



2 Stocks to Buy if the Housing Correction Continues

Description

The aggressive rate-hike campaign by the Bank of Canada to curb inflation is gaining ground. On August 16, 2022, Statistics Canada reported that inflation rate fell to 7.6% in July from 8.1% in June. Economists were right on the money with their forecasts of a 0.5% month-on-month drop.

While it appears that inflation may have peaked, the same economists think the central bank isn't done yet. The policymakers are likely to implement one or more rate hikes until year-end 2022. Ms. Karyne Charbonneau, **CIBC's** executive director of economics, predicts the Feds will announce a 75-basis-point increase next month.

Meanwhile, rising interest rates are risks to the housing market. The Canadian Real Estate Association (CREA) reports that home sales dropped 5.3% in July to pre-COVID levels. Also, latest data shows that the average home price in Canada is down 18% since February 2022. **RBC's** assistant chief economist, Robert Hogue, said the [real estate market](#) is pretty much in full correction mode.

Moving to the investment side, the real estate sector (-15.55%) is the third worst-performing sector on the TSX year to date after healthcare (-45.84%) and technology (-30.89%). Because of the impact of rising interest rates, **Canaccord Genuity** analyst Mark Rothschild reduced his price targets for several real estate investment trusts (REITs).

Rothschild, however, expects some sub-sectors to bounce back because investors' sentiment will return. He foresees office and retail REITs plus seniors' housing to fare better than industrial- and residential-focused REITs.

Premier office landlord

Dream Office ([TSX:D.UN](#)) owns and operates high-quality assets (28 active properties) in the office markets. Its chief executive officer (CEO) Michael Cooper said, "Despite recent uncertainties with cost inflations and rising interest rates, we believe Dream Office REIT is well positioned to manage these economic challenges and deliver great long-term value to its unitholders."

In the second quarter (Q2) of 2022, net income increased 158.9% year over year to \$65.92 million, although net rental income decreased 3.1% to \$26.18 million. The worry of this \$941.65 million REIT is that current and prospective tenants can't plan for the future due to economic uncertainties. Dream Office trades at \$20.02 per share and pays a 4.99% dividend.

Recovery mode

RioCan ([TSX:REI.UN](#)) is in recovery mode. This \$6.64 billion REIT is retail-focused but is increasing its mixed-use property portfolio. The locations of its leased properties are in prime, high-density transit-oriented areas. As of this writing, the share price is \$21.50, and the dividend yield is an attractive 4.74%.

In the first half of 2022, net income decreased 5.4% to \$238.51 million versus the same period in 2021. However, net operating income (NOI) grew 1.8% year over year to \$338.33 million. Jonathan Gitlin, president and CEO of RioCan, said the results in Q2 2022 reflect the capacity to generate quality income and growth in any environment.

According to management, the quality and positioning of its portfolio combined with the strong balance sheet are competitive advantages. RioCan's major market, a necessity-based portfolio, is also resilient as ever.

REIT advantages

If you're looking for the next-best alternative to investment properties or direct ownership, REITs are excellent income sources. Your capital outlay is lower, while dividend payments can take the place of rental income. Also, investors are free from the responsibilities of a real landlord.

CATEGORY

1. Dividend Stocks
2. Investing

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2. TSX:REI.UN (RioCan Real Estate Investment Trust)

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Date

2025/08/17

Date Created

2022/08/19

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