WARNING: Experts Think Canada’s Housing Market Will Crash

Description

This past spring, economists at the CMHC forecast that Canada’s housing market would crash by 9-18%. So far, their prediction hasn’t materialized. In fact, the housing market has actually been very strong. Particularly in large markets like Toronto, we’ve seen housing markets soar in 2020.

That hasn’t stopped the experts from doubling down, however. Just recently, CMHC Economist Bob Duggan said that he “remains unconvinced” that the fundamentals are in place for a strong housing market. Citing a lack of *“sustainable basis for housing market demand,”* he re-affirmed last spring’s predictions. If Duggan is correct, the housing market could be in for trouble. In this article, I’ll explore some of the reasons why the CMHC thinks the housing market will slump.

Factors behind predicted forecast

The main factors behind housing prices are supply and demand. Just like with anything else, the fewer houses for sale and the greater the number of buyers, the higher the price. And vice versa.

In a recession, you’d expect house prices to fall, mainly because of lower demand. With fewer people working, there are fewer people with the financial means to buy homes. At the same time, unemployed workers may have to sell their homes to scrape together cash, leading to higher supply.

Why, then, has the Canadian housing market been so strong in 2020?

One theory says that it’s because of mortgage deferrals. With banks granting people temporary exemptions from mortgage payments, there’s less of a need for unemployed people to sell their homes. That could help keep supply low, propping up prices. However, the mortgage deferrals aren’t permanent. If they expire while many homeowners remain unemployed, that could lead to a flood of housing inventory on the market. If that materializes, supply will rise.

This implies that the housing market could still crash. It's not guaranteed, but the factors used to predict such an outcome are plausible enough. In such an environment, you'd want to be careful when buying a home — particularly if you're buying one for purely financial reasons–i.e. for an investment–and don't need the space itself.

An alternative real estate investment

If the state of the current real estate market gives you the jitters, you may want to avoid investing in real estate entirely. Most segments of the real estate market are correlated with each other, and many REITs are in the same boat that housing is.

However, there are alternatives worth considering in the REIT space. If you look at REITs whose tenant base is largely unaffected by the COVID-19 crisis, they could get through 2020 and 2021 without much damage. If that turns out to be the case, then they could be good buys at today's prices.

Consider **NorthWest Healthcare Properties REIT** (TSX:NWH.UN), for example. It's an office REIT that mainly leases healthcare office space. Its properties are located in Canada and the EU–both of which have largely publicly funded healthcare systems. This means that NWH's rental income is backed by government money. That provides unusual revenue stability at a time when many businesses are closing permanently.

In its most recent quarter, NWH had 97% of its rent either collected or formally deferred. By contrast, some REITs had delinquency rates as high as 49%. So if you're willing to look at unconventional REITs like NWH, you may find better value than in other real estate market segments.

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