The Next Market Crash Could Cause Housing Prices to Plummet

Description

The Canadian housing market has been teetering on the edge of a fall for quite some time. Major housing markets and cities, like Toronto, saw home prices rise for almost two decades straight (apart from a brief fall in 2017 and 2018). Prices are rising and straying further away from the reach of modest potential home buyers.

Many experts claimed that the housing bubble would burst in 2020, even before we fully understood the pandemic's economic repercussions. But now that we have already gone through one market crash and are anticipating another, what will happen to the housing market?

Housing market now and in 2021

Currently, the housing market in Toronto and Vancouver are acting a bit differently. After a brief fall in May, the median prices in Toronto are hiking again, and houses aren't sitting on the market for a lot of days. But Vancouver is seeing a very steady fall in median prices.

That's the situation of two major housing markets right now. But a few factors that keep housing strong are going downhill, and they will slump even faster if another crash happens. Unemployment rates right now are higher than they've ever been. About 1.8 million Canadians don't have jobs right now, and even if they get jobs, the first thing they'll focus on is managing their finances.

Potential buyers from that particular subset of the population are out of the equation. Another important factor is new immigrants — about 100,000 of which arrive in the Greater Toronto Area every year. And the whole country's tally was about 341,000 in 2019. Due to travel restrictions, this number will take a severe hit this year, and it might offset the inventory needs and new tenant ratio.

For now, CERB is sustaining many Canadians, but when it dries up, and people still haven't found jobs, many of them won't be able to maintain their mortgage payments. They could sell the property themselves (if they have enough equity), because that would be the smarter financial move. Or the markets might see a lot of foreclosures, filling up the inventory and causing the prices to plummet.

Safe real estate

If housing isn't safe, that means housing-based stocks might also take a hit. If you were planning to add a real estate stock to your portfolio, you might want to consider **Killam Apartment REIT** (TSX:KMP). This apartment-focused REIT had a much better second quarter than many other REITs. The company actually managed to increase its ROI compared to the second quarter last year. However, fair-value adjustments went downhill.

The stock is still trading at a 23% discount from its pre-pandemic high. And it might take a while before it takes back its valuation and starts growing at its previous pace. But its dividends are still strong and very safe. The yield of almost 3.8% is juicy enough, considering this stock's history and growth potential.

Foolish takeaway

Even if the detached house and condo prices take a hit, apartment rents are unlikely to go down too far and cause any real harm to apartment-centric REITs like Killam. Occupancy rates won't be an issue either, because even if fewer people are buying and more people are selling homes, they all need roofs over their heads. The tenant pool might actually increase, as more people liquidate their hard assets.

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