CAUTION: Housing Prices Are FAR Too High — A Crash Is Coming

Description

The Canadian real estate market has always been an enigma for investors. Over the last decade, residential properties in major urban centres in Canada have been soaring to new heights. There was a fear that the housing market has become a bubble that is ready to burst. Analysts predicted a housing crash each year, and the housing market defied all expectations every time.

Analysts and yours truly believed that the onset of COVID-19 would finally cause the housing market crash that has been a long time coming. It seemed that things would turn out that way as market activity slowed down during March and April. However, that did not last very long.

Record sales activity

While March and April saw a slower real estate market in Canada, the picture was completely different in the following months. Almost every major city in Canada posted record-breaking sales in July 2020. Industry professionals said that the local quality of living was the reason for the real estate market's resilience.

The Canada Mortgage and Housing Corporation (CMHC) has been one of the most vocal agencies expressing its concerns about the housing market. CHMC warned about the risks of increased market activity despite the lockdown and believes that we can expect substantial short-term uncertainty and the housing demand will decline due to the weakened economy.

CMHC believes that the economic effects of COVID-19 will emerge in the next few months to cause the market crash.

Why are people buying houses?

The sudden surge of real estate activity in July despite a pandemic-fuelled recession can seem confusing. It drove the prices higher at a time when people are relying on government aid for daily expenses. Despite the financial challenges for Canadians, people seem to be buying bigger houses because they have a different kind of motivation fuelling their drive: low interest rates.

Many investors buy homes so they can use them as rental properties. They purchase the home by taking out mortgage loans and use the rent to pay for their mortgages. A decrease in demand for rental properties can significantly damage their possibility of getting returns on their investments. We could gradually see a significant correction in housing prices if there is no way to meet the demand.

Better alternative

If you are an investor who wants to leverage the market movement of the real estate sector, but the market is too uncertain, there is a better way to approach the sector. The ideal alternative is to invest in Real Estate Investment Trusts (REITs). REITs operate like publicly traded companies on the stock market. You can purchase individual shares and receive a portion of the REIT's profits based on how many shares you own.

Crombie REIT (TSX:CRR.UN) could be an excellent REIT to buy amid the pandemic. Crombie is a company that predominantly owns properties rented out by high-quality tenants in the retail sector. More than 50% of its income is through big-name stores like Sobeys and Safeway. Both companies have been performing well with excellent sales during the pandemic.

Besides supermarkets, Crombie also rents out space to banks, pharmacies, and other essential businesses that can keep generating substantial cash flow for the REIT. At writing, Crombie is trading for $13.29 per share, and it has a juicy 6.70% dividend yield. Crombie can easily finance its high yield due to fantastic returns from its portfolio.

Foolish takeaway

The market is full of uncertainty amid the pandemic. While the low interest rate environment might make investing in properties seem attractive, I would highly recommend against it.

If CMHC's prediction for a housing crash comes true, it can cause another market meltdown. I would advise making a safe investment like Crombie to secure a certain income during these uncertain times.

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