Canada's Mortgage Debt SURGED Post-Pandemic: Is a Housing Market Crash Next?

Description

Earlier this month, the CMHC revealed that Canadian mortgage debt had climbed to a three-year high in May, rising 6% year 0ver year. The increase in debt was helped by two factors:

- Higher home sales pre-pandemic.
- Mortgage deferrals in the middle of the pandemic.

As a result of mortgage deferrals, out-of-work homeowners were able to keep their mortgages. The Big Six banks reported that up to 16% of their Canadian mortgages were deferred earlier in the year.

Now, the deferrals are beginning to expire. And the Canadian housing market will face its first *real* post-pandemic test. With deferrals ending and unemployment still high, some say that there could be surge in Canadians selling their homes. If that happens, then a housing market crash is likely.

Why too much mortgage debt could lead to a housing market crash

In itself, mortgage debt isn't a bad thing. Whether it's a problem depends on interest rates, income levels, and — crucially — employment levels. If people are out of work, then they can't pay their mortgages. When that happens, they're likely to sell their homes. For this reason, the CMHC predicted that housing would crash by up to 18% this year. So far, that hasn't materialized. But the real test comes in the fall.

With deferrals expiring, many Canadians will have bills coming due. Those still out of work probably won't be able to pay them. If jobs aren't back up when mortgages come due, there could be a surge in housing inventory coming on the market. If that happens, then we may yet see the CMHC's prediction come to pass.

An alternative way to invest in real estate

If you're interested in real estate investments, all of the above may seem ominous. When you buy a house, you want it to appreciate. A massive increase in housing inventory would jeopardize all that. So far, the predicted crash hasn't happened, but remember that deferrals just recently started to expire. It could easily come in the fall.

If you're looking to buy a home to live in, then you simply have to deal with these risks. But if you're considering real estate purely as an investment, you have other options.

Case in point: real estate investment trusts (REITs).

REITs are exchange-traded investments similar to stocks/ETFs. They invest in property and pass on the rental income to you — typically every month. Not only do REITs have high yields, but their payment frequency is generally higher than stocks or stock funds.

One great REIT to consider this year is **Northwest Healthcare Properties REIT** (TSX:NWH.UN). It's a healthcare REIT that operates healthcare office space in Canada and Europe. One attractive feature of this REIT is that its income is largely backed by government money. Canada's healthcare system is government funded, as are most E.U. member states'. That makes NWH's rental income fairly stable.

As a result of this revenue stability, Northwest Healthcare has fared better than other REITs so far in 2020. In the second quarter, rent collected/deferred was at 97%. By contrast, some residential REITs had delinquencies as high as 50%. Also in the second quarter, net operating income was unchanged year over year. For the six months ended June 30, net income increased by 430%! Overall, that's a solid result in the COVID-19 era, making NWH.UN a real estate investment worth considering for 2020 and beyond.

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