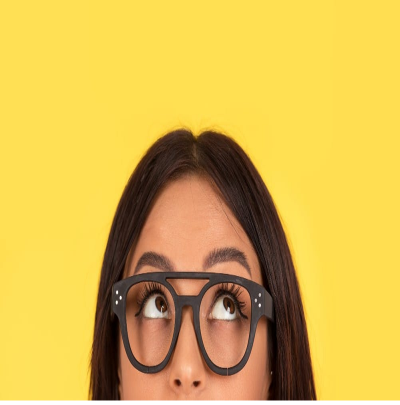

Is Canadian Housing the Worst Investment to Make Right Now?

Description

Homeownership is the dream of every Canadian. The country's housing market is vibrant but hasn't been too friendly to first-time buyers, especially in preferred cities like Toronto and Vancouver. Both cities are notorious for high real estate prices.

When COVID-19 hit town, many predicted that housing prices would fall drastically. Despite the high unemployment and deteriorating economy, realtors and brokers say activities are not slowing down.

August was supposed to be a lean, yet it was the busiest month in 2020, with house prices rose by 18%. It appears Canadians are looking for bigger homes to be comfortable during lockdowns. If the housing market is surging amid the pandemic, is it worth investing today?

Real estate bubble index

The UBS' Global Real Estate Index 2020 reveals that home values worldwide are rising despite the coronavirus-induced global recession. Based on the analysis of 25 major cities, 50% are overvalued or at risk of a housing bubble.

The index looks for usual signs such as imbalances in the real economy (i.e., construction activity, excessive lending). It could also be a disconnect of prices from local incomes and rent.

The top two cities with elevated risk are Munich and Frankfurt in Germany. Hong Kong and Paris rank fourth and fifth. Interestingly, Toronto in Canada is in the third spot. It's the only city in North America that is at risk of a housing bubble. The markets in Vancouver could overheat, but a crash is unlikely.

A housing crash

The housing market is humming after the lifting of lockdowns. However, there are more buyers than inventory. With CERB and mortgage deferrals ending, some people may need to sell due to financial constraints.

If you intend to purchase or invest, delay it first and wait for the prices to drop. The Canada Mortgage and Housing Corp. (CMHC) warns that average prices would fall between 9% and 18% from pre-pandemic levels before beginning to recover in the first half of 2021. The federal housing agency is saying a crash is coming.

Today, the best investment alternatives, while the real estate market is fragile, are real estate investment trusts (REITs), specifically industrial REITs. **Summit Industrial** (TSX:SMU.UN) is highly recommended as it has been displaying resiliency during the pandemic. The REIT can ride out a market crash too.

This $1.98 billion REIT is outperforming the **TSX** (+10.9% versus -3.32%) year-to-date. Summit pays a respectable 4.16% dividend. Assuming you have a budget of $300,000, you can generate a passive income of $12,480 ($1,040 per month). You can be a lazy landlord and do away with insurance, maintenance, and other ownership-related costs.

The unique competitive advantage of Summit is its portfolio of industrial properties. Each property is highly marketable because the utilization is generic. It can be a warehouse, storage facility, light assembly plant, or call centre. For the REIT, market rent volatility and operating costs are low. You can be a lazy landlord through Summit.

Affordability

The low interest rate environment is conducive to borrowing. However, if home prices increase and outpace people’s income, there could be fewer buyers who can afford to purchase.

CATEGORY

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2. Investing

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1. TSX:SMU.UN (Summit Industrial Income REIT)

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