1 Top REIT to Buy Amid Housing Price Cooldown

Description

The Canadian real estate industry has been on a tear for the better part of the decade. A housing market crash was predicted several times through the years, but it never came. However, the Canadian Real Estate Association (CREA) reported that the average price of houses in Canada fell by 6.3% in April 2022, bringing it down to $746,000.

The rising interest rates enacted by the Bank of Canada were the likely reason for the decline, as many homebuyers delayed their plans to purchase houses. The historically low interest rate environment had encouraged many Canadians to take out mortgage loans to buy homes as investment properties.

The impact of interest rate hikes has become apparent with the cooldown in housing prices. Is the cooldown in housing prices a good development in any way? Would this situation warrant investing in a real estate investment trust (REIT)? Let’s discuss.

Comparative risks of housing prices falling vs. going higher

Housing prices surged by almost 50% since the pandemic began, but the last couple of months have seen a sharp decline. The surge in housing prices due to the pandemic was unexpected, but considerable factors contributed to it. The record-low interest rates combined with stimulus funds by the Canadian government created a lot of liquidity in the economy that saw people start buying houses.

The surge in demand for housing due to the extra money led to a sharp increase in housing prices. However, the increase in house prices has to end so that housing can become affordable. Some analysts expect housing prices to decline 24% by the middle of 2024, as more factors contribute to lower prices.

A 24% decline in housing prices is significant, but it will be 15% higher than 2020 levels. The current decline could be little more than a correction for the surge spurred by the pandemic-related tailwind. As far as a full-blown crash in the housing market is concerned, it might not happen. However, more declines could be on the way due to interest rate hikes.

A greater risk would have been if housing prices kept increasing, despite the interest rate hikes. A higher interest rate environment makes mortgages more expensive. It could have led to housing prices becoming too expensive and catalyzed a crash that could lead to a recession.

Foolish takeaway

REITs are companies that develop properties to rent or sell them, managing substantial portfolios of various properties to generate cash flows through rental income. **SmartCentres REIT** (TSX:SRU.UN) is a trust that boasts a massive portfolio of retail stores. It is a major player in the retail real estate sector, but it also has ties with the housing market.

SmartCentres REIT is developing mixed-use communities in its existing retail properties, including residential units available for sale and rent. A substantial portion of its portfolio is located in the Greater Toronto Area, and the area saw an 80% dip in prices during April. The same area accounted for the sharpest price increase amid the pandemic.

SmartCentres REIT trades for $28.89 per share at writing, and it boasts a juicy 6.40% dividend yield. Its 13.43% decline in valuation since March 2022 has led to an inflated distribution yield. Investors worried about the decline in its valuation should know that its distributions are secured through rental income and not through the sale of properties in its portfolio.

The trust boasts a high-quality tenant base, including **Walmart**. SmartCentres REIT boasts strong fundamentals that could help it withstand broader economic downturns and continue delivering reliable monthly distributions. It could warrant adding SmartCentres REIT to your portfolio.

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