Alert: Canada’s Housing Market Crash Could Be Swift in 2020

Description

The possibility of a housing market crash has been on the cards for a few years in Canada. While many of the previous predictions did not come to fruition, 2020 might be the year it finally hits – or will it?

The Canada Mortgage and Housing Corporation (CMHC) forecast a 9% to 18% drop in housing prices soon after the onset of COVID-19 and ensuing unemployment. Canada’s unemployment rates initially surged but have since improved. Despite the improvement since March, Canada’s unemployment rates are still far greater than pre-pandemic times.

Despite the harrowing news, home prices in Toronto rose 13.7% to $968,318 in October 2020. This marked the fifth month of housing prices reaching new heights. To make matters more confusing, housing sales were up 25% year over year in October.

Is the housing market a good investment?

In case a housing market crash does take place, the CMHC and other experts believe it will take a long time to recover. The housing market prices in Toronto and Vancouver keep increasing against expectations, but it is also clear that the growth is unsustainable in this economy.

A more immediate concern for the housing sector is in Alberta. The heavily oil-dependent economy of the region could experience the worst of it and begin a chain reaction. The energy sector has had drastic issues due to the oil price war and the pandemic-induced layoffs.

While low mortgage rates may help improve demand during a downturn, it will increase overall consumer debt in Canada. The average Canadian is already over-leveraged in 2020. An increase in consumer debt can cause long-term pain if the market crash happens.

What if the crash doesn’t happen?

Like the imminent second stock market crash, there is no way to time a housing market crash. It is also possible that the housing market might not crash at all. Many Canadian investors remain bullish regarding the Canadian housing market. If you also believe the housing market crash is not taking place, investing in Real Estate Investment Trusts (REITs) could be an ideal move.

Killam Properties Inc. (TSX:KMP) is a residential sector REIT that might make sense to investors bullish about the housing market. The growth-oriented REIT has a massive $1.73 billion market capitalization at a valuation of $17.68 per share on the **TSX** at writing. The REIT pays its shareholders at a juicy 3.85% at its current valuation.

The REIT continues expanding its portfolio of properties through the acquisition of new properties. The stock continues to benefit from its acquisitions over the years. Killam Properties is up more than 73% in the last five years.

The REIT is one of the largest residential landlords in Atlantic Canada, and it holds a significant 13% share of multi-family rental units in core markets countrywide. The company looks like an ideal investment for investors who are bullish on the housing market but do not want to invest directly in buying properties.

Foolish takeaway

A housing market crash might happen, or it might not. With more developments in the global health crisis and stock markets, it remains to be seen how the situation will play out. It would be wise to prepare for a housing market crash.

However, there are also ideal opportunities like Killam Properties for investors who are banking on another miraculous year for Canada's housing market.

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