Housing Crash: Will 2020 Finally Be the Year the Bubble Bursts?

Description

Is the housing bubble in Canada about to burst soon in 2020? The mandatory lockdowns due to COVID-19 slowed the housing market, which is typically busy during spring. Over the last decade, housing is among the country's hottest sectors. Low interest rates and low unemployment were pushing property prices higher.

However, the economic situation has been changing since the onset of the pandemic. Interest rates remain incredibly low, but millions of Canadians are without work. The unemployment rate is in the double digits and averaging 11.77% from May to August 2020. Once government benefits end, home prices could fall.

Active market in 2020

According to the RE/MAX Fall Market Outlook Report, it's unlikely for housing prices to fall. RE/MAX is the leading real estate organization in Canada. Its brokers and agents across the country expect the housing market to remain active, if not vibrant, for the rest of 2020.

Activities dropped by up to 70% year over year in March and April. However, housing markets in various regions bounced back in May and June, notwithstanding the COVID-19's impact. Realtors see a spring-like market activity in fall.

Regarding housing prices, brokers and agents estimate a 4.6% increase in the third and fourth quarters of 2020. Likewise, there's more interest in suburban and rural communities due to the changing dynamics in work and life.

Market on thin ice

The Canada Mortgage and Housing Corporation (CMHC) and the Macro Research Board (MRB) paint a bleak picture. Both believe a housing bust is inevitable because of an unstable market bubble and household credit binge. For MRB partners, the surging unemployment rate is a massive headwind.

CHMC sees Canadians holding off on home purchases due to job loss and uncertainties. The federal housing agency warns the pandemic and resulting lockdown of the economy could bring down the average home prices by between 9% and 18%. Likewise, it expects the housing sector to return to pre-coronavirus levels by year-end 2022.

Similar assessment

National Bank of Canada (TSX:NA) has the same assessment as the CMHC and MRB. The sixth-largest bank in Canada forecasts the sharpest recession drop (average 9.8% from 2020-21) for real estate prices ever. The bank's estimate, however, is on the low end of CHMC's forecast.

This $22.06 billion bank is holding up well in the pandemic. Before loan-loss provision and taxes, income went up in most of its business segments in the third quarter of the fiscal year 2020 versus the same period in 2019. Overall, the slide in net income was only 0.99%.

In terms of stock performance, National Bank is outperforming its bigger counterparts **Toronto-Dominion Bank**, **Bank of Nova Scotia**, and **Bank of Montreal**. If you're looking for a long-term income stream, this bank stock is as reliable as the Big Five banks. The total return over the last 20 years is 1,138.96%, while the current dividend yield is 4.29%.

Avoiding the crash

The low interest rate environment and federal stimulus packages are very helpful to Canadians. However, the rebound in employment and job security must be strong, if not quick, to mitigate the risk of a housing crash in 2020 and beyond.

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