Housing Market: Sales Dropped but Average Price Climbed 27.7%

Description

The affordability crisis worsened in February 2022 as home prices reached a new all-time high. Based on data from the Toronto Regional Real Estate Board (TRREB), sales activity in the Greater Toronto Area (GTA) housing market fell from record levels last month due to a pullback in demand.

Unfortunately, the average selling price still jumped 27.7% year over year, despite the 16.8% drop in home sales. TRREB President Kevin Crigger said, "Demand for ownership housing remains strong throughout the GTA." While demand is far from the record pace in 2021, competition remains the norm, adds Crigger.

Prospective homebuyers are disappointed because besides the price growth, the Bank of Canada increased its key interest rate to 0.5%. Some economists predict five more hikes this year. Meanwhile, real estate investors are likely to hold off buying investment or rental properties at inflated prices.

Real estate investment trusts (REITs) such as **Nexus** (TSX:NXR.UN) and **True North Commercial** (TSX:TNT.UN) are excellent alternatives to buying physical properties. Would-be investors can earn rental-like income from these two dividend machines.

No meaningful impact yet

The BoC's first rate hike last week won't have a meaningful impact yet on the housing market. Most economists say it will come after several increases in borrowing costs. Crigger said many households rushed their home purchases and entered into transactions in 2021. It was one reason why the sales forecast is lower this year.

Crigger believes that even if borrowing costs trend higher, it will have a moderating effect on home sales. However, he sees the continued supply shortage and substantial immigration levels to counter the effect to increasing mortgage costs. Members of the housing affordability task force in Ontario agree that more supply is key to reduce competition or price wars.

Dividend machines

While the government find ways and means to cool the housing market, real estate investors can turn to REITs to earn passive income like real landlords. Nexus is the next pure play industrial REIT, while True North has one of the best tenant profiles in the industry.

Nexus is growth-oriented and desires to acquire more industrial properties in Canada's primary and secondary markets. According to its CEO, Kelly Hanczyk, the $957.94 million REIT is not only growing its portfolio but high-grading its quality at the same time.

At $12.44 per share, the trailing one-year price return is 62.2%. This real estate stock currently pays a 5.14% dividend. Expect Nexus to have a very active year like last year. The industrial sub-sector boasts solid fundamentals and high demand because of the e-commerce boom.

True North boasts a quality tenant base that includes the federal government of Canada and several provincial governments. In 2021, the revenue and net operating income (NOI) of this REIT fell 0.7% and 1.3% versus 2020. However, net income and comprehensive income climbed 28.3% year-over-year to $51 million.

Its CEO, Leslie Veiner, said about Q4 2021, "The REIT has reported another quarter of stable operating results including industry-leading rent collections." For 2021, contractual rent collections were 95%, while average lease term on year-end was 4.7 years. At $7.17% per share, you can partake of the ultra-high 8.28% dividend.

Invest smart

Canadians can follow the lead of Warren Buffett. The [GOAT of investing](#) avoids purchasing rental properties, especially if prices are overvalued.

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Date
2025/08/14
Date Created
2022/03/08
Author
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