Housing Crash: Here’s Why It Could Happen This Year (and How to Protect Yourself)

Description

The Canadian housing market defied all odds and expectations as it rallied to new all-time highs despite the economic fallout from the COVID-19 pandemic in 2020. The rallying housing market has always done well for well over a decade, growing faster than most housing segments in real estate markets worldwide.

Analysts and experts expected 2020 to be the year that the housing prices finally corrected. Still, the challenging circumstances were not enough to deter Canadians from investing in residential real estate, making valuations keep rising.

The higher they rise, the harder they fall

Experts from the **Royal Bank of Canada** are predicting that 2021 could be another record-breaking year amid the historically low interest rates, increased household savings, and improving consumer sentiment. However, the more the prices rise, the worse the correction could be.

- Mortgage deferrals expired in the fall of 2020, and Canadians will gradually run out of stimulus money. Many homeowners might prefer selling their real estate investments instead of defaulting on their loans.
- Experts from several institutions like the Canada Mortgage and Housing Corporation (CMHC) are predicting significant price corrections due to inflated home values.
- There is a lower number of listings on the market right now. If the number of listings goes up to regular levels and the demand does not increase to match, homeowners in need of immediate money might be forced to sell their real estate investments for lower prices.

It can take just one reason to light the fuse that will see a domino effect resulting in a housing market crash.

Safer real estate investment to consider

If you are interested in investing in the real estate market but you do not want to risk tying up significant capital in a house, you can consider buying Real Estate Investment Trusts (REITs) like **NorthWest Healthcare Properties REIT** (TSX:NWH.UN). It can be an excellent alternative to buying a home to get investment returns without putting your capital at significant risk if there is a housing sector crash.

The company invests in a portfolio of globally diversified properties, distributed mostly across Canada and Europe. Its tenants are primarily healthcare providers, ranging from offices to hospitals. NorthWest Healthcare Properties is a defensive real estate asset because the government virtually guarantees its income in both its major regions.

Healthcare is publicly funded in Canada and Europe. It means that NWH can generate strong cash flows through rent collection. The company retains a robust 97.2% occupancy rate that allows the company to earn significant money that it can use to finance its dividend payouts comfortably. The REIT is trading for $13.01 per share at writing and pays its unitholders at a juicy 6.08% dividend yield.

Foolish takeaway

There are chances that a housing market correction might not take place this year. However, the rising prices also keep increasing the risk to your capital if a correction occurs. If you want to buy a home as an asset for investment returns, I would suggest considering REITs as a better alternative, at least until prices come back down.

NorthWest could be an excellent asset to park your funds and get decent returns while you wait for the housing market to become more agreeable.

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