Homeowners Beware: Canada’s Housing Market Could Crash This Fall

Description

So far, COVID-19 hasn’t put a dent in Canada’s hot housing market. According to the CREA, the average Canadian house price has soared 18% in the past year.

That’s precisely the opposite of what many expected. Earlier this year, the CMHC predicted that house prices would *decline* as much as 18%. Later, they muted their forecast but said that a selloff could still come in the fall. Citing an an increase in inventory, the corporation argued that the real COVID-19 impact would take time to be felt.

Mortgage deferrals are expiring

A big factor influencing house prices right now is mortgage deferrals.

Recently, it was revealed that 500,000 Canadians had their mortgage payments deferred due to COVID-19. That gave unemployed Canadians the option to keep their homes.

At a time when “sheltering at home” was the order of the day, it made sense to stay put. But now, many Canadians *remain* unemployed, while mortgage deferrals are set to expire. With both of these developments taking place simultaneously, many are expecting an increase in housing inventory.

More inventory could come on the market

Real estate prices, like everything else, are a matter of supply and demand.

If demand is held constant, then more houses on the market means lower prices.

For most of 2020, housing inventory has been low. That partially explains how we've been able to see rising housing prices, despite mass unemployment. But mortgage deferrals have been a big part ofwhy inventory has remained low. They allowed unemployed homeowners to keep their homes. Without them, they may be forced to sell. That will increase inventory, which might increase housing prices.

REITs: Immune to housing concerns?

For investors interested in alternatives to housing, REITs are the obvious place to look. They are real estate investments, but they don't necessarily invest in single-family homes. Many, for example, invest in office buildings, malls, or apartment buildings.

Unfortunately, most REITs are affected by the exact same concerns that the housing market is. If people can't pay their mortgages, then they probably can't pay their rent either. Many REITs are experiencing collections issues this year, as one would expect.

However, not all REITs are in the same boat. Some REITs have clientele that aren't overly affected by the COVID-19 recession. Those REITs could be good buys.

Case in point: **Northwest Healthcare Properties REIT** (TSX:NWH.UN). It's a healthcare-focused REIT that invests mainly in healthcare office space. It owns properties across Canada and Europe. Its Q2 occupancy rate was 97% in Canada and 98.3% in Europe — both very solid figures.

Why does NWH have such high occupancy rates, despite a pandemic that's putting countless people out of work?

It's simple.

In Canada and Europe, healthcare is backed by government money. Hospitals are directly or indirectly government run, and private clinics are government funded. This gives healthcare providers unusually high revenue stability.

In the second quarter, NWH had 97% of its rent either collected or formally deferred. By contrast, mall REITs collected only 49% of their rent on average in July. With a high collection rate and stable revenue, NWH.UN appears safer than the average REIT. It may also be safer than direct home ownership.

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