Canada's Housing Market: Buyer Beware!

Description

Canada's housing market saw some strong gains in 2020. After the initial shock of the first wave of COVID-19 wore off, house prices started climbing. By April 2021, the average Canadian house went for $716,000 — up 31.6% year over year.

It was quite the rally.

But perhaps it was not meant to last. While house prices are still up on a year-on-year basis, they're actually down from their March 2021 peak. According to the *Toronto Star*, sales volume has fallen 28% since that time, and sales are still slowing.

Low interest rates and COVID-19 benefits certainly helped Canadians aiming to buy a house last year. But now, with the CERB long since retired and inflation on the rise, the shot in the arm that helped housing soar to new heights may be disappearing. In this environment, it would be wise for any new home buyer to be wary, because a correction may well be underway.

Housing hits record highs

By now, you're probably aware that housing is hot in 2021. This year, the average price of a Toronto house went well over a million dollars, and that's expected to keep rising. As mentioned already, low interest rates and government benefits were a big part of that. Another was supply shortages. Canada's population is growing, but the supply of available housing largely isn't. In this environment, we've had more people chasing fewer homes, driving the price higher. But with the pandemic waning, more construction might occur, which could change the equation. In that scenario, we might expect a correction.

Canadians stretching themselves thin

Another factor that could drive a housing market correction is mortgage debt. The Bank of Canada has long worried about Canadians stretching themselves thin to chase houses, and mortgage debt is at record highs. Today, Canadians' total mortgage debt sits at $1.7 trillion — the highest it has ever been. Sure, a lot of those mortgages were financed at low interest. But with inflation on the rise, you never know when that gravy train is going to stop.

An alternative real estate investment

If you're worried about the state of the housing market, you have every right to be. Prices are already coming down and who knows when the Bank of Canada will raise interest rates.

For this reason, you might want to get your real estate exposure through REITs like **Northwest Healthcare Properties REIT** (NWH.UN). REITs give you many of the same benefits as home ownership — income, stability, security — but without you having to spend hours of your day doing repairs and chasing tenants for rent. That might not sound like much consolation if you were planning on buying a home to live in. But if you were looking into investment properties, REITs could be a great alternative.

NWH.UN is one REIT worth looking at because of its ultra-safe source of income. It leases office space to healthcare providers in Canada and Europe — two regions where healthcare is publicly funded. Because the business is ultimately paid from government revenue, its stability is second to none. From a purely financial perspective, it's a viable alternative to investing directly in property.

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Author
andrewbutton