Is the Canadian Housing Market Overdue for a Crash?

Description

A crash in the real estate market could be on the horizon for Canada. Despite the coronavirus pandemic and people losing their jobs, there hasn't been a big correction in the housing market in Canada. Instead, many markets are doing well. And what's surprising is that some of the hottest housing markets in Canada right now, according to data from the Canadian Real Estate Association, are in Ottawa, Montreal, the Niagara region, Guelph, and Greater Moncton. Notably absent are the typically hot Vancouver and Toronto markets that drive a lot of sales.

However, that doesn't mean they're slouching, either. Vancouver reported above-average sales in August as its prices continued to rise while Toronto had record growth with sales rising more than 40% from the same period a year ago.

Still too much bullishness in the markets

With nearly one million loans out there that have been deferred since the start of the pandemic and more people taking out loans with interest rates at record lows, there's a big bubble that's forming in the housing market right now. The Canada Mortgage and Housing Corporation (CMHC) estimates that there's been approximately $1 billion worth of mortgage debt that's been getting deferred every month. And with people exercising those deferrals in the early stages of the pandemic in March, many of them will be expiring in the coming weeks and months ahead.

That means many people receiving Canada Emergency Response Benefits (CERB) who have been stretched thin could face even more challenging situations very soon as it's time to make mortgage payments again.

To compound those problems even further, survey data from Nanos Research for Bloomberg News shows that as many as 44% of Canadians see housing prices rising over the next six months — optimism hasn't been that high since before the pandemic.

If people believe that prices will rise coupled against the backdrop of low interest rates, it will lead to more buying today.

Why investors should be worried

The economy may not recover and return to where it was before the coronavirus hit, at least, not anytime soon. And that poses a big risk for real estate. If renters struggle to make payments, that could cause a ripple effect, impacting homeowners' ability to pay mortgages, which in turn, impacts the big banks like **Royal Bank** (TSX:RY)(NYSE:RY) that have already allocated a significant amount of funds for bad debt this year in the wake of COVID-19.

In the third quarter, the top Canadian bank set aside $675 million for bad debts — a sharp drop-off from the $2.83 billion it allocated in the previous quarter when the pandemic was still in its early stages. It was a pleasant surprise for investors, which helped the company beat expectations.

But if the bank guesses wrong and things in the economy get worse and there *is* a crash, that could lead to more provisions in the future, and some softer financial numbers. And investors only need to look to the financial crisis more than a decade ago and how a housing crash devastated the U.S. as to why this could be a perilous situation for the Canadian stock market.

The impact won't be just a hit to Royal Bank's share price, but the **TSX** as a whole could suffer significant losses, as could many of its top stocks.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. TSX:RY (Royal Bank of Canada)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Investing

Date
2025/07/21
Date Created
2020/10/02

Author
djagielski