Can the Housing Market Keep Up This Insane Growth Rate?

Description

The Canadian housing market started growing at a rapid pace about two decades ago. The so-called housing “bubble” has been blowing since 1996. There have been dips and statistic periods as well, especially in 2018 when many were convinced that the bubble would finally burst. But 2020, which could have been a year when the bubble finally popped, actually propped up the market even more.

Insane housing market growth

The housing market in Canada saw a steep dive in the number of houses sold in April. This coincides with the stock market dip. But the sales rose substantially in the month of July, beating last year’s July sales by a substantial margin. The trend continued throughout the year.

While the sales followed the yearly housing market pattern, the difference in sales number has been significantly higher than it has been in any two consecutive years in the past few decades.

In January 2021, there were about 36,897 sales reported on the MLS, which is 35.2% higher than 2020’s January numbers. The trend is expected to soften up in the coming months. Real estate experts believe that “cheap money” is fueling this trend. Once the effect of the government pouring money into the economy fades, the chances are that the momentum of the housing market will slow down as well.

There might be other reasons behind this insane growth as well. Investors that are disillusioned from the stock market or think that its premature recovery might be followed by a protracted “dry” period might now be considering alternatives and the security of the tangibility that real estate offers.

If more people start considering making a move from renting to buying, which is a financially savvier choice and allows them to invest in a tangible asset by redirecting their housing expense, the trend might stay strong this year.

Alternative real estate exposure

Since retail and many other commercial segments have been decimated during the pandemic, commercial as a whole might not be a very attractive investment option right now. But exposure to the logistics and warehouse properties through a growth-oriented aristocrat like **Granite REIT** (TSX:GRT.UN) might be a decent alternative, especially if you are worried that the housing market might see a reversal in momentum.

Granite has industrial, warehouse, and logistics properties in eight countries and boasts a 99% occupancy rate. Granite stock recovered quite swiftly after the market crash, but it has been in a static rut since then, which might not be great from a capital growth perspective. The upside is that this Dividend Aristocrat is quite fairly valued right now, and you can bag a decent 3.9% yield at a very safe payout ratio of 50.75%.

Foolish takeaway

Even if the housing bubble doesn't pop, the momentum might slow down sooner or later. So if you want to park your money in real estate assets outside the housing sphere, Granite and other commercial REITs should be on your radar. REITs can get you exposure to the housing market while reducing some of the risks associated with real estate.

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Date
2025/08/24
Date Created
2021/02/23
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