



## Why You Shouldn't Worry About a Canadian Housing Bubble

### Description

Last month, I'd highlighted how the Canadian real estate bubble is likely to pop in 2020. "Given recent slowdowns in economic growth and consumer spending, 2020 could be the year the market crumbles," I wrote.

I wasn't alone in my prediction. According to **Bank of Montreal**, some Canadian cities are seeing home prices experience "the fastest increase since the late 1980s, a period pretty much everyone can agree was a true bubble." *Bloomberg* noted that Canada is "the most vulnerable to a house price correction given both the price-income ratio and the price-rent ratio are well above their long-run averages."

If the housing bubble pops, the impacts could be [disastrous](#) for the economy. But here's the catch: it may not be disastrous for *you*. In fact, you may not be affected at all.

### A matter of specifics

Canada is experiencing a housing bubble. That's not under debate. The issue is that that only *parts* of Canada's housing market is in bubble territory. The vast majority of Canada still has normal housing conditions.

Only two cities in Canada have bubble-like prices: Vancouver and Toronto. If you live in either of these metropolitan areas, you've likely noticed surging rents and selling prices. Both cities are experiencing all-time high buy-versus-rent ratios.

Because the Toronto and Vancouver markets are so large, they tend to sway national statistics. Since 2015, for example, housing prices in Canada have risen twice as fast as rents. Yet removing Toronto and Vancouver from the equation changes the game, lowering the national average home price from \$500,000 to just under \$400,000. That's a big difference.

According to *The Epoch Times*, "The reality is that housing markets in Ottawa, Montreal, and Halifax are well-balanced." If you live in a rural area, it's also unlikely that your local housing market will

collapse anytime soon, even if Toronto and Vancouver experience a downturn.

If you live in Toronto or Vancouver, you're extremely exposed to a real estate bear market. But even if you don't live in these areas, you might still be at risk. Canadians have a large amount of money tied up in home equity. If home values drop, it could upend their finances. A housing collapse in Toronto and Vancouver could spill over into other areas of the economy, impacting families and individuals hundreds of miles away.

## How to prepare

Your first act should be to pay down debt. The average Canadian has \$1.70 in debt for every \$1 in disposable income. If your home equity value drops or the economy stutters, most Canadians could be in real trouble. Even if you have minimal levels of debt, focus on eliminating it in 2020. You never know how much wiggle room you'll need.

Your second act should be to review your portfolio risk. If you're invested in real estate stocks like **Brookfield Property Partners**, your money will certainly be impacted during a housing downturn. That doesn't mean abandoning all real estate stocks — Brookfield, for example, invests most of its assets abroad — but understand where your portfolio could experience pain.

You can always strengthen yourself further by upping your savings rate, streamlining your expenses, and fortifying an emergency fund, but paying off debt and understanding your risk should be at the top of the list.

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