Housing Crash 2021: The Bubble Is Getting Bigger

Description

Canada's housing market is stubborn and resilient. Despite a second consecutive month of decline in sales activity during November. Sales activities are up 32.1% year over year, and the Canada Mortgage and Housing Corporation (CMHC) says there is a grim picture of a housing bubble that keeps growing bigger.

CMHC has sounded the alarm of a major housing crash since the middle of the year. **Royal Bank of Canada** (TSX:RY)(NYSE:RY) has also made statements that corroborate CMHC's worries about the state of the housing prices. The largest financial institution in Canada has three different scenarios ready for a housing price decline in 2021.

I will discuss the scenarios presented by RBC and what you can do to protect your capital from the effects of a housing crash.

Best-case scenario for the housing market

The base case forecast by RBC is that the real estate prices will rise by 0.6% in the next 12 months. The compound annual growth in this scenario should be 4.5% for the next five years, and the growth is relatively flat.

The best-case forecast by the bank indicates growth in housing prices at the same rate. Ideally, it forecasts home prices to grow by 6.1% in the next 12 months with a compound annual growth rate of 11.1%.

Worst-case scenario for the price drop

RBC also has a worst-case scenario that you should consider. The bank predicts an almost 30% decline in housing prices in the next 12 months, with a 2.9% compound annual growth rate. Unfortunately, the bank's chief risk officer says that its worst-case forecast is the likeliest of the three.

Housing affordability improved in Canada due to the government's income support programs like the Canada Emergency Response Benefit (CERB). CERB and its alternatives allowed Canadians a boost in their household income. However, the bank noted that rising prices and falling incomes offset by government stimulus could backfire.

As the income support faded in Q3 2020, the bank observed a 3.1% decline in aggregate income levels. The bank concluded that Canada's median household would have to spend almost half of its income to carry ownership costs. The affordability is rolling back as prices continue to rise, and government stimulus reduces.

An ideal investment to consider

The decreasing government support as the economy normalizes means that home ownership could become problematic. It may lead to Canadian homeowners defaulting on their mortgage loans or selling their houses in a bid to avoid defaulting on their loans. The result could be a supply shock that could send housing prices declining significantly to fulfill the worst-case forecast by the bank.

While the bank is suggesting that the worst-case scenario is likely for the housing market, RBC remains an ideal income stock for dividend seekers. The $149.22 billion market capitalization financial institution is trading for $104.86 per share with a juicy 4.12% dividend yield at writing.

RBC has an impressive track record for paying its shareholders their dividends for the last 150 years — a fantastic feat because the bank has paid its shareholders through several periods of economic hardships without fail.

Analysts expect the bank's valuation to continue increasing as the economy recovers. The Canadian Dividend Aristocrat could prove to be a better way to park your funds for long-term passive income and wealth growth compared to the housing market.

Foolish takeaway

As the housing bubble grows bigger, the risk of a significant decline is getting closer to realization. RBC may have a grim prediction for a housing market crash, but the bank itself could be a viable alternative to residential real estate to protect and grow your capital.

I would recommend buying and holding RBC shares if you fear the effects of a housing crash. The stock could provide you with substantial long-term growth for your wealth due to its reliable track record.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. TSX:RY (Royal Bank of Canada)

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
2025/08/22
Date Created
2020/12/28
Author
adamothman