Housing Sales Are Red Hot in Canada But Could Crash at Any Time

Description

The year that just passed saw a buying frenzy in Canada's housing market. COVID-19 spurred home sales after the lifting of lockdowns. Data from the Canadian Real Estate Association (CREA) shows that the national home sales level in November 2020 remains historically strong. Real estate markets posted double-digit growth except for two cities: Thunder Bay and Trois Rivieres.

Home sales and prices soared in Canadian cities last year amid the unprecedented economic slowdown. The 2021 RE/MAX Housing Market Outlook Report estimates a 4-6% increase in the average residential sales price nationwide. However, some market observers believe trouble is coming , and the hot housing conditions might end in 2021.

Boom train

CREA forecasts a 9.1% jump in house prices this year. Real estate agents and experts in Calgary, Montreal, Toronto, and Vancouver are just as optimistic. All of them anticipate prices, especially for mid-range detached homes, to go up because of the relocation trend. Buyers who want to move up or move over will keep the housing market healthy.

According to Christopher Alexander, executive vice-president and regional director, RE/MAX of Ontario-Atlantic Canada, significant lifestyle changes in households are happening. Families are relocating to less-dense cities and neighbourhoods. It was the reason why sales in suburban and rural parts of Canada were over the top in 2020.

From weakness to strength

The present housing boom is unlike the previous ones. Shaun Cathcart, CREA's Senior Economist, said the market has gone from weakness because of COVID to strength despite COVID. While the pandemic endangers Canadians' incomes and livelihoods, the ultra-low interest rates make it attractive for first-time homebuyers.

Most economists expect the Bank of Canada to maintain the rate at the “effective lower bound” of 0.25% until the second half of 2022. However, the banking giant **Royal Bank of Canada** predicts the rate to rise 0.5%. It also warns that Canada could be facing a potentially historic housing correction.

Standout REIT

Canadian real estate investment trusts (REITs) are great passive-income sources, although some REITs suffered a devastating blow in 2020. Top retail REIT **RioCan** slashed dividend payouts by 33% due to the challenging environment.

However, **Summit Industrial** (TSX:SMU.UN) stood tall as a passive-income machine. The industrial REIT held steady and delivered an 18.5% total return besides paying a decent 4.04% dividend. This $2.22 billion REIT is benefiting from the e-commerce surge.

If you want exposure to the real estate sector without owning real property and a lower cash outlay, Summit Industrial is your best option. You’ll become a pseudo-landlord to a portfolio of high-quality light industrial properties. The REIT is enjoying a high occupancy rate, because generic-use spaces are in high demand.

Summit Industrial owns and operates 160 properties, 81 of them (51%) are in Ontario. Properties in the light industrial sector are proven asset classes on account of long-term strength and stability. The key takeaways to invest in this REIT are low market rent volatility and stable, enduring cash flows.

Rosy outlook with reservations

The outlook for the Canadian housing market is rosy in 2021. However, sales could suffer, not because of lack of demand, but because of limited inventory. But according to investment research firm Veritas, home prices could plummet once mortgage-deferral arrangements end.

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