Alert: Is the Canada Housing Market About to Crash?

Description

The Canada housing market entered 2020 with the wind at its back. It had rebounded nicely in 2018 and 2019, with prices and sales activity both on the incline. This sector has been the target of bearish sentiment on many occasions over the last decade. When the COVID-19 outbreak reared its head in Canada, many were convinced that this would be the catalyst for the long-anticipated Canada housing crash.

So far, that pullback has not materialized. On the contrary, Canada housing activity stormed back in the late spring and summer. Earlier this month, I'd discussed whether we were heading for a Canada housing crash. I want to revisit that key question in this article.

Is the Canada housing market vulnerable in late 2020?

A recent poll from Nanos Research suggested that Canadians are still optimistic about the housing market. In the poll, about 44% of respondents said that they expect the value of real estate in their neighbourhood to go up over the next six months. That is the highest percentage since the pandemic inspired government intervention in March.

The Canada Mortgage and Housing Corporation (CMHC) is not as optimistic. In a recent report, the agency predicted that home prices across Canada could fall about 7% in 2021. It expects unemployment to play a role in cooling a red-hot real estate sector. CMHC has had a reasonably strong record when it comes to past forecasts.

There is reason to be concerned about the broader economy. Fears of a second wave of COVID-19 have spurred renewed restrictions in select regions across Canada. A return to a lockdown-like environment will slam the brakes on what was already a tepid recovery in the summer.

Two housing stocks that have stormed back this year

This would be sad news for several Canada housing stocks that have stormed back in the last few months. **Genworth MI Canada** (TSX:MIC) is the largest private residential mortgage insurer in the country. Its shares have dropped 28% in 2020. However, the stock is up 5.6% over the last three months. It has slipped 3% in the month-over-month period.

The nature of its business has made Genworth a consistent play for defensive-minded investors. Rising activity in the Canada housing market tends to bode well as Genworth benefits from more volume. For those willing to bet against CMHC, this stock is enticing. Its shares last possessed a price-to-earnings ratio of 7.4 and a price-to-book value of 0.8. This puts the stock in very attractive value territory. Moreover, it offers a quarterly dividend of $0.54 per share, representing a tasty 6.2% yield.

Bridgemarq Real Estate provides services to residential real estate brokers and REALTORS across Canada. Its shares have climbed 11% over the last three months. This stock also boasts a favourable P/E ratio of 14. Moreover, it offers a monthly dividend of $0.113 per share. This represents a monster 10% yield.

Conclusion: Should you expect a Canada housing crash?

Speaking of realtors, RE/MAX released a firm rebuttal to the CMHC's report this month. The real estate firm said that CMHC's outlook no longer aligned with the current state of the Canada housing market. It cited activity in the Greater Toronto Area (GTA), where sales were up 217% in August. This was 110% over the 10-year average. Though there are troubling signs in Prairie provinces, RE/MAX expects a strong market in major metropolitan areas like Toronto and Vancouver to offset this decline.

As for myself, I fall closer to the middle. Yeah, yeah, it's a cop out. I know. Regardless, the Canada housing market still possesses strong fundamentals when it comes to demand. However, the Canadian economy is facing dire challenges in the months and probably years ahead. Beyond unemployment, new benefits and a revamped Employment Insurance program also have a time limit. This means the avalanche of defaults expected after the termination of CERB may have only been delayed for six months or so.

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