Bank of Canada: Housing Market Support Is Gone!

Description

The Bank of Canada, the national central bank, has decided to withdraw critical programs that were supporting the Canadian housing market. Without this support, the housing market could be vulnerable to a sudden dip ahead. Here’s what you need to know.

Housing market on the brink

Canada’s housing market is already in a precarious position. House prices are at a record high, even as millions have lost their jobs or gone out of business this year. Meanwhile, an exodus from the nation’s largest cities has boosted rental vacancies.

Landlords and real estate investors were able to postpone financial distress because of the government’s offer of mortgage deferrals. However, those deferrals have now come to an end. Investors must either face the cash drain from lower rents or sell their property.

Now, with the Bank of Canada withdrawing support, the housing market’s risks have magnified.

Bank of Canada’s outlook

The central bank said it would end the Bankers’ Acceptance Purchase Facility, or BAPF, and the Canada Mortgage Bond Purchase Program, or CMBPP, by October 26. This means Canadian financial institutions can expect less support from the central bank for offering mortgages and loans.

This will reduce the flow of credit, making it more difficult for the average Canadian to secure a mortgage. The reduction in buying power will amplify the risks the housing market faces. The outlook for residential real estate is grim.

However, investors can mitigate these risks and still generate lucrative passive income from the real estate sector.

Investing in real estate

With banks and residential real estate vulnerable, it could be a good time to add exposure to niche forms of real estate investment trusts (REITs) with better prospects. **Dream Industrial REIT** (TSX:DIR.UN) and **Northwest Healthcare Properties REIT** (NWH.UN) are two of my favourite examples.

Dream Industrial owns and operates warehouses across the world. These warehouses have seen staggering demand with the ongoing boom in online shopping. Essentially, warehouse space has become more critical than storefront space in a world where everyone is mostly shopping from home.

The Dream team (what a clever name!) owns over 262 industrial properties comprising approximately 25.8 million square feet of gross leasable area across Canada, the U.S., and Europe. The stock is currently trading for just 12 times earnings and offers a juicy 5.9% dividend yield.

Northwest, meanwhile, owns and operates medical facilities. In the midst of a global healthcare crisis, clinics and hospitals are as essential as ever. Fortunately, investors seem to have overlooked this story. Northwest stock is trading at just 13.5 times earnings per share and offers a 6.8% dividend yield.

I believe both stocks will be excellent bets for investors seeking passive income from real estate in 2021 and beyond. If you’re a real estate investor, consider reducing your exposure to residential real estate and adding exposure to industrial properties.

Bottom line

The Bank of Canada is set to withdraw support for the mortgage industry, leaving the housing market vulnerable. Investors should divert to industrial and healthcare stocks like Northwest Healthcare Properties.

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2. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)

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