Housing Market 2021: Is it Too Late to Buy a House?

Description

Canada's housing market was gravity-defying during the pandemic. The Canada Real Estate Association (CREA) data shows that over the last 12 months, the rise of home prices was more than in the previous four years. Moreover, the rise in prices in more than half-dozen Canadian housing markets was more than in the preceding decade.

According to a May 7, 2021, report by the Canada Mortgage & Housing Corp. (CMHC), the average home price could rise by 14% from 2020. If home sales climb from about 550,000 last year to 602,300 this year, the average price could soar to $649,400. Thus, is it too late to buy a house now because of inflated prices?

Causes of the extraordinary heights

Low interest rates and the demand for more space to ride out the pandemic are why the Canadian housing market rose to extraordinary heights over the past year. In some markets, the annual price gains are more than 30%. However, CMHC says the peak is near. Home sales activity will rise this year, then taper off or cool in 2022.

The frenzy may begin to unwind

Bob Dugan, the chief economist at CMHC, said, "Economic conditions are expected to return to pre-pandemic levels by the end of 2023 if broad immunity to COVID-19 takes hold by the end of 2021." He expects the pace of home sales and price growth to be moderate from 2020 highs over the same period.

The housing frenzy may begin to unwind with the acceleration of vaccine distribution and the quicker-than-expected economic recovery. CMHC also predicts the standard five-year mortgage rate to rise with faster economic growth. The rates, however, are likely to stay at very low levels by historical standards, Dugan said.

Alternative for property investors

For investors, they could wait for the frenzy to subside before buying real estate investment properties. The bubble could burst anytime soon and send prices plunging. Real estate investment trusts (REITs) are the alternatives to physically owning a rental property.

True North Commercial (TSX:TNT.UN) is an enticing real estate stock today. The $629.46 million REIT pays an incredibly high 8.22% at only $7.23 per share. A $150,000 investment can buy you nearly 20,747 shares and generate $12,330 in passive income.

The REIT is not the largest in Canada, with only 46 commercial properties in its real estate portfolio. True North's allure is the tenant base and long-term leases (average remaining lease term of 4.7 years). The federal government of Canada is the anchor tenant in 13 (28%) of the total rental properties. Some provincial governments are the tenants in some, while the rest are credit-rated lessees.

In 2020, True North's revenue and net income and revenue increased by 64.4% and 31% versus the full year 2019. Other takeaways for the year include the 99% rent collections, an occupancy rate of 98%, and a net operating income growth of 21%. You could be a rich, lazy landlord with this REIT.

Rising prices

While the pandemic drove the household savings rate higher, CMHC predicts it to fall. Unfortunately, the average price will keep rising instead of falling. The housing agency expects it to soar as high as $704,900 by year-end 2023, which could mean steep prices for home buyers.

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