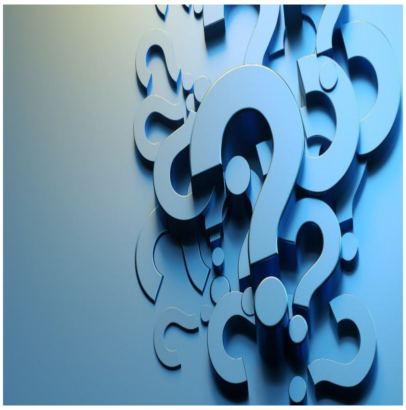

Why Is the Canadian Housing Crash Taking So Long?

Description

The Canadian housing market has been a hot choice for local and foreign buyers for the last decade. The massive interest in Canadian residential properties in major metropolitan areas has led to prices reaching the stratosphere. However, the Canadian real estate market is as perplexing as 2020 itself.

There have been predictions about a major housing crash in Canada for years. Prices reached all-time highs and continued to rise until the pandemic struck worldwide. COVID-19 managed to slow down Canada's housing market growth in March and April 2020. However, since then, it has seen a massive rebound.

July marked the third consecutive month for housing market growth since COVID-19 struck. The market does not seem like it wants to slow down. The Canada Mortgage and Housing Corporation (CMHC) expects a substantial market correction of 18%. Analysts have been predicting a crash for the last few years. We're still witnessing no real sign of that happening.

Recent housing market trends

The average housing prices in Toronto are averaging almost $1 million today. As of July 2020, the number of home sales and average selling prices broke new records with 30% and 15% year-over-year increases, respectively. The housing market only seems to be catching up to what its growth might have been if COVID-19 did not slow it down in March and April.

According to the CMHC, the recent surge does not reflect the economic shock of the pandemic. Data revealed that the housing inventory is at historic lows owing to the growing demand for homes. People are buying houses today faster than there can be new listings in the market. Record-low mortgage interest rates could be the primary reason for the high demand.

Between low inventory and favourable interest rates for buyers, housing prices only seem like they will continue to rise.

The housing market is still frail

I still believe that a major market correction is on the horizon. Experts in the industry also share my opinion about it. According to the chief financial officer at CMHC, Lisa Williams, the pandemic's financial shock will surely strike the housing market. However, it may take some time to materialize.

CMHC's rising provision for insurance claims during the second quarter of 2020 shows that some effects of COVID-19 are starting to take effect. The agency reported that expenses rose 711% in Q2 2020, and that included an increase in provisions for COVID-19-related claims.

While I still cannot predict when the housing market will crash, I believe that it certainly will happen eventually. The market is too frail to carry on like this for very long. The market managed to stay afloat previously, but COVID-19 could provide the factors that can lead to the crash.

A REIT to consider

Investors who want exposure to the real estate market without investing in properties typically invest in real estate investment trusts (REITs) like **Crombie REIT** (TSX:CRR.UN). It provides them with more accessible exposure to the real estate market, because they can buy shares of a company that owns real estate and leverage profits from market movements that the trust makes.

Crombie is a prominent investment for the Canada Pension Plan Investment Board (CPPIB). Unlike most other REITs, Crombie has not been a massive disappointment for its shareholders. At writing, its share price is $13.19, and it is down just 14.46% year to date. Most other REITs are worse off.

Crombie's real estate portfolio consists of retail properties. Its exposure to retail properties has helped it offset losses that it would otherwise face if it relied purely on rental income through residential properties. The high-quality grocery and pharmacies among its retail tenants allow the REIT to endure through the pandemic.

Almost 70% of Crombie's annual minimum rent (AMR) is through essential services tenants. It relies on small businesses for less than 10% of its AMR.

Foolish takeaway

Compared to other REITs, Crombie is better positioned to provide security to your investment portfolio. At its current price, Crombie provides a dividend payout at a juicy 6.75%, which it can safely finance through its reliable income. It is also one of the most substantial REIT holdings for the CPPIB.

The CMHC still believes there is a massive housing market crash on its way. I would advise securing your capital through investments like Crombie to deter the effects of another market crash caused by a major housing correction.

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