Canada at High Risk of a Housing Crash: 2020 UBS Report

Description

The Canadian housing market is one of the most intimidating real estate sectors in the world. The industry has been carrying itself to greater heights at an excellent momentum for the better part of the last decade. Analysts and experts have been predicting a housing market crash in Canada for years, but it has yet to materialize.

When COVID-19 reached Canadian shores, many were convinced that it was the last piece necessary to catalyze the long-overdue housing crash. So far, we're still seeing relatively smooth sailing as the housing activity stormed back a few months ago.

The release of the UBS Global Real Estate Bubble Index for 2020 analyzed the residential property prices in 25 major cities worldwide. The report mentioned Toronto as one of the most at-risk housing market bubbles, and that is a grave sign, indicating an imminent crash.

Becoming a housing bubble

Toronto's real estate market has long been considered overvalued by experts. However, the latest UBS report indicates that it is right on the verge of being a housing bubble that is ripe to pop.

A housing bubble is created when there is substantial investor spending with a limited supply to cater to the high demand. The result is a rapid acceleration of price hikes that do not reflect the area's local income and rents. Toronto is still a greater risk than any other city in North America.

The interactive Global real Estate Bubble Index by UBS tracks and compares the risk bubbles for 25 cities worldwide. While Munich and Frankfurt topped the list this year, Toronto managed to enter the bubble risk zone in 2020 in the third position behind the two German cities.

Even amid the pandemic, residential real estate sales volumes and prices of homes in the city keep increasing. The average price of a detached house in Toronto proper hit a massive $1.5 million in August.

Bracing for impact

Between the UBS report and predictions by the Canada Mortgage and Housing Corporation (CMHC), there is a more immediate threat of a housing market crash. The weaker economy could combine with the effects of further lockdowns in a second wave of COVID-19 infections to burst the bubble.

The impact could devastate housing stocks like **Genworth MI Canada** (TSX:MIC). The largest private residential mortgage insurance provider in the country declined by almost 58% from the beginning of the year and the March 2020 market bottom. The stock has recovered 43.31% since its 2020 bottom and has been giving its shareholders some hope for good news.

The rising activity in the housing market improved business for Genworth. If a housing market crash does take place, it could mean devastating news for Genworth. A decline in housing activity could result in reduced business. Genworth needs people to purchase more real estate so it can offer its services for the investors' mortgage insurance.

At writing, the stock is trading for $34.81 per share. Its juicy 6.21% dividend yield might seem attractive. However, a housing crash could send the stock reeling.

Foolish takeaway

Despite the UBS report and the prediction by CMHC for a 7% decline in housing prices, the industry seems to have a mind of its own. It remains to be seen precisely how the situation will play out in the coming months. If you are a risk-averse investor and have a substantial position in companies like Genworth, I would advise reevaluating your asset allocation.

You could consider investing in tech stocks that can provide you capital growth through the uncertain times that could put you in a better position to purchase real estate stocks later on.

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