Here's a More Accurate View on Canada's Housing Market Crash

Description

Canada's housing market ended with another blockbuster year in 2020, despite the pandemic. While some investors and analysts kept blaring about a crash, housing markets did not even show signs of cooling. Interestingly, the country's real estate market might continue to soar higher in the new year.

Canada's housing market and an impending crash

According to a report by **Royal Bank's** Robert Hogue, the Canadian housing market could see a record-breaking year in 2021 and might see some cooldown in the next year. He estimates that sellers could continue to dominate housing markets driven by lower supply.

Canada's housing markets looked in big trouble, particularly around the mid-last year. The country's real estate prices have been zooming for the last few years. Amid the dreadful pandemic, the bubble seemed about to burst back then.

Last year, the Canada Mortgage and Housing Corp. (CMHC) predicted around 9-18% price correction in 2020 and recovery by mid-2021. The UBS Global Real Estate Bubble Index 2020 put Toronto in the risk zone.

However, buyers put their best foot forward. Amid record-low interest rates and more time being spent in homes, the housing market activity picked up steam again.

Notably, consumer sentiment should further improve this year, driven by mass vaccinations and broader economic recovery. The job market also should see significant progress in the next few quarters on the back of higher corporate investments.

Momentum to continue in 2021

Robert Hogue estimates the housing market to keep up the 2020 momentum this year as well. He expects the national aggregate benchmark prices to increase by 8.4% in 2021 and 3.9% in 2022 year over year. Lower supply will be the primary cause of the higher prices. He sees interest rates gradually rising later in 2021 or beyond, which could jeopardize the soaring housing market.

However, a sharp increase in interest rates is highly unlikely. In October last year, the Canadian central bank reaffirmed that it has no plans to change benchmark interest rates until 2023. Thus, improving finances of individuals post-pandemic coupled with record-low interest rates should prove to be the best combination for Canadian housing markets at least in 2021.

If you want to bet on the booming housing market, consider the top TSX stock **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM). It has big exposure to the country's housing market. The stock has soared almost 20% in the last three months. But it is still trading lower than its all-time high of $123 in late 2018.

A continued rally in housing markets and an ensuing improvement in its bottom line might drive the stock to those levels. Along with decent growth prospects, CM stock offers a juicy dividend yield of 5.2%.

In the last 12 months, CM stock has delivered total returns of almost 10%, beating the top Canadian bank stocks.

Bottom line

Indeed, the high-flying prices of the housing market here point to a concerning picture. However, fundamental factors like stable demand and affordability backed by interest rates might further push the real estate sector.

If you have the financial strength, it makes perfect sense to bet on this boom. Canadian housing markets might not cool anytime soon.

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