset class and give you monthly distributions even in a recession. In the worst-case scenario, it might slash distributions but not stop paying them. This is because the REIT enjoys the [tax benefits](#), as it distributes rental income to shareholders.

Once economic conditions improve, the REIT stock price will also recover. Hence, this stock can give you capital appreciation in a strong economy and passive monthly income in both strong and weak economies.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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2. Koyfin
3. Msn
4. Newscred

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