Forget a Crash: Canada Housing Market Just Got a Big Thumbs-Up!

Description

Canada's housing market has been soaring to record levels for the last few years. Evidently, the consistent surge has made investors anxious. While we fear a significant price correction or even a crash, the country's real estate sector just got a big thumbs-up from our central bank governor.

Forget a Canadian housing market crash!

Bank of Canada governor Tiff Macklem is not concerned about the rising housing market. In an interview with *Bloomberg News,* he said, "So far we are not seeing the kind of excessiveness in the housing market that would really get us worried."

The housing market in Canada has been hot for over two decades now. The market held up relatively well during the 2008 financial crisis. It continued to remain one of the most desirable areas last year as well. That was remarkable, especially when the economy plunged into a deep recession due to the pandemic. Interestingly, the bull ride is expected to continue in 2021 as well.

That indeed makes sense, because there are fundamental factors driving Canada's housing market. Record-low interest rates have increased affordability. Besides, people are spending more time at home due to work-from-home culture, which has pushed the demand.

The strength to continue in 2021

Things would have been somewhat worrisome if people were just speculating and hoping the prices to rise. The housing market surge's primary factor has been the demand and not profiteering. This will likely continue to push the real estate further higher in 2021.

Royal Bank economist Robert Hogue sees a record-breaking year for Canada's housing market this year. He expects some cooldown next year if interest rates increase even marginally. Contrastingly, interest rates are forecast to remain at these levels through 2023. The destruction caused by the coronavirus pandemic will likely take a couple of years to patch up, influencing the rates to stay low.

Additionally, consumer sentiment should recover this year, driven by vaccinations and the normalizing economic growth. Employment should also see impressive growth in the next few quarters, as the corporate investment cycle restarts.

How to bet on Canada's booming housing market

If you think real estate in the country could remain red hot for the next few years, there are a couple of safe options you can consider. Consider **iShares S&P/TSX Capped REIT Index ETF** (TSX:XRE). It gives a broad mix of REITs that focus on real estate sectors like housing, healthcare, industrial, etc. **Canadian Apartment Properties Real Estate Investment Trust** is the largest holding and forms over 15% in the fund.

This ETF will give you diversified exposure to several REITs. This will avoid your time and efforts to select the top-performing one and omitting the underperformer in your portfolio.

Also, the XRE ETF currently yields 4.5%. An investment of $10,000 will generate $450 in dividends every year. You would also gain from the capital appreciation. REITs generally play well amid the economic recovery. XRE is currently trading at $16.5, almost 30% lower compared to its pre-pandemic levels. The discounted price against last year's high implies a lucrative opportunity for long-term investors.

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