Canada's Housing Market: Where Is the Crash?

Description

Last month, I had written an article warning investors about a massive crash in Canada's housing market. In August, the Canada Mortgage and Housing Corp (CMHC) forecast average housing prices in Canada to decline by 21% from $586,000 to $460,292 in the first quarter of 2021.

The CMHC had initially forecast a price decline between 9% and 18% soon after the COVID-19 pandemic resulted in a massive spike in the country's unemployment rates. While Canada's unemployment rates have improved since May, it is still over 10% or more than double pre-COVID-19 levels.

However, according to a report from *BNN Bloomberg*, home prices in Toronto rose 13.7% to $968,318 in October. It was also the fifth consecutive month of "record-breaking prices." Total sales were up 25% year over year last month and this was offset by a tepid condo market where sales fell 8.5% in one of Canada's largest cities.

Is housing the best investment for Canadians?

The CMHC does not expect housing prices to recover until 2022 in case of a housing market crash in Canada. While the recent uptick in prices in Canada's major cities of Toronto and Vancouver might not be sustainable, there is also a chance of a huge crash in oil-producing provinces such as Alberta.

The energy sector has been the worst-performing one in 2020, resulting in massive lay-offs and consolidation, which will impact housing purchases negatively in these regions. Alternatively, low mortgage rates might help to improve demand during an economic downturn.

The federal government is unlikely to increase rates in the near future, which means investing in a home remains a viable option for Canadians.

That being said, a strong recovery in the Canadian housing market coupled with a slower paydown of mortgages has pushed total consumer debt to $1.991 trillion according to **Equifax**. Consumer debt is up 2.8% year over year and the average debt per person is about $73,532.

While the housing market has been resilient amid the pandemic, rising consumer debt levels remain a concern, especially considering a double-digit unemployment rate.

Invest in a residential REIT for steady gains

Similar to the stock market, it is impossible to time a housing market crash. It can happen in the next month or even the next year. If you remain bullish about Canada's housing market, investing in residential real estate investment trusts (REITs) such as **Killam Properties** (TSX:KMP) makes perfect sense.

Killam is a growth-focused REIT and owns $3.5 billion in real estate portfolio. It continues to expand its portfolio through accretive acquisitions with an emphasis on new properties. This business model has helped to drive top-line growth for Killam which has also resulted in a stock price appreciation of 60% in the last five years.

At the end of September, Killam owned 16,701 units, including the 968 units it co-owns with institutional partners. It is also the largest residential landlord in Atlantic Canada and owns a 13% share of multi-family rental units in core markets.

Killam stock has a dividend yield of 4.1%, which means a $10,000 investment in the stock will generate $410 in annual dividends.

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