This Key Indicator Shows the Housing Market Can Crash at Any Moment

Description

A mortgage is considered good debt, and Canadians love it. Obtaining a loan to purchase a house is sensible, because you have something of value in return. There has been astronomical growth in mortgage debt in Canada over the past decades. The danger, however, is when the country's debt load grows twice as fast as GDP.

In Q2 2020, Canadian mortgage debt is 84.28% of GDP. It's alarming since there's no sizable economic growth. The economy is just starting to recover from the pandemic. Ten years ago, the ratio of mortgage debt to GDP was 59.02%. The current level is unprecedented in that a housing market crash can happen at any moment.

Vulnerable to shock

When the ratio is high or spiking higher, economists say there's greater vulnerability to shock. The ratio of mortgage to GDP in Canada matches the total household debt in other heavily indebted countries. While the sudden blip might be temporary due to the pandemic's impact, don't disregard the exponential growth.

The ratio was already at 72.64% before the pandemic in Q1 2020, whereas the figure in 2000 was only 39.62%. Something will give if Canada's economic activities can't bounce back to pre-coronavirus levels soon. Even Bank of Canada Governor Tiff Macklem has housing risk at the top of his radar.

Surging home sales

Despite the bubble bursting worries, home sales in the Greater Toronto Area surged in September 2020. The GTA market posted a 42.3% year-over-year increase, a new all-time high for the month. For millennials, the low interest rate environment allows them to fulfill their homeownership dreams.

According to UBS's Global Real Estate Bubble Index 2020, Toronto is the only major city in North America that is at risk of a housing bubble. The markets in British Columbia and Vancouver are overvalued but not at risk of overheating. The signs of a bubble include prices that are not in sync with local incomes and excessive lending and construction activity.

REIT over ownership

Investing in real estate investment trusts (REITs) is a better alternative today than purchasing investment properties. Among the best choices is **Dream Industrial** (TSX:DIR.UN). The stock's total return over the last five years is 105.53%. At $11.48 per share and 6.02% dividend, you have real value for money.

This $1.75 billion REIT has a competitive advantage, because industrial REITs are the better performers in the pandemic. Likewise, Dream Industrial is well positioned for the supply chain changes that will happen in the post-COVID recovery era. Dream Industrial has the leasing momentum thus far in 2020.

In the second quarter, net rental income climbed by 22.8% to $82.12 million compared with Q2 2019. The occupancy rate is a high of 95.6%. The REIT will continue to post healthy internal growth owing to the high demand for industrial properties. Its other strengths include a diversified tenant base, below-market rental rates, and 2% average annual rent escalators.

Mixed pulse

Notwithstanding the pessimistic outlook of credit agencies and market analysts, the housing market is defying expectations. About 44% of Canadians are optimistic a crash will not happen. It all hinges on the pace of the country's economic recovery.

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