3 Signs That Show the Housing Market Might Correct This Year

Description

The Canadian housing market ended 2020 on a strong note and carried forward the momentum to 2021. Canada's housing market has always fared well since 2005. Canada's housing prices have grown 25 times faster in the same period than in the U.S. real estate market.

Unbelievable growth during the pandemic

COVID-19 made 2020 a challenging year, but it was not enough to overcome the market's strong momentum. Canadians continued buying residential real estate, and valuations kept increasing, despite the economic fallout due to the pandemic. According to **Bank of Montreal**, Canada's average home prices are more than 40% over the U.S. market.

The lifting of shutdowns fueled a buying frenzy as home sales went up by 150% from April 2020. Activities in all housing markets across the country showed a rapid recovery after a short flat period. The Canadian Real Estate Association (CREA) reported statistics showing that the market broke records towards the end of the year.

The boom could be due to increased demand amid changing work and life dynamics brought on by the pandemic. Many families are moving away from major urban centres to buy bigger homes in the suburbs. The low-interest-rate environment and government stimulus checks have further improved buying capacity.

A possibly record-breaking 2021

Royal Bank of Canada reported that 2021 could be another record-breaking year. The historically low interest rates, increased household savings, and improving consumer sentiment could propel the market to even greater heights. However, rising home prices could also lead to a more significant correction.

Warning signs of a possible crash

The higher the prices rise, the greater the correction could be. There are underlying warning signs of a market crash:

- Mortgage deferrals expired, adding to the financial burdens of Canadians. It is possible that many Canadian homeowners might choose to sell their real estate investments than defaulting on their loans.
- The Canada Mortgage and Housing Corporation (CMHC) predicts a housing crash due to the rising prices warranting a correction.
- Government stimulus programs ending can cause further financial strain on Canadians who might have to sell their real estate investments to manage their finances.

The historically low-interest-rate environment is helping the housing market continue to thrive despite the risks. However, it might take just one of these factors to catalyze a significant correction.

A safer way to invest in real estate

Northwest Healthcare Properties REIT (TSX:NWH.UN) could be an excellent alternative to buying a house if you want to dip your feet in the real estate sector for investment returns. It is a defensive real estate investment trust (REIT) that focuses on the healthcare sector. NWH has a portfolio of properties across Canada and Europe that is primarily rented by healthcare providers.

Healthcare is publicly funded in both regions, providing government backing to at least 80% of the company's revenues. Northwest retains a robust 97.2% occupancy rate that provides it with significant cash flows. The REIT is trading for $13.09 per share at writing. At its current valuation, the REIT pays its shareholders at a juicy 6.11% dividend yield.

Foolish takeaway

A housing market crash could be devastating for people who are investing in the real estate market for returns on their investments. However, it does not mean that you should sell your home. Real estate prices might drop and remain flat for a while after the imminent correction, but it might not be the case for too long.

If you do not want a housing price correction devastating your returns and you want to invest in real estate, a REIT like Northwest could be a safer asset to consider.

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