Housing Crash 2020: A 26% Drop Is Warned

Description

The year is almost over, yet discussions about a housing crash persist. While COVID-19 briefly stalled activities during the lockdown, sales are soaring since the lifting in May 2020.October was the fourth straight month of new records. Sales activity was up in nearly all Canadian housing markets versus the same month in 2019.

default watermark

However, a research firm believes the trend could reverse soon. Veritas Investment Research warns of a big tumble in housing prices. A potential 26% decline looms in the event of a supply shock.

Regression analysis

The analysis of Veritas differs from banks' forecast and directs more toward investment managers. Using regression analysis, the research firm concludes that months of inventory have the highest correlation with prices.

When mortgage deferrals expire, and things return to normal, the high prices due to a tight market during the recession will drop sharply. A supply shock could happen when homeowners with deferrals turn into sellers. However, Veritas clarifies that not everyone will default. Some borrowers will, but you can never default when you can sell first.

Various risk scenarios

Veritas' model gave varying percentages (5%, 10% or 15%) of mortgage payment deferrals turning into inventory. Most Canadians can or will sell instead of defaulting. The firm said it's the same observation of the Canada Mortgage and Housing Corp. People should monitor inventory levels because the scenario could play out in the coming months.

The potential price declines could be modest to substantial, between 4% and 11%. Veritas assumes inventory will rise due to deferrals turning into listings. There will be additional supply with Canada currently building in record numbers, so more will be in resale markets.

In Toronto, the firm expects a potential price drop of between 15% and 26%. The UBS Global Real Estate Bubble Index 2020 also cites Toronto as the only city in North America in the bubble risk territory. According to UBS, Vancouver is not at risk, although its housing market is now on the overvalued range of the spectrum.

Rental housing leader

Since there’s uncertainty in the housing market, investing in real estate investment trusts (REITs) is the better alternative to buying real properties. The **Canadian Apartment Properties REIT** (TSX:CAR.UN) or CAPREIT is the ideal choice if you want exposure to the vibrant residential market in Ottawa.

The $8.78 billion REIT recently acquired two prime properties in Ottawa, Ontario, worth $95.5 million. CAPREIT bought a 50-suite apartment building at 141 Augusta Street in downtown Ottawa and Surrey Place & HunterâS Point (330 three- and four-bedroom town homes for families. The occupancy rates in the pair stands at a high 97.8%.

default watermark

CAPREIT focuses on mid-tier residential properties in strong Canadian rental markets and dominates the rental housing scene. Its portfolio consists of 66,700 residential apartment suites, town homes, and manufactured housing community sites. The share price is $51.33, while the modest 2.71% dividend should be safe, given the low 24.55% payout ratio.

Vibrant but fragile

Prices and sales volume have surged significantly since the declines in March and April 2020. The analysis of Veritas Research seems to jibe with CMHC’s forecast. Despite posting all-time highs month after month, a supply shock can unsettle Canada’s housing market.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CAR.UN (Canadian Apartment Properties Real Estate Investment Trust)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media

6. Sharewise
7. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/07/05
Date Created
2020/11/30
Author
cliew

default watermark

default watermark