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Canadian Real Estate Prices To Fall Up To 26%, Bay Street Firm Warns Institutions

Canadian real estate prices may take a big tumble, Bay Street researchers warn. Veritas Investment Research, a prominent Canadian firm, sent institutional clients a real estate forecast. The firm warned real estate price declines are unlikely, except in the event of supply shock. They now believe supply shock may arrive soon, and can send prices up to 26% lower.

About The Numbers

Veritas' analysis is geared to investment managers, so it's different from a bank forecast. The firm used regression analysis in its conclusion with various risk scenarios. They concluded months of inventory has the highest correlation with prices. Recently, the market has been tight, sending prices higher during a recession. They believe that's about to change when mortgage deferrals expire, and things get back to "normal."

The firm's model is based on a percent of mortgage payment deferrals turning into inventory. They gave scenarios for 5%, 10%, or 15% of homeowners with deferrals turning into sellers. This isn't the same as assuming they'll default. While some people will default, you typically never default if you can sell first. Canada's tight housing supply means most people can do that, instead of defaulting. This is a point the CMHC has recently made as well, so it's not an outlandish assumption. It's actually an ideal scenario.

We should also first add, they warned clients about the uncertainty during the pandemic. Since pretty much nothing has been predictable, they're advising clients to watch the months of inventory closely. In other words, do your own due diligence, but this is what they're watching for and expect at this time.

Canadian Real Estate Prices To Drop Up To 11%

Canadian real estate prices are expected to make modest to substantial declines. The firm's model suggests potential price declines between 4 and 11 percent. As stated before, this is based on the assumption inventory will rise as a result of deferrals turning into listings. This doesn't include additional supply, which Canada is currently building records amounts of, and is often flipped back into resale markets.

Toronto Real Estate Prices May Drop Up To 26%

Toronto real estate has the largest dive in the forecast. The firm expects a potential price drop between 15 and 26 percent. For the regional models, they assumed a distribution of deferrals was similar to that of all real estate markets. However, CMHC deferral data shows Toronto may be overrepresented in the deferrals.

Vancouver Real Estate Prices To Drop Up To 17%

Vancouver real estate's prices are forecasted to make a smaller drop than Toronto. The firm sees a potential price drop between 10 and 17 percent. They are once again assuming a proportional distribution of deferrals. Worth mentioning, the CMHC also forecasted smaller price declines for Vancouver as well. However, their numbers didn't show as quick of a recovery for prices as Toronto.

The firm expects this price movement around six months after the inventory increase. The timeline puts it fairly close to when the CMHC has been forecasting. The forecast is a little more aggressive than those of banks and other vested interests. However, it's similar to what other institutional risk advisory firms have forecasted. It's also similar to Canada's state-backed mortgage insurer.