3 Reasons to Not Buy a House in Canada Right Now

Description

If you take a look at an average Canadian's balance sheet, you will notice that most of their funds are tied up in their house. It is the case with most younger Canadians who have yet to diversify their portfolios with other assets, while others do this on purpose.

For Canadians, buying and owning a house as an investment has been an outstanding long-term strategy. If you consider the astronomical growth of housing prices in markets like Vancouver and Toronto, buying a house makes sense.

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However, it might not be the wisest decision to try and buy a house right now. I will discuss three reasons why it is not the best time to buy a house. Additionally, I will discuss a better way for you to take advantage of the real estate sector.

Housing market bubble risk

The UBS Global Real Estate Bubble Index 2020 cited Toronto as the only North American city at risk of a real estate bubble. This report places the Canadian city in the bubble risk for the third year in a row.

The housing market managed to pull through without declining for the last two years. However, the pandemic and its economic impact could catalyze the imminent burst that the housing prices have managed to avoid for so long.

Buying a house right now could expose you to substantial losses if the housing market bubble bursts, because it will significantly devalue your investment.

It's an illiquid investment

The second reason you might not want to buy a house right now is due to its illiquid status. Canadians who own a house take a lot of pride in the amount of equity they have in their home. Making the final mortgage payment must be an incredible feeling, but home equity is not a great asset.

Tying up so much of your capital in a single asset just makes it sit there doing nothing. It will not generate any income for you, and you cannot sell it immediately for a profit on your investment if you plan on moving somewhere else.

Even if you manage to pay off your mortgage and end up completely owning the house, you will not have much liquidity due to the investment. As the pandemic has shown, it is necessary to retain some liquidity to make it through challenging circumstances.

There are better ways to buy real estate

The last reason it might not be the best time to buy a house in Canada right now is the availability of better ways to invest in real estate. Many Canadians are investing in real estate investment trusts (REITs) to take advantage of the real estate sector's movements without all the troubles of buying a house.

REITs like **SmartCentres REIT** (TSX:SRU.UN) generate significant income, come with professional managers who do all the work, and are currently on sale due to the pandemic.

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SmartCentres is one of Canada's largest and fully integrated REITs. The REIT is paying its shareholders at a massive 7.58% dividend yield at its valuation of $24.42 per share at writing. The REIT is suffering during the pandemic due to the losses for retailers that constitute most of SmartCentres's tenant base.

However, **Walmart** is offsetting the losses for the REIT. The anchor tenant accounts for 70% of SmartCentres's total properties.

Foolish takeaway

Despite the challenges, REITs like SmartCentres can provide you with much better exposure to real estate than buying a house. You can trade the shares of REITs like stocks on the TSX. You can buy as many shares as you can afford. Additionally, you can quickly sell shares to gain instant liquidity and profits if you buy low and sell high.

If you choose to remain invested in a REIT, you can leverage the monthly returns that they are legally obliged to pay unitholders.

If you are interested in the real estate sector, I would advise investing in a REIT like SmartCentres instead of tying up your funds in an illiquid asset class that is on the verge of a major decline.

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1. Dividend Stocks
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TICKERS GLOBAL

1. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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1. Business Insider
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