



Is the Real Estate Boom Finally at an End?

Description

The Canadian [real estate](#) industry's growth in the past few decades has seen it become a vital part of the Canadian economy. Year after year, the housing market was predicted to crash due to unbelievably high prices, yet prices kept rising throughout all major markets in the country.

The historically low interest rates combined with the stimulus being pumped into the economy by the Federal government amid the pandemic led to another unlikely boom in the housing sector.

However, rising inflation rates led to the need for the Bank of Canada (BoC) to introduce several interest rate hikes and control the red-hot inflation. As things stand at writing, it appears that the Canadian real estate boom might finally be ending.

What is happening?

Higher mortgage rates have considerably reduced the purchasing power of Canadians. Lower activity in the housing market has led to the housing market demand cooling down significantly in recent months. Desjardin, one of Canada's largest financial institutions, anticipates that rising mortgage rates will cause the demand to decline further in the next few months.

Housing prices are still substantially higher than they were a year ago. However, the month-over-month increases in home prices across major Canadian housing markets have started to weaken.

Economists predict that the five-year fixed-rate mortgage interest rates will likely reach double the rates amid the pandemic. Increasing the cost of borrowing two-fold is bound to put a dent in housing market activity.

Desjardin has warned that as difficult as it might be to believe, the residential real estate industry boom will not only end, but it will make way for a substantial decline.

Housing prices will likely fall further

Lower demand in the housing market and rising borrowing costs combine with the inflationary environment to create the perfect conditions for a housing market decline. Fewer offers on properties will force owners to become more flexible and give prospective buyers more negotiating power.

It is possible for the housing market to do more than merely cool down in the coming months. Experts believe that home prices can fall to more reasonable levels that reflect the real value of homes next year.

Is real estate investing a wise decision right now?

If you want to buy a home as an investment property, you might want to consider the risk of home prices falling further in the coming months. There is no way to determine if and when prices will start rising again once they bottom out. Tying down a significant amount of your investment capital might not be the wisest move.

However, it is possible for you to gain exposure to the real estate industry through a more liquid asset class: real estate investment trusts (REITs).

REITs like **Choice Properties REIT** ([TSX:CHP.UN](#)) could offer you a more flexible and low-cost method to invest in the Canadian real estate industry. Choice Properties is one of Canada's largest residential REITs that owns and manages a portfolio of residential units built on top of grocery chains in urban centres throughout the country.

The company owns, manages, and develops retail and commercial properties in Canada. Most of its locations are rented out by supermarkets that generate significant revenues for the company. Rising interest rates might deter many people who want to buy houses.

The demand for rental properties could rise in the coming months, allowing Choice Properties REIT to generate more cash flows through its residential units.

Foolish takeaway

At writing, Choice Properties REIT trades for \$13.55 per unit and boasts a 5.38% forward annual dividend yield. It pays its distributions to investors each month. You can use the asset as part of your passive-income portfolio, lining your account balance with more cash each month.

The volatility in the housing market could make buying investment properties too risky for some investors. It might be better to look for alternatives like Choice Properties REIT, for your portfolio instead.

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