Housing Correction of 20% Could Come in 2022: How to Prepare

Description

Motley Fool investors have been dealing with a volatile market for the last few months, but may soon have to deal with a poor real estate market as well. Economists predict a housing correction could be on the way. One that could see home prices fall back as much as 20%.

Why now?

A drop in real estate prices has already begun, with the Canadian Real Estate Association (CREA) reported a 6.2% decrease between March and April of this year. Economists believe this is likely due to mortgage rates climbing once more after the Bank of Canada hiked interest rates this year to combat inflation.

The rise of inflation has already hit Canadians hardest both in the stock market and with their spending. Grocery stores, gas stations, everything has seen prices rise. And this has meant far less spending than Canadians were able to do over the last two years.

Therefore, with less cash to burn, economists believe the drop in housing prices will continue by between 10% and 20% over the next year. It could hit Ontario markets hardest, according to the CREA, which has already seen drops of between 4% and 6% in some cities.

What's next?

After the pandemic led to a fall in April 2020, the housing market skyrocketed with Canadians staying home, saving cash, and wanting to spend. Now, that's shifted. Canadians no longer have the cash available, and interest rates and inflation make it nearly impossible to think about moving.

In the next few months, the crazed bidding wars we saw in the housing market won't just slow but could completely stop. This has already happened in some cities, though places like Toronto and Vancouver may still continue to see multiple offers.

But here's the next question investors should ask themselves: is this really all that bad?

The bright side

The housing crisis over the last two years has led politicians to make promises on how to address the situation. It's led to a ban on foreign investment, building up even more homes, offering longer timelines to get inspections. But all that could be unnecessary if housing prices simply come down.

So, once housing prices come to a more reasonable level, the big factor that will remain are mortgage rates. Canadians have become used to insanely low rates over the last few years. While it's unlikely we'll reach the double-digit rates of the 1980s (at least we hope), it's still something to factor into the future.

And while you may hope that slowing housing prices may mean a good time to invest, I wouldn't count on it. Prices are still up 7.4% year over year and likely to remain higher than 2020 levels, even after the correction. Instead, I would look to invest elsewhere rather than in real estate directly.

Consider a top REIT

Instead of investing in this crazy housing market, with a housing correction on the way that could end up hurting your flipped price, or indeed your rental agreements, real estate investment trusts (REIT) are a solid option.

In fact, Motley Fool investors may want to go for mixed-use properties right now. These are REITs that involve themselves in multiple properties uses all on the same land. **Choice Properties REIT** (TSX:CHP.UN) is a great example. It has residences built above grocery chains all in urban centres. This allows for multiple ways of collecting rents, all on the same property.

Furthermore, Choice trades at just 10.41 times earnings as of writing, and offers stable income through a 4.98% dividend yield — something you don't get with a direct real estate investment.

Bottom line

The housing correction could see prices fall, but Choice REIT could help you raise your investment instead of seeing it decline. It continues to trade in value territory, with shares rebounding over the last week, as the market may be recovering. So, this may be a smarter choice to make, while Motley Fool investors wait to see how the housing market does in 2022.

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Author
alegatewolfe