3 Reasons NOT to Invest in the Housing Market

Description

Canada's housing market will power through 2021, it seems. However, the Canada Mortgage and Housing Corp. (CMHC) says the sector faces a moderate degree of vulnerability to market instability for the second straight quarter. CMHC adds that it's the first time this year the housing market is showing signs of overheating.

Housing regulators in the country are watching the real estate market closely. Despite the lack of inventory, buyers are plenty during the health crisis. Home prices are rising because of the unusual conditions, especially in Toronto and Vancouver. Some rural neighbourhoods are experiencing spikes as people relocate to bigger homes and work remotely.

After ending at record highs in 2020, the rally continues in 2021. Economists and bankers warn of bubble trouble. If you're looking to invest in real estate, hold off the plan for now. There are reasons the property bubble could burst soon.

1. Wrong reasons for the boom

A housing bubble usually develops when real estate prices increase because demand, not the economy, pushes them up. Sometimes there are no logical reasons. Interest rate and the job market influence the market's performance. The situation today is that interest rates are historically low, and the unemployment rate remains high.

2. Overvalued market

Supply and demand typically dictate home prices. However, the real estate market could be overvalued when quoted prices are much higher than its actual market value. A house for sale could be $1 million when the true worth is only $300,000. Things could get risky if over an extended period the majority of homes on the selling block have inflated prices.

3. Danger of speculation

Benjamin Tal, the deputy chief economist at the **Canadian Imperial Bank of Commerce**, said, “It’s possible given the recent increases in prices, that some people are speculating about further increases in prices.”

Robert Hogue, an economist at the **Royal Bank of Canada**, warns that rising prices often invite heightened speculative activity and could add more fuel to already hot markets. If the bubble bursts, property prices could crash dramatically.

Indirect ownership

Canadians chasing after rental income can instead choose indirect property ownership. Real estate investment trusts (REITs) are better buys if the housing market environment is uncertain. I’ll go further by saying the choice must be an industrial REIT.

Summit Industrial (TSX:SMU.UN) is a safer bet because light industrial properties are in high demand due to the e-commerce boom. Similarly, the $2.4 billion REIT pays a 3.71% dividend at only $14.32 per share. Over the last three years, the total return is 106.22% (27.23% CAGR).

The light industrial sector in Canada has consistently proven solid and stable fundamentals. Summit Industrial enjoys lower market rent volatility. Its real estate portfolio is highly-marketable because the leased properties are for generic use.

Tenants are diversified and use the spaces for warehousing and storage activities. Summit acquired a modern logistics and office complex in Saint-Laurent, Quebec last month to add to its growing high-value properties.

Buyers beware

Red flags are up, although no one can predict precisely when Canada’s housing bubble would burst. Demand and growth in property prices could either continue or cool down. Also, a sudden increase in interest rates can cause home prices to fall. The risks are ever-present, so buyers beware.

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