WARNING: Get Out of Housing NOW!

Description

The Canadian Mortgage and Housing Corporation (CMHC) warned Canadians that if you're investing in housing, it might be time to cut and run. A housing crash is imminent, and so you have been warned.

CMHC warned Canadians that the housing market continues to be vulnerable to a crash. This was exacerbated by COVID-19, with the first and second quarters of this year seeing activity slow significantly. New listings pulled back, and this meant lower inventory. However, this meant that housing prices remained strong for a while, putting pressure on prices in already strong housing markets. But all this, CMHC warns, is temporary.

As the market cools, and winter comes, and COVID-19 sticks around, CMHC expects the market to shift. It expects a national trend lower by the end of 2020 — so in the next two months! There was already a decrease in housing of 20.1% between August and September, 2020, with a 21.1% decrease when looking at urban centres alone. The CMHC expects the average housing price to drop from $586,000 in August to around $460,292 in the first quarter of 2021.

How to prepare

There are a few areas that could be hit hard by a housing crash. The most obvious are real estate investment trusts (REITs). But not all REITs are created equal. If you've invested in those that rely on industrial properties, healthcare, or several other industries, you could be safe. However, if you've invested in companies that invest in residential properties mainly, or even multi-use properties of both office and residential, it might be time to take your returns and run.

Another area that's questionable are banks. There are a few banks out there that have invested heavily in the Canadian market, especially in the housing market. That could mean banks see a massive drop in share price as the housing market trends downward. Low interest rates will hurt profits; unemployment and underemployment will hurt loan repayment; and the list goes on.

Where to invest?

Just as all REITs aren't created equal, so too are banks. The bank I would invest in today when it comes to being defensive against a housing crash would be **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD. The bank has a number of ways it has diversified against a housing crash.

First, the bank has now become one of the top 10 banks in the United States, with plenty of room to grow. With the election around the corner, there could be a huge recovery in the United States. That means TD will have U.S. revenue coming in as Canada tries to catch up.

TD will also continue to see revenue come in from its new wealth and commercial management sector. This is a highly lucrative area to help bridge the gap during a crash. It also has a number of loan repayment plans for its clients. That means it will still be bringing in loan revenue, though smaller than before but larger than most other banks.

Foolish takeaway

TD is still up a compound annual growth rate of 8.77% in the last decade. In the last five years, investors have seen returns of 37%. It's not enormous growth, but it's safe and stable. That means so its dividend yield of 5.34% as of writing. Investors looking to get out of risk and enter stability simply need look no further.

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alegatewolfe