Housing Market Crash: Sell Your REITs and Banks

Description

Should we expect a housing market crash in 2020? It's no secret that Canada's residential real estate market is in a tight spot. Canadian households have borrowed more to purchase homes than any other developed country in recent years. That debt burden is looking a lot more worrisome now that we're in the middle of a pandemic.

Here are three reasons you should be concerned about a housing market crash. Take a closer look at the residential real estate investment trusts (REITs) in your portfolio to safeguard your wealth.

Too much leverage

At the end of 2019, Canada's household debt was more than 100% of annual gross domestic product (GDP). In other words, the average person had borrowed more than the entire nation produces in economic output. That was a concern for years. Now, with the ongoing shutdown and near-certain recession, this debt burden could become heavier.

Housing market crash

A sudden spike in unemployment and a liquidity squeeze from big banks could make a housing market crash more likely. If people can't borrow or earn any more, house prices could decline.

Early indications suggest households are already squeezed. Banks have received 500,000 applications for mortgage deferrals since mid-March. This number could climb higher as the shutdown drags on.

REITs and banks to sell

The wave of economic hardship could hit REITs and lenders. A widespread inability to pay mortgages or rent will dent their income statements in 2020. However, large and diversified banks are likely to survive the downturn. Residential REITs with ample cash and low debt will also survive.

Investors should be more concerned about REITs with weak balance sheets and exposure to certain regions. **Boardwalk Real Estate Investment Trust**, for example, is overexposed to residential properties in Calgary. The decline in the price of crude oil compounds the risks of a housing market crash in this province. Boardwalk could be at the epicentre of such a potential crash.

Meanwhile, lenders such as **Equitable Group** could face greater risks than the large banks. Equitable has focused on subprime borrowers who are more likely to default when the economy dips.

Boardwalk and Equitable have both seen their value decline 55% since late February. However, I believe there could be more risks and downward corrections ahead. Pull these stocks out of your portfolio if you're exposed.

Bottom line

Canada's real estate market has been concerning for years. Since the financial crisis of 2008, households across the country have borrowed too much to purchase homes. Now, the household debt burden exceeds the national annual income. It's not ideal when the world is faced with a historic economic crisis.

The COVID-19 pandemic has forced social distancing and shut small businesses across the world. In Canada, millions have lost their jobs and half-a-million people have applied for mortgage deferrals. This could impact residential REITs. It could also impact subprime lenders adversely.

If you expect a housing market crash in 2020, cut out REITs and banks from your portfolio right away — especially the ones with poor credit or lack of cash.

CATEGORY

1. Dividend Stocks
2. Investing

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date

2025/08/18
Date Created
2020/04/03
Author
vraisinghani