Mortgage Debt Rises 60%: Are Canadians in Trouble?

Description

A recent article by *CBC News* said the mortgage debt level in Canada reached a record high in the second quarter of 2021. The average amount for 410,000 home loans was about $355,000. It was a 60% year-over-year jump. In the first quarter, new mortgage borrowing increased 41% from the same period in 2020, according to *BNN Bloomberg.*

While credit card use is declining, consumer debt continues to rise due to the surge in mortgage borrowings. Market observers point to fierce competition among homebuyers all over the country. **Equifax** added that mortgages are bigger than ever. Based on its data, Canada's consumer debt level has reached a staggering $2.15 trillion, which is more than the entire economy's value.

Strong rental demand

There's also strong demand in the rental market, as evidenced by the Q2 2021 financial results of **Killam Apartment** (TSX:KMP.UN). According to its president and CEO Philip Fraser, the real estate investment trust (REIT) posted impressive net income growth due to strong rental demand, acquisitions, and completed developments.

The $2.39 billion REIT reported a 536% increase in net income versus Q2 2020. Property revenue and net operating income (NOI) also grew by 8.3% and 7.9%. For the first half of 2021, net income climbed 173.4% to $164 million compared to the same period last year.

Killam is growth oriented and one of Canada's largest residential landlords. Its management confirmed that lower interest rates contributed to earnings growth. The weighted average interest rate on its completed mortgage refinancing(s) was only 1.69%. To date, the REIT has 3,342 units and 485 more under development.

Real estate investors should hold off buying because of inflated property prices and a potential housing crisis. REITs are the next-best alternatives to owning physical properties. Killam shares trade on the TSX. Currently, the stock price is $21.78, while the dividend yield is 3.12%. You'd be earning rental-like income from the dividends.

Growing demand for distribution space

If you're not keen on apartment rentals, consider investing in **WPT Industrial** (TSX:WIR.U). The $1.81 billion REIT is also growth oriented but focusing on institutional-quality distribution and logistics properties. Its 89 rental properties are in the top-tier industrial markets in 19 U.S. states.

In Q2 2021, WPT's net income was US$197.3 million, or 1,569% higher than Q2 2020. For the first half of the year, net income growth versus the same period last year was 177%. Besides the current properties, the REIT has 19 joint-venture properties, two assets under management, one property under development, and one independent land parcel. Rent collections (99%) were never a problem throughout the pandemic.

Likewise, WPT has minimal risk or exposure to lease rollover, given that only 2.8% of the gross leasable area is expiring this year. Operating costs are low, because industrial tenants sign triple-net leases. WPT pays nothing for real estate taxes, insurance, maintenance, and other property-related expenses.

Since the global demand for U.S. distribution space is ever growing, expect the REIT to achieve organic and external growth. At $21.72 per share, the corresponding dividend yield is 3.5%.

Low delinquencies

Canadians may not be in trouble after all, despite the alarming increase in mortgage debts. Equifax data also showed that mortgage delinquencies are at an all-time low, except in Vancouver. Meanwhile, the red-hot housing market is starting to cool down.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:KMP.UN (Killam Apartment REIT)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media

6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. cliew
2. kduncombe

Category

1. Dividend Stocks
2. Investing

Date
2025/09/18
Date Created
2021/09/16
Author
cliew