Waiting for Cheaper Real Estate? Canada Housing Is Due for a Crash

Description

One of Canada’s most resilient and prolific sectors has been its real estate market. The residential market has mainly been on a consistent rise for the last several years. Canadians already know this. It is the reason for the buzzing activity in the housing market since the 2008 financial crisis.

As immigration increased, so did the demand for housing in major urban centres throughout Toronto, Vancouver, and other Canadian cities. Real estate investors who could afford to buy houses saw their wealth grow substantially over the years. However, it is not all good news for real estate investors.

Looming crisis

When countries face major economic crises, they tend to double down on balancing their growing local economies and housing prices. Canada went the other way with the crash of ’08, and we saw home prices skyrocket in the ensuing years. While many countries saw a decrease in home prices, Canada’s real estate market grew three times as fast as any other G7 country since 2005.

Let’s consider other real estate markets to give you a better perspective. The financial crisis was a global problem. In the last 15 years, Canada’s average housing prices increased by almost 90%. Germany has the second-fastest growth in its residential real estate prices at a more modest 32.3%. The difference is astounding.

The U.S. market went down 3.29% in the first quarter this year, but Canada saw an increase of 3.39% in the same period. Canada’s economy heavily relies on its housing market. The rapid growth is not a positive sign. In a harsh economic landscape, such rapid growth is a sign of a looming crisis just waiting to happen.

Real estate will get cheaper

If you have had an interest in the real estate market for a long time, you might have an opportunity on your hands. Despite unemployment rates decreasing in the last three months, the figures are among the highest in Canada's history. Almost 1.8 million Canadians remain jobless.

Due to strict travel restrictions, immigration has also drastically declined. While economies are gradually opening up, the inflow of new residents will be low until the pandemic subsides. Both of these factors can cause the housing market activity to dip and decrease demand.

The Canada Mortgage and Housing Corporation (CMHC) predicted an 18% decline in housing prices this year. The seemingly far-fetched prediction might become real. It will drastically decrease homes' value and bring the real estate market to more attractive prices than they have been in the last decade. You can get the chance to buy a house on a bargain.

Protecting your wealth

You need to protect your wealth from the effects of a housing crash, so you can invest at the right time. I cannot predict when the market crash will happen, but it would be good to keep a close watch on trends moving forward. Meanwhile, you should protect your capital. Storing it under your mattress can keep it safe, but there is a better way to store it instead of idle cash.

Invest in a non-cyclical company like **Fortis** (TSX:FTS)NYSE:FTS). The stock can not only help you keep your money safe. It can grow your funds through capital gains and reliable dividend payouts. Fortis is a utility sector operator that provides an essential service to Canadians. No matter how bad the economy gets, people will still require electricity and gas.

Fortis can continue generating income to fund its 3.62% dividend yield. At writing, the company is up 25% from its March 2020 bottom. It is still trading at a discount from its pre-pandemic share prices. At $52.78 per share, Fortis still has room to grow before it returns to prices before the pandemic.

Foolish takeaway

Allocating your funds to a non-cyclical stock like Fortis can help you grow your funds in reliable equity. If the housing market crashes, you can use the funds to buy real estate at a bargain. If the market correction is not significant or does not materialize, you can continue to grow your wealth through its dividends.

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