Is a Violent Housing Crash Inevitable in 2020?

Description

The COVID-19 pandemic came out of nowhere and devastated almost every sector of the economy. Canada's real estate industry was not safe from its effects either. However, economists already warned Canadians that a housing market crash was coming before there was even wind of the novel coronavirus.

The increasing demand in major urban centres with increasing immigration led to a pricing rise for the housing market, despite the introduction of foreign buyers' tax. The housing market became a bubble, and a crash was imminent. The pandemic came along to shift gears.

While everybody, including me, thought it would sink the housing market, the opposite took place. The number of people willing to sell homes did shrink, but that led to a higher demand for lower supply. Analysts are predicting that it could be a strong year for real estate.

There still is a possibility of a housing market crash within the year, and it might be worth your while to understand why.

Decreasing immigration

The pandemic has led to a sudden decrease in immigration to Canada. Most people who buy property in major urban centres want to use it as an investment to provide them returns through rental payments. Immigration is a significant reason for rental income on properties. With a pandemic that is not ending anytime soon, there might be a lack of tenants.

Our neighbor south of the border is seeing a significant rise in cases. A resurgence of COVID-19 infections here can close down economies again and further delay immigration.

Diminishing buying power

Anybody who wants to buy real estate needs significant upfront capital. If you cannot make money, you cannot buy a house, and people continue to struggle to find means of income due to the pandemic. Even as the recovery continues, millions continue to remain unemployed. Another wave of infections can shut everything down again instantly.

Employment Insurance (EI) benefits, wage subsidies, and Canada Emergency Response Benefit (CERB) payments are not enough to help people buy anything. With a change in rules, Canadians can also no longer make down payments using borrowed money. A second wave can bring substantial financial pressure on individuals and the overall economy. It is a “what if” that is not unlikely.

What’s with the recovery?

As economies open up and the number of new cases each day decreases, people are becoming more comfortable. To many, it seems like the pandemic is almost over. The bad news is that it is nowhere close to being over. If a new wave arrives, the housing market can crash.

Despite the possibility of another housing crash, investing in the real estate sector might not be such a bad thing. While you might not have enough spare capital to invest in buying a home, you can benefit from the real estate sector through a stock like **First Service Corporation** (TSX:FSV)(NASDAQ:FSV).

The real estate company provides essential property services for both the commercial and residential real estate segments. The company’s diversified exposure to different asset classes in the sector provides it a fair amount of insulation if the housing market does not perform well, but the commercial sector remains resilient.

The $6.82 billion market capitalization heavyweight is a Canadian Dividend Aristocrat that has been increasing its dividend payouts to shareholders for several years. The stock has a minuscule dividend yield of 0.57%. The real hero is its capital appreciation. Since the March market bottom, the stock has climbed 85.06%. It is up almost 30% from its value at the beginning of 2020 and performing better than its pre-pandemic valuation.

At writing, its price-to-earnings ratio of 84.36 indicates that it could be overvalued. Another market crash could bring it down to a more accessible price point that you could leverage by adding it to your portfolio for its recovery.

Foolish takeaway

The possibility of another major crash within 2020 is real. Nobody can predict exactly when it will happen, but the recovery will likely be slower in case of a significant market correction. It could be wise to increase your liquidity to capitalize on a recovery from the next market crash.

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Date
2025/08/17
Date Created
2020/07/30
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