Insatiable Homebuyers Could Cause a Big Housing Crash

Description

The Canadian housing market has been keeping investors and analysts on edge since before the pandemic began. Analysts keep expecting it to crash due to the highly inflated housing price bubble we have seen forming for the better part of the last decade. Apart from the brief decline in 2017 and 2018, the Toronto housing market has seen home prices rise for almost two decades without letting up.

Despite the pandemic, housing prices continue to stray further away from the reach of most potential homebuyers.

Many experts claimed that the housing bubble would burst in 2020. We have already gone through a market crash this year, but housing prices did not budge like we thought they would. The low interest rate environment is driving further sales. As potential homebuyers continue to take out mortgages to buy homes, we could finally see a major housing crash.

Housing market situation

Housing prices in major Canadian cities like Toronto and Vancouver are acting strangely. The median prices of houses in Toronto are increasing after a brief fall in May, and the activity is high. Vancouver has still seen a steadier fall in prices. There are a few factors that contributed to a steady increase in housing prices, despite the weak economy.

Unemployment rates continue to be at historical highs, despite a reopening economy. More than 1.8 million Canadians do not have jobs. The Canada Emergency Response Benefit (CERB) was helping people manage their finances while jobless. As the program ends, people will likely consider taking care of essential expenses before deciding they should buy properties.

The COVID-19 pandemic has also led to a significant decline in immigration — a primary provider for the tenant base that homeowners rely on for income. The travel restrictions might ease up soon, but we can expect to see a massive supply with low demand in the housing market.

Collectively, these factors could cause a significant correction in the housing market. The headwinds from this crash could impact the overall economy and cause another stock market crash.

Is there any safe real estate exposure?

The housing market is at risk of a major crash. I would not advise taking out a mortgage to buy a house right now. However, you can still leverage the potential of real estate investments through a real estate investment trust (REIT) like **Killam Apartment REIT** (TSX:KMP). It is an apartment-focused REIT that had an excellent second quarter in 2020 compared to its peers.

The company managed to increase its ROI, despite fair-value adjustments going downhill. The REIT's funds from operations increased to $26.6 million from $23.7 million in 2019. The company also collected 98.6% of rental payments in the second quarter. The REIT has generated 33% net operating income from apartments built in the last 10 years.

At writing, the REIT is trading for $17.30 per share, and it pays its shareholders a juicy 3.93% dividend yield. Its share price is down 6.59% year to date, and it looks like a safe bet due to its market-beating returns.

Foolish takeaway

There is still plenty of uncertainty looming in the economy as we traverse this unprecedented year. Stock markets took a steep dive in February and March and climbed back at a surprising rate. The housing market continues to baffle investors and experts. However, all the factors propping prices up could stumble to create a significant correction.

I would advise being wary of the market movements. If you want to enjoy exposure to the real estate market, it would be better to invest in a REIT like Killam Apartment REIT instead of purchasing a property.

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