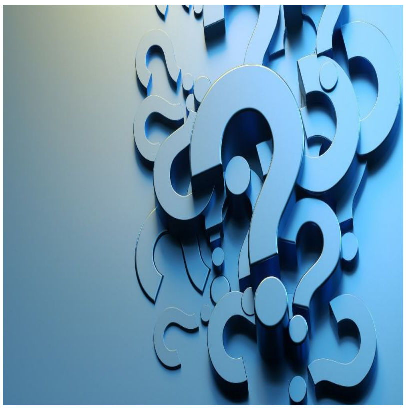

Mortgage Rates Are at All-Time Lows: Buy Stocks or Real Estate?

Description

If there is one thing that 2020 has taught us, is to expect the unexpected. Where I expected the Canada Mortgage and Housing Corporation's (CMHC) introduction of stricter eligibility rules for mortgages would tank the housing market, Toronto saw some of the most massive increase in prices.

It is safe to say that making predictions in the volatile market is at best only speculative. The real estate markets froze back in April and May as everybody was reeling from the shock of the massive market sell-off. However, mortgage brokers are currently reporting one of the busiest months ever.

Canadians are rushing to their estate agents to inquire about refinancing and renewing their mortgages.

The pandemic catalyst

The mortgage rates are at historically low values. The onset of COVID-19, Fed action with our neighbours down south, and the weakening economic situation in Canada forced the authorities to push mortgages down to historic lows gradually.

People who have been paying their mortgages on higher rates are suddenly flocking to estate agents to secure renewals and refinancing for better rates. Canadians are willing to pay the penalties to break the mortgage and refinance because of the considerably lower rates. The low rate environment also offers Canadians the chance to consolidate their debts and pay off high-interest loans.

Should you go for real estate or stocks?

The CMHC announced changes to its eligibility criteria for mortgage insurance. The federal agency lowered the amount of debt for an insured mortgage and required a higher credit score for someone to qualify for its insurance.

Other mortgage insurance providers like Canada Guaranty Mortgage Insurance Co. and **Genworth MI Canada Inc.** refused to follow the same rules. CMHC's change in eligibility criteria did not have the impact it could have.

Regarding the current development, James Laird, co-founder of *Ratehub.ca*, commented that while the current rates might be the lowest that they have been, there is a marginal difference in mortgage rates since 2009. The difference in a 2.29% rate for a five-year mortgage and a 1.99% rate is not substantial.

If you wanted to buy real estate, buying it at a 2.29% rate would not have been vastly different than buying at 1.99%. There is a nominal change in mortgage payments. If you were not willing to buy it at the previous rates, buying property right now is not advisable.

Safer long-term investments

The real estate sector makes for excellent investment opportunities. While real estate can be an investment with immense long-term gains, it can come at a huge upfront cost. If you do not have the kind of capital to pay for property upfront, I would suggest staying away from the real estate sector, even in the low-interest rate environment.

Incurring debt might not be the best option to pursue right now. Instead, I would advise considering more accessible investments that provide substantial long-term returns with minimal risk to your capital. Consider a stock like **Brookfield Renewable Partners LP** (TSX:BEP.UN)(NYSE:BEP).

The pure-play renewable energy company is betting on the rise of renewable energy, and we are seeing the dynamic shift. The company has an excellent track record as a globally diversified renewable energy company. Management is demonstrating fearlessness by investing in new infrastructure to bolster its portfolio of renewable energy sources.

It recently purchased wind farms in Spain worth over $1 billion, and it continues to expand. At writing, the stock is trading for $67.60 per share, and pays its investors at a juicy 4.41% dividend yield. The company has grown 44.11% year over year despite a dip in March amid the pandemic sell-off frenzy.

Foolish takeaway

If you have the capital to do so, investing in real estate might not be a bad idea with the low interest rates. However, an investment like Brookfield Renewable stock is a more accessible investment for potentially immense gains through a booming industry.

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