New Mortgage Rules Should Tank the Housing Market Even More

Description

The Canadian housing market has been a shining beacon for investors for the past several years. The prices of houses in densely populated metropolitan areas skyrocketed in the last decade, and a lot of foreign investment kept coming in. Several institutions introduced proactive regulations to keep the market segment in balance.

One recent change was the foreign buyers' tax that Ontario introduced to mitigate the inflation of prices. The housing market has had extraordinary growth in the last five years, with a strong start to 2020. However, the onset of COVID-19 has rearranged the board, and the real estate industry might be in trouble.

Canada Mortgage and Housing Corporation

A leading authority in the sector, the Canada Mortgage and Housing Corporation (CMHC), decided to introduce another change to regulations. The move comes as a measure to reduce the impact of bad debt on the sector due to the pandemic.

Businesses have closed down, immigration has declined, and job losses are in the millions. The agency predicts that there might be a 9-18% decline in house prices this year and that a recovery would not begin until 2022.

CMHC is changing its underwriting policies to protect future home buyers and mitigate risks for them. Acquiring mortgages is going to be more challenging for Canadians. Here are some of the changes the agency introduced:

- Establishing a credit score of at least 680 for a minimum of one borrower.
- Non-traditional sources of down payment, which may increase the borrower's indebtedness, will no longer be entertained as equity for insurance purposes.
- The Gross Debt Servicing and Total Debt Servicing (GDS/TDS) ratio will be limited to 35/42.

These changes came into effect on July 1, 2020, for any new homeowner and portfolio mortgage insurance applicants. The insurance firm is also suspending refinancing for multi-unit mortgage insurance except for situations where capital is necessary for repairs or reinvestment in housing.

Why this might cause a slump

Despite the real estate sector becoming more affordable, the new changes might not allow brokers and estate agents to boost market activity. Despite the pandemic, some investors might have had a chance to leverage the lower housing prices to buy houses. With the loss of consumer spending power and the new changes, sales activity will see a one-two punch.

CMHC's policies are not an industry-wide mandate issued by the Department of Finance. Any insurance company that chooses to adopt the policy changes is free to do so. If more companies adopt the policies, sales could experience a deeper hit, and the market could witness a steeper than expected decline.

Income investment

Real estate investment trusts (REITs) are ideal for investors to gain exposure to the real estate sector's movements without purchasing physical properties. Any slump in housing will also cause a decline in REITs with a focus on the housing sector. If you want to leverage the real estate market without getting caught by the housing decline, there are other segments in the market you can consider.

Consider adding high-quality, income-generating assets like **NorthWest Healthcare Properties REIT** (TSX:NWH.UN) to your portfolio. The company owns a diversified portfolio of clinics, hospitals, and medical office buildings that generate substantial income. In the current situation, NWH is also in higher demand due to the global health crisis.

It is a company required to pay its shareholders their dividends each month. At writing, NorthWest's dividend yield is 7.33%. Despite a high dividend yield, the REIT can finance its payouts due to its high occupancy rate and significant cash flow. The company keeps growing its portfolio of properties, and it maintains a high occupancy rate. NWH's operating income and funds from operations are constantly improving.

Foolish takeaway

With the housing market possibly going through a significant crash, it might be better to secure better means of income in your portfolio. The real estate sector has several other segments you can leverage. In a health crisis, medical facilities and hospitals are sure to flourish, making NorthWest Healthcare Properties REIT an ideal investment, in my opinion.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)

PARTNER-FEEDS

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

Category

1. Coronavirus
2. Dividend Stocks
3. Investing

Date
2025/07/02
Date Created
2020/07/09
Author
adamothman