Waiting for Canada's Housing Market to Crash Before Buying a Home? Get Ready to Wait a Long Time

Description

Are you a Canadian waiting for house prices to come down before buying?

If so, you should be prepared to wait a long time.

That's the implication of a Canadian Real Estate Association (CREA) news release, which forecast continued strength in Canada's housing market through 2020.

The report stated that home prices increased 9.6% year over year in December, adding that supply shortages continue to put upward pressure on prices. Millennials entering their 30s are eager to buy homes, but baby boomers aren't looking to downsize. When you add these factors together, you've got a recipe for continued strength in housing.

While markets in the prairies and Newfoundland remain stagnant, most of the rest of the country is heating up. The following are two big reasons why.

Supply shortages abound

According to the CREA, supply shortages are the main reason for continued strength in Canada's housing market. In December, new homes for sale slid 1.8% nationally, falling even more in Ottawa and Toronto. This tilts the housing market in favour of sellers.

There are some individual provinces where buyers have the edge, such as Alberta, but those are the exception, not the rule. Even previously languishing markets like New Brunswick are showing gains in today's red-hot housing market.

Demographic factors

Demographics can partially help explain why Canada's housing market is so hot. According to Shaun

Cathcart, CREA chief economist, baby boomers are largely *not* selling their homes, contributing to lower supply.

At the same time, as millennials approach their 30s, their purchasing power is increasing, driving more demand. The end result is upward pressure on house prices.

Population growth is also a factor, especially in large cities. In 2018, Toronto was the fastest-growing city in North America, according to research by Ryerson University's Centre for Urban Research and Land Development. New residents means more people need housing, so it's no surprise that Canada's big cities are seeing house prices soar.

What to buy

If you want to profit from Canada's hot housing market but can't afford a mortgage, one option you can consider is investing in a REIT like **RioCan Real Estate Investment Trust** (TSX:REI.UN).

RioCan is a commercial and residential REIT that owns many "trophy" properties in Toronto, one of the country's hottest real estate markets.

Traditionally, RioCan focused on "big-box" retail spaces but has recently been expanding more into commercial space — with great success. In its most recent quarter, RioCan posted $177 million in quarterly earnings (up from $130 million a year before) and $625 million for the nine-month period (up from $385 million). It goes without saying that this is scorching hot growth, but what's even more remarkable is where the growth is coming from.

According to RioCan's Q3 report, gains in residential leasing revenue and inventory were major contributors to the quarter's growth. This suggests that the REIT's investments in residential property are paying off, lessening the company's dependence on retail tenants (many of which are suffering from the growth of e-commerce).

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