Canada’s House Prices Jump 46% Over the U.S.’s Prices

Description

Recently, **BMO** released a study showing that the average Canadian house was 46% more expensive than an average American house. The math accounted for exchange rates and purchasing power, so it’s talking about the real cost to the buyer. Driven by surging real estate prices, Canadian real estate has become among the least affordable in the world.

In this article, I’ll explore why Canadian houses have gotten so expensive and what Canadians can do about it.

House prices have surged this year

Canada’s hot 2020 housing market was a big part of the Canada-U.S. house price gap. According to *CNBC*, the average U.S. house price rose 7.9% last year. That was framed by *CNBC’s* reporters as a big gain for U.S. homeowners. But according to the CREA, *Canada’s* houses rose 18.5% on average nation-wide. Looking at some individual markets, we see figures that would agree with that:

- Ottawa: prices up 19-20%.
- Toronto: prices up 13.5%.

Interestingly, these gains haven’t affected all housing sub-sectors equally. According to a recent *Toronto Storeys* article, the average condo in that city actually declined in price by $60,000 last year. But single-unit homes surged, leading to overall strong gains in the housing market.

Some predict a correction

Early in 2021, some experts think a housing market correction is imminent. Many of them were saying the same thing last year and ended up being wrong. But now, the chorus is growing louder. Recently, the CMHC stress tested a 50% “worst-case scenario” crash while calling 14% “more plausible.” None of the scenarios in the CMHC’s stress tests showed gains.

An alternative real estate investment

If you want to get into the housing market now but think prices are too hot, you have options.

One option is to wait for a future correction and buy then. Doing this would seem to comport with what many experts predict. But fair warning: if interest rates rise more than house prices fall, the total cost may still rise.

Another alternative — if you're just interested in real estate *investments* rather than property to live in — is REITs. REITs are pooled investment companies that own diversified real estate portfolios. They buy and trade in the market like stocks, and you don't need a mortgage to buy them.

Consider **Northwest Healthcare Properties REIT** (TSX:NWH.UN), for example. It's a healthcare REIT that currently trades for $13.07. Whether you're looking to invest $1000, $10,000, or $100,000, you could establish a position in it easily. The REIT has a 6% yield, so you'd get $6,000 back in annual cash income on every $100,000 invested.

The ease of buying REITs like NWH.UN isn't the only reason to like them. They also offer some intrinsic advantages over housing as well. Currently, house prices are going up while rent is going down, so the income potential of individual houses is declining. With REITs, however, steady, growing cash flows are the norm. As of August, NWH.UN had $12.37 in NAV per unit. So, the stock is only slightly more expensive than the assets themselves. This would arguably make the REIT undervalued. And with a 6% annual return from dividends alone, it certainly compares favourably to a direct investment in today's housing market.

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