Will 2020 Finally Be the Year the Canadian Housing Bubble Pops?

Description

It's been a poor decade for Canadian housing naysayers — especially for the folks who said the Vancouver and Toronto real estate markets would inevitably crash.

In 2010, it cost approximately $350,000 to buy the average Canadian home. These days, that same property will set you back more than half a million, settling in at $525,000. That 50% increase over the last decade works out to a hair over 4% per year, easily beating inflation.

Appreciation has been more profound in both Toronto and Vancouver. The average house price in Vancouver was just over $600,000 in 2010. It's now just shy of $1 million, and that's after declining a bit over the last year. Toronto, meanwhile, saw the average price increase from approximately $450,000 to $810,000.

In short, the performance of both of these major metros helped offset weakness in other markets — like Calgary and Edmonton — to propel the national market to steady gains and new record highs seemingly every year.

Naysayers say this isn't sustainable, and the market will eventually crash. Other smart real estate folks — like the ones at CMHC — say the Toronto market isn't even overvalued any longer. So, which group is right?

Let's take a closer look at why you should be very careful if you want to buy a home in Toronto or Vancouver anytime soon.

The bear case

Canadian homeowners have been helped out by persistently decreasing interest rates, which have made payments more affordable and compressed rental yields. These factors have pushed the value of houses much higher.

Although nobody can accurately predict long-term rates, it's easy to envision a scenario where just a modest increase in mortgage rates will cause a lot of pain for over-indebted homeowners who can barely afford their mortgage payment as it is today.

Let's look at a typical Toronto homeowner with a $500,000 loan against the property at a 2.7% variable rate. That's a mortgage payment of $2,290 per month. If the rate increases to just 4.5%, the payment soars to $2,767 monthly. And remember, a 4.5% interest rate is much lower than we've seen for much of the last 30 years.

Increasing interest rates will also ensure landlords insist on getting a higher return on their investment. These days, condos in most Canadian cities barely rent for much more than the cost of the mortgage. Owners are subsidizing losses out of their own pockets, hoping to make them up in the future with higher property values and increased rents. Something must give when rates go higher, and that thing will likely be prices.

Another factor that has driven up prices in Toronto and Vancouver is strong immigration to these areas. These cities already have significant minority populations, so it's only natural new Canadians will want to settle in these places as well. But there's a wave of anti-immigration sentiment sweeping around Europe and in the United States as well. If those feelings come to Canada, a major source of buyers could dry up.

Many foreign buyers view Canadian real estate as a store of value, a safe asset they can put their cash into while waiting to leave the country. Increased vacant condo fees could put a stop to these buyers, too. Governments love these taxes because they target foreigners, not Canadians.

Finally, we have the domestic economy, which doesn't appear to be on the best footing today. October's employment report saw Canada lose a significant number of jobs, which increased unemployment from 5.5% to 5.9%. The average Canadian consumer is swimming in debt, too. Combine that with a recession in 2020, and the real estate market could take it square on the chin.

The bottom line

If you're looking to buy property in Toronto, Vancouver, or any other expensive market across Canada, 2020 might not be the year to do it. Perhaps the better move is to patiently sit back, rent a little longer, and take advantage of deals when the market does start to implode.

CATEGORY

1. Investing

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing

Date
2025/09/09
Date Created
2019/12/24
Author
nelsonpsmith