Housing Bubble Canada Watch: 2020 Could Be the Year It Pops

Description

The Canadian real estate industry is in a precarious position. Over the past decade, Vancouver and Toronto housing markets have been remarkably high.

Both Canadian cities are among the top 10 that may see of a bubble risk. With 2019 over, we have entered the new decade, and the crash has not taken place yet. 2020, however, might be the year the housing bubble finally pops.

Ten years ago, it cost an estimated $350,000 to buy a home in Canada. Right now, the same property can cost you around $525,000. The 50% increase since 2010 is just over 4% annually, beating inflation by a significant margin.

Toronto and Vancouver have seen immense appreciation in their housing markets. The average house in Toronto cost $450,000 in 2010, compared to $810,000 right now. Similarly, the average price of homes in Vancouver was $600,000 10 years ago compared to almost $1,000,000 right now.

The performance of both housing markets offset the weakness in the housing markets of Edmonton and Calgary, resulting in steady gains and record-breaking highs annually for the real estate industry.

Naysayers for the housing market insist that the bubble will pop, crashing the housing market. Other real estate aficionados like CMHC think that Toronto's housing market is no longer a bubble and the properties are at their fair values.

Let's take a closer look at the situation so you can understand the need to be wary of purchasing properties in either city and the possibility of a better alternative through a REIT stock like **Allied Properties Real Estate Investment Trust** (TSX:AP.UN) if you still want exposure to the real estate industry.

The possibility of a bubble situation

Canadian homeowners are enjoying decreasing interest rates. Payments on mortgages are more affordable, and Canadian homeowners can deal with the compressed rental yields. This is also resulting in increasing housing prices.

Long-term rates are impossible to predict, but it is not unlikely to see a situation where a minor increase in mortgage rates can cause plenty of problems for over-indebted Canadian homeowners. Most of them can barely afford the mortgage payments with decreased interest rates today.

Increasing interest rates will ensure landlords insist on getting higher returns on their investments. Condos in most Canadian cities barely rent for more than the cost of mortgage nowadays.

Owners are subsidizing the losses out of their own pockets in hopes that higher property values and increased rents in the future might make up for the expenses.

Many foreign investors see Canadian properties as a safe investment that they can put their money in. Increased taxes by the Canadian government on international buyers might put an end to this.

The domestic economy in Canada is not doing well. October 2019’s employment report showed that Canada lost a significant number of jobs, bringing the unemployment rate up to 5.9%. The average Canadian is over-indebted right now. If you throw a recession into the mix, it can become

terrible.

Low-risk REITs

If you are insistent on getting exposure to the Canadian real estate market, there is a safer way to approach it. Investing in low-risk and high yielding REIT stocks can allow you to reap the benefits of the real estate industry without the risk of owning actual properties. Stocks like Allied Properties can offer you a more secure option in case of a housing crash.

The portfolio for the company consists of 188 office buildings in large metropolitan Canadian cities. Most of these offices are Class I buildings, making them lucrative spaces for large companies.

AP’s impressive 96.2% occupancy rate makes the properties in its portfolio more attractive for high-quality clients. The company is a Dividend Aristocrat consistently delivering dividend growth for seven straight years.

Foolish takeaway

The company’s share prices grew by over 17% year over year in 2019, and its payout ratio has dropped down to a healthy 34.57%. The company presents a better chance for investors to enjoy benefits from Canada’s real estate market without exposure to the risks of a housing market crash.

Allied Properties stocks make a better option to consider than investing in the housing market itself.

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1. TSX:AP.UN (Allied Properties Real Estate Investment Trust)

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