This Canadian City Is the World’s 3rd Highest At-Risk of a Housing Crash

Description

Is Canada’s housing market leaning toward a crash? It looks improbable considering surging home sales after the lifting of lockdowns. According to the Canadian Real Estate Association (CREA), new all-time sales records were posted every month, from July to September 2020.

The UBS Global Real Estate Bubble Index 2020 reports that housing markets worldwide are weathering the COVID-19 pandemic. Analysts are bewildered, although they warn the blistering pace will not sustain. The actual average home price in Canada rose by 17.5% to a record-high $604,211 last month.

However, UBS’s analysis shows there’s one city in North America that’s at risk of a housing crash. Toronto ranks third after Munich and Frankfurt in Germany. These three cities have the greatest housing bubble risk. While prices in British Columbia and Vancouver are inflated, the markets are not likely to overheat.

Developing trend

The Canadian housing market is strong in the face of the health crisis. Home sales and prices are setting new records. CREA said actual sales in September 2020 rose 45.6% from the prior year, while the Home Price Index climbed to 10.3%. Smaller Ontario cities and in Ottawa region have the most significant price gains.

The industry group also notes that year-over-year gains are robust in Toronto suburbs and Ontario cottage towns. It appears that Canadians are moving away from urban centers for larger spaces due to the coronavirus outbreak.

Building headwinds

Despite the gains in housing markets, UBS believes it will not last long under the present circumstances. High unemployment and declining household income could affect home prices. The stimulus packages of governments, mortgage bailouts, and low-interest rates are propping up home prices.

UBS Global Wealth Management's chief investment officer, Mark Haefele, warns that a correction phase is looming as rents in most cities are starting to fall. The problem might compound when subsidies end and pressure on incomes heighten.

Better investment

Investors seeking exposure to the real estate sector can consider investing in real estate investment trusts (REITs) instead of purchasing physical properties. You can earn passive income while holding **Summit Industrial** (TSX: SMU.UN) in your stock portfolio. This $1.95 billion REIT owns a portfolio of light industrial properties that are in high demand in the pandemic.

Summit Industrial is superbly outperforming the **TSX** (+10% versus -3.66%) year-to-date. The REIT stock is currently trading at $12.75% per share and offering a 4.24% dividend. Assuming you can invest an amount equivalent to 50% of Canada's average home price ($302,000), your passive income is $12.804.80.

With the ever-increasing demand for light industrial properties, Summit is growing its portfolio. It recently acquired the remaining 50% ownership interest in its joint venture with the Montoni Group. The 100%-owned 11 high-quality properties are in Montreal.

By assuming all property management functions for the Montreal portfolio, Paul Dykeman, Summit's CEO, expects further economies of scale and operating synergies in the attractive market.

Affordability challenges

Toronto might not be the ideal location because the housing bubble might burst. However, no one is sure if the sales momentum in other Canadian cities is sustainable. Buyers could dwindle in the coming months due to affordability challenges.

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