Trouble Coming: A Housing Crash Could Happen Very Soon

Description

The novel coronavirus came along to devastate almost every sector of the global economy. Canada's real estate sector is one of its most impressive industries due to the massive demand for real estate and increasing immigration. The onset of COVID-19 did not leave the real estate sector alone.

For years, the increasing demand in major urban centres in the country and immigration led to prices flying high, especially in Toronto and Vancouver. Analysts had long been warning of a housing crash due to the inflated prices. With the global outbreak of the pandemic, everybody, including me, expected the housing market to tumble significantly.

Despite all the scares and the conditions being ripe for a housing market correction, the sector suddenly boomed. While the number of sellers decreased, the demand became more substantial. Analysts are even predicting a good year for the sector. However, there is also the possibility of a crash that could change the entire picture.

Housing troubles

There might be a housing boom on the horizon if the situation with COVID-19 sees a positive development. Currently, uncertainty rules the day, and there still are significant issues that could cause problems for the housing market. There is a lack of immigrants coming into the country due to international travel restrictions.

Most real estate investors buy properties to rent them out to others. Most tenants are immigrants who do not have buying power and need to rent places to live in. A second wave of infections could further delay immigration and soften the housing market.

Another issue is with buying power. If you cannot earn money, you cannot buy a house. People are struggling to make ends meet due to the pandemic. Even with the slowly reopening economies, millions remain jobless. A resurgence in cases could close everything down and entirely demolish buying power, leading to an oversupply with no demand.

All the problems with the real estate sector that can come with a housing crash may not all be bad news for investors.

A silver lining

With a housing crash on its way, it might seem like investors should completely avoid the real estate sector. Staying away from the real estate sector could be a foolish decision. There are several real estate investment trusts (REITs) that are trading for a bargain right now. The downturn led to lower prices for the REITs and inflated dividend yields.

RioCan Real Estate Investment Trust (TSX:REI.UN) is one such asset you can consider adding to your portfolio. At writing, the stock is paying its shareholders a massive 9.38% dividend yield. RioCan is the most significant REIT in the country. It may have a high dividend yield, but it can sustain its payouts.

The REIT's well-diversified portfolio consists of large retail locations. The tenants are some of the best-funded companies in the financial and retail industries. It has a massive tenant-base that provides its revenue, and the company recently shifted focus on the residential sector to further diversify its revenue stream.

A housing crash could affect the REIT, but it is likelier to fare better than REITs focused on the residential sector. A crash might make the share price of this REIT more attractive for investors to consider.

Foolish takeaway

With no visible end to the pandemic, investors should make sure they do not become complacent and assume the global health crisis is almost over. Nobody knows when it will be completely safe again, but you should use a confusing situation to invest in high-quality stocks that can grow your wealth. RioCan seems like an attractive option to consider if you want to take advantage of the real estate sector.

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