Young Couples: A Housing Crash Is Your Chance to Buy Property!

Description

The low interest rate environment is an inducement to obtain a mortgage. Younger couples, however, find it daunting because of surging real estate prices. The housing market is back to new heights after the lockdowns. Prices in July 2020 have tripled from April.

The Canada Mortgage and Housing Corporation (CMHC) sticks by its prediction in May that average prices would fall between 9% and 18% from pre-pandemic levels. If it does, the federal housing agency believes the housing market will begin to recover in the first half of 2021.

If the market stays resilient and prices remain high, it would be stressful for young couples to buy a house. But a crash could be the chance to shop for a property or go house-hunting.

Will the housing market crash?

Before COVID-19, the Canadian Real Estate Association (CREA) expected the tightest spring market this year. On the other hand, CMHC's worry stems from the impact of COVID-19, which has yet to materialize in the coming months. High employment is also a concern as borrowers might default on their mortgages.

Historically, most of the markets experience price increases even in recession, including single-family homes. In September 2020, the average price of a detached house in Toronto was $1.18 million, or 17% higher than a year ago. But the UBS Global Real Estate Bubble Index 2020 cites Toronto as the only North American city at risk of a real estate bubble.

Are banks in a panic?

The assessment of Canadian banks differs from CMHC as the six largest lenders see prices decreasing by about 3% only, on average. A marked increase in unemployment could be problematic, although banks in the country often have ample loan loss provisions.

Another group that's not worried about a housing strain, even in winter, is RE/MAX. The leading real estate organization in Canada points to several growth factors, namely, all-time low interest rates, pent-up demand, and the use of virtual tools by real estate agents to facilitate transactions.

Top REIT for investors

While Canadian housing market is vibrant, it could reach an unsustainable level when the pandemic's impact eventually kicks. Rental property buyers and regular investors can turn landlords while uncertainty hovers. **Summit Industrial** (TSX:SMU.UN), for example, is an excellent source of passive income.

This $2.05 billion real estate investment trust (REIT) owns and manages a portfolio of light industrial properties across Canada. The real estate stock currently trades at $13.40 per share and pays a 4.09% dividend. As a pseudo-landlord, your $50,000 investment can earn $2,045 in passive income.

Industrial REITs are among the resilient assets throughout the pandemic. Summit investors are enjoying a 15.6% year-to-date on top of the decent dividend payout. The REIT posted a 54% revenue growth in 2019, indicating the growing need for industrial properties due to the acceleration of e-commerce.

In 2020, the growth estimate is 18%. According to CEO Paul Dykeman, Summit has the liquidity and flexibility to execute its portfolio growth strategy.

Hidden costs

A crash could favour young Canadian couples — but not inflate prices even if interest rates are absurdly low. Aside from raising the down payment, they should also consider property taxes, transfer fees, mortgage insurance, and other related expenses.

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