The Housing Market Could Fall Very, Very Sharply by 2021!

Description

The stock market seemingly fell off a ledge in February and hit bottom in March 2020. The COVID-19 pandemic devastated sectors across the economy, as millions of people lost their jobs amid the global health crisis and the government-mandated lockdown. Investors in the housing market should be wary at this time, because real estate might soon face plenty of problems.

I am going to discuss the imminent decline of housing prices and a stock you should avoid to protect your capital.

Housing market woes

Over the 2010s, the pricing of residential housing in the country exploded in major metropolitan cities like Toronto and Vancouver. Values reached all-time highs, as the economy was doing better than ever before. It was also a cause for concern, since there was a housing bubble forming, which became ripe to burst.

Analysts were already predicting a housing market crash. The outbreak of the novel coronavirus might be the thorn that makes this bubble pop. According to the Canada Mortgage and Housing Corporation (CMHC), the real estate sector might decline in the coming months, and it will not recover until 2022.

Why the market might fall

We have yet to see the decline of almost 18% predicted by CMHC, but there are worrying signs that we will see the drastic drop in the coming months. The agency reports that sales volumes will fall between 19% and 29%, as potential buyers prefer to stay home instead. Construction activity will also decline, and we can see housing starts drop from 51% to 75%.

CMHC's bearish outlook for the Canadian housing market is largely due to the substantial volume of people who have lost all or some of their income since the onset of the pandemic. Millions of people have lost their jobs and many more continue to lose income. While it is not clear how many laid-off workers are homeowners, housing is tied to employment across Canada.

The worst-case scenario where housing prices fall steeply is the possibility of a second wave of infections and the resulting shutdown. Provinces and territories across Canada are gradually reopening their economies. Banks have deferred mortgage payments by six months, allowing Canadians more time to make good on their financial obligations.

If people do not get their jobs back, they may be forced into foreclosure on their homes. Rising foreclosures could make it more challenging for banks to lend money and stagnate liquidity. If banks can manage to extend mortgage deferrals further or the government provides additional support, this might be avoidable. However, that is only speculation at this time.

A stock to avoid if housing crashes

I want to point out that despite CMHC's highly respected opinion in the industry, the company's prediction is not infallible. There might be a chance that the crash will not take place. If the housing market crash does not happen, investors do not have to be so nervous.

In case you believe CMHC's thesis of a sharp decline in housing, there is one stock that I think you should avoid. **Home Capital Group** (TSX:HCG) saw a drastic fall along with the broader stock market. It fell by almost 60% from its January 2020 peak to less than $17 per share in March.

At writing, it is trading for $21 per share, but it is unlikely that there will be any good news for the mortgage lender if the uncertain market conditions persist. Home Capital announced its Q1 2020 earnings report in May. The company made a net income of $27.7 million compared to $27.8 million in the same period in the last year.

The company's loan-loss provisions have shot up by 674.4% in the quarter, and it looks like things will worsen as the pandemic continues.

Foolish takeaway

As the COVID-19 situation develops, markets remain volatile, despite the recent rally. If CMHC is correct, and there is a sharp decline in housing prices, investors with money tied up in real estate and associated assets can see massive losses to their capital.

I would suggest investing your capital in more reliable assets to insulate your funds from the effects of a housing crash.

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Date
2025/06/30
Date Created
2020/06/22
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