Will There Be a Housing Market Crash in 2021? 3 Experts Believe it's Certainly Possible

Description

It's easy to forget how integral the housing market is to Canada's economy. Rental income is a major course of earnings for Canadian investors, while real estate-related jobs are a substantial portion of the labour force. Bank balance sheets are focused on mortgages, and much of the nation's household wealth is trapped in real estate.

Over the past 20 years, this has been a winning strategy. Real estate prices have consistently escalated across Canada. This year could be very different. Three experts predict that the housing market could correct sharply in 2020 and 2021.

Canada Mortgage and Housing Corporation (CMHC), for example, forecasts a decline of between 9% and 18% over the next year. Similarly, experts from the **Royal Bank of Canada** forecast a drop of nearly 7% in average house prices by mid-2021. Finally, **National Bank of Canada** predicts the sharpest housing market correction in the nation's history.

Although all these forecasts could be off, investors need to be prepared if the housing market does correct. Here's how.

Reduce housing market exposure

Residential real estate funds, such as **Minto** and **Killam Properties**, could be at the epicentre of a housing market correction. These landlords have already seen rent decline across Canada. That will surely reduce cash flow. If house prices decline as well, these trusts could face a blow to their balance sheets.

A dive in cash flows and book value could compel some REITs to cut dividends. Investors who depend on these hefty dividend payouts must reduce exposure to stay save.

Reducing exposure to banks could also be a great idea. Most of Canada's largest banks are heavily focused on mortgage lending. If we face a wave of delinquencies and housing market declines, loan losses at banks could expand. Again, this will dent bank stock prices and dividends.

Invest in essentials

Real estate is an undeniably great source for passive income. However, with the commercial real estate and residential housing market facing challenges, investors must diversify their portfolios. Adding essential properties could be a potential solution.

Medical and warehouse properties are great examples. The medical industry isn't tied to the economic cycle. In other words, hospitals and clinics are needed even when unemployment rises. Investors could add **NorthWest Healthcare Properties REIT** to add exposure here.

Similarly, the demand for warehouses far outstrips supply at the moment. More consumers are shopping online than ever before. This surge has made warehouses increasingly valuable. This asset class could be one of the most resilient in the real estate sector. **WPT Industrial Real Estate Investment Trust** is a pure-play warehouse stock investors could consider.

Bottom line

Canada's housing market could be on the verge of a deep correction. If house prices fall by 10% or more, banks and residential REITs could see a decline in dividends and underlying value.

Passive income-seeking investors could protect themselves by focusing on *essential real estate.* Add warehouse and medical properties to bolster cash flow despite the crisis.

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