Warning: Canada's Housing Bubble May Pop In 2021

Description

Canada's housing market continues to gain momentum in 2020 despite the COVID-19 pandemic. While the country's unemployment rate is almost 9%, housing demand has been driven by low-interest rates giving Canadians access to cheap capital.

However, in August, the Canadian Mortgage and Housing Market (CMHC) provided a dire outlook on the housing market in Canada. The housing body forecast average housing prices to decline by 21% to $460,292 in the first quarter of 2021, compared to the current average price of $586,000.

Moody's provides a grim outlook

In May, CMHC estimated the housing prices to fall by anywhere between 9% and 18% in 2020 and then stage a recovery next year. Moody's expects Canada's unemployment rate to be around 9% by the end of 2020 and it also estimates the housing market to lose momentum in the first half of 2021.

These weak underlying conditions in the labor market should raise delinquency and vacancy rates in 2021. Further, large Canadian cities of Toronto and Vancouver has seen a massive surge in demand in the past decade. Now, lower migrant in-flows amid the pandemic are likely to weigh on housing demand at least in the near-term.

Moody's has forecast a 7% peak-to-trough decline in Canada's housing market. It expects housing starts in Canada to fall from 206,000 annualized units in Q1 of 2020 to 151,000 in Q3 of 2021.

The rising consumer debt of Canadians is also a cause of worry, as is the risk of another round of economic lockdowns which will drive up unemployment rates higher in the upcoming months.

Invest in a quality REIT instead

While investing in real estate requires a significant amount of capital, REITs (real-estate investment trusts) are quite the opposite. You can invest in REITs as they are similar to stocks but provide you with exposure to Canada's real estate market. These instruments are highly liquid and are publicly traded and you can start investing with as low as $14 if you buy one share of **Summit Industrial Income REIT** (TSX:SMU.UN).

Summit Industrial Income REIT focuses on growing and managing a portfolio of light industrial properties across Canada. It aims to maximize funds from operations by accretive acquisitions and property development opportunities.

Light industrial properties are primarily one-story buildings that are located near major cities and key transportation links. Summit Industrial claims it has expanded its portfolio of such properties due to the long-term stability of this sector. It says light industrial properties have historically generated average income returns that are near the top of the Canadian real estate industry

These properties are associated with lower market rent volatility as well as lower operating costs, capital expenditures, and lower maintenance costs. The REIT has 158 income-producing assets and is one of the best-performing stocks on the **TSX**.

In the last five years, this stock has more than doubled and it now has a forward yield of 4%, which means an investment of $5,000 in Summit Industrial Income REIT will help you generate $200 in annual dividend payments, making it ideal for income and growth investors.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

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

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Date
2025/07/21
Date Created
2020/11/14
Author

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