Canadian Housing Market: Cooling or Crashing?

Description

The Canadian housing market bubble has grown enormous in the last 12 months. The growth in home prices, even though it had been relatively benign for the inflation so far, pushed the Consumer Price Index (CPI, the widely used measure of inflation) to its highest levels in the decade in the month of May. But the housing market is now showing signs of cooling off.

While a cool-off is significantly better than a crash (which many were expecting), but its impact will be quite significant on the economy and on investors nonetheless.

Canadian housing market 2022 forecasts

The Canadian Real Estate Association (CREA) recently revised its forecast for 2022 in June, and it was in stark contrast to its March forecast. The number that saw the most significant drop was the sales activity. The number of units that have been and likely will be sold in 2021 is still expected to be up quite a bit from 2020 numbers (23.8%), but in 2022, the CREA expects that sales will fall by 13%, which translates to over 88,000 fewer units sold.

The price forecast is revised, and the overall prices are expected to rise by only 0.6%, which is even lower than the expected inflation rate.

These 2022 forecasts indicate a cool down in the housing market that comes quite close to a crash, and we haven't even crossed the interval for 2021. The next quarter's forecast might reflect a more aggressive potential downturn. And that's not the only danger sign.

The mortgage rates are expected to rise higher, pushing more buyers away from the housing market. The household debt to gross domestic product (GDP) has risen to 111%, which is even higher than the U.S. GDP in 2008 before the great recession hit.

These and a few other signs might indicate that the housing market cool-off might graduate to a correction and, worst-case scenario, to a full-blown crash.

A real estate stock far away from the housing market

If you want to invest in a real estate company that's far away from the woes of the housing market, **Dream Industrial REIT** (TSX:DIR.UN) is a good contender. As the name suggests, the REIT focuses on industrial assets and currently has 186 properties in the portfolio. The bulk of its properties are in Canada (69%), and the rest are in the U.S. and Europe.

As well, 54% of the space in the portfolio is dedicated to distribution centers and 34% to urban logistics, putting the REIT in the ideal position to take advantage of the e-commerce boom.

It's offering an impressive 4.7% yield, supported by a highly stable payout ratio of 48.7%. The share price grew about 38.5% consistently for the last 12 months, but it has been a decent growth stock even before the market crash. Its five-year compound annual growth rate (CAGR) is about 19.9%.

Foolish takeaway

The housing market might be coming down from its height and is likely to impact a wide spectrum of businesses and stocks, at least temporarily. With fewer houses being sold, mortgage companies might not see as many new contracts as they did during the peak of the housing bubble.

The residential REITs will also experience slow growth of the assets on their books. Thus, consider your real estate investments carefully and consider the housing market's prospects before making a decision.

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