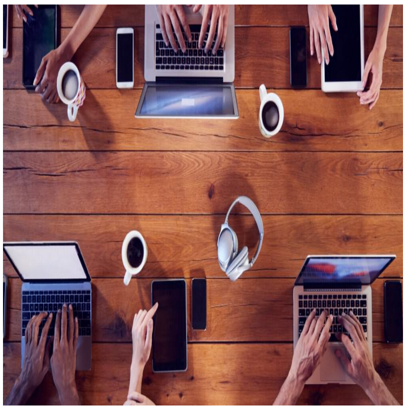

Boomers vs. Millennial Take on the Housing Market

Description

The housing bubble in Canada, which has been inflating for years now and has now reached dangerous proportions, might come face to face with a needle soon. But more people are expecting (and even more are hoping) for a gentle deflation, not an outright burst. One estimate is that the housing market might start cooling off by the end of July.

But even more interesting than the “dynamics” of the housing bubble is how different age groups are perceiving it.

The housing bubble, millennials, and boomers

Many millennials and younger generations needed their parents’ assistance in buying a home during the pandemic when the mortgage interest rates were historically low. And they were the lucky ones. Because millennials who have nowhere to turn to (except a bank, perhaps) to get the money for a decent down payment might not be able to save enough in *years* to buy a home.

But the same housing market that has been a curse for the millennials is a blessing for boomers, more accurately, boomer homeowners. For them, the housing bubble has been financially transformative that has pushed their net worth upward and has granted the status of millionaires to many.

According to a survey conducted by Royal LePage, about 3.2 million baby boomers are considering buying a home in the next five years. While a mere fraction of them will actually go through with the decision, that doesn’t change the fact that the current housing market has endorsed the virtues of investing in real estate quite forcefully.

Some smart boomer homeowners might take advantage of the current market to transform their financial lives. If they have a second home, cashing out right now might set them up for retirement (if they invest the returns in the right asset).

For millennials, however, even homeownership is becoming a fantastic dream, investing in the housing market might be an even less realistic goal. They might be better off with some REITs in their portfolio.

A Europe-facing REIT

Inovalis REIT (TSX:INO.UN) is a Toronto-based, commercial REIT that focuses on office properties. It has 14 properties in its portfolio located in the major business hubs of Germany and France. A completely Europe-facing portfolio makes this REIT relatively safe from whatever tremors the Canadian real estate market will feel if the housing market crashes.

Inovalis is one of the REITs that didn't slash their dividends in 2020, and it has seen a significant rise in revenues in the first quarter of 2021. The gross profits spiked as well, and the company is well on its way to a proper financial recovery. Though it's a very slow growth stock, its mouthwatering 8.5% yield is reason enough to buy this REIT.

A REIT that slashed its payouts in 2020

BTB REIT (TSX:BTB.UN) is also a commercial REIT, albeit with a local portfolio. It has 64 office, industrial, and retail properties, and about 40 of them are in Montreal. The distribution by property type is relatively neater, that is, about half the portfolio is composed of office properties while the other half consists of retail and industrial in almost equal parts.

BTB REIT is one of the few in the sector that slashed its dividends when things got tough for the company (after April 2020). The REIT benefited from that and managed to get the payout ratio dropped to a more reasonable number.

But now, the payout ratio is quite high again, and the first-quarter earnings are not very promising. Still, the REIT is highly unlikely to slash its dividends again, and you can count on its juicy 7.2% yield.

Foolish takeaway

Whether you want to buy your first house or want to invest in the housing market, it's currently too hot to touch. And it's no use buying a highly inflated asset just because you might get a good deal on the mortgage.

So if you are renting, consider waiting before making a move to homeownership. Investors might consider sticking to generous dividend stocks like REITs.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BTB.UN (BTB Real Estate Investment Trust)

2. TSX:INO.UN (Inovalis Real Estate Investment Trust)

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