3 Factors Will Bring the Housing Market to Breaking Point

Description

Canada's housing market continues to defy gravity but the boom might eventually lead to a market correction. Tony Stillo, director of Canada Economics at Oxford, warns of a housing correction that should begin this autumn. His timetable is still far off but he forecasts a 24% decline in home prices by mid-2024.

Oxford economists also say that if home price growth maintains its rapid pace, the growing risk is that prices will crash and not just correct. Meanwhile, Stillo and his team cites three factors that could send the red-hot housing market to a breaking point. For real estate investors, deferring the purchase of investment properties might be a safe option right now.

Victim of its own success

According to Oxford, the market itself will cause the crash under the weight of its own success. It notes the median-income of Canadian households that is already 19% above the borrowing capacity. The economists expect that by mid-year, home prices will be 38% above what the average household can afford.

Higher borrowing costs

Many market observers believe the initial rate hike of the Bank of Canada will do little to cool down the market. However, the impact to homebuyers will be significant if aggressive or multiple increases follow. Oxford expects three more hikes in 2022, then the Feds will pause to assess the economy.

Gradual rate increases will follow until it peaks to 2% by mid-2024. Oxford predicts a 4.25% fixed-rate for a five-year mortgage by year-end 2022. Also, the rate should be around 5% later in the decade, Oxford adds.

Change in housing policies

Oxford doesn't rule out a change to the government's housing policies affecting the housing market. Among the proposals mentioned are the house-flipping tax and temporary ban on foreign ownership. There might also be taxes on non-resident-owned vacant homes.

Stillo said, "The fallout from a housing crash would look a lot like the U.S. housing meltdown during the global financial crisis, despite a minimal role for subprime lending in Canada."

Earn rental-like income

Property investors can invest in real estate investment trusts (REITs) instead of purchasing physical properties at inflated prices. **NorthWest Healthcare** (TSX:NWH.UN) and **Nexus** (TSX:NXR.UN) are the standouts in the sector. The former is the only REIT in the cure sector, while the latter is the soon-to-be pure-play industrial REIT.

NorthWest owns and operates medical office buildings, hospitals, and clinics globally. This $3.22 billion REIT is a great source of passive income owing to its generous dividend offer. For $14.27 per share, you can partake of the ultra-high 5.61% dividend.

Nexus was the top performing real estate stock in 2021 and continues to be steady performer this year. In 2021, the $1.02 billion REIT reported 36.1% and 165.5% growth in revenue and net income versus 2020. At only $12.98 per share, the corresponding dividend is 4.93%. REITs are the next-best alternatives to earning rental-like income at a smaller cash outlay.

Housing supply must increase

According to Oxford, the government must focus on increasing the housing supply. The affordability crisis is due to the market imbalance where demand outpaces inventory. If 2.35 million new units could be constructed this decade, Oxford forecasts home price growth to slow down to about 0.7% per year between 2025 and 2030.

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