House Prices Can’t Keep Going up: Prepare for a Housing Crash

Description

Canada’s housing market continues to defy logic and analyst expectations, as it reaches new heights. The seemingly fragile high perch that housing prices in major Canadian cities found themselves on before the pandemic struck is as resilient as ever.

Canadian home sales inched back slightly in November from elevated levels. However, the prices managed to reach record highs as the real estate market continues to grow. Homeowners and real estate investors might be enjoying the strength in prices, but there might be dark clouds ahead for the housing market.

The housing market is holding up

Despite a marked decrease in housing sales in November, the prices managed to reach new all-time highs. National sales declined by 1.6% from October. However, the Canadian Real Estate Association (CREA) reported that the benchmark prices managed to climb 1.2% in the same period to $650,100. These are the highest prices we’ve ever seen in Canadian housing.

The 1.2% increase might not seem much in terms of month-over-month appreciation. But the increase reflects an astounding 11.5% increase in 12 months. The housing market is holding up, even after the summer sales boom faded away. The record-low interest rates and strong demand for spacious accommodation are pushing prices higher.

Sales have weakened, but they are holding up better than anticipated. The monthly drop in sales only reflected fewer transactions on a month-by-month basis. The annual sales activity was still up 32.1% on an annual basis.

Unsustainable price increase

The demand for more spacious housing is likely fueled by the growing work-from-home professional landscape and the inability to travel. The new listings still dropped 1.6% in November. The demand for properties and waning supply might also be contributing to the continuously rising prices nationwide.

The Canadian housing market seems to have gone from weakness due to the pandemic to strength, despite the global health crisis. 2020 may end up being a record-breaking year for home sales in Canada, but the unsustainable price increase could lead to a more significant decline when the housing market crashes.

Should you prepare for a crash?

From what we keep seeing, the housing market does not seem like it will let up. However, between the mortgage arrears and several forecasts for a housing price drop, 2021 could be a devastating year for buying homes in Canada. It might be time to reallocate your capital and consider preparing for a housing market crash.

If you are an investor looking to save your capital from the effects of a housing crash but want exposure to real estate, there are other opportunities in the market. Investing in real estate investment trusts (REITs) can allow you to gain exposure to the real estate sector in a more liquid and secure manner. Additionally, you can consider REITs that have nothing to do with the housing segment for a more defensive bet.

A REIT like **Summit Industrial REIT** (TSX:SMU.UN) could be ideal for this purpose. As its name suggests, Summit focuses on the industrial real estate sector. The company invests in a growing portfolio of light industrial properties throughout the country. According to Summit, light industrial properties provide excellent returns for lower expenses.

Summit is focusing on expanding its portfolio of properties by acquiring industrial properties that have an optimistic long-term outlook. Its properties are likelier to attract tenants due to lower market rent volatility, providing consistent cash flows for the company. Summit could make a safe and secure investment for you between predictable rental income, low capital expenditures, and low maintenance costs.

Foolish takeaway

A housing market crash is elusive but not impossible. There is no guarantee when it will happen and what could be the final push that sends the dominos tumbling. However, if you also anticipate a housing crash, making defensive moves could be intelligent.

Summit can provide you with exposure to the industrial real estate segment, protecting you from the effects of a housing crash. Its decent cash flows can also provide you with consistent returns through virtually guaranteed payouts, making you a wealthier investor in the long run.

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Author
adamothman