Alert! Canadian Housing Bubble: How Does it Affect You?

Description

Many economists and financial experts believe we're experiencing a Canadian housing bubble.

According to this article, ideally, home buyers should aim for properties that are at most four times their income. With Canadians' median after-tax income at about $63,290, it means affordable homes for single-income families are priced around $253,160.

Statistics Canada also revealed that "for non-senior families, where the highest-income earner was under 65 years of age, the median after-tax income was $93,800 in 2019. Couples with children's median after-tax income was $105,500." Affordable housing for these families is about $375,200 to $422,000.

Home prices have far exceeded that four-times-income standard. The Canadian Real Estate Association revealed that national housing prices have appreciated 25% year over year in February to $678,091, which is almost 11 times Canadians' income for single-income families and about seven times the income for non-senior families and couples with children!

Rising housing prices have been a problem in Vancouver and Toronto for years, but the problem has amplified and spread to other parts of the country amid the novel coronavirus pandemic, as Canadians prefer less-crowded places and houses/townhouses over condos.

Simply put, supply is limited.

How might a Canadian housing bubble affect you?

Recent buyers

For recent home buyers who have purchased a home within the last couple of years, they fear the Canadian housing bubble could burst soon. These homeowners are at risk of owing more money than what their homes are worth should prices fall.

If that really were to happen, these homeowners should tune out the noise and focus on the long term. Historically, there have always been corrections in home prices, but their prices tend to recover and appreciate over time.

Yes, having a mortgage on your back can be stressful. But you get to enjoy the fruits of your labour — your home — immediately. Focus on paying back that mortgage every month to reduce the financial stress bit by bit.

Homeowners and renters

Higher home prices mean higher strata fees for condos and higher property taxes for those with land ownership. If you're renting, that fee can get passed to you over time in rent increases.

If you have excess cash after building an emergency fund, consider investing in quality dividend-growth stocks like **Enbridge**, which yields 7.2%, **Fortis**, which yields 3.7%, and **CIBC**, which yields 4.7%. Other than their attractive yields, you can also expect dividend increases in the long run, which will help pay your rent or higher expenses for your home.

Canadians waiting to buy

Some Canadians buy immediately after they've saved a 5% down payment. Others save 20% to avoid paying the CMHC insurance.

If you've been waiting on the sidelines to save for a bigger down payment, you could potentially hasten your pace by investing some of your savings in the stock market.

If you're planning to save for a down payment for at least another three to five years, you might invest in growth-oriented dividend stocks, such as **Tecsys**, which has appreciated 540% in the past five years, or something like **Brookfield Asset Management**.

Notably, past returns are not indicative of further returns. The valuation you pay for a stock and the underlying business's future prospects and execution always play key roles in actual stock returns.

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Date
2025/07/25
Date Created
2021/04/13
Author
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