The Housing Market Charges Ahead: Led by 52% Home Sale Increase in Toronto

Description

Home sales in Canada remain high, despite the harsh winter and return to COVID-19 lockdowns. The demand isn't slowing down, particularly in the largest housing market. Greater Toronto Area (GTA) Toronto led the way following a 52.4% year-over-year increase in January 2021.

Based on data from the Toronto Regional Real Estate Board (TRREB), the average selling price for all homes sold in the region rose 15.5% to $967,885, with 6,928 home transactions in total. Will the housing market sustain the torrid pace and not spiral out of control soon?

Unprecedented COVID year

The global pandemic did not dampen the overall housing market demand in 2020. Instead, it was an unprecedented year and a record-breaking December for Canada's real estate. Jason Mercer, the chief analyst at TTREB, said an economic resurgence post-vaccine and supportive demographic trends would likely push prices higher.

In Toronto, larger homes posted the highest annual price increase. Detached homes now sell at $1.35 million on average — a 31% year-over-year jump. For sold semi-detached and townhouses, the average prices increased by 26% and 32%, respectively. Only the condo market remains weak, with a 5% decrease in average prices.

Factors for pent-up buyer demand

Other housing markets saw a growth surge in home sales during the month. Ottawa reported a remarkable 21% year-over-year increase in residential-property class home sales. The Real Estate Board of Greater Vancouver (REBGV) said that residential home sales in the region rose by 52.1% compared with January 2020.

Market analysts say the pent-up demand and continued growth in Canada's housing market are due to the loose monetary policy, especially the record-low mortgage rates. The Bank of Canada is likely to keep rates low until 2022. Also, a tight inventory of available properties will help drive prices higher.

Only a few experts expect a wave of delinquencies, defaults, or foreclosures in 2021. Debt levels are higher today than 30 years ago, although interest rates are exceedingly lower. According to Moody's Analytics, if home prices were to fall, it would only be by 5% or thereabout.

Superb passive-income machine

Despite the surging housing market, real estate investment trusts (REITs) didn't roar in 2020. Instead of a boom, Canadian REITs in the retail and office sectors suffered heavy losses. However, the 2021 Global Real Estate Outlook expects Canadian REITs to deliver 10-12% this year.

If you want exposure to the real estate sector, **Summit Industrial** (TSX:SMU.UN) is a passive-income machine (3.93% dividend). Industrial REITs have been resilient throughout the pandemic, partly due to the e-commerce explosion. The light industrial properties of this $2.29 billion REIT are highly marketable and for generic use.

E-commerce retailers can use the real estate properties as distribution hubs, warehouses, and storage facilities. Other uses for the best-in-class assets are call centres, light assembly and shipping plants, and service centres. In 2020, the stock delivered a total return of 18.4%. Analysts forecast the price to climb 11% to $15.25 in the next 12 months.

Threats to the housing market

While Canada's housing market remains resilient, there are threats to further growth. Among them are further lockdowns, a slow vaccine roll-out, and a depressed job market. Also, the upward trend might not hold if there's no real wage growth.

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