3 Real Estate Stocks for Cautious Investors

Description

Royal Bank of Canada predicts that the housing market correction (which is already here) will be the deepest in the last five decades. The buying/selling activity has drastically slowed down, but the price drop most markets are experiencing is even more alarming.

The MLS Home Price Index (HPI), which offers an accurate picture of the current pricing trends, has decreased 13% for the Toronto Market, which is equivalent to a price erosion of about $178,000.

In contrast, the real estate sector on the TSX is thriving. Even residential REITs like **Canadian Apartment Properties REIT** has seen a price appreciation of about 10% in the last 30 days. However, the brutal correction might catch up to the TSX real estate sector sooner or later, and when that happens, cautious investors might consider the following resilient real estate stocks.

A retail REIT

Even though it's repositioning itself as a developer of mixed-use communities in Canada, **SmartCentres REIT** (TSX:SRU.UN) is still a retail REIT. Its portfolio includes 174 properties, 114 of which are anchored by **Walmart**. The remaining tenant portfolio is just as impressive and is made up of well-regarded local and foreign businesses/chains.

Considering its performance since 2015, SmartCentres is not a smart buy from a capital-appreciation perspective, but it's also not one of the steadily declining real estate stocks. It reclaimed its pre-pandemic valuation about 20 months after the 2020 crash.

However, it *is* a good buy right now for its value and its 6.1% yield. Since it's also one of the few aristocrats among the REITs, you can at least expect your dividend income from the REIT to outpace inflation.

A grocery properties REIT

Slate Grocery REIT (TSX:SGR.U) is a safe investment for two reasons: the nature *and* the geography of its portfolio. It has 121 properties in 24 U.S. states, and grocery businesses anchor over 94% of those properties. Two well-regarded names, Walmart and **Kroger**, make up over a quarter of the portfolio.

As for geography, an entirely U.S.-based portfolio of properties adequately shields the company from potential devaluation if the real estate decline jumps from residential to commercial.

Performance-wise, the stock has remained relatively consistent since its inception, and it may even offer modest growth under the right circumstances. But its safety, resilience due to underlying assets (grocery-anchored properties), and relatively safe dividends are still the primary reasons to buy this REIT. It's currently offering a juicy 7.4% yield at a payout ratio of about 50%.

A property manager and real estate services company

FirstService (TSX:FSV)(NASDAQ:FSV) shares one trait with Slate Grocery: a heavy U.S. lean. The bulk of the company's revenue comes from across the border. But other than that, it's quite different from the other two stocks. It's not a REIT but a property management and essential property services company. And it's a clear leader in both domains.

It's one of the largest property managers in North America and a significant player in the essential services industry. And even though it's a Dividend Aristocrat like SmartCentres, the dividends are rarely why investors are attracted to this company.

It's a robust growth stock that has returned over 400% to its investors since 2015 (via price appreciation), and apart from the 2020 crash and the recent correction, the stock has gone consistently up.

Foolish takeaway

With the speed at which property prices are dropping, you may think that investors would have a field day in the housing market if they bought now. But the uncertainty and the fact that there is no bottom in sight for now is keeping investors at bay. Real estate investing through the right stocks might prove to be a much safer route for now.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NASDAQ:FSV (FirstService Corporation)
2. TSX:FSV (FirstService Corporation)
3. TSX:SGR.U (Slate Retail REIT)
4. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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