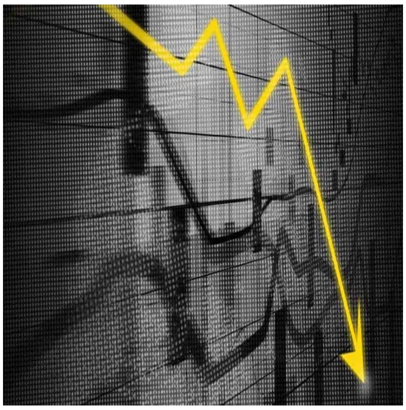

The Housing Market Is Finally Crashing: Should You Buy?

Description

Canada's housing market is crashing this year. In May, the average house price was $711,000, down more than $100,000 from the February peak of $816,000. It was the first major correction in Canada's housing market in a long time.

Canada notably escaped the 2008 U.S. housing market crash unscathed. That was great for owners but bad for buyers, because it helped Canada's housing market rise uninterrupted. The result was Canadian houses being about two times more expensive than U.S. houses in nominal terms (and 1.55 times more expensive in PPP terms).

With house prices coming down, many Canadians are interested in buying. If you have a lot of savings, it may make sense to buy now. However, interest rates are going up, so it's not as cut and dry as it seems. In this article, I'll investigate whether buying a house in 2022 is a good idea and make the case that it depends on your financial situation.

Why house prices are crashing

The main reason house prices are coming down this year is because interest rates are going up. The Bank of Canada is raising interest rates in order to combat high inflation. In some areas of the economy — such as housing — the strategy is working. House prices started to fall almost at the same time that the Bank started raising rates. That seems good on paper, but you need to remember that interest is itself a cost. If you buy a $1 million house and interest rates go from 2% to 5%, that's $30,000 in extra annual interest expense. So, the matter isn't as simple as it seems.

Effects could spill over to the rest of the financial system

Another thing you need to keep in mind with rising interest rates is their effect on the financial system. Banks like **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) make their money by originating mortgages and other loans. Higher interest rates give them higher profit margins, but they also make lending more expensive to consumers. Banks know this, so they often scrutinize borrowers more closely in times when interest rates go up and especially during bear markets.

If you go into one of CM's branches and tell them you want to buy a $300,000 house, they're more likely to give you the loan at a 2% interest rate than a 5% interest rate. After all, with lower interest rates come lower expenses.

Foolish takeaway

Having explored all the relevant factors that could influence your buying decision, it's time to answer the question: Should you buy a house in 2022?

It depends on how much you have saved. If you have hundreds of thousands of dollars sitting around ready to go, you'll definitely be more able to afford a home this year than last year. But if you've only got a $10,000 down payment, then you are looking at a rather enormous amount of interest expense. As with everything else, it depends on your financial situation. So, speak with an advisor before buying a home. You may be surprised and enlightened by what you hear.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. TSX:CM (Canadian Imperial Bank of Commerce)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. andrewbutton
2. kduncombe

Category

1. Investing

Date
2025/07/21
Date Created
2022/06/27

Author
andrewbutton