Housing Crash 2020: 3 Signs Prices Will Come Tumbling Down

Description

Will real estate prices in Canada nosedive in 2020 as the coronavirus-induced recession gets underway? The Canada Mortgage and Housing Corp. (CHMC) predict a fall of up to 18% over the next 12 months. If you were to believe CHMC's assessment, the housing market is in trouble, and a crash is inevitable.

However, Big Banks and economists disagree with CHMC's dire forecast. The Royal Bank of Canada, Bank of Montreal, and the Canadian Imperial Bank of Commerce see real estate prices declining between 5% and 10% this year compared to 2019.

Similarly, realtors doubt a dramatic price drop. The supply of homes for sale lags the demand by a wide margin. Also, there's a strong return to sales inquiries that are keeping realtors busy again. So what are the signs that tell prices will tumble down?

1. Maximum impact of COVID-19

While nearly every city in Canada reported record sales in July, CMHC says the housing market remains fragile. Data doesn't reflect the maximum impact of COVID-19, which should emerge in the coming months. The housing agency hopes the economy recovers sufficiently to counter the threat.

The COVID-19 pandemic whiplashed every facet of the economy but hasn't thrown housing prices in disarray. Brokers report that demand is high while housing inventory is down in several markets. If the trend continues, real estate prices will remain relatively stable, and the worst price correction is a single-digit.

2. High unemployment

CMHC cites the high unemployment rate as another threat. If the numbers remain high, and job security is on the line, many potential buyers will hold off purchases. Only a few could afford to buy. In the long run, supply will catch up with demand. It will make prices affordable, especially to median households.

3. Bloated mortgage debt

The federal housing agency warns of a 10% to 12% increase in mortgage deferrals by September 2020. Bankruptcies and defaults will follow when the loan holiday expires. Homes prices could drop if new buyers cannot purchase at inflated prices, and sellers behind on mortgages will settle for a quick sale out of desperation.

Attractive option

Rental properties are great income sources. However, it's not advisable to buy today, given the heightened uncertainty. Forego the purchase and become a proxy landlord by investing in **Summit Industrial Income** (SMU.UN). This $1.93 billion real estate investment trust (REIT) is an attractive option for income investors.

The key takeaway is that e-commerce is accelerating the value of Summit Industrial. This REIT is continually growing its portfolio of light industrial properties. Industrial, logistics, and warehouse properties are in high demand because they can serve as distribution centers for giant online retailers. Likewise, the REIT's five-year return, excluding dividends, is 194.31%.

Summit Industrial is paying a 4.29% dividend. Assuming you have $150,000 for a rental property and invest it in this REIT instead, the income is $6,435. You don't have maintenance, insurance, and other costs related to an outright purchase and there's no vacancy risk.

Fatal mix

Canada's housing market is resilient so far. But the full impact of COVID-19, high unemployment, and bloated mortgage debt are a fatal mix. These factors are threatening the country's long-term financial stability.

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Date
2025/08/20
Date Created
2020/09/24
Author
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