Prepare for a Big Housing Crash, Warns CMHC

Description

Canada's real estate market is the hot spot for local and foreign buyers over the last decade. COVID-19 slowed down growth in March and April 2020. However, the housing market rebounded soundly in the next three months. July marked the third consecutive month of growth since the onset of the coronavirus.

Despite the new record highs in selling prices and the number of transactions, the Canada Mortgage and Housing Corp. (CMHC) is bracing for a big housing crash. The company is warning the COVID-19 containment process still poses a risk to prices, sales, and new building projects.

Latest market trends

As of July 2020, the number of home sales and average selling prices has broken new records with 30% and 15% year-over-year increases, respectively. The housing market is catching up after the lockdowns, although the CMHC says the data do not reflect the pandemic's economic shock.

Data also reveals that housing inventory is at historic lows due to the growth in demand for homes. There are fewer homes available compared with the rate of transactions. The record-low mortgage rates might be the reason why demand and prices are surging. It enables Canadians to buy higher-priced homes with the same monthly payments.

Fragile housing market

According to CMHC's chief financial officer, Lisa Williams, the shock is sure to come, although it will take months before it fully materializes. CMHC's rising provision for insurance claims during the second quarter of 2020 signifies that some COVID-19 factors are starting to play out.

In the said quarter, CHMC saw claims expenses rise by 711% ($256 million), including a rise in provisions for coronavirus-related claims. The company bought $5.8 billion of insured mortgage pools this year as part of a government program. CHMC is also the administrator of the Canada Emergency

Commercial Rent Assistance (CECRA) for small businesses.

CPP REIT stock

The fund manager of the Canada Pension Plan (CPP) invests in Canadian real estate investment trusts (REITs). **Crombie** (TSX:CRR.UN) is the CPP Investment Board's (CPPIB) top REIT stock on the TSX. Thus far, the $2.07 billion REIT is not a disappointment like other larger property landlords in the current health crisis.

Crombie shares are down by only 15% year to date. The impact of COVID-19 is not as bad, because its retail property portfolio consists of high-quality grocery and pharmacy-anchored shopping centres. Don Clow, president and CEO of Crombie, said the need-based portfolio is why the REIT is enduring the crisis.

Clow notes that Crombie is well positioned concerning the defensiveness of annual minimum rent (AMR). The REIT generates 76% of its AMR from grocery- and pharmacy-anchored properties. About 68% are from essential services tenants, while only 8% comes from small business tenants.

For would-be investors, Crombie is trading at $12.96 per share. You'll be partaking of the same 6.79% dividend yield the CPPIB is currently enjoying. A $20,000 position will produce $1,358 in passive income.

Powerful headwinds

CHMC thinks Canada's housing market is facing powerful headwinds. Aspiring homeowners might stretch out to purchase despite job uncertainty. If the economy doesn't recover quickly, confidence in the housing market and demand might weaken. Then prices could fall significantly.

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