Is the Canadian Housing Market About to Crash?

Description

Recent reports forecast a decline of 15-20% of housing prices in Canada. Particularly, in June, *CTV News* published that a report by Desjardins called for a 15% drop in the average home price from over $790,000 in February 2022 to $675,000 by December 2022. And that the correction in the Maritimes could be worse because of the flock of people that moved to Prince Edward Island, Nova Scotia, and New Brunswick when Canadians were able to work remotely during the pandemic.

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Jimmy Jean, chief economist and strategist for Desjardins, noted that greater levels of immigration, shortage of housing supply, and strong demand will lead to a decline in home prices that's "fairly manageable" before stabilizing.

A Canadian housing market crash is too strong a description. "Our expectation is for the housing market to cool to moderate, but we're not expecting any collapse by any measure," Jean told *CTV News*.

Jean also explained that homeowners who are living in their homes shouldn't be concerned. Housing is a long-term investment, seeing as the most common amortization period for a mortgage is 25 years. "Over the long term, things will stabilize and pick up again," said Jean.

The news article said, "But it's a different story for real estate investors who were expecting huge gains from rising housing prices." Jean shed more light on this matter: "If you rent out a property and don't collect enough in terms of rent to make up for the mortgage costs or the utility costs, those decisions were still justified by the idea that prices would keep appreciating," he said. "Now, it's another story."

The Canadian housing market may be more resilient than you think

Yesterday, the news reported that Canadian creditors are also required to look at other debt of prospective homeowners, the income they earn, and investments they have before determining how much to lend for mortgages. That is, creditors focus on prospective borrowers' ability to pay back the loan.

In contrast, U.S. creditors look at how much assets can be used to pay off the mortgage. Historically, less than 1% of people in Canada can't pay back their mortgages. Recently, it was 0.19%, which shows Canadians have a strong culture of making mortgage payments, even if it means cutting back on other expenses, including food.

Additionally, mortgage insurers also exist as a safety net. For home purchases that are below $1,000,000 and paid a down payment of less than 20%, you'll need to get mortgage loan insurance.

For example, in 2020, 71% of insurance on **CIBC's** Canadian residential mortgages was provided by CMHC and the remaining by two Canadian private insurers that were both rated at least AA (low) by DBRS, as explained in the big bank's 2021 annual report. This is reassuring to know for CIBC stockholders because Canadian residential mortgages are a big part of its business, making up close to 66% of its total loans in Canada at the end of fiscal 2021.

Ratehub noted that while homeowners having a down payment of 20% won't be paying the CMHC insurance premiums, coverage is still available to their lenders, who will often take out CMHC insurance on the mortgages anyway.

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