Toronto Condo Listings up 215%: Housing Crash Coming?

Description

As COVID-19 drags on, businesses, the job market, and the broader market continue to get beaten down. The Canada Mortgage and Housing Corporation (CMHC) has been painting a grim picture for the Canadian housing market for a while and hinted at a significant decline in housing prices.

The agency suspended its housing market assessment report for several months after February 2020, because there was not much housing activity data to analyze and provide a forecast. The latest report is published based on the preliminary data for the quarter that ended in July 2020, and it did not present a promising outlook for the market.

There are more factors that continue to point towards an imminent and severe housing market crash.

Condo listings skyrocket

Toronto's housing market has long been a daunting market due to its inexplicably pricey rates. The thriving housing market is beginning to show signs of trouble. The September data from the Toronto Regional Real Estate Board showed a surge of units for sale. It led to a sharp decline in rents and marked the beginning of a weakening trend for condos.

The active listings of condos hit record numbers in September, as they spiked 215% compared to the same period in 2019. Meanwhile, the total housing listings across Toronto in the month increased by 5.3%. The trend means that condo prices will likely fall this month, because the demand is not as high as the supply.

The rest of the housing market remains strong

The surge in listings for condos in Toronto presents a weak picture for this Toronto housing market segment. Still, the remaining segments, like single-family homes in the city, are reporting stronger activity.

Overall, Canadians remain optimistic about the performance of the housing sector. The low interest rate environment, government stimulus, and the general belief in residential real estate's inherent value seem to be keeping Canadians hopeful.

Imminent housing crash?

The Q3 2020 CMHC report established a clearly devastating impact of COVID-19-related shutdowns on the economy that could lead to a second market crash and a decline in housing prices. The pandemic has led to many industries, like travel, airlines, autos, the oil patch, and more, to begin struggling for survival.

There are no immediate signs of any respite from the pandemic, as the second wave of infections makes the challenges even tougher for these sectors of the economy. The result could be another recession much worse than the downturn in March 2020.

Protect yourself

A housing crash could prove to be devastating for real estate investors and investors who are stakeholders in businesses with significant exposure to the housing market. Ideally, you need to take measures to reduce your exposure to the housing market before the crash comes, so you can protect yourself from the short- and medium-term impact of another housing crash

If you are an investor with a significant position in banking stocks like **Royal Bank of Canada** (TSX:RY)(NYSE:RY), you might want to reconsider your asset allocation. The bank is known for its substantial exposure to the Canadian housing market. A housing collapse across Canada could trigger a frenzied market sell-off of RBC shares.

RBC reported an 18% year-over-year decline in its net income through commercial and personal banking sectors. The bank is currently trading for $97.71 per share. Its valuation is down 7.38% year over year, and it is down 5.64% from the start of 2020. A significant sell-off could result in substantial short-term losses for the company and its shareholders.

Foolish takeaway

The weakened economy and the signs of weakness in the Toronto housing market could mean that the CMHC prediction for a severe housing market crash could become real. It would be wise to consider investing in safer assets that could protect and grow your capital and decrease your exposure to at-risk companies on the TSX.

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