Housing Market Crash: How to Make a Profit

Description

Canada faces a housing market crash. Home prices in major cities like Toronto and Vancouver have already started to moderate this year. According to some experts, prices could plunge much further by 2023.

The ongoing housing market crash is likely to have a serious impact on the Canadian economy and blue-chip stocks. However, the crash could also create opportunities for long-term investors seeking to make a profit.

Here's a closer look

Canada's housing market crash

By all traditional measures, Canada's housing market is overvalued. The typical home in Toronto costs 10 times the average family's income. In Vancouver, the ratio is closer to 12. Across the country, families will need over a decade of saving to put a down payment on a typical home.

These ratios indicate that the market is overvalued and artificially inflated. That's been possible by record-low interest rates and loose lending standards over the past decade. In 2022, this trend is reversing. The Bank of Canada is swiftly raising interest rates, which has pushed the typical five-year mortgage rate above 5%. That's up from roughly 3% last year.

Tighter lending is pushing home prices lower. That's bad news, because over 10% of Canada's economic activity is focused on real estate. That includes renovations, purchases, leasing and brokerage. If you include mortgage lending, the ratio is much higher.

Put simply, the housing market crash threatens to cause a recession in Canada. Investors need to navigate this environment carefully.

Stocks to avoid

Real estate investment trusts (REITs) could be exposed to this correction. Residential landlords such as **Minto Apartment REIT** (TSX:MI.UN) could see some erosion in their book value from this downturn. The stock has already lost 31.5% of its market value from the start of 2022.

Minto REIT and its peers could see some upside from rising rents. However, rent growth could stall if the economy enters a recession and unemployment rises. Residential landlords could also be under pressure from rising interest rates that make their borrowed capital more expensive.

Besides REITs, investors should probably avoid alternative lenders and banks that are over-exposed to domestic mortgages.

Stocks to buy

You can bet on hard assets with robust dividends without exposure to Canada's vulnerable housing market. Infrastructure trusts like **Brookfield Infrastructure Partners** (TSX:BIP.UN)(NYSE:BIP) are a good example. The company owns critical infrastructure such as toll roads in Brazil, telecommunications towers in France, and a railway operator in the U.S.

The value of these essential pieces of infrastructure is relatively recession-proof. In fact, the value steadily appreciates over time. Brookfield Infrastructure stock has delivered a 621% return since 2009 — a compounded annual growth rate of 15% over 13 years.

The stock currently offers a 3.5% dividend yield. I expect the company's cash flow growth to stay ahead of inflation. That's what makes BIP stock a better bet for investors looking to generate passive income, despite the housing crash.

CATEGORY

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2. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
3. TSX:MI.UN (Minto Apartment Real Estate Investment Trust)

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