Where Do Economists Expect Canadian Housing Prices to Fall Most?

Description

The Canadian housing market has seen prices gaining for years. And while the gains haven't been uniform across the country, in most regions, it's been a continuous and steady rise.

The gain in housing prices has been so significant and so consistent that it's been the topic of conversation for years. However, in today's environment, Canadians are watching housing prices as closely as ever, especially after an unprecedented pandemic just had a unique effect on the market.

At first, many thought the pandemic would cause a recession and potentially cause housing prices, among other assets, to fall in value.

However, thanks to tonnes of stimulus and cash being added to the economy coupled with changing consumer preferences, many regions saw major growth.

For example, large city centres saw demand for real estate fall slightly and, in some areas, prices along with it. However, suburban areas that offered more land for buyers became much more in demand and understandably became a lot more expensive.

Where are Canadian housing prices likely to fall the most?

The areas and regions where prices increased most significantly in recent years, mainly in the suburbs, are where economists and analysts expect prices to fall the most.

With the economy getting back to normal, naturally, the demand would shift back towards the norm, and undervalued city centres would overperform while suburbs underperformed. However, in addition, with significant headwinds now weighing on the Canadian consumer, these regions that are overpriced now have much more room to fall.

But why does any of this matter?

If you're an investor looking to buy a rental property, understanding market factors and what influences the prices of Canadian housing is crucial. While residential real estate is typically a defensive industry, there can still be risks if you don't understand the economic factors that will impact your investment.

And with so many risks to consider today, a much better option for many Canadian investors will be to find high-quality REITs that you can buy and hold for years.

Here's why buying a high-quality REIT can be so advantageous

The worries about Canadian housing prices falling are certainly affecting REITs, too. However, that's not necessarily negative because you can now buy these high-quality stocks at attractive discounts.

Plus, the advantages that REITs offer are quite significant and therefore make a lot of sense as high-quality investments today.

First, off you don't need a lot of capital to buy REITs, and your investment is highly liquid. However, more importantly, residential REITs offer investors exposure to properties in many different regions, sometimes even in different countries, which helps to mitigate the impact that the fall in Canadian housing prices would have.

Furthermore, with exposure to more properties and in different locations, there is much less risk of having to find tenants or having unexpected repairs and maintenance costs.

That's why so many investors own REITs. They are a great way to gain exposure to residential real estate. Plus, you have a professional management team working for you.

Canadian REITs are offering tonnes of value

Because Canadian housing prices have begun to fall and are expected to fall further, many of these REITs are now cheap, making them excellent investments today.

For example, **Morguard North American Residential REIT** (TSX:MRG.UN) only receives a third of its net operating income from Canada. The rest of its assets are spread out across the United States. And south of the border, housing prices haven't had nearly the same rally the Canadian market has, nor are prices expected to fall as much.

Therefore, with Morguard stock down roughly 15% off its 52-week high, it certainly looks attractive. Furthermore, the stock already trades at just 0.6 times its estimated net asset value, making it extremely cheap.

So, Morguard has little downside risk. And due to its well-diversified portfolio and attractive cash flow that it's constantly receiving, Morguard also offers a yield of roughly 4%.

Therefore, although Canadian housing prices are starting to fall, and in some areas, could continue to fall further, there is still plenty of value to be found in the real estate sector today, especially if you're investing for the long haul.

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