Warning: Canada’s Housing Market Could Crash in 2021

Description

The COVID-19 pandemic has impacted the whole world this year. Countries are still trying to get the dreaded virus in control by imposing economic lockdowns and advocating social-distancing measures.

The global GDP is expected to tumble in 2020, which will mean unemployment rates will continue to soar. These factors might impact the housing markets of several countries including Canada.

In 2020, Canadians benefitted from low interest rates that drove demand for mortgage loans higher, even amid the pandemic. The mortgage relief programs offered by several financial institutions also helped ease the burden on homeowners.

However, the Canadian housing market might be in a bubble that might burst in 2021, as it remains vulnerable to a significant price correction and other macro factors mentioned here.

Fitch Ratings provides a grim outlook

According to a report from Fitch Ratings, the economic repercussions due to the pandemic will see Canada’s housing prices drop in 2021 before rebounding in 2022. The rating agency expects markets to drop between 3% and 5% in 2021 after they rose by 7% in 2020.

This is significantly lower than the 21% price decline forecast by CMHC for the Canadian housing market earlier this year. Fitch expects housing demand will be impacted by elevated unemployment levels and the recent price rise.

While Fitch has forecast unemployment figures to improve from 9.5% in 2020 to 7.8% next year, it’s higher than the average unemployment rate of 6.3% in the last six years. Other factors that might impact housing prices include lower immigration figures in the near term and falling rental rates.

Invest in recession-free real estate

If you are worried about a housing market crash in Canada and still want to invest in real estate, you can look to buy industrial REITs such as **Summit Industrial REIT** (TSX:SMU.UN).

This REIT aims to grow and manage a portfolio of light industrial properties in Canada. It is focused on maximizing funds from operations by acquisitions that are accretive. Light industrial properties are generally single-story buildings that are located close to major cities and key transportation links.

According to Summit Industrial, the REIT has expanded its portfolio of properties, as it remains optimistic about the long-term stability of the sector where it operates. The company claims light industrial properties have generated average returns that are near the top of the Canadian real estate industry.

Industrial properties are generally associated with lower market rent volatility and lower operating costs, maintenance costs, and capital expenditures. Summit Industrial has 158 cash-producing assets and is one of the top-performing REITs on the TSX.

In Q3, Summit's sales rose 41.1% year over year, while its occupancy rate stood at 98.7% with an average lease term of 5.4 years. Its net rental income was up 41%, while funds from operations grew 47.2% compared with Q3 of 2019.

Summit Industrial stock is trading at $13.05, indicating a forward yield of 4.14%. Shares of the REIT have more than doubled in the last five years, making it attractive to income and growth investors.

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

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