Housing Price Warning: Canadians Could Lose Over $100,000 in 2021!

Description

Housing prices are always on the minds of Canadians. Whether you’re looking to get into the market, thinking of moving, or looking to buy a rental property, knowing what risks lie ahead in the market is key.

For years, Canadian housing prices have been soaring in most of the country. Ultra-low interest rates have sparked a massive rally, which has seen many homeowners gain a tonne of value in their properties.

However, with household debt at record levels for years now, many analysts and economists have expected some sort of correction for a while. So, when the coronavirus pandemic hit, it seemed like that would be the tipping point.

So far, though, that hasn’t been the case. Housing prices have been either steady or up slightly on average across the country. Of course, in some city centres like Toronto, they are down sharply, but on average, things have held steady.

Canadian housing prices in 2021

Going forward, however, it could be a much different story. Many expect Canadian housing prices to fall throughout 2021, as the consequences of the pandemic and recession trickle down to real estate.

The Canadian Mortgage and Housing Corporation (CMHC), a Canadian government owned housing agency, predicts that housing prices could fall between 9% to 18% in 2021.

That means that if the average Canadian home is roughly $570,000 and prices fall by the full 18%, the average Canadian home could lose over $100,000 in value in 2021.

That's just one prediction, but it continues to be one that's echoed. **Royal Bank of Canada**, for example, also expects Canadian housing prices to fall in 2021. Canada's largest bank sees falling home prices as one of its most significant risks in 2021.

RBC is not the only bank either. **National Bank** had a prediction similar to RBC's, and many others have highlighted it as a significant risk.

It's not just banks and the CMHC, though. Even ratings agencies like Fitch Ratings expect a decline in Canadian housing prices next year. Once again, like most other companies, Fitch sees lower housing prices caused by higher unemployment and already significant affordability issues.

While many expect a housing market crash, it doesn't necessarily guarantee it. One thing's for sure, though: it's a significant risk to think about as we head into 2021.

What to do heading into 2021

Not everyone believes Canadian housing prices will fall, as many prominent real estate agencies have said they expect a strong 2021. Even the Canadian Real Estate Agency, which represents over 130,000 real estate agents, expects prices to increase slightly.

This is not so surprising, though. Real estate agents will almost never tell you to expect lower prices, as it's bad for business. And while neither side knows for sure, it's more noteworthy that huge banks with significant amounts of mortgages on their books are cautious going into 2021. If these major companies, which make most of their income off mortgages, are being cautious, so should you.

Instead of buying a house, you could hold off for now and put your cash into some resilient stocks, such as a utility like **Algonquin Power and Utilities**. This way, your cash can grow and earn passive income, in addition to being liquid.

Algonquin, for example, yields roughly 3.9%. That's close to the cap rate for most real estate assets across Canada. So, stocks like Algonquin can be a great substitute while you wait for the risk in Canadian housing prices to subside.

Bottom line

When considering buying a home, for whatever reason, it's crucial you do a tonne of research. Homes are often the biggest investment you'll make in your life, so make sure you check all the boxes and know all the risks before you pull the trigger.

If Canadian home prices do fall by the worst-case scenario of nearly 20%, that can erode a tonne of homeowners' equity they've built up. So, it's crucial you proceed with caution.

And if you need to wait on the sidelines for the risk in markets to cool off, there are a tonne of high-quality stocks that can grow your savings in the meantime.

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