Home Buyers Beware: 3 Ways It Will Get Tougher to Get a Mortgage

Description

The Canadian housing market has seen several substantial changes in the last few years. Institutions throughout the country have proactively introduced new regulations to keep the market segment in check. After issues with the housing market in 2017, Ontario also introduced a foreign buyers' tax to mitigate the chances of inflated prices.

The housing market has been seeing a substantial increase in value in the last five years. The start of 2020 was strong for the sector, but the onset of COVID-19 has struck the real estate industry.

Canada Mortgage and Housing Corporation

In light of the current situation, the Canada Mortgage and Housing Corporation (CMHC) has decided to introduce further changes to regulations. There is a significant risk of how things will shape up for the housing sector.

With rising job losses, business closures, and a drop in immigration, Canada's housing market might see a 9% to 18% decrease in value over the coming year.

The CMHC is taking measures to change its underwriting policies. While the institution is introducing regulations to protect home buyers in the future and mitigate risk for them, it will also make acquiring mortgages more challenging for Canadians.

Here are some of the changes that the CMHC is introducing to combat the risk to future homeowners:

- Limiting the Gross Debt Servicing and Total Debt Servicing (GDS/TDS) ratios to standard requirements of 35/42.
- Establishing a credit score of at least 680 for a minimum of one borrower.
- Non-traditional sources of down payment that increase the indebtedness of the borrower will no longer be considered as equity for insurance purposes.

The CMHC will introduce the following changes effective from July 1, 2020 for all new applications for homeowners and portfolio mortgage insurance. To further decrease the risk to itself and taxpayers, the insurance firm is also suspending refinancing for multi-unit mortgage insurance except for situations where funds are required for reinvestment or repairs in housing.

Despite the chances of real estate becoming more affordable for investors moving forward, securing insured mortgages will become a more challenging affair. If you are looking to benefit from the movements of the Canadian real estate, you might want to consider alternative sources.

Value and income investment

Brookfield Property Partners LP (TSX:BPY.UN)(NASDAQ:BPY) is such a stock from Canada's real estate industry making the kind of pullback that renders it an excellent option to consider.

The Real Estate Investment Trust (REIT) is a stock on its way to capitalizing on the general fear everybody has when it comes to commercial and office real estate amid the global health crisis. Brookfield Property focuses on strategically purchasing properties in major cities like New York, Berlin, Toronto, and many more.

Its portfolio consists of prime real estate in densely populated locations. The stock has suffered during the pandemic due to its substantial reliance on office and retail properties. With office buildings shut down and a bare minimum number of people going to malls, it was bound to suffer a discount in share prices.

However, its long-term success cannot be denied. The core properties will be in high demand once the lockdown ends. Fear and uncertainty have driven unit prices down to the point where Brookfield has become significantly discounted. Where it may be a worrying sign for many investors, the discount also presents an excellent bargain for investors interested in REITs.

Foolish takeaway

Purchasing high-quality REITs at a bargain can help you significantly benefit from the long-term profits in real estate without needing substantial upfront capital. At writing, Brookfield Property Partners LP is trading for $18.56 per share.

The stock is up by almost 80% from its bottom in April 2020. Even if you missed the bottom for the REIT, you could still acquire its shares for a bargain given that it's down almost 30% from its January 2020 high.

Given its potential for capital gains and its juicy 6.79% dividend yield, adding the REIT to your investment portfolio could be an ideal scenario.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BPY.UN (Brookfield Property Partners)

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Author
adamothman