Canadian Housing Crash: Save a Deposit for Opportunities!

Description

The Canadian housing market crash is underway. Interest rates have jumped significantly, which has priced out most buyers. Meanwhile, sellers are still in denial about their overvalued house prices from 2021. Unsurprisingly, the market is adjusting to this new reality and prices are coming off their peak.

In Toronto’s suburbs, detached house prices have dropped double digits. The average price in Brampton dropped from $1.6 million in January to $1.24 million today — a 25% dip. Sales in Victoria, British Columbia have dropped 26% on an annualized basis and prices have started to cool off, too. This story is playing out across the country.

The housing market crash could be an excellent opportunity for young investors to finally get on the property ladder. If you’re looking to buy, here’s how you can prepare.

Interest rates

The engine driving this housing market crash is interest rates. The average five-year fixed mortgage jumped from roughly 2% last year to over 5% this year. That’s priced out most buyers, who were already stretched with record-high prices.

Experts believe the interest rate could climb higher. The Bank of Canada is likely to raise its prime rate by 75 basis points (0.75%) in the upcoming meeting on July 13th. That would create more pressure on home prices across the country.

Valuation

Despite the recent dip, Canada’s housing market remains unbelievably overvalued. The average home costs $711,316, whereas the average household earns just $66,800. That’s a price-to-income ratio of 10.6 — significantly overvalued.

Some experts believe that a deep correction (over 30%) may be needed to make home valuations justified. If the current trend continues, we could get to these levels by 2023. That means home buyers with enough cash for a down payment could have excellent opportunities next year.

To protect or expand your down payment in the year ahead, you could consider investing it in a robust dividend stock.

Down payment

If you earn above-average income and have a six-figure down payment ready, you're in an excellent position. Your dream home could look affordable by 2023. Until then, you need to protect and expand your savings.

You could put your money in a savings account, but you risk losing some value to inflation. Instead, investing in a robust dividend stock like **Enbridge** (TSX:ENB)(NYSE:ENB) could be a better idea.

Enbridge isn't an oil producer. Instead, it operates the largest network of oil and gas pipelines across North America. That's a safer business model. Enbridge stock is far less volatile than other oil and energy stocks.

Enbridge also has a robust dividend policy. The stock offers a 6.46% dividend yield at the moment. That roughly offsets the inflation rate. In fact, Enbridge hopes to expand its dividend payout by 5-6% annually for the next few years. That means the total return should be even higher.

Potential homebuyers should keep an eye on the housing crash and secure their funds with a robust stock like Enbridge in the interim.

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