Get Ready for a 7% Housing Price Drop in 2021

Description

The Canadian housing market has remained solid for several years, despite fears of a bubble threatening to burst. Analysts constantly predicted an imminent crash that did not occur, and the housing sector entered 2020 with incredible momentum. It rebounded well in the previous two years, with both sales and market activity on the rise.

The sector has grown, despite all the bearish sentiment over the last decade. Everybody expected the momentum to break when COVID-19 struck. So far, the global health crisis has failed to act as the catalyst for a housing crash. In fact, the contrary has happened and left investors, analysts, and industry experts baffled.

Is the housing market still at risk?

Canadians remain optimistic about the performance of the housing sector. The low interest rate environment, government stimulus, and a general belief in residential real estate's inherent value keep Canadians hopeful about the market. In a recent poll from Nanos Research, 44% of respondents expected the real estate value in their neighborhood to increase in the next six months.

Despite the general hopefulness among a significant portion of Canadians about the housing sector, there could be some dark times ahead. The Canada Mortgage and Housing Corporation (CMHC) has forecasted grave news for the industry since May. The agency predicted a 9-18% decline in housing prices that could continue through 2021.

The government stimulus and low interest rate environment managed to prevent the drastic decline, but the economy is still weak. In a more recent report, the CMHC indicated that home prices across the country could fall around 7% by 2021. The culprit would be the weak economy and unemployment.

The fears of a second wave have led to a reintroduction of restrictions across the country, and Canada could re-enter a lockdown. The recovery could come to a grinding halt quite soon.

A housing stock that could suffer

Decreasing cases led to the reopening of economies across the countries and gave rise to several companies across the board. Canadian housing stocks also experienced a period of strength with a hopeful environment. Companies like **Genworth MI Canada** (TSX:MIC) have made a strong recovery in the last few months.

Genworth is the most significant residential mortgage insurer in Canada. The stock climbed 35.66% between May 15 and August 11, 2020. However, the stock has fallen 7.80% since August 11.

The nature of Genworth's business gave it a more positive outlook. Increasing housing activity meant the company could do better business with substantial volumes. A significant decrease in housing prices could send Genworth reeling to further losses.

On the flip side, if CMHC's prediction does not come true, Genworth could be an ideal bet against the agency. The stock is paying its shareholders at a juicy 6.21% dividend yield.

Foolish takeaway

Investors should be prepared for anything at this point. There are chances that we could see another lockdown and another stock market crash. Stocks like Genworth could severely decline if that comes to pass. However, if CMHC's prediction does not come true, Genworth could see massive upside potential. I would advise practicing caution.

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