Canada Housing Prices Are Getting Out of Control

Description

Many parts of Canada are experiencing a housing boom or a sellers' market, despite a period of economic distress. In 2020, the Canada Mortgage and Housing Corp. (CMHC) predicted an 18% decline in home prices, only to be rebuffed. Housing markets soared instead of stumbling.

CMHC's outgoing head Evan Siddall admits to the incorrect market prediction, although the Crown corporation still sees softening of home prices soon. Now, the supersized home price growth is a cause for concern. The ultra-low mortgage rates and pent-up demand have driven prices sky high. Even economists at the country's big banks are raising red flags.

The driver of rising GDP

Benjamin Tal, the deputy chief economist at **Canadian Imperial Bank of Commerce**, said, "It's possible given the recent increases in prices that some people are speculating about further increases in prices." He added, "That was missing in the market until now."

For Robert Hogue, an economist at **Royal Bank of Canada**, rising prices often invite heightened speculative activity, which adds more fuel to already hot markets. Meanwhile, the Bank of Canada says the stronger-than-expected housing market is the driver of the rise in GDP for the first quarter of 2021.

Key interest rate steady

The Bank of Canada expects inflation to return to its 2% comfort zone by 2023. Thus, the key interest rate will remain at 0.25% until the economy recovers. However, the central bank warns that localized COVID-19 outbreaks could restrain growth and add choppiness to the recovery.

If you recall, Bank of Canada cut rates three times in March 2020 at the onset of the global pandemic. By keeping rates at historic low levels, credit will flow, and costs to households will ease. One observation is that homes became attractive acquisition targets. Household savings rate increased as people spent less on shopping and travel due to restrictions.

Stable passive-income source

Canadians looking to invest in the real estate sector can consider real estate investment trusts (REITs). However, not all REITs are doing good in the wake of the pandemic. Among the viable passive-income choices for pseudo-landlords is **Crombie** (TSX:CRR.UN).

Crombie owns and operates 284 commercial and residential properties in the top and high-traffic urban and suburban markets. The $2.47 billion REIT is also the top holding of the Canada Pension Plan Investment Board (CPPIB) in the real estate sector. The second is **First Capital REIT**.

Current investors are up 10.1% year to date. If you were to purchase Crombie today, the share price is $15.63, while the dividend yield is a high 5.77%. The REIT remains stable, despite the 7.9% decline in net property income in 2020 versus 2019. For full-year 2020, rent collections and committed occupancies were 96% and 96.4%. The figures in January 2021 are the same.

The biggest bubble of all time

The coronavirus-induced shutdowns created pent-up demand, but a buying spree followed the lifting of restrictions. Buyers were more than sellers in many regions, according to a CMHC report. In February 2021, prices in some suburbs and smaller cities increased by 20% or more versus the same month in 2019.

Economist David Rosenberg said that Canada’s housing market is in a giant bubble after months of runaway price gains. The founder of Rosenberg Research & Associates in Toronto told *BNN Bloomberg*, “This might be one of the biggest bubbles of all time.”

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