
# Will Canadian Housing Market Crash or Boom Amid the Pandemic?

### Description

The Canadian housing market is sending confusing signals to investors after quite a strong start early this year. Those who were predicting a crash due to the pandemic-driven economic shock are surprised to see that housing prices are still rising. Inventory levels, on the other hand, have shrunk massively as sellers have gone into a wait-and-see mode.



After going into a deep freeze, Canada's largest housing market, Toronto, showed some signs of life in May where sales registered a 53.2% rebound from April. This revival in the housing activity, combined with the low mortgage rates, has revived hopes that Canada will avoid a housing market crash in this recession.

For some buyers who remember a real-estate boom that started soon after the Great Recession of 2008, this might turn out to be a great time to get into the market.

In my opinion, the conditions on the ground aren't favourable to create another housing boom that we saw in the past decade. After the pandemic-induced recession, millions of people are losing their jobs and the debt level is already quite high.

In a late May survey commissioned by the credit-monitoring company TransUnion, two-thirds of people said they were concerned about their ability to pay their current bills and loans.

## Why won't the housing market crash?

That said, I strongly feel that Canada isn't slipping into a situation where the housing market will crash. The equation for the Canadian housing market is quite simple: there is more demand than what the market can supply.

When you have the country's population increasing and a large number of wealthy immigrants making Canada their home, it's hard to imagine a scenario where the market will collapse.

Due to this underlying strength, many top analysts don't see a housing market crash despite the massive COVID-19 shock to the economy. This year's home resales could dive by 30% to a 20-year low due to physical-distancing rules, according to **Royal Bank of Canada** analyst Robert Hogue.

Hogue said home prices could stay stable in the near term, as both buyers and new listings pull back, but he expects the composite benchmark price to fall 2.9% in the second half of this year compared with last year.

The trends, however, could reverse next year, as low interest rates, a strengthening job market, and a bounceback in immigration help sales to surge more than 40% in 2021 and price dynamics also return to favouring sellers, according to Hogue forecast.

## How to benefit from Canada's housing strength?

For investors who want to benefit from the underlying strength of the Canadian housing market, there are many ways to play this trade — the safest and more rewarding of which is to buy the Canadian banking stocks with greater exposure to the mortgage market.

Many U.S. hedge funds have built a short position in the **Canadian Imperial Bank of Commerce** ( TSX:CM)(NYSE:CM). They believe that the lender, which has the biggest uninsured portfolio of mortgages among the top Canadian banks, will suffer huge losses as the housing market crashes and borrowers fail to pay their mortgages.



For the aforementioned reasons, the stock price of CIBC has plunged 13% this year. Though the stock has recovered a lot in the past eight weeks, its dividend yield, at 6.2%, it's still quite attractive for investors who don't see a housing market crash in Canada.

In addition, CIBC's capital position remains strong, giving the lender flexibility and resilience to navigate the current environment and maintain its $5.84 a share annual dividend.

## The bottom line

I don't think the Canadian housing market is going to crash. I'm in the camp of those forecasters who believe Canada has a robust housing market due to increasing demand from a rising population and the shortage of housing.

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