Over 100,000 Canadian Renters at High Risk of Default: Is a Housing Correction Coming?

Description

The data released by the Canada Mortgage and Housing Corporation (CMHC) regarding rent in arrears at purpose-built rentals in 2020 doesn't look good. In October 2020, 125,200 Canadians were behind on rent. The figure represents nearly 6.11% of private rental stock, while the total past-due rent is around $156.79 million.

This new development might impact the Canadian real estate market, which has defied gravity, despite the national lockdowns and the global pandemic. Will growth return to more sustainable levels and prices finally fall in 2021?

Snapshot of the 2020 rental market

Because of the COVID-19, finding affordable rental housing became a challenge for tenants last year. While arrears rose across the country, rent also increased. In the Census Metropolitan Area (CMA), the overall rental rate climbed 3.6% to $1,165 from $1,113 in 2019.

Of the total 1,912,290 in Canada's CMA, 116,929 apartment units were in arrears, while the vacancy rate increased to 3.2% compared to 2% in 2019. Likewise, the survey suggests that the 6.11% units in arrears were those apartment structures charging much lower rents.

Notable data was the 65% decline in the turnover rate, indicating families were reluctant to move or look for new apartments during the health crisis. But due to high competition, vacancy rates in most affordable units were generally lower. Toronto, the largest market, recorded the highest arrears figure with one in three renters in arrears.

Housing market outlook 2021

CHMC, real estate firms, associations, banks, and rating agencies have different forecasts for 2021. The Canadian Real Estate Association (CREA) and RE/MAX predict healthy housing price growth of

9.1% and 4-6%, respectively. **Royal Bank of Canada** predicts 8.4% growth, as it sees little that will stop activity or prices from posting new highs.

Among the big banks, only **National Bank of Canada** has a negative outlook (-5.2%). CHMC sees a -9% to -18% pre-COVID peak-to-trough decline in 2021, while Moody's Analytics and Fitch Ratings forecast -7% and -5%, respectively. The varying forecasts only show no one knows for sure what's next.

Most in-demand REIT

Investors can have exposure to Canada's real estate sector indirectly and in a less-costly way. Real estate investment trusts (REITs) in the industrial sector can provide stable and secure investment returns. The top-of-mind choice today is **Summit Industrial** (TSX:SMU.UN).

E-commerce exploded when the global pandemic broke out, and so did the rental business of landlords with light industrial properties. Summit Industrial owns 161 best-in-class, generic-use real estate properties that tenants can use as warehouses, storage facilities, and distribution hubs.

Some clients could even set up light assembly and shipping plants as well as call centres. Since the properties are highly marketable, there's lower market rent volatility. Summit Industrial will continue to generate stable cash flows, making it a cash cow for income investors.

You can purchase the stock at $13.58 per share and partake of the 3.98% dividend. A $125,000 position will produce an annual passive income of $4,975. Analysts also forecast the price to climb 12.3% to $15.25 in the next 12 months.

Unpleasant surprise possible

The varying forecasts only show that no one knows for sure what's next. Economists think a hangover later this year is possible. However, the hot housing market's continuation in 2021 will depend on interest rates, vaccine outcomes, and buyer psychology.

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cliew