2 Real Estate Stocks to Buy as the Sector Responds to the Housing Market

Description

Canada's housing market is cooling down at a steady pace; in other words, the air is "seeping out" from the giant housing bubble that was ready to pop in Canada's real estate market. But at the current pace, the probability of a full-on bubble burst is minimal, and a paced slowdown of the market is more likely.

Whether this is the reason why the **TSX Capped Real Estate Index** has fallen 17% since the end of March or if it's something else is difficult to say. But one correlation that's easy to spot is that residential real estate stocks and REITs are adequately discounted, perhaps a shade more than their commercial counterparts. And there are two such stocks that you should look into.

A residential REIT

Interrent REIT (TSX:IIP.UN) focuses on multi-family properties, a commercialized side of residential real estate. But the assets in the REITs portfolio are likely to see the same price decline as other residential properties in comparable areas.

Its portfolio of over 12,928 residential suites in both rent-controlled (Ontario and B.C.) and non-rent-controlled markets (Quebec). The bulk of the portfolio, making up over 78% of the NOI, is in Ontario.

Whether the REIT is reacting to a housing market slowing down or something else is difficult to ascertain, but it is currently trading at quite an attractive discounted price and valuation. The stock has already fallen about 31%, and the price-to-earnings multiple is at five right now.

This has pushed the yield up for the stock to about 2.7%, which might not seem like a high number for a REIT, but it *is* for this REIT, considering its dividend history.

This REIT, especially at the current discount, is an amazing buy for its long-term capital-appreciation potential. Even after such as massive decline, the stock's price returns in the last decade have been 185%. And if it continues to move at this pace, the returns in the next decade might be more pronounced if you buy the dip.

A rental housing company

While it's not a REIT, **Tricon Residential** (TSX:TCN) is quite similar to Interrent, at least operationally. The company has a portfolio of about 37,000 single and multi-family homes, mostly in the U.S. and a relatively small number in Canada. The geographic diversification within the U.S. market is quite decent.

The company is a better buy for capital preservation than capital appreciation, or at least it has been since 2016. But it did see an incredible growth spurt post-pandemic and grew over 200% in roughly two years.

Then the correction phase kicked in, and the stock is already down 33.8%, though it is still trading at about a 14% premium to its pre-pandemic peak. The valuation is quite attractive right now, and the yield, which is usually quite low, is currently 2.2%.

Foolish takeaway

Real estate investing in Canada, especially in the current discounted market, can have a promising impact on your portfolio in the long run. Once the current decline is over and the market rises again, you can make a decent profit via capital appreciation, and you may keep the stocks' long term to maximize their return potential or for their dividends.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:IIP.UN (InterRent Real Estate Investment Trust)
2. TSX:TCN (Tricon Residential Inc.)

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