Housing Crash 2020: Have We Reached the Tipping Point?

Description

COVID-19 spawned the worst global economic crisis in decades, but it didn't unsettle housing markets. The UBS Global Real Estate Bubble Index 2020 shows that house price growth globally has accelerated this year. In Canada, the housing market is holding ground, and the bubble has yet to burst.

The same UBS report cites Toronto as the only North American city at risk of a housing bubble. Vancouver is not risk of a bubble, although prices in the city are considered overvalued. Still, the general market could be nearing the tipping point due to several risk factors.

A vulnerable market

The Canada Mortgage and Housing Corp (CMHC) reported a moderate degree of vulnerability in the housing market at the end of June — the same as February. But despite the impressive showing and burst in growth this summer, CMHC's economist, Bob Dugan, sees home sales declining severely in a few months.

Moody's Analytics also forecast home prices across Canada to tumble. It could drop by around 7% in 2021, according to the Moody's report. Among the triggers is a dangerous oversupply of new, single-family homes, particularly in Calgary and Edmonton. Another issue is affordability, more so in Toronto and Vancouver.

The deteriorating condition of the labour market is also a risk factor. Moody's believe the third-quarter growth won't sustain because job gains will not reduce unemployment meaningfully. The real estate sector is likely to lose momentum in the first half of 2021. Also, the agency adds that low interest rates won't be enough to save the housing market.

Strong last quarter

Based on the RE/MAX Fall Market Outlook Report, brokers and agents across the country point to a healthy housing market for the rest of 2020. RE/MAX brokers estimate the average residential sale price in Canada to increase by 4.6%.

Preferences are also changing due to the pandemic. A RE/MAX survey reveals that 32% of Canadians opt for rural or suburban communities and away from large urban centres. Brokers and agents across the RE/MAX network expect activities in the fall to be like a brisk spring market.

Passive, not active ownership

The second wave of COVID-19 and poor labour market conditions can shake Canada's housing market to the core. Investors looking to acquire a rental property can take a passive route instead of actively owning one. When the market is unstable, a profitable approach is to invest in real estate investment trusts (REITs).

Today's hands-down choice is a $2.14 billion REIT that owns and operates a portfolio of modern and high-quality industrial properties across Canada. **Summit Industrial** (TSX:SMU.UN) is outperforming the TSX (+21% versus -4.57%) year to date. Dividend investors are also enjoying a respectable 3.83% dividend.

Your money is safe with Summit Industrial because of the long-term strength and stability of light industrial properties. There's lower market rent volatility due to the high demand for warehouses, storage facilities, light assembly and shipping plants, call centres, and other generic-use rental properties. This REIT collects rent from a broad and diverse tenant base.

Beware in 2021

COVID-19 has done little to suppress home sale activities in Canada's housing market after the lockdowns. The pent-up demand and low inventory levels will stay on through the winter, but beware of the tipping point in 2021.

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