CMHC’s 18% Housing Crash Prediction Was Totally Wrong

Description

Canada Mortgage and Housing Corp. (CMHC) must have underestimated the resiliency of Canada’s housing markets. CMHC’s dire prediction of an 18% housing price crash is contrary to the domestic housing market’s performance in 2021. CMHC president and CEO Evan Siddall points to unforeseen circumstances as the reasons for their forecast error.

Siddall said shifting preferences, heightened savings rates, a decline in immigration, and reverse urbanization are the unforeseen developments. Nearly 65% of respondents in a recent *BNN Bloomberg* survey believe that CHMC lost its credibility after their failed housing crash prediction.

The housing market is on fire

Last year was a record year for Canadian home sales. Based on data from all Canadian MLS Systems, the 551,000 residential sales were the new annual record. The activity is still on the rise in the first quarter of this year. Statistics released by the Canadian Real Estate Association (CREA) show that national home sales set another all-time record in January 2021.

CREA chairman Costa Poulopoulos said, “2021 started off just like 2020 ended, with a number of key housing market indicators continuing to set records … The two big challenges facing housing markets this year are the same ones we were facing last year — COVID and a lack of supply.”

Waiting in the wings

According to Shaun Cathcart, CREA’s Senior Economist, buyers and sellers are mostly still waiting in the wings at this time of year. In time, both will define the Canadian housing story of 2021. The real estate association expects a rush of listings when the weather and public health situations improve. More buyers will emerge and when the homes come up for sale.

The scenario now is sales edging higher while new supply is falling considerably. In January 2021, the national sales-to-new listings ratio tightened to 90.7%, the highest level on record. The previous monthly record was 81.5% 19 years ago. A big surge in supply could keep home prices from accelerating at the same pace they are now.

REIT for yield-hungry investors

For yield-hungry investors and Tax-Free Savings Account (TFSA) investors, **True North Commercial** (TSX:TNT.UN) is a profitable option and passive-income machine. The $566.43 million real estate investment trust (REIT) pays an over-the-top 9.05% dividend at a share price of only $6.56. The high-quality tenant base sets this REIT apart from its sector peers.

True North Commercial owns and operates only 47 commercial properties in five Canadian provinces. However, its long-term leases are with the government and credit-rated lessees. The federal government of Canada is the anchor tenant in 13 properties.

Other tenants include the provincial governments of Ontario, British Colombia, and New Brunswick, Alberta Health Services, and Ontario Power Corporation. In 2020, True North rent collections were approximately 99%, while the portfolio occupancy rate was 98%. The average remaining lease term is 4.7 years, although True North enjoys a high tenant-retention rate.

Beware of speculators

Canada's housing market broke CMHC's crystal ball, although Siddall said they never pretended to have one. Robert Hogue, an economist at **Royal Bank of Canada**, warns that rising prices often invite heightened speculative activity.

Meanwhile, Bank of Canada governor Tiff Macklem said, "The economy is weak. We are just coming out of the second wave, we need the growth we can get." He adds it isn't the right time to tighten rules, despite signs of excess exuberance.

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