



## A Housing Crash Could Impact Your Livelihood for Over 10 Years

### Description

Analysts, investors, and pundits have all been discussing the possibility of a major housing market crash in Canada for several years. The prices for residential properties keep soaring to greater heights each year. Despite all the predictions of a housing bubble that will burst at any moment, the real estate market keeps surprising us.

Considering the fact that many Canadians have most of their finances tied up in real estate, there is a substantial risk you might be exposing yourself to by buying a house as an investment.

I will discuss the housing market situation, the impact a decline in prices can have on you, and how you can gain exposure to the real estate market with reduced risk.

### Record sales in the housing sector

The Canada Mortgage and Housing Corporation (CMHC) has been warning investors about the housing market risks to no avail. The onset of COVID-19 can likely lead to a downturn due to the pandemic's short-term uncertainty. There is a significant risk of a medium-term weakness in housing markets due to the weaker economy.

Despite the growing fears amid the global health crisis, Canada posted record sales in July 2020. Industry professionals touted the industry's resilience and the low-interest-rate environment as reasons for the rise in sales. However, the economic shock of COVID-19 could offset the gains.

### The economic shock of COVID-19

The increase in housing market activity led to higher prices. Experts also said that some families could be buying larger houses in anticipation of another lockdown due to the [surge in COVID-19 cases](#). Another motivation for homeowners to purchase homes is real estate's reputation for being a low-risk and high-return investment.

However, record-breaking home sales are not sustainable. The lockdowns and high unemployment rates have significantly decreased the buying power of Canadians. The gap between economic fundamentals and housing prices will worsen the COVID-19 recession.

If you are thinking of investing in rental properties to generate returns, I would advise reconsidering.

## Why a housing crash can be devastating for homeowners

Investing in real estate means that you will be concentrating most of your capital into a single asset. Not diversifying your investments is a risk that nobody can afford to take on right now. If a housing crash happens, your investment in a rental property could decrease drastically due to the losses.

It can take years for you to make up for the losses due to devaluation in housing prices. Additionally, you can make things worse if you have borrowed money against your house. It is better to become a lazy landlord by purchasing shares of a real estate investment trust (REIT) than owning a rental property.

## A REIT to consider

To this end, I feel that **Crombie REIT** ([TSX:CRR.UN](#)) could make an ideal investment for you. Crombie is a \$1.29 billion market capitalization REIT that leases out a wide range of retail properties across Canada's urban and suburban markets. While Crombie operates in the real estate sector, it is not as vulnerable to the housing segment's market movements.

The REIT operates a portfolio of high-quality pharmacy- and grocery-anchored shopping centres. It has a solid rent collection history from tenants with businesses that continue generating stable income regardless of the economic conditions. With its rent-collection rates higher than 90%, Crombie can [provide you with safe returns](#) without the risk of putting all your capital into a single asset.

## Foolish takeaway

Diversifying your portfolio is an ideal way to mitigate the risk and generate reliable returns on your investment in the long run. While buying a house has traditionally been a successful investing strategy, the segment could face significant short- to medium-term trouble. It can devastate your livelihood for the next 10 years if you go all in.

You can consider investing in REITs like Crombie to generate income through the real estate sector without the upfront cost of owning any properties.

### CATEGORY

1. Coronavirus
2. Dividend Stocks
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### POST TAG

1. Editor's Choice

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