Real Estate in Canada: Is it on the Chopping Block Next?

Description

The Canadian real estate market started seeing the impact of the BoC's interest rate hike a few months back. It was a positive consequence of measures taken to control the rampaging inflation. There was less activity in the market, and price growth, which was steadily pushing real estate far away from affordable levels, slowed down for the first time in years.

Now, this "deacceleration" is picking up pace. The leader of the Canadian banking sector, **Royal Bank of Canada**, has marked the worst-case scenario as a 30% drop in the real estate prices in Canada.

And even though it's the worst-case scenario, and the actual price drop might be significantly lower, it's enough to shake the real estate investors to their core, especially the ones that bought recently and were depending upon the real estate market's rapid rise for their asset's return potential.

A 30% drop may even turn some potential profits into losses and force some homeowners/investors to take their homes off the market.

This fear, however, is not reflected in the real estate sector on the TSX. The index has actually started recovering after a modest slump that started in March 2022. And even if the real estate in Canada *is* on the chopping block, you can still earn a decent income by tying your capital to the right REIT.

An automotive REIT

Automotive Properties REIT (TSX:APR.UN) gives you access to a real estate class not accessible to most investors — i.e., car dealerships. The REIT has developed a decent portfolio of 72 properties across urban centres.

The properties/dealerships are used to sell vehicles of 32 global brands, including some of Canada's top sellers. The REIT also boasts a reasonably high weighted average lease term of over 11 years.

This ensures that the dividends of the REIT will remain relatively secure for well over a year. Car retail is a healthy enough business and, with the advent of EVs, is expected to remain relevant enough for decades so that the chances of dealerships closing en masse are quite low.

And since the stock has managed to grow its value since inception (albeit at a very slow pace), the chances of you losing money with this investment are quite low, which is a much better deal than losing 30% on your real estate asset. And if you take into account the 5.9% yield, the REIT looks even more attractive.

An office REIT

Office properties are not exactly the crown jewel of commercial real estate, especially not since the pandemic triggered a permanent trend of remote work. But an office REIT like **Inovalis REIT** (TSX:INO.UN) might still be an option worth considering if you are worried about the state of the real estate in Canada.

One reason for that is Inovalis's international portfolio. All of its office properties are located in Europe, shielding it from the headwind buffeting the local real estate market.

The other reason is its reliance. Despite losing a significant portion of its market value to the recent fall, the REIT has a payout ratio below 100%. And if it didn't slash its payouts in 2020, when the fall was even harder, it's highly unlikely to do so now.

If you buy now and lock in the powerful 11% yield, you are likely to get a much better income deal from your investment than if you were to put the same amount of capital in real assets.

Foolish takeaway

Real estate investing in Canada can be quite challenging right now, especially if you are planning on investing in the assets directly. If you plan to gain exposure through REITs like these two, however, the process becomes significantly easier.

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