3 Signs That COVID-19 Will Cause a Housing Market Crash

Description

The COVID-19 pandemic continues to wreak havoc on economies worldwide. At writing, the deadly virus has infected 2.7 million people around the world, with 191,000 deaths and counting. Canada has reported 42,110 cases and 2,147 deaths as of April 24, 2020. The numbers keep on rising.

The housing market in Canada has already been a bubble for several years. I am going to discuss some of the signs that indicate the possibility of a housing market crash as a result of COVID-19.

Countrywide unemployment surge

There is a necessity to enforce social distancing to curb the spread of the disease. If governments are unable to reduce the curve, the healthcare system might become overwhelmed and unable to help the substantial number of infected people. Part of the measure is to shut down any businesses not providing essential services.

With people being unemployed, they no longer possess the ability to buy houses.

Loan defaults

With millions of Canadians without jobs, the number of loan defaulters will likely skyrocket in the coming months. Banks have offered mortgage deferrals to help Canadians through this challenging time, but they will eventually need to pay off debts. Banks with significant exposure to mortgage debts are at high risk.

Waning demand and increase in supply

Investors who are already two or three months in arrears might instead try to get something out of their assets by selling their properties. With little to no income for most Canadians, the number of people willing to buy properties might not be substantial. The demand for real estate might fall.

Currently, the number of sales has not taken a massive hit. The stimulus package introduced by the government is making it possible for banks to defer mortgages. However, the stimulus package might not be effective if there is a longer-term layoff of Canadians due to the pandemic. It can all begin to crumble and lead to a drastic decline in the housing market, affect the banks, and put the economy into a full-blown recession.

Diversified REITs

Residential real estate might not be the most lucrative asset class to consider in the situation. However, there are prospects Canadians can consider that will give them a more diversified exposure to the real estate sector without assuming too much risk.

A real estate investment trust (REIT) like **Canadian Apartment Properties REIT** (TSX:CAR.UN) could be an excellent pick to this end. It is a top stock trading on the TSX that increased its share price by more than 85% in the last five years.

CAPREIT is one of the most significant among diversified REITs with a substantial portfolio consisting of manufactured home communities (MHC) as well as new suites. It boasts a growing portfolio of more than 11,000 MHC sites from 72 communities across Canada, making it the second-biggest MHC owner in the country.

Its portfolio is also spread across Canada, making its assets geographically diverse, as opposed to being concentrated in at-risk housing markets. Between the geographic diversity and its healthy balance sheet, CAPREIT can likely ride out a market crash better than REITs with weaker balance sheets.

Foolish takeaway

With a housing market crash likely to take place this year, it would be advisable to invest in assets that can protect your capital. To this end, a diversified REIT like CAPREIT can offer you the insulation you need.

At writing, the stock is trading for $44.92 per share, and it has a decent 3.07% dividend yield. The stock's current price is 26% lower than its March 2020 peak. It could be worth your while to allocate some of your capital to shares of this REIT if the market crash takes place.

CATEGORY

1. Coronavirus
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1. TSX:CAR.UN (Canadian Apartment Properties Real Estate Investment Trust)

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