CMHC CEO: Housing Prices Will Fall

Description

Canada's housing market might experience a significant drop in prices. The Canada Mortgage and Housing Corporation's (CMHC) CEO Evan Siddall is warning that the housing market is not out of the woods despite the increasing market activity.

Siddall has said that the housing market's worst possible scenario has not come to pass like he previously predicted. However, he still believes that there could be a significant decline due to the economic shock of COVID-19.

CMHC's prediction

In May 2020, the CMHC CEO released a forecast that warned of an expected housing price decline between 9-18% by the end of the year that would extend through to the middle of 2021. According to Siddall, the crash would be a result of the pandemic's pressure on the economy from all sides.

The government introduced several support programs to help Canadians who lost income due to the lockdowns. The COVID-19 Response Plan by the Canadian government had a positive impact, and artificially held up the economy. The stimulus package helped alleviate some of the pressures that would cause a steep housing price decline.

Worrying signs ahead

As of September 27, one of the most significant support programs launched by the government ended. The Canada Emergency Response Benefit (CERB) provided a no-fuss coverage for millions of Canadians who lost income due to the pandemic.

As the program ends, the shift to alternative programs like the Canada Recovery Benefit (CRB) and the new and improved Employment Insurance (EI) benefit is turning out to be a confusing affair.

Millions of Canadians who qualified for the CERB will see a negative impact of transitioning to CERB alternatives. The reduction of federal support will lead to higher unemployment and further lost income, according to Siddall. The loss of income and higher unemployment can deflate the home prices by around 10% based on the updated forecast by the CMHC CEO.

A REIT to consider

Canadian Apartment REIT (TSX:CAR.UN) is a real estate sector operator that could feel a significant impact of a housing market crash. The company is the largest apartment owner in Canada with immense long-term potential due to strong demand for rental housing for many years to come.

One of the reasons Canada's housing market has not crashed yet is the strong demand for rental housing and low interest rates that have allowed Canadians to purchase more properties. In case a housing market crash hits, the overall property values of its apartments could cause a decline in CAP REIT's valuation.

However, as the economy recovers, the company could become increasingly attractive for investors as people will still need to rent places to live in.

Foolish takeaway

There is no way to predict when the housing market crash will happen or how severe it will be. Still, it is undoubtedly on the cards, and you should consider positioning yourself to take advantage of it.

A decline in housing prices can make investing in real estate more attractive. Suppose you don't have the kind of capital to invest in an apartment. In that case, you can consider buying shares of REITs like Canadian Apartment REIT to leverage the long-term gains without the hassle of managing properties.

The REIT is trading for $46.44 per share and paying its shareholders at a decent 2.97% dividend yield at writing. A housing market crash could push it down to a more attractive valuation and higher dividend yields.

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adamothman