Canada Is Due for a Severe Housing Market Crash

Description

The Canadian housing market has been on a consistent rise for the better part of the last decade. Canadians are already well aware of that and continually invest in residential properties to grow their overall wealth. The strategy has worked wonders for Canadians who could afford to buy houses over the years. However, many fail to realize how close the market is teetering towards a drastic fall.

When facing economic crises, most countries focused on balancing their home prices with growing their local economies. Canada chose a different path and chose to double down on housing. The result was a rapid rate of housing price growth three times faster than any other G7 country since 2005.

Slower growth

Canadian real estate prices grew 3.39% in Q1 2020 compared to the same period last year. The U.S. market went down 3.29% in the same period. While the relatively slower growth this year might not look like a big deal, it is a worrying sign. Considering the rapid growth over the years and the harsh economic landscape right now, the growth is too good to be true.

Canada's economy has relied heavily on the housing market since the 2008 Financial Crisis. Between 2005 and 2020, average housing prices grew by almost 90%. The next closest country in the same period is Germany, with a modest 32.3%.

The housing market in Canada has behaved strangely during the pandemic. Median prices in Toronto saw a brief fall in May but are climbing again. Vancouver is seeing a steadier decline in median prices. These are the two most significant housing markets in the country. The factors leading the charge for higher housing prices are declining.

Unemployment rates have gone down in the last three months, but they are still higher in terms of historical figures. Almost 1.8 million Canadians are jobless, and they have more pressing financial concerns to address instead of buying houses.

There is also a drastic decline in immigration, a leading factor for the housing market demand. This change will undoubtedly take a toll on demand and offset the new tenant ratio necessary to maintain the value of real estate. It seems that the prediction of Canada Mortgage and Housing Corporation (CMHC) for an 18% decline might happen.

Protecting your long-term wealth

With a drastic housing market crash, sectors across the economy will feel the effects of the decline. It would be wise to look for investments that can weather the storm of a major housing market crash. Utility companies like **TransAlta Renewables** (TSX:RNW) operate in a non-cyclical sector that can continue to generate revenue regardless of the rest of the economy.

No matter how bad things get, people will still need their electricity and gas. TransAlta is a company that can provide its investors with predictable cash flow through its dividend payouts. The need for its services will not decline, and people will prioritize paying for their energy bills, even if they cut down most other expenses.

TransAlta is a top dividend-paying stock that provides its shareholders with payouts at a 5.98% dividend yield. Trading for $15.76 per share, the stock is up by almost 44% of its value in March 2020. It has a highly diversified portfolio of utility assets, and it has secured long-term contracts with an average of 11 years. Its contracted portfolio, operational efficiency, and cost competitiveness provide the company an edge among publicly traded companies on the TSX.

Foolish takeaway

With a housing crash on the horizon, it is crucial to hunker down and prepare your portfolio for what could happen. I would advise reducing your positions in risky stocks and consider safer investments like TransAlta and other reliable dividend-paying stocks. It could help you continue growing your wealth through passive income instead of experiencing double-digit losses to your portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:RNW (TransAlta Renewables)

PARTNER-FEEDS

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

Category

1. Dividend Stocks
2. Investing

Date
2025/08/28
Date Created
2020/08/24
Author
adamothman