7 Remarkable Numbers From Canada's Housing Market

Description

No doubt real estate has been the saviour of the Canadian economy. Mostly thanks to all of those condo towers and housing developments, the country escaped the worst of the Great Recession.

Since the housing bull market began 20 years ago, the industry has posted some truly incredible figures. Here are the top seven most remarkable numbers from the nation's real estate market.

1. 150% price increase

According to the Canadian Real Estate Association, the average house in Canada sold for $152,378 in 1998. Today, the mean house price has ballooned to $379,725. This represents a 150% price appreciation over that time frame — one of the best performances in the industry's history.

2. 7.8x income

As you might expect, real estate prices have handily outpaced incomes. Over the past 15 years, the average full-time salary has increased at a 2.5% annual clip, versus house prices that have grown at a 6.3% annual pace.

Historically, financial advisors recommended spending no more than three times your income on a house. This advice now seems hilariously out of date. Today, the typical Canadian pays 7.8 times their salary to purchase a home.

3. 163% of disposable income

How did this happen? Canadians have opened their wallets and taken on record amounts of debt. According to Statistics Canada, household debt-to-disposable income hit a record 163% this year. That's approaching the peak levels where the U.S. and the U.K. topped out when their housing bubbles burst.

4. 27 times rent

This debt binge has produced some eye-popping valuations. Today, Canadian real estate is priced at 27 times annual rental income. In certain cities, the figures are even more outstanding. In Toronto, the average home sells for 37 times average rental income. In Vancouver, it's 60 times annual rents!

This is well outside historical averages. Over the past 50 years, Canadian real estate nationwide traded between 15 to 20 times rental income. According to a recent report from the OECD, the nation's housing market is about 60% overvalued based on long-term price-to-rent averages.

5. 4.23% dividend yield

High valuations aren't limited to the residential housing market. In a desperate bid for yield, investors have turned to real estate investment trusts, or REITs, to generate income. This spring, the yield on the **iShares REIT Index Fund** (TSX: XRE) hit a record low of 4.23%. This is notable because the index historically has yielded between 7% and 8%.

6. 53,000 units

In the Greater Toronto Area there are 171 condo developments and more than 53,000 condo units under construction. That's twice the rate of New York City — an area with three times as many inhabitants.

7. 13.5% of jobs

A booming real estate market has fundamentally reshaped the country's economy. Today, residential construction now accounts for 7.9% of Canadian gross domestic product. That's the highest since 1987.

Today, 13.5% of all jobs in Canada are linked to the construction industry — the highest proportion in 40 years. Compare that to the United States, where only 5.8% of jobs are related to construction.

The Foolish bottom line

It's hard to argue that the numbers coming out of the Canadian real estate industry are not ominous. Much of its impressive performance has only been made possible through ample quantities of cheap debt.

Our job as investors is to identify great businesses trading at reasonable prices — not to call tops in the real estate market. However, this will be an important development and something investors should watch closely.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:XRE (iShares S&P/TSX Capped REIT Index ETF)

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