



## Why CMHC Is Dead Wrong About Falling Real Estate Prices

### Description

Canada Mortgage and Housing Corporation (CMHC) made headlines last week when the organization told Canadians real estate prices will drop substantially over the next year.

CEO Evan Siddal warned Canadians the impact of COVID-19 on the real estate market could be drastic. CMHC is predicting a 9-18% drop in nationwide real estate prices, with some regions seeing even bigger weakness.

CMHC predicts the weak market will hit recent first-time buyers particularly hard, especially folks who put the minimum 5% down. Some of these unlucky people could be stuck in a negative equity situation, which makes it nearly impossible to sell. That's the kind of anchor few people want.

The government-owned mortgage insurer backed up its [bearish outlook](#) by restricting lending standards on its insured loans. Changes include lowering debt service ratio caps, requiring a higher credit score, and stopping borrowed down payments.

But many critics say CMHC's forecast for real estate prices is way too dire, an opinion this analyst agrees with wholeheartedly. Here's why homeowners don't have to fear a big drop in real estate prices.

### Numbers don't lie

Something interesting is happening across Canada. Despite one of the worst economic slowdowns in the history of our nation, housing prices are doing just fine.

The number of transactions plunged in April, and May's numbers likely won't be particularly strong when they're released later on this month either. In fact, 56% fewer houses sold across Canada in April 2020 when compared to the same month last year.

And yet, the average house in Canada cost 5.6% more in April than it did the same month a year ago, which doesn't seem to make any sense. Who's even looking for a house when we're all supposed to be hunkered down at home? Demand was so low it was almost off the charts.

Sellers responded in the most logical way possible. Virtually nobody listed their homes in April — and the sellers who did have houses for sale kept firm on their price.

Fast forward a couple of months until today and a very different picture is emerging. Encouraged by better than expected economic results, a desire to move after being cooped up for months, and dirt-cheap interest rates, the Canadian real estate market is exceeding all expectations.

Many realtors are reporting sales rebounding much faster than anticipated. This sure doesn't look like a market that's about to plunge.

## CMHC's competition

Remember, CMHC has two main competitors. Both **Genworth MI Canada** (TSX:MIC) and Canada Guaranty are privately held mortgage default providers. Traditionally, both these competitors have implemented changes to their underwriting process as soon as CMHC announces they're introducing some new rule or change.

But something interesting has just happened. For the first time in history, these competitors won't be following CMHC; they will keep their lending standards the same.

It's an interesting situation. There are plenty of smart people at CMHC. But there are plenty of smart people working at Genworth and Canada Guaranty too. These companies have crunched the numbers and likely see this as a good opportunity to take market share from the leader.

In other words, they disagree with CMHC's assessment on the market. Why doesn't *that* get any headlines?

In fact, this might be a good time to buy Genworth shares. After all, it should benefit if bankers suddenly start sending more loans its way, especially if it doesn't lead to a bunch of new defaults.

## The bottom line on Canadian real estate prices

There are a couple of important reasons why I don't agree with [CMHC's assessment](#) of the real estate market. I see an economy that has been far more resilient than most predicted. That's good for real estate prices. And the overall real estate market is showing signs of strength, not weakness.

Ultimately, I think CEO Evan Siddal and his team are panicking, just like many other investors have done during this downturn. So if you're looking to buy a house soon, don't fret. Real estate prices should be just fine.

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