Real Estate Is About to Get Ugly: The Decades Long Bull Run Is Over

Description

After nearly two years of a bull run, the **TSX Capped Real Estate Index** has entered the correction phase. At first, it was gentle, and the index took almost four months to fall under 10%. However, the pace has been expedited since the start of May, and the index has already fallen around 18% since then.

This acceleration might be a bad sign for the sector. We are already experiencing a substantial housing market slowdown thanks to the higher interest rates, and the prices have fallen over 20% in certain markets. And if it's expected to get much worse from here on, there are two REITs that should be on your radar.

A residential REIT

If you want to keep an eye on the housing market and want a "residential gauge," it might be a good idea to start with the top REIT in this space. As one of the largest REITs in Canada, both by market cap and asset value, **Canadian Apartment Properties REIT** (TSX:CAR.UN) might not be that easy to sway even in a drastic market.

Even now, when it's trading at a 31% discount, it is not outstripping the sector as a whole (if we consider the index) in its fall, but it's definitely ahead. And if the real estate sector is going to get ugly in Canada, you may have a chance to buy this REIT at an even more discounted price.

This can be a powerful opportunity, since this REIT has historically been a better pick for its capital-appreciation potential rather than its dividends. And if you buy it at a heavy discount, not only will you be able to lock in a better yield than the current 3.38%, but when it recovers, you may also benefit from the discount-augmented recovery and growth.

A commercial REIT

Granite REIT (TSX:GRT.UN) is one of the best commercial/industrial REITs you can get in Canada, thanks to its healthy combination of growth potential, yield (with growing dividends), and geographically diversified portfolio.

And even though commercial REITs shouldn’t feel the burnt of the current real estate market trend the same way as the residential segment is facing, the REIT stock is currently quite heavily discounted.

It has already fallen 27.5%, and if the slump continues at the current angle, the discount might grow higher than it did during the 2020 crash (34%). The yield is already 4%, and the valuation is quite heavily discounted.

If you buy the dip at its maturity, try to hold on to it for as long as possible. Unlike many other stocks that would only be good for the recovery-based growth phase, Granite is a viable long-term holding for both its dividends and capital-appreciation potential. And the longer you hold, the better your overall return potential will most likely become.

Foolish takeaway

Real estate investing in Canada, especially if you are planning on investing in the assets directly, might be considered a risky move in the current environment. The prudent thing to do would be to wait. It’s also not the time to start unloading your real estate assets because, given enough time, the market *will* eventually bounce back.

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