Housing Crash 2021: Get Ready for Record Mortgage Defaults

Description

The Canadian housing market has been evading what seems to be an inevitable price correction for several years. Average housing prices continue to increase, and despite several measures, homeownership is not becoming an affordable affair.

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Despite all the predictions for a housing crash, Canada's real estate markets are booming. Canadian real estate investors might be teeming with delight at the continuous bullish run in the housing segment, but lenders are preparing for mortgage losses.

The Bank of Canada has recently revealed data that shows lenders taking alarming steps in preparation for a significant housing crash.

Allowance for credit losses in Q3 2020

Allowance for credit losses is the amount that lenders set aside if borrowers are unable to pay their debts. When lenders expect people to default on their loan payments, financial institutions add more money to the cash pile.

Canadian mortgage lenders have increased their allowance for credit losses at an unusually fast pace. Allowances reached $3.9 billion in Q3 2020. The amount was up by a massive 22.01% from Q2 2020, representing a 54% increase from the same period last year. This increase in the allowance for credit losses is the highest rate of growth in over a decade.

Biggest growth loss allowance since the Great Recession

Mortgage loss allowances at Canadian lenders grew faster than the figures did due to the Great Recession. The allowance has been growing consistently since 2018, but the annual growth rate was not too significant. With Q2 and Q3, 2020, the picture changed. Q3 2020's annual growth has been the largest on record since 2009.

Lenders preparing for increasing mortgage defaults is a worrying sign. Financial institutions anticipate a significant decline but will be well prepared for an inevitable decline. Borrowers continue to capitalize on the low-interest-rate environment to take out more loans to purchase homes that they cannot afford. All these signs are leading towards an inevitable housing market crash that could leave a lasting impact on Canada’s economy.

A safer way to invest in real estate

If you have been eying the real estate sector as an investment, real estate investment trusts (REITs) could be a better way to invest than buying a home.

REITs like **Northwest Healthcare Properties REIT** (TSX:NWH.UN) could be an excellent way to enter a safer segment in Canada’s real estate sector without all the hassles or risks involved in the housing market.

Northwest is a company that owns healthcare properties throughout Canada and Europe. Its portfolio includes buildings rented by healthcare providers from hospitals to office buildings. Other REITs declined significantly during the pandemic, but Northwest continued to grow due to its defensive nature.

Healthcare is publicly funded in both of its major markets, allowing the company to earn virtually guaranteed cash flows. Northwest’s occupancy rate remains stable at 97.2%, and its revenue has grown 10.8% year over year for the last three quarters.

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Foolish takeaway

The Canadian real estate sector continues to have immense potential for investors. However, there is a lot more to it than just the housing segment. Northwest Healthcare Properties REIT shows that there are much safer ways to capitalize on the real estate sector’s returns than buying a home.

You can invest as much as you want without substantial upfront costs or borrowing money from lenders who are already preparing for a housing crash. Northwest could be a far better investment than buying a home in the current market.

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