Which Housing Crash Will Be Worse: Vancouver or Toronto?

Description

The country has seen a consistent rise in property prices since 2003 (apart from one partial correction). If the housing bubble wouldn't have burst in the normal circumstances, the chances of it bursting now are getting higher and higher. Several people are expecting the housing market to crash in the aftermath of the pandemic.

The crash may not be uniform across the country. Some areas will be hit the hardest, while some may only suffer minimum damage. Most eyes are on two of the largest housing markets in Canada: Vancouver and Toronto.

A tale of two cities

If we consider the numbers from April, things aren't looking good for either of the metropolises. In Greater Vancouver, sales activities saw a 39% drop (compared to April 2019), while the housing inventory shrank by 34%. Only about 1,109 properties changed hands, making it the slowest of Aprils since 1982. Compared to last month's numbers, Vancouver's housing prices have gone up by over 29%.

Toronto paints a different picture. Compared to April 2019, home sales declined by 69% in early April this year. Listings have also seen a significant decline (63.7%). Average sales prices in the city dropped by about 2.5%, and in GTA, only about 2,975 residential real estate transactions occurred in April. That's barely one-third of the April 2019 number.

The situation might have been a lot worse if it weren't for several government initiatives that have allowed people to hold out, at least for now. But these are only temporary measures, and they may have bought the housing market some time (especially in Vancouver); the real picture will emerge in the fall. The unemployment numbers alone can upset the balance of demand and supply and bring the market crashing down.

The future is still pretty uncertain, but if we consider the housing market activity in April and in early May, Vancouver's housing market seems to be in relatively better shape than Toronto's.

For investors

If you are looking for a real estate investment that hasn't been impacted by the downturn in the housing market yet, you may want to consider **Northview Apartment REIT** (TSX:NVU.UN). It has already recovered from its 26% slump in March (from its yearly high value). Now it's trading at $34.22 per share, over 17% higher than the price it started the year with.

It has been consistently paying monthly dividends for a while now, and the payout ratio seems stable at 46%. Currently, it's offering a yield of 4.7%. But a better reason to buy into this REIT would be its capital growth. Its five-year returns are over 96%, and the resulting CAGR is 14.46%.

The company has a wide-spread portfolio of 24,000 quality residential suites, covering 60 different markets across the country. This may allow it to absorb a full-blown market crash better than other REITs with concentrated portfolios.

Foolish takeaway

The demand in the housing market, especially in metropolises and other large cities, is usually tied pretty tightly to employment opportunities. If people don't find work in these areas, they'll move back to their cities and countries, leaving behind a surplus of supply and a non-existent demand. So, the housing market recovery might follow the overall recovery of the economy, which might take some time.

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