Industry Experts: Home Prices Surge 14% But There's No Bubble

Description

Are Canadians addicted to mortgage debt? If it is true, it is concerning in relation to interest rates, says Rebecca Oakes. Oakes, the assistant vice president of advanced analytics at Equifax, said, "A small movement in interest rates can actually do quite a large increase in what a consumer needs to come up with in terms of those payments."

The Canadian Real Estate Association (CREA) reports that over the last 12 months, average housing prices have surged 14% in October 2021 to a little below $686,650. Swiss bank UBS raised alarm bells previously on housing bubbles in Canada, particularly in Toronto and Vancouver.

However, some real estate industry experts disagree and believe the housing market is not in bubble territory. They argue that demand far exceeds supply, and therefore, a bursting bubble is unlikely in the foreseeable future.

Sellers' market

Data from the Quebec Professional Association of Real Estate Brokers shows that while home sales and new listings fell in November, prices in Montreal jumped more than 20% versus the same month in 2020. The association's director of market analysis Charles Brant noted the lack of supply and persistently high demand during the month.

Brant said that it added pressure on prices and encouraged potential sellers to get into the market. Because of the Bank of Canada's plan to hike interest rate hikes sooner than later, sellers have the opportunity to sell at the best price during this sustained activity.

Real estate investors

Canada's housing market has gone insane in that real estate investors should be cautious. On December 1, 2021, **CIBC** Capital Markets analyst Benjamin Tal said the bank expects sales to fall by 15% in 2022. He added that the market will look very familiar when the fog clears.

Some investors who want exposure to the real estate sector would instead take an indirect route. Real estate investment trusts (REITs) are alternatives to owning physical properties. These assets trade like dividend stocks and pay recurring income streams. Furthermore, the cash outlay is smaller, and you do away with the responsibilities of an actual landlord.

The lessor of residential suites

Growth-oriented **InterRent** (TSX:IIP.UN) is among the attractive choices in the real estate sector. This $2.35 billion REIT acquires, owns, manages, and repositions income-producing, multi-residential properties. The share price is affordable ($16.90), and the modest dividend (2.01%) is safe and sustainable. Also, it's a steady performer owing to its 25.79% year-to-date gain.

InterRent's most consistent source of revenues is its rental of suites. In the nine months ended September 30, 2021, the REIT reported 18% and 15.3% growths in operating revenues and net operating income (NOI) versus the same period in 2020. The highlight was the 221.5% year-over-year increase in net income to $104.5 million.

Management says the ongoing concern is to attain the critical mass to implement an efficient portfolio management structure. Thus, InterRent continues to expand its portfolio, mainly in markets with stable occupancies. Currently, the occupancy rate stands at 94.4%. Owning shares of this REIT is like being a lessor of cash flow-producing residential suites.

A market correction is possible

Bank of Canada deputy governor Paul Beaudry suggested to homebuyers that they think whether it's a "good time to buy or not." A correction is still possible because the market remains frothy heading into 2022.

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