Why Housing Prices Keep Rising

Description

The Canadian housing market has been soaring to greater heights for several years. The last few years have seen housing prices rise to unbelievable levels, causing a lot of worries about an impending crash or, at least, a significant correction. Despite all the warnings from experts and analysts, housing prices remained resilient in their growth.

Even the onset of a global health crisis could not stop the housing market. In fact, Canada's housing market was inexplicably active during the pandemic. The Canadian Real Estate Association (CREA) reported that almost 551,400 homes were sold in 2020, marking a new record for a calendar year of home sales in Canada.

There was a forecast of home prices declining by up to 20% given by the Canada Mortgage and Housing Corporation (CMHC). Instead, the average home prices in some of the major housing markets rose by 20%. There are a couple of reasons that could be attributed to the rising housing prices, and I will discuss them in this post.

Pent-up demand for housing

The pandemic became a boon for housing demand, as the work-from-home environment became commonplace throughout Canada. With people spending more and more time at home, the demand for larger spaces grew, and families began looking for more spacious accommodations outside the major cities.

Low-interest-rate environment

Canada has been enjoying historically low interest rates for a while. With mortgages available at more affordable rates, it can only be considered a natural reaction that people would feel more motivated to buy homes. The government had to retain low borrowing costs to offset the economic fallout from the pandemic. With a substantial reduction in discretionary spending due to the pandemic, Canadians managed to save a lot of money.

The government's stimulus plans, like the Canada Emergency Recovery Benefit (CERB), were quite generous. According to an **RBC** Economics report, the Canadian labour market lost $23 billion due to the pandemic in the second quarter of fiscal 2020. The CERB provided payments totaling $56 billion in the same period. The government's generosity also increased every Canadian citizen's purchasing power.

Between the low supply in the housing market and rising demand, bidding wars throughout the housing market in Canada resulted in inflated housing prices.

The already frothy housing market became even hotter. However, inflated prices will only make matters worse when the inevitable price correction happens.

A better way to earn rental income

With housing prices so high and the risk of a significant correction, buying houses to earn rental income has become too impractical. You could consider investing in technology to generate substantial returns. But investors interested in the real estate sector can find better alternatives to buying rental properties. Enter real estate investment trusts (REITs): the best possible alternative to buying investment properties in the housing market.

It is still possible to generate income like a landlord without buying and managing physical properties. REITs like **Northwest Healthcare Properties** (TSX:NWH.UN) could provide you with the opportunity to generate significant returns without the cash outlay involved in buying physical properties.

Northwest Healthcare develops, owns, and manages a diversified portfolio of healthcare-related properties worldwide. The company's portfolio consists of diverse properties, including medical office buildings, hospitals, and clinics. With most of its assets in Canada and Europe, the REIT can generate reliable and consistent cash flows through rental income. Earning predictable revenue allows the REIT to plan its capital allocation to make acquisitions and comfortably fund the generous monthly payouts to its investors.

Foolish takeaway

With housing prices continuing to soar, REITs could be considered a better alternative to buying properties to generate rental-like income. Northwest Healthcare operates in a completely different industry. It means that even if there is a significant correction in the housing market, the REIT can continue generating reliable cash flows to fund its payouts and expansion plans.

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