3 Reasons Canada’s Housing Market Will Keep Surging

Description

Canada’s housing market is uniquely inflated. In fact, most homeowners and landlords don’t deny that the market is overvalued. However, there are simply no signs that this boom is anywhere close to ending, let alone slowing down.

Here are three reasons Canada’s 30-year bull market in residential real estate has much more room to run.

Lack of supply

As of 2020, there were 424 housing units per 1,000 residents in Canada. That’s far below what we need. By comparison, the G7 average is 471 and countries like France have as many as 540 units per 1,000 residents.

And the trend isn’t encouraging either. Canada’s rate dropped from 427 in 2016. In other words, we lost three units per 1,000 residents in four years. That trend is set to continue, as we add even more residents in the years ahead.

Even more demand

Canada’s current target for immigration is 401,000 new permanent residents in 2021. The government seems on track to meet that target. Next year, we expect far more students and temporary workers to arrive as well.

Meanwhile, Canadian millennials — the largest cohort in the population — is in the midst of their peak homebuying age. There are more young people starting families and looking for houses than ever before.

Lack of political will

The factors driving Canada's housing market are not inevitable. The government could build more houses, incentivize homebuilding, lower immigration targets, or simply add restrictions to mortgage borrowing. However, there is a lack of political will to execute on any of these, which is why the housing market boom is likely to be sustained.

Where to invest?

If the boom in Canada's housing market is locked in, it makes sense to bet on the real estate sector. **Canadian Apartment Properties** (TSX:CAR.UN) is a top choice. Canada's largest landlord owns a vast portfolio of purpose-built rental apartments across the country. Much of this portfolio is concentrated in the job hubs of Toronto, Vancouver, and Ottawa.

CAPREIT stock is also surprisingly cheap. You would imagine that Canada's housing market boom would have made its largest landlord overvalued, but that's not the case. Instead, CAPREIT trades at just 7.9 times earnings per share. It also offers a 2.4% dividend yield.

If you're concerned about Canada's housing market, CAPREIT has another trick up its sleeve — European exposure. The company is steadily buying properties across the European Union, which buffers the portfolio and mitigates downside risk. If Canada's housing bubble pops, Europe should stabilize CAPREIT's valuation and net income.

Bottom line

Canada's housing market is truly remarkable. It's been in a continuous boom since the 1990s, barely dipped during the 2008 recession, and is now stronger than ever despite a pandemic.

Lack of supply and rising demand should keep driving the market higher. This is why investors should probably have a little exposure to landlords like CAPREIT.

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