Will the Canadian Housing Market Bubble Ever Burst?

Description

How resilient is Canada's housing market? Its performance during the COVID year answers the question. The 2020 health crisis is the worst in contemporary times, yet home prices soared like an eagle. Many industries across the country faced numerous challenges.

Housing prices generally fall in times of crisis. In the 2008-2009 financial crisis, new home prices dropped 3.1% year over year in August 2009. The federal government imposed strict lockdown measures in March 2020. However, its lifting ignited a housing boom like no other. The markets remain red hot in 2021, but will the bubble ever burst?

Buying frenzy amid the pandemic

Some industry experts see today's performance as very different, if not abnormal, from previous ones. Canadian home sales reach record levels last year, notwithstanding the global pandemic. With mortgage rates at historically low levels for the first time, the buying frenzy continues.

Economists and real estate analysts agree that the housing market developed a gigantic bubble. The Bank of Canada has been monitoring the rapidly increasing home prices, although it hasn't announced drastic measures to prevent a bubble burst. However, the surge appears unstoppable.

Data from the Canadian Real Estate Association (CREA) shows that national home sales in February 2021 were a new all-time record. CREA forecasts the national average home price to increase by 16.5% to just over $665,000 in 2021. The association expects home sales to stay strong, although it should cool off in 2022.

COVID-19 not a deterrent

Interestingly, COVID-19 didn't discourage buyers from scouting for homes, even in expensive markets. The market behaviour is odd, given the high unemployment rate. Likewise, job security is under threat. In the second half of 2020 and the beginning of 2021, realtors reported bidding wars.

The work-from-home policies also spawned a migration trend. Canadian families are relocating away from urban cities to find bigger dwelling places. Rising home prices are easy to absorb, because homebuyers have easy access to cheap credit. Canada Mortgage and Housing Corp. (CMHC) believes home prices in multiple Canadian cities are vulnerable to a correction.

Defensive REIT

With overvalued home prices in 2021, it's not the best time to purchase real estate investment properties. Investors could instead focus on real estate investment trusts (REITs).

Crombie (TSX:CRR.UN) is a passive-income machine. This $2.49 billion REIT pays a lucrative 5.63% dividend. Over the last three years, the total return was 52.99% (15.17% CAGR). At $15.78 per share, the real estate stock is up 11.63% year to date.

Crombie owns and operates 284 high-quality real estate properties (office, retail, and retail-related industrial). The 2020 challenges were unique, because property revenue and net property income dropped by 2.5% and 7.9% versus 2019. Still, according to Don Clow, Crombie's president and CEO, it was a display of stability.

This REIT brags a defensive annual minimum rent (AMR). Grocery and pharmacy-anchored properties comprise 77% of AMR, while essential services tenants contribute 68%. Only 8% of AMR comes from small-business tenants.

Government intervention

The pressure is building for the federal government to intervene and cool the red-hot housing market. However, according to Ahmed Hussen, Families, Children, and Social Development Minister, introducing a tax on residences or equity isn't on the table.

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