Fear a Housing Market Crash? Investors Should Do This 1 Thing

### Description

Real estate could be heading for a correction. Unemployment and a U-turn on immigration are slowing activity in the housing market, and the outlook is decidedly rocky. New condo buildings are still sprouting up in Canadian cities, meanwhile. It's an evergreen idea to buy up real estate and rent it out.



Lazy landlords can access the same market through Real Estate Investment Trusts (REITs). But what if there's nobody renting? There's an important component missing in the property development machine: High-quality tenants whose income is reliable.

And it's not just residential properties that could go empty, either. Retailers have struggled to cover expenses during the lockdown. A fresh wave of COVID-19 infections is menacing North America — or rather, not so much a second wave, so much as a continuation of the first one. It's fair to say that the pandemic is still just getting started in some areas. The damage to real estate will be lasting.

Residential and commercial leases are therefore deteriorating in quality, and new properties are still being built. This is a recurrent supply and demand nightmare, and it only means one thing in the long run: property devaluation.

Meanwhile, homeowners are struggling to pay off mortgages. And what happens when their homes suddenly plunge in value? You have a situation where homeowners are still sitting on high debt, but now with negative equity.

## Avoid most REITs in your portfolio

With very few exceptions, such as **CAPREIT**, investors should now be staying away from REITs. In fact, this would be an excellent time to start taking certain names off the table. But instead of panic selling, investors should trim in stages while markets are up.

Unfortunately, there are signs that the market has already reached the top. REIT shareholders should start trimming and freeing up liquidity ahead of a housing bubble.

The Canada Mortgage and Housing Corporation itself forecasts a rocky couple of years ahead. “Short-term uncertainty will lead to severe declines in sales activity and in new construction,” it predicted in a report this week. It added, “There is significant uncertainty with respect to the path and timing of the recovery.” This follows the CMHC’s previous guidance, which sees a 30% sales decline and 18% price drop.

It’s also a good time to begin identifying which names would be attractive at lower prices. Undervalued safe-havens like **Barrick Gold** will rise in popularity as the markets falter. But long-term investors could soon have an opportunity to scoop up these kinds of quality names as the bears wash out of the market in the near-term.

So while apartment REITs were – until very recently – a classic defensive asset type, investors should start to rearrange portfolios without them. This means that other low-risk stock types will have to take their place.

Investors will have to avoid overexposure, though, as the circle of defensive asset types has tightened this year. Aim instead for a spread of precious metals, Dividend Aristocrat utilities, and consumer staples.

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