Better Buy in 2023: Tech Stocks or Real Estate?

Description

Tech and real estate sectors are recovering from the correction phase. Both offer promising investment options, but if you only had to choose one, which way should you go? If you run a fundamental analysis on both tech and real estate stocks in Canada, an important part of it is identifying the dynamics of the sectors themselves and the challenges and opportunities they may offer in 2023.

A tech stock

The tech sector was one of the first to recover after the 2020 crash, and it was also among the early birds of the correction phase, which was especially brutal for the sector. The impact was magnified for e-commerce companies, and its impact was reflected in their stocks' performance. The decline was disproportional even to the decline.

There were several reasons behind the fall of the tech sector, but the current recovery is mainly driven by a market-wide recovery. The sector started going up in the early days of October, and the index has risen over 23% so far.

One stock that would present a relatively extreme example of the tech sector's recovery potential is **Lightspeed Commerce** (TSX:LSPD). The e-commerce company that caters to over 150,000 businesses in over a hundred countries is currently trading at an 86% discount to its post-pandemic peak.

The stock also didn't start recovering with the rest of the sector, but 2023 has been good for its performance, and it's already up 13%. It's difficult to predict how far the current upward momentum of the sector and the market as a whole can carry the stock, but if it keeps going up and even reaches its pre-pandemic peak, you can easily double your capital by investing in it now.

Financially, the stock seems quite promising right now. It has virtually no debt compared to its cashand investments, it's trading at a price-to-book ratio of 0.7, and the revenues are steadily going up. So,if you are considering tech stocks instead of real estate, it can be a potentially game-changing choicefor your portfolio.

A real estate stock

The real estate sector was, and to an extent, still is weighed down by the housing market. The bubble finally burst, and many markets within Canada saw a significant decline in property value which may have affected the portfolio of many residential-leaning real estate investment trusts (REITs) and other real estate companies. The most overpriced markets naturally saw the harshest decline.

But now that the sector is finally recovering, you may consider investing in a REIT like **Killam Apartment REIT** (TSX:KMP.UN). Despite being a residential REIT, the stock didn't get as beaten up as the Canadian residential market, and, at its worst, the stock fell over 36%. Its recovery from mid-October has already pushed the stock up 20%, though the valuation is still in fair territory.

It's a great time to buy this REIT, because right now you can get the best of both worlds: dividends and growth potential. The stock is currently offering a 3.9% yield, which is relatively high compared to its history, and if the recovery turns into a bullish phase and the stock keeps growing at its pre-pandemic pace, you may easily see returns of 100% in well under a decade.

Foolish takeaway

The bearish times are over, and both sectors are experiencing a strong bull market right now. However, the current growth momentum of the two sectors might experience a slowdown during the recession. You can wait for it to pass, but the time cost may be high, and it may not push the stocks down as much as they are right now and offer you a “lite” version of the current discount.

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