Will COVID-19 Trigger a Housing Market Crash in Canada?

Description

The COVID-19 pandemic has brought Canada's robust housing market to a standstill. At a time when millions of people are losing their jobs and the economy is entering a deep recession, homeowners are worried if this sudden shock will force the values of their biggest asset to crash.

Just before the pandemic hit Canada, the fundamentals of the housing market were quite strong. There was a huge pent-up demand following the government's two years of efforts to curb speculation.

Those measures helped bring some stability to the housing market, as stringent mortgage rules made it tougher for people to qualify for loans.

But the spread of COVID-19 and the government's social-distancing measures have totally changed the dynamics in the housing market, raising fears of a housing market crash.

These fears are not unfounded. The latest market data shows that listings are drying up, open houses have been cancelled, and buyers are staying home.

An outcome that resembles a market crash will have profound implications for Canada ,where real estate, along with residential building construction, accounted for almost 15% of Canada's output last year.

The housing sector has been a key driver of growth in Toronto, Vancouver, and Montreal, where an influx of immigrants has fed a boom in activity in everything from architecture and design to insurance and lending.

Profound implications

"The buoyant market has also been central to the massive wealth effect that has been driving consumption in recent years. The value of real estate assets owned by households has risen by $2.5 trillion over the past decade, an increase of 80%," according to a *Bloomberg* report.

But the housing market crash isn't what the nation's largest lender, **Royal Bank of Canada**, is predicting.

This year's home resales could dive by 30% to a 20-year low due to physical-distancing rules, according to RBC analyst Robert Hogue.

Hogue said home prices could stay stable in the near term, as both buyers and new listings pull back, but he expects the composite benchmark price to fall 2.9% in the second half of this year compared with last year.

The trends, however, could reverse next year, as low interest rates, a strengthening job market, and a bounce back in immigration help sales to surge more than 40% in 2021 and price dynamics also return to favouring sellers, according to Hogue forecast.

The latest market data from the nation's largest real estate market, Toronto, is reflecting that trend. While sales in and around Toronto fell 66% in April from March on a seasonally adjusted basis, the average selling price was little changed. On a year-over-year basis, the benchmark price rose 10%.

If a housing market crash occurs in Canada, then it will have huge implications for the nation's top lenders, especially for **Canadian Imperial Bank of Commerce**, which has the biggest uninsured portfolio of mortgages among the top Canadian banks. The lender will struggle if homeowners fail to pay their mortgages.

The bottom line

I don't think the Canadian housing market is going to crash. I'm in the camp of those forecasters who believe Canada has a robust housing market due to increasing demand from a rising population and the shortage of housing. Still, investors should be careful and adjust their strategy if they see a severe slowdown.

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