Will Owning Real Estate Become a Thing of the Past?

Description

Real estate has been the key engine of wealth creation for ordinary families. There's a good chance your family home is the biggest contributor to your family's net worth at the moment. However, economic forces are culminating to push ordinary families and young Canadians *permanently* out of the real estate market.

This has an impact on the stock market, interest rates, and real estate investment trusts (REITs). Here's a closer look at this worrying trend.

Real estate ownership is declining

According to Statistics Canada, more than two-thirds (67.8%) of households in Canada owned their home in 2016. However, real estate prices have been on a tear since then, with prices rising substantially in 2017 and 2020. The 2021 census should reveal if this rate of homeownership has declined.

Meanwhile, the rate is already declining in other parts of the world. In Germany and Switzerland, for instance, the majority of the population rents their home instead of buying it. This is because house prices have climbed out of the reach of ordinary citizens. That seems to be the case in Canada too, driven by the same key factor: low interest rates.

Interest rates

The Bank of Canada has kept interest rates remarkably low. At the moment, the prime rate is 0.25% and the bank promises to keep rates low for the foreseeable future. This has consequences for large investors like pension funds, family offices, hedge funds, and private equity. They can't earn a return on all their capital by investing in bonds or savings accounts.

They have been diverting more money to dividend stocks and private investments, but those are riskier than real estate. This is why a tsunami of institutional capital is flooding the real estate market. This is already underway in America, where single-family rental homes are being acquired in bulk by firms like **Morgan Stanley** and **Blackrock**.

This trend could already be underway in Canada, where pension funds and REITs acquire homes for a premium and rent them out to replace the lost income from low interest rates. In fact, these companies can borrow a lot more capital at much lower rates than ordinary families, so their aggregate capacity to buy homes is much higher.

If interest rates remain low, as we expect, homeownership and real estate could be beyond the reach of most Canadians. We could swiftly become a nation of renters.

How to invest

If most Canadians are expected to rent rather than buy real estate in the near future, investors may want to consider REITs as a source of income.

With over 30,000 apartments and townhouses across Canada, **Canadian Apartment Properties** (TSX:CAR.UN) may be one of the best REITs to consider. Currently trading at $57, the REIT offers a 2.4% dividend yield and is priced at roughly 10 times earnings per share. In other words, the dividend has plenty of room to expand.

Since April 2020, CAPREIT stock has surged 38% in value. It's still trading below its pre-pandemic high and a mere 6% premium to book value per share. Simply put, it's an undervalued proxy for Canada's evolving real estate market.

Bottom line

Owning real estate could become a thing of the past as ordinary families get crowded out by institutional investors. Investors should consider adding REITs to their portfolio to gain from this trend.

CATEGORY

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2. Investing

TICKERS GLOBAL

1. TSX:CAR.UN (Canadian Apartment Properties Real Estate Investment Trust)

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