Housing Market Defies All Odds and Smashed Records in 2020

Description

Canada's housing market was distinct among all markets in 2020. The country is in a recession due to the pandemic, yet real estate sales are smashing records. Sales sunk to historic lows in April and May but came back strong after the lifting of lockdowns. The 47.2% 12-month unadjusted growth rate in December was the highest since the Great Recession.

The housing market displayed unusual behaviour amid the stay-at-home directives. Buyers delayed purchases at first, then came a buying frenzy, resulting in unprecedented seasonal peaks.

Defying all odds

National home sales in December 2020 were another all-time record based on data from the Canadian Real Estate Association (CREA). The month-over-month sales rose 7.2% to bring the actual year-over-year activity (not seasonally adjusted) to 47.2%.

In the same month, the actual national average sale price (not seasonally adjusted) saw a 17.1% year-over-year gain. The sales in two of Canada's most active and expensive housing markets — Greater Vancouver and the GTA — heavily influenced the month's national average price ($607,280).

On the whole, the 551,392 homes that traded hands over the Canadian MLS Systems in 2020 was a new annual record. It was a 12.6% increase from 2019 and 2.3% above the previous record in 2016. Sales in nearly every market soared due to low mortgage rates, and many Canadian families' desire to move to bigger dwellings.

Market outlook 2021

Robert Hogue, an economist at **Royal Bank of Canada**, sees little that will stop activity or prices from reaching new heights in 2021. Doug Porter, the chief economist at **Bank of Montreal**, said, “This sweeping strength in sales heavily suggests that what’s driving this market are broad overall factors and not local economic factors.”

However, CREA’s senior economist Shaun Cathcart thinks a major supply problem loom. This year started with fewer than 100,000 home listings — the lowest ever recorded in CREA’s system. The record-high demand and record-low supply could impact prices.

Resilient industrial REIT

A year ago, the real estate sector was the second-worst performer (-14.17%) among the 11 primary sectors on the TSX. Canadian real estate investment trusts (REITs) are the private real estate market’s stock market equivalents. While the property market was booming, COVID-19 was whipping retail and office REITs.

Industrial REITs like the **Dream Industrial** (TSX:DIR.UN) proved steadier amid the pandemic. This $2.02 billion REIT held steady and rewarded investors with a 6.5% total return on top of a high dividend yield. The stock trades at $13.27 per share today and pays a 5.38% dividend.

Dream Industrial has big plans in 2021, including adding scale in its target markets. The REIT is acquiring more assets in Ontario, Quebec, Europe, and the U.S. Midwest. According to Brian Pauls, Dream Industrial’s CEO, the high-quality properties worth $465 million are well suited for e-commerce use.

In the nine months ended September 30, 2020, Dream Industrial reported $118.6 million in net income, 63% higher than the same period in 2019. Rent collections (adjusted for CECRA and deferrals granted) in Q3 2020 was 98.2%. If you want to earn passive income in 2021, this REIT is the top pick for income investors.

Higher growth

Market analysts still expect higher growth in Canada’s housing market, although it should taper off in the second half of 2021, at least. Some even predict the work-from-home policies will outlast the pandemic.

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