Housing Crash Coming? Canadian Mortgage Arrears Are Skyrocketing

Description

The COVID-19 pandemic raged across the entire planet in 2020, impacting everything from how we move around to our economy. The global health crisis took a massive toll on all our lives in every respect. The housing market bubble was a serious concern for many Canadian investors as they feared that it would pop due to the harsh economic landscape.

The housing market managed to surprise everyone despite the grim outlook. The low interest rates allowed Canadians to take out more mortgages to buy homes despite the ongoing pandemic. Mortgage relief programs from financial institutions also eased homeowners' burden, driving housing market activity to inexplicable highs.

However, gray clouds are forming for homeowners and real estate investors buying up homes using mortgage loans. Canadian banks are seeing a higher rate of arrears on mortgages despite the support.

Canadian mortgage arrears during COVID-19

A period of at least three months of non-payment can qualify mortgages to be in arrears. The Canadian Banks Association (CBA) recently released data that revealed mortgage arrears rates jumped in May 2020. If a mortgage is in arrears in May, it implies that the borrower stopped paying in February, a month before lockdowns began.

The increasing mortgage arrears rate is a sign that non-payment issues were already in the works before the pandemic struck. It also means that that low interest rates and mortgage relief programs could not entirely avert the problem.

The national arrears rate is growing steadily during the pandemic. The rate hit 0.26% in May, 12.63% higher from May 2019. The current mortgage arrears rate is the highest it has been since April 2017. Surprisingly, the arrears rate increased despite monumental government support designed to stop this from happening.

While the rise in mortgage arrears is not too high on its own, the sharp increase despite government support is an alarming sign for the housing market.

Fitch Ratings forecasts look bad

The recent Fitch Ratings forecast is adding to a grim outlook for the housing market. According to a report from the firm, Canadian housing prices could see a drop between 3% and 5% in 2021 before they rebound in 2022. The prediction is significantly lower than the Canada Mortgage and Housing Corporation (CMHC) prediction of a 21% decline, but a drop is still on the cards.

Invest in recession-resistant real estate

If you are worried about a housing crash in Canada, it would be wise to avoid investing in residential real estate right now. However, you can still invest in the real estate market while avoiding the housing crash through a Real Estate Investment Trust (REIT) like **Summit Industrial REIT** (TSX:SMU.UN).

As its name suggests, Summit is a REIT that focuses on the industrial sector. Summit invests in a growing portfolio of light industrial properties throughout Canada. The trust is aiming to maximize funds from operations by acquiring assets that show gradual growth. The REIT has expanded its portfolio of properties with an optimistic long-term outlook.

The REIT claims that light industrial properties generate returns that are near the top of the Canadian real estate sector. Industrial properties generally have lower market rent volatility and operating costs. Additionally, the lower capital expenditures and maintenance costs mean that Summit will likely see decent cash flows from its portfolio.

Foolish takeaway

A housing crash is not guaranteed due to the Fitch Ratings forecast or the sharp increase in mortgage arrears rate. However, these two are significant signs pointing in that direction, and it would be wise to be cautious right now. If you want to invest in the real estate sector without exposure to the housing market, you can consider investing in a REIT like Summit.

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