Canada’s Housing Bubble Will Burst in 2020

Description

Analysts have warned of a Canadian housing bubble for more than a decade. Since 2000, housing prices in many metropolitan areas have tripled. While Vancouver and Toronto top this list, plenty of smaller markets are also cause for concern.

It’s reasonable to be worried. The COVID-19 crisis introduces rampant uncertainty. A sudden reduction in home values could push many Canadians over the edge of financial collapse. At the minimum, it should introduce additional fears amongst consumers, further depressing the economy.

While a popped housing bubble would have an impact on stocks, the most deadly effect relates to your personal financial life. Understanding this risk is critical to anyone who owns Canadian assets, whether it’s real estate or stock investments.

Time to worry

We’re already seeing a puncture in the housing bubble. Last week, the Canada Mortgage and Housing Corporation (CMHC) revealed that it expects declines across the country. According to its research, prices will being to fall in late 2020. The decline will persist for 12 to 24 months. In some areas, their forecast period ends before a recovery is achieved.

The effects will be most pronounced in Ontario and British Columbia, where prices are expected to fall by roughly 15% to 20% over the next year. Quebec will fare slightly better, experiencing a pricing decline between 4% and 9%. The rest of the country falls somewhere between these two extremes.

But it’s not just major metropolitan areas that will be hit. Thanks to a concurrent collapse in oil prices, smaller markets in Alberta, Manitoba, and Saskatchewan will also be pressured. There wasn’t a pre-existing housing bubble in most energy-producing areas, but the COVID-19 and oil situations will create a painful one-two punch nonetheless.

At the start of 2020, oil averaged US$60 per barrel. Prices are now *half* that. The sudden collapse is terrifying for Canada’s oil sector considering many projects are now racking up multi-million dollar losses every day.

Major oil sands facilities, for example, don't break even on a cash basis unless prices exceed US$40 per barrel. To be truly economically viable, pricing needs to rise by 50% from current levels.

Ready for a housing bubble collapse?

Are you prepared for a collapse in housing prices? If you own a home, you're vulnerable. Even if you only own stocks, you're still at risk, as a huge pillar of the economy is dependent on a healthy real estate market.

Your biggest course of action is to assess your risk. If your house declines in value by 20%, what are the effects on your financial life? If your source of income is stable, and you don't plan on selling anytime soon, perhaps the housing bubble collapse will have little real-world impact. But if your mortgage suddenly ends up underwater, and your cash income is disrupted, you could be looking at foreclosure.

After you aggregate your risk factors, tally the size of your liquid assets. These are assets that you can turn into cash quickly. Bank account funds, stocks, and bonds all count. If you get into a cash crunch, these are the assets you'll rely on.

The final step is simple: protect your investment portfolio. The better you do this, the more easily you'll withstand the housing bubble's demise. Own stocks that can consistently generate wealth over decades.

Retain a long-term time horizon. Don't take excess risk.

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