Mortgage Defaults Rising: Housing Crash in 2021?

Description

Experts and analysts have been predicting a housing market crash in Canada for the past several years. Most people thought that the onset of COVID-19 last year would undoubtedly catalyze what they have long been fearing.

Surprisingly, the housing market managed to confuse everyone in 2020 by showing resilience in the face of seemingly insurmountable odds.

This year might finally bring about the much-feared housing market crash in Canada. Several factors have contributed to keeping the market afloat, but one crucial factor could result in its downfall.

Let's discuss why housing prices might finally decline in 2021 and what you could do to protect your capital.

Supply and demand

When the supply is low, and the demand remains the same, prices of any commodity can continue rising. Suppose that there is a sudden increase in the supply while the demand remains the same. With a reduced number of buyers for more of the commodity, sellers will likely have to lower their asking prices to attract buyers.

The average prices of homes in major Canadian cities rose in 2020. However, the number of listings was fewer than normal. If more people feel inclined to sell their homes in 2021, but the demand doesn't increase to match the supply, we could see a supply shock that could send the prices dwindling down.

One major reason this could happen in 2021 is homeowners trying to avoid becoming mortgage defaulters.

Mortgage deferrals and their effect

The Canadian housing market has remained afloat due to several reasons. With interest rates remaining near all-time lows, homeowners have had an easier time borrowing to purchase homes. Additionally, financial institutions and other lenders provided homeowners with mortgage deferrals to Canadian homeowners.

Mortgage deferrals provided Canadians with financial relief. Canadians also received economic support from the government through the Canada Emergency Response Benefit (CERB) and other such programs. CERB has ended, and other stimulus programs replaced it. However, many Canadians are returning to work and are generating relatively lower income compared to CERB payments.

Mortgage deferrals also expired in the fall of 2020. With overall income decreasing and the financial burden of the deferred mortgage payments, Canadians might have a more challenging time paying down their debts.

Theoretically, Canadian homeowners who cannot pay down their mortgages might opt to sell their homes instead of defaulting on their loans. While it has not happened so far, it is a realistic possibility. If this happens and demand does not increase to match, we could see the supply shock that sends housing prices down.

Prepare for a housing crash

If you are worried about a housing market crash occurring, buying a home might not be the best option right now. You could consider investing in a home when prices are more affordable if you want to buy a home that you can live in. However, if you are considering buying a home purely as an investment, a Real Estate Investment Trust (REIT) could be a far better investment to consider.

REITs like **NorthWest Healthcare Properties REIT** (TSX:NWH.UN) do not have exposure to the housing market. It is also a more liquid investment that does not require substantial capital upfront. You can purchase shares of the company and receive returns from its revenues based on the number of shares you own.

A housing market crash will likely affect REITs in the housing segment, but Northwest Healthcare can provide you with relative safety from a housing crash. It invests in a portfolio of properties rented by healthcare providers in Canada and Europe.

Healthcare in both regions is publicly funded, providing stable revenues for the healthcare providers who rent NWH’s properties. It means NWH can generate virtually guaranteed income despite the economic circumstances.

Foolish takeaway

Investing in a REIT like NWH can let you capitalize on the returns of the real estate market without exposing you to the risks of a housing market decline. Additionally, you can enjoy the returns of a landlord without the hassle of managing the property. Investing in the REIT can let you grow your account balance through its reliable dividend payouts to become a wealthier investor in the long run.

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Author
adamothman