Real Estate Stocks Recovering: 2 REITs to Keep an Eye on!

Description

The housing market in Canada is going through a brutal correction phase. For the lack of a better word, the bubble that had been blowing up for so long has *burst*. The sales are plummeting, and some of the largest housing markets in Canada, like Toronto, are going through a historic slump.

The current BMO forecast about housing prices predicts a 21% fall from the peak. This is a significant step up from the last prediction, and it wouldn't be a surprise if we get even more disheartening revised forecasts in the future.

In contrast, the real estate sector in the TSX is recovering. The **Capped Real Estate Index** has moved up over 8% in the last couple of weeks alone. The individual recoveries are spread out over a broad spectrum, with some growing slower than others. This will give investors more time to identify the right prospects, and there are two REITs you should consider starting with.

A Toronto-based REIT

CT REIT (TSX:CRT.UN) was spun out of **Canadian Tire** to allow the parent company a better way to leverage its real estate assets. This relationship reflects in the "tenant portfolio" of the REIT, as most of its properties are leased by Canadian Tires. There are about 350 retail properties in the REIT's portfolio, and Ontario has the highest concentration.

CT REIT stock is quite resilient. It recovered pretty quickly after the 2020 crash, and in 2022, it didn't fall as hard as other REITs when the sector went into correction mode. And it has already almost recovered and is trading just 7.4% below its 2022 peak.

The yield of this established aristocrat is still quite attractive at 5.1%, but if the stock keeps growing at the current pace, the yield will fall below 5% soon. The payout ratio is also relatively healthy, and its payout ratio history indicates a strong sustainability potential.

A Vaughan-based REIT

SmartCentres REIT (TSX:SRU.UN) is one of the retail giants in Canada. It has 174 income-producing properties around the country, and in 114, it has **Walmart** as a tenant. This more than just improves the tenant portfolio. A property with a tenant like Walmart, which is bound to draw decent foot traffic, becomes more attractive to a wide variety of retail businesses.

However, the REIT is now evolving and is focusing on developing mixed-use communities. The REIT is diverting its resources on an intensification project called Project 512. The REIT's share in the project ($9.8 billion) is more than double its current market capitalization.

The stock is still down 11% from its recent peak, but it's recovering. And the yield is still quite amazing at 6.33%, with the payout ratio at 29.2% — a significant improvement over its payout ratios in the last few years.

Foolish takeaway

Real estate investing in Canada has become quite tricky, especially in the last few months. Interest rates are rising at an alarming rate, making it difficult for investors to get financing. But housing prices are also going down at a brisk pace.

Cash buyers/investors might be able to snag good properties at great prices right now, but investors who need to rely on financing might consider REITs and other real estate stocks instead.

CATEGORY

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2. Investing

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2. TSX:CRT.UN (CT Real Estate Investment Trust)
3. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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