1 Troubling Stat That Predicts a Housing Crash in 2020

Description

COVID-19 came along to devastate most sectors of the economy, sending publicly traded companies in disarray with falling stock prices and investors seeing double-digit losses to their portfolios. Canada's real estate sector has been one of its most impressive industries over the years, but even that could not find protection from COVID-19.

Prices for residential properties in Canada's most major urban centres had been flying high, especially in Vancouver and Toronto. Analysts long predicted a significant correction due to the bubble in housing prices, but it did not seem like it would arrive. The onset of the novel coronavirus served as the catalyst for the housing market, albeit in an unexpected way.

The unexpected boom

Due to all the worries about people losing their buying power due to unemployment soaring high and the tumbling stock markets, the conditions seemed ripe for a housing correction. However, the exact opposite happened.

The number of sellers decreased due to the pandemic, but there is still a substantial demand for housing in Canada.

Many credit the low-interest-rate environment for being a significant reason for this boom. Analysts are even predicting that the real estate sector can have a good year. Of course, all of this could be short-lived. There may be disturbing news that can become the prerequisite for the seemingly inevitable housing market crash.

Falling rents

Most investors who purchase real estate do it intending to rent out the property for rental income. Property investors base their price expectations under the assumption that the rents will keep increasing despite the pandemic. A drop in rents could impact the housing market throughout Canada.

According to Capital Economics, the sharp decline in tourism and immigration due to the pandemic is causing higher vacancy rates in the biggest cities around Canada. The rent in major cities like Ottawa, Vancouver, Toronto, and Montreal are significantly declining. The drop in immigration and tourism, along with surging unemployment and decreased demand for short-term rentals, are contributing to the high vacancy rates.

The Canada Mortgage and Housing Corporation (CMHC) has already predicted a decline as high as 18% by 2021 if the economy doesn't recover, and the housing market crash could happen before we see the end of this year.

Is *all* real estate bad?

With the prediction of an imminent housing crash, investors interested in the real estate sector might begin to worry about their capital. However, not everything might be bad about the industry. Suppose you want to continue to leverage the real estate market's benefits without putting substantial capital at risk. You could consider investing in assets like **RioCan Real Estate Investment Trust** (TSX:REI.UN).

RioCan is a real estate investment trust (REIT) trading for a bargain due to market uncertainty. It is the most significant REIT in the country with a diversified portfolio of properties that consist primarily of retail locations.

The REIT's tenants include some well-funded companies in the retail and financial sectors, making its income relatively secure.

RioCan recently added residential properties in its portfolio to diversify its income streams. While it means that a housing crash can affect RioCan's cash flow, it could only spell good news for investors looking for a bargain.

A crash might drive down its prices to more attractive levels. While you might experience short-term difficulties, the company could become a valuable asset in your portfolio.

Foolish takeaway

At writing, the REIT is trading for $14.96 per share, and its low price means it has an inflated 9.63% dividend yield. While the yield may be high, the REIT can sustain its payouts to investors.

Investing in the stock can help you benefit from the recovery through capital gains while enjoying returns through its dividend payouts.

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