Housing Crash 2020: What Goes Up, Must Come Down

Description

Canada's housing market continues to defy gravity that it's hard to believe the dire predictions of many it will crash soon. Or are we seeing a case of "What goes up, must come down?" The phrase means something good will not last forever. However, the nosedive of real estate prices isn't happening yet.

In Vancouver, for example, the Real Estate Board of Greater Vancouver reports that homes sales in October were up 29% compared to a year ago. It was the second-best October on record. In plush Toronto, home sales broke records last month, and prices were higher than in 2019.

Weathering COVID-19

The Canada Mortgage and Household Corp. (CMHC) predicted in May that property prices would decline between 9% and 18% in the coming months. Prices are holding up because the full impact of COVID-19 has yet to emerge. But in the agency's first quarterly report since the pandemic began, the housing market is moderately vulnerable.

Meanwhile, the UBS Global Real Estate Bubble Index 2020 confirms that housing markets worldwide are weathering the coronavirus. House price growth is also accelerating in 2020. In UBS's analysis of 25 major cities, Toronto is the third city after Munich and Frankfurt, which has the greatest housing bubble risk. The report adds that it's the only city in North America in danger of crashing.

The worries

While Canada's housing market is posting record-shattering home sales month after month since the lifting of lockdowns, the likelihood of a crash looms large. At some point, the market could reach a tipping point. The greatest worry is the country's employment situation.

In October, the unemployment rate held steady at 8.9%, although only 84,000 new jobs were added to the economy (78% less than the 378,000 in September). Another telling data is the 50.7% increase in long-term unemployment last month.

With public health measures tightening again due to a spike in COVID-19 cases, widespread lockdowns could follow. If affordability becomes a concern due to increased household debt loads, housing demand could shrink and push prices down.

Stability in the pandemic

Real estate investment trusts (REITs) are alternative investments to owning properties when the housing market is shaky or uncertain. **True North Commercial REIT** (TSX:TNT.UN) is a dividend king with its 10.72% dividend yield. A $50,000 investment will produce $5,360 in passive income.

You would think that landlords leasing out commercial properties would struggle in the pandemic. True North, however, is a class of its own. This $512.5 million REIT is displaying stability throughout the health crisis.

True North's revenue increased by 34% in the nine months ended September 30, 2020, versus the same period in 2019. Net operating income (NOI) climbed by 40%. About 76% of revenue came from government and credit-rated tenants, including the federal government of Canada.

Other lead tenants in various locations are the provincial governments of Ontario and New Brunswick. Alberta Health Services is the anchor tenant in one property. True North collects nearly 100% of contractual rent on account of its tenant roster. Similarly, the occupancy rate is a high 98%.

COVID-19 casting its shadow

As long as COVID-19 is around, it will cast its shadow not only on the housing market but also the economy in general. Much of the concern by CMHC centres on debt levels and high-ratio mortgages. It could drag borrowers underwater if economic recovery takes longer.

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