Housing Market Update: Canadian Home Prices Jumped 6.5% in June!

Description

Ever since the COVID-19 pandemic hit Canada, there's been much speculation about the effect it would have on the housing market. Initially, it was widely expected that the pandemic would lead to fewer sales and lower prices.

The CMHC at one point forecast that prices would fall 9-18%. That didn't materialize. While house sales slowed down, fewer sales didn't add up to lower prices. And while the CMHC is still forecasting more modest declines for 2020, it's beginning to look like we avoided a worst-case scenario.

The Canadian Real Estate Association recently announced that Canadian home prices jumped 6.5% in June. That's not exactly an unbiased source, since it's an association of realtors–who have a vested interest in portraying the housing market as strong. Nevertheless, it is consistent with other reports we've been seeing from large markets in Toronto.

Housing market heating up

In June, the housing market heated up by many metrics. As just mentioned, house prices increased by 6.5% year over year in June. They also increased by more than 10% compared to May. New listings and sales volume also increased. And it's not just the CREA that's reporting these kinds of figures.

Earlier this month, the Toronto Real Estate Board reported that home sales increased by 12% year over year in June. That's a big jump, and it looks like we're seeing similar — albeit more modest–gains in other markets.

How about REITs?

A hot housing market is undeniably a good thing for homeowners and sellers. For certain types of buyers, though, it can actually be a negative. The more house prices climb, the larger a mortgage you'll have to take out to buy one. That means more years of paying off the mortgage, and more income lost to interest payments.

Even before COVID, housing affordability was becoming a major concern in Canada. Now, the situation is even worse, with house prices going down while unemployment remains high.

However, you can get a low-cost piece of the real estate market by investing in REITs. REITs don't exactly invest in houses–it's more office space and apartment buildings–but all segments of the real estate market are correlated. So REITs can be a pretty good proxy for the rental home you're not quite ready to buy.

One solid Canadian REIT right now is **RioCan Real Estate Investment Trust** (TSX:REI.UN). This REIT owns a mix of residential and commercial properties, including ones that house big box stores. As you might imagine, this REIT took a bit of a hit in the first quarter.

With retail practically closed down, its earnings declined from $190 million to $102 million. It also suffered collections issues. However, the REIT's long term prospects are solid. It's based in the high-growth Toronto market, and holds 51% of its properties there.

Despite the Q1 COVID headwinds, this REIT is set to grow with the broader real estate market — a solid real estate bet for those not yet ready to buy a house.

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1. TSX:REI.UN (RioCan Real Estate Investment Trust)

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