Canada’s Hot Housing Market to Face a Cold Hard Truth: CMHC

Description

Canada’s biggest housing markets have been doing surprisingly well since the COVID-19 pandemic hit. According to the Canadian Real Estate Association (CREA), Canadian house prices rose 14% in July. Recently, RE/Max forecast that Toronto houses would rise another 5% by the end of 2020. Of course, these realtor organizations have a bias toward making the housing market look hot. But for the most part, the forecasts we’re seeing for Canada’s housing markets are looking surprisingly bullish.

Before you get too excited, though, you should know that not everybody agrees with these forecasts. Ever since the pandemic began, the Canada Mortgage and Housing Corporation (CMHC) has been sounding the alarm about the market. Anticipating an increase in inventory, they believe the real test of the housing market comes in the Fall. Then, some say, housing values could begin to decline.

The real test comes in the fall

While Canada’s housing market has been surprisingly strong this year, there is one unusual factor at play:

Low inventory.

With people sheltering at home, fewer people are selling their houses. According to the CMHC, housing inventory is at a 16 year low. That restricts supply, which increases prices if demand remains unchanged.

It’s been theorized that mortgage deferrals were a big part of low housing inventory over the summer. With mortgages being deferred, out of work Canadians can afford *not* to sell their homes. In the fall, when the deferrals expire, more inventory is expected to come on the market, which could cause housing prices to crash. Until recently, the CMHC was forecasting house price declines of up to 18% for this reason.

A way to get real estate exposure *without* housing

If you're looking to invest in real estate but are concerned about a future crash, you have options available to you. Housing is but one component of the broader real estate market. On top of that, we've got office space, retail space, and more. You can get exposure to these sectors–without a mortgage–through Real Estate Investment Trusts (REITs).

REITs are companies that invest in real estate and trade just like stocks. You can buy them through your brokerage account and receive quarterly or monthly cash income.

One great example of a promising REIT is **NorthWest Healthcare REIT** (TSX:NWH.UN). NWH is a healthcare REIT that invests in healthcare office space. In Canada and Europe–where NWH operates–healthcare is largely government funded. This means that NWH's rental income is largely backed by very stable tenants.

We can see that clearly when we look at NWH's most recent quarterly report. In the second quarter, NWH collected or formally deferred 97% of its rent. This is in contrast to residential REITs, some of which are seeing delinquencies up to 50%. NWH is clearly benefitting from its government-backed clientele in the COVID-19 era. That led to solid results in the second quarter, including not only a high collection rate, but also solid net income.

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

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