WARNING: Canada’s Housing Market Could Crash in 2021

Description

Canada’s housing market has defied all expectations in 2020. The average house price has risen 17% this year, despite numerous predictions that prices would decline. Near the beginning of the COVID-19 pandemic, the Canada Mortgage and Housing Corporation (CMHC) predicted that house prices would decline 9% to 18%. Just the opposite has actually happened.

That doesn’t mean that the experts were wrong, though. There is actually good reason to believe that the predicted crash may arrive–in 2021, instead of 2020. If this happens, then many people who bought houses in 2020 are going to be disappointed. Fortunately, there’s some good news in this story as well.

A second wave of COVID-19 is picking up steam

The biggest reason why Canada’s housing market could crash is because a second wave of COVID-19 is in full swing. When the pandemic surges, lockdowns tend to accompany it. When lockdowns are initiated, people lose their jobs. When people lose their jobs, they can’t make mortgage payments. In theory, all of this should be bad for the housing market.

Just recently, PM Trudeau sent a sternly worded message to Canadian premiers, urging them to lock down rather than try to save the economy. In the first lockdown, there was no housing crash. However, there were a number of financial supports available at the time that aren’t available now — chief among them is mortgage deferrals. Bank mortgage deferrals mostly expired over the summer. This means that, in the event of a second wave resulting in mass unemployment, more Canadians will be forced to sell their homes–unless another round of deferrals is rolled out.

Low interest rates: Our ace in the hole?

It should be pointed out that, although there are reasons to think the housing market could crash in 2021, there are other signs pointing in the opposite direction.

One of those is low interest rates. In response to the pandemic, the Bank of Canada slashed interest rates, and mortgage rates quickly followed suit. This undoubtedly contributed to the bullishness in Canadian housing this year. When it's cheaper to borrow, more people buy homes.

Perhaps the effect of this cheap borrowing has been enough to offset mass unemployment. But if another nation-wide lockdown hits, it's quite likely that many Canadians will lose their ability to make their mortgage payments at all.

An alternative to housing

If you're worried that Canada's housing bubble will pop in 2021, there are plenty of alternative investments you can consider.

One of the best?

REITs.

REITs are pooled investment vehicles that invest directly in real estate. To an extent, they're subject to the same risk factors that housing itself is. But not all of them are. The ones that aren't make solid real estate bets in 2020.

Consider **NorthWest Healthcare Properties REIT** (TSX:NWH.UN), for example. It's a healthcare REIT that leases out healthcare clinic and office space. It does business in Canada and Europe. As you may know, healthcare in Canada and the EU is largely government funded. So NWH's revenue is backed by government resources.

That's a huge advantage. When a REIT leases to private tenants, their income is vulnerable to government shutdowns. Government backed revenue lessens that risk considerably.

The proof is in the pudding: in the second quarter, NWH.UN had a 97% collections rate, a 97% domestic occupancy rate, and a 98% international occupancy rate. Compare this to mall REITs, and the advantage becomes clear. In a pandemic, healthcare REITs win.

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