Huge Housing Price Increases Are Unsustainable

Description

Housing is becoming increasingly unaffordable in the major metropolitans in Canada. The average price in Toronto hit $1.1 million in March, which theoretically warrants a $220,000 down payment (if you are sticking with the best practice, i.e., 20%). That's more than the yearly income of the majority of Canadian households.

And even though Toronto is an extreme example, the pattern can be seen throughout the country. The housing demand, and as a consequence, the prices are being driven higher at an unprecedented level. The so-called housing bubble is stretched to its limits, and many experts worry that it might burst soon, resulting in a sharp decline.

The Bank of Canada observations

Experts in the bank of Canada are worried about another consequence of the boiling hot housing market, i.e., Canadians taking on too much debt. They believe that two factors are driving people to enter the housing market, despite high prices. One is the low interest rates (which are imperative to keep the economy recovering), and the second reason is the false "hope" that the prices will keep rising the same way for a relatively long time.

The bank of Canada and most of the Big Five have issued warnings about the dangerous housing market patterns. Almost all banking experts and economists are of the view that measures *have* to be taken to cool the housing market down before it's too late. Some proposed measures include:

- Tax changes that directly impact real estate investors (akin to New Zealand's)
- Removing tax exemption for capital gains realized on primary property
- Eradication of blind bidding practice

One measure the government might be looking into is introducing a tax for foreign property owners with homes in Canada.

A relatively safer investment

You might be reluctant about entering the housing market as an investor. There is still a way you can gain indirect exposure to the broader real estate market via a relatively safer "asset-class" within real estate: Retirement homes. The **Chartwell Retirement Residences** (TSX:CSH.UN) has recently climbed the charts to become a Dividend Aristocrat and offers an attractive 5% yield.

Though expecting capital gains from this stock might not be wise, the share price is slowly making its way up to its pre-pandemic value. So if you buy it while it's still at a discount, you might see *some* growth at least.

Chartwell has a powerful, asset-heavy balance sheet, and while the income statement isn't aggressively compelling, it *does* indicate that the company is financially healthy. The company has a portfolio of 200 communities in four provinces.

Foolish takeaway

The unstable housing market has another negative consequence. It might prevent many potential first-time buyers from capitalizing on low-interest rates. They might not be willing to pay a substantially high price for a home simply because they can lock in a good interest rate right now.

If the government starts to take active measures to cool the housing market, many first-time buyers *might* be able to buy a home at a reasonable price and a low interest rate.

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