Housing Market Crash Fears: Why the Worst of 2020 Could Still Come

Description

Before COVID-19's appearance, the Canadian Real Estate Association (CREA) anticipated the tightest spring market in 2020. Activities in the housing sector came to a halt in March and April when people stayed indoors for fear of catching coronavirus.

However, the pandemic did not extend the slump, as most realtors and brokers expected. When the lockdowns eased in May, the housing market picked up swiftly. July surprisingly set multiple records that contradict the grim predictions by some analysts.

While we saw home sales post another all-time monthly record in September, the worst housing market crash could still be in the works. Douglas Porter, the chief economist at **BMO** Capital Markets, said, "The underlying economic conditions simply do not support such a piping hot market over a sustained period."

Factors for the snapback

CREA believes the housing market is snapping back partly due to incredibly low mortgage rates. Homebuyers are taking advantage, as the Bank of Canada moves to keep the economy churning. It's the easiest time to obtain loans. But the cheap borrowing cost isn't the only factor for the brisk buying activities in the last four months.

The recent results from a survey by Mortgage Professionals suggest that stay-at-home or work-from-home directives fuel desires to buy dwelling places with more spaces. Likewise, current prices assure homebuyers they'll get top value when they decide to sell.

A correction is inevitable

According to Bob Dugan, chief economist at the Canadian Mortgage and Housing Corporation(CMHC), the housing agency is sticking by its forecast for the housing market. CHMC's propertyforecast in May 2020 was a 9-18% drop in real estate prices in the next 12 months.

Prices could fall in the future when the government's stimulus packages dry up. Also, the correction isn't happening yet because the full impact of COVID-19 is just emerging. CMHC sees increased unemployment, high mortgage debt, and declining house prices, a deadly mix that threatens Canada's long-term financial stability.

Fortify your finances

Canadians can become pseudo-landlords instead of buying real estate properties at this time of uncertainty. If you're searching for more income and fortify your finances, **SmartCentres** (TSX:SRU.UN) is a cash cow. This $3.59 real estate investment trust (REIT) pays a very high 8.76% dividend.

Canadian REITs experienced the largest-ever year-on-year decline in quarterly earnings in Q2 2020. Some specific sectors are underperforming, but SmartCentres is proving resilient, despite being in the badly hit retail space. The positive story for this REIT is that **Wal-Mart** is the anchor tenant to almost 70% of its portfolio.

Foot traffic remains steady in businesses providing essential services. Of the 166 total properties, 115 are Wal-Mart-anchored centres. These centres are helping drive traffic in other SmartCentres tenants. Growth is stagnant, while COVID-19 is around, although cash flows should be safe and stable for now.

If you can invest at least $57,100 at $21.11 per share, the passive income is $5,100.96. Hold the REIT for fewer than eight-and-a-half years, and your capital will double.

Fundamental imbalances

Some economists agree with CMHC's assessment citing large fundamental imbalances in various housing markets across Canada. The wave of pent-up demand will sputter once the fundamental factors begin to weigh on the market.

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