Buyers, Beware of Speculators: Home Prices Surge 22%

Description

The Canadian Real Estate Association (CREA) expects housing sales to moderate in 2022, although prices will not decline. In Greater Toronto Area, the Toronto Regional Real Estate Board (TRREB) reports that the average home price in November 2021 surged 22% versus the same month last year.

TRREB's chief market analyst Jason Mercer said first-time homebuyers are moving back into the market in a big way this year. However, the 13% drop in new listings indicates fewer homes on the market compared to November 2020. In Ontario, the provincial government raised concerns about speculators, particularly foreigners.

A senior source from within said the Ontario government is prepared to raise the Non-Resident Speculation Tax (NRST) to 20% or more. The move aims to discourage foreign speculation, and it would also ensure the limited housing supply will go to Canadians who need it the most.

Heightened speculator activity

Economists warned about Canada's housing market entering a speculative phase as early as March 2021. Benjamin Tal, the deputy chief economist at **CIBC**, said, "It's possible given the recent increases in prices that some people are speculating about further increases in prices."

Speculators, along with homebuyers, don't want to miss out on the housing boom. Thus, prices have risen too much and too fast. **Royal Bank of Canada** economist Robert Hogue added that rising prices "often invite heightened speculative activity, which adds more fuel to already hot markets."

Apart from increasing the NRST, Ontario plans to tighten exemptions for foreign students and international workers. The province will not hesitate to take action if the federal government does not implement bans or new measures soon.

Supply shortage and high prices

Still, CREA believes that the appetite for homeownership will still be strong in 2022, notwithstanding the hike in borrowing costs. Moreover, prices will remain high due to the supply shortage.

For Canadians who want exposure to the red-hot market but have limited capital to purchase investment properties, real estate investment trusts (REITs) are your alternatives. Right now, the great picks are growth-oriented **Nexus** (TSX:NXR.UN) and grocery-oriented **Slate Grocery** (TSX:SGR.U).

Low-risk business models

Nexus is the top-performing REIT in 2021, with its 70.63% year-to-date gain. At only $12.43 per share, you can partake of the hefty 5.5% dividend. This $704 million REIT boasts a diversified real estate portfolio, although it skews more toward industrial properties.

Of the 95 income-producing properties, 68%, or 69 properties, are industrial, plus there are eight more in the development pipeline. This segment contributes 76% to the total net operating income. Besides the stable cash flows, the long-term leases have rent-escalation provisions.

Slate Grocery is present in major metro markets (23 states) in the United States. Since 96% of the portfolio are grocery-anchored properties and 69% are essential tenants, this $793 million REIT generates durable cash flows. As of September 30, 2021, the portfolio occupancy rate is 94.4%, while the rental spread on new leases is 20.5%.

According to management, Q3 2021 was one of the best, most consequential quarters of Slate Grocery due to record growth (organically and by acquisition). The REIT's strategy is rooted in the future of grocery and, therefore, is built to succeed.

Homebuyers' constraints

CREA warns that while the trend will ease in 2022, buyers still face supply and affordability constraints. Also, let's hope that speculators will not distort Canada's housing market.

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