



## CMHC Makes it Clear: Real Estate Market Could Tank 18%

### Description

Canada's housing market has long been significantly beneficial for investors. Over the last decade, prices surged relentlessly to reach all-time highs. There was always a risk of a housing market bubble that would burst, and the onset of a financial crisis will set the stock market on a downward spiral.

Ever since the lockdown caused by COVID-19, there was reasonable doubt to assume this would impact the housing prices. Early during the onset of the lockdown, we saw a decline in sales, but that did not impact prices. However, experts indicate that lower sales will eventually result in decreased prices.

Analysts at **CIBC** and **Scotiabank** forecast declines, while others continued to argue for gains. Most recently, the Canada Mortgage and Housing Corporation (CMHC) piped up with its crucial input.

### The CMHC forecast

The agency reported on May 27 that it forecasts a decline in up to 75% in housing starts, a drop of up to 25% in sales, and housing prices to shrink by up to 18%.

The 18% decline in housing prices predicted by the CMHC is the most critical figure here. While the slowdown in housing sales has not yet resulted in a decline in prices, the county's most significant believes it is only a matter of time.

[CMHC's opinion](#) holds a lot of value for industry participants. The CMHC's foreboding prediction on what it believes will happen to housing prices was not well received by many people. RE/MAX did not shy away from saying that the CMHC report is nothing but a panic-inducing statement.

Whether you feel inclined to agree with the CMHC or not, the forecasts are not there without a good reason.

## Worrying signs

Two primary factors led to this bearish forecast for the housing market: unemployment and low immigration.

Millions of people have lost their jobs as a result of the government-mandated lockdown in place to curb the spread of this disease. Most businesses have been forced to shut down to comply with social-distancing measures.

Simultaneously, countries worldwide have closed their international borders. Immigration has fallen to a standstill. Fewer immigrants means population growth will slow down, and that is another critical driver for housing demand.

These two developments are taking place simultaneously. Fewer people are looking for houses, and people with no income to support purchasing houses; these factors can cause the prices to fall. The CMHC thesis for an 18% decline might not be as unreasonable as you may feel inclined to believe.

## Impact on investors

I want to point out that despite CMHC's clear bearish stance, predictions and economic forecasts are not infallible. These are the best possible guesses based on expert opinions who have access to past performance in the market and substantial data. If the prediction becomes real, there are implications for investors that could be grave.

Real estate investment trusts (REITs) are in for substantial trouble if the housing market declines by almost a fifth of its value. If you are an investor with holdings of residential REITs like **RioCan Real Estate Investment Trust** ([TSX:REI.UN](#)), for instance, your capital might suffer.

While RioCan does not purchase houses, it can suffer from the same impact of the residential market. Its portfolio primarily consists of apartments. With more people out of work and unable to pay rent, and with less migration, there will be a lower demand for housing — including apartments.

## Foolish takeaway

REITs with apartments will suffer from the same causes as those that primarily deal with residential properties. RioCan owns a mixture of residential and commercial properties. Most of its portfolio consists of box stores at the bottom with apartments in units above them.

In Q1 2020, RioCan reported a \$2.4 million decrease in operating income from residential rentals. The figures are not substantial, but they show us that the REIT is vulnerable to the impact on housing markets. If the CMHC prediction becomes true, RioCan could be in substantial trouble.

I would advise that you consider allocating your capital to more [defensive assets](#) after cutting losses with RioCan if you are afraid of the prediction.

## CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

## POST TAG

1. Editor's Choice

## TICKERS GLOBAL

1. TSX:REI.UN (RioCan Real Estate Investment Trust)

## PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

## Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

## Tags

1. Editor's Choice

## Date

2025/09/08

## Date Created

2020/06/18

## Author

adamothonman

default watermark

default watermark