Beware: Canada’s Housing Market Is About to Crash!

Description

Canada’s housing market has been on an absolute tear for well over a decade now. However, the stellar run might come to an end as housing prices might drop by a significant margin in the upcoming months due to the after-effects of the COVID-19 pandemic.

Last month, the Canada Mortgage and Housing Corp (CMHC) provided a pessimistic outlook on the country’s housing market. The CMHC had initially forecast prices to decline between 9% and 18% this year before they recover in the first half of 2021.

In August, CMHC forecast average housing prices at $586,000 and expects this figure to fall by 21% to $460,292 in Q1 of 2021. Canada’s unemployment rates are still over 10% which will be a key reason for the decline in housing prices.

Housing sales in Canada have experienced an uptrend between May and August 2020 as homebuyers were taking advantage of a low interest rate environment. Now, Chief Economist Bob Dugan has warned that while he may be wrong on the timing of the crash, the overall trend will drive prices lower at some point in the upcoming months.

Canada’s housing starts were at a 13-year high in July 2020 and home prices rose at a rapid pace. This demand was driven by a backlog of projects and purchases by high-income home homeowners.

The federal benefits such as the CERB and EI as well as mortgage deferral programs will reduce downside risk but government benefits are set to expire in the next six months.

Canada’s housing prices have increased by 90% between 2005 and 2020. In Q1 prices were up 3.4% year over year compared to a 3.3% decline south of the border, making a housing crash all the more inevitable.

What if the housing market remains resilient?

While the experts are predicting a housing crash in early 2020, they may very well turn out to be wrong. There is a possibility that unemployment rates will move lower as lockdown restrictions ease. Further, lower interest rates will continue to attract potential home buyers, which will help sustain housing prices at 2020 levels.

In this case, it makes sense to invest in real estate investment trusts such as **Killam Properties** (TSX:KMP), a major player in Canada's residential real estate segment. Killam stock is trading at $17.63, which is 25% below its 52-week high.

The REIT has a forward yield of 3.9%, which means a $100,000 investment in the stock will generate $3,900 in annual dividend payments. Further, long-term investors can also benefit from capital appreciation as the stock has gained 70% in less than five years.

Killam owns, manages, and operates residential properties in Alberta, Ontario and Atlantic Canada. It has a portfolio of 203 apartment properties and 39 manufactured home community properties spanning $3.5 billion in real estate assets.

It is a growth-oriented real estate investment trust and is focused on growing via acquisitions in core markets. Killam increased net operating income at an annual rate of 9.2% between 2015 and 2019. Comparatively, its total assets are up 12.5% and funds from operations rose 4.4% in this period.

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