19% Home Price Growth: Will a Foreign Ownership Ban Reduce it?

Description

Home prices in Canada's urban centres as well as neighboring communities have skyrocketed since the second half of 2020. While there was a slight dip last month, the average home price is still 19% higher than in March 2021. Higher interest rates add to the affordability crisis that prospective homebuyers would rather wait for prices to ease, perhaps in spring.

The Liberals are hell bent on cooling the housing market. One proposal in the coming federal budget is to impose a ban on foreign homebuyers. According to a report by Joyce Napier, the bureau chief at *CTV National News Ottawa*, the proposal states that all foreign nationals won't be able purchase any residential properties in Canada for the next two years. The ban includes apartments, condos, and single-family homes.

Supply must exceed demand

Industry experts say that housing supply must increase to end the bidding wars among Canadians. *CTV News* reported a $4 billion allocation by the feds to allow the accelerated construction of residential units in municipalities. Meanwhile, real estate investors should stay on the sidelines and defer purchase of investment properties at inflated prices.

On April 5, 2022, the Toronto Regional Real Estate Board (TRRB) reported that the average home price went down 3% from February 2022. However, the decline isn't substantial to bring relief to homebuyers. Toronto broker Cailey Heaps said, "There still is not enough supply to satisfy current buyer demand."

Heaps added, "The end-of-March increase in supply that happens every year will help, but demand still outpaces supply. I expect April sales will remain strong." The next rate hike by the Bank of Canada is likewise crucial because an aggressive increase of 0.5% in the key interest rate could diminish demand.

Investment alternatives

For property investors hoping to earn passive income, real estate investment trusts (REITs) are alternatives to gaining exposure to the sector. The industrial sub-sector is the best option today, because of the high demand for industrial properties. Dividends from **Nexus** (TSX:NXR.UN) and **Dream Industrial** (TSX:DIR.UN) can take the place of rental income in the meantime.

Nexus trades at $12.77 per share and pays a 4.97% dividend. The $1 billion growth-oriented REIT saw its property revenue and net income increase 36.12% and 165.47% in 2021 versus 2020. CEO Kelly Hancyzk said, “2021 was a banner year for Nexus.”

Hancyzk added, “We successfully accessed the capital markets three times in 2021 to fuel the rapid growth of the REIT.” Apart from growing its market cap, management high graded Nexus’s industrial portfolio, as it works toward becoming a pure-play industrial REIT.

Dream Industrial was equally profitable last year. The $3.91 billion lessor of industrial properties reported $608.34 million net income in 2021 — a 203.97% increase from 2020. The portfolio also grew to 239 assets from 177. Notably, the occupancy rate (in-place and committed) was 98.2%.

The $15.44 share price and 4.53% dividend should be attractive to would-be investors. For 2022, Dream Industrial expects demand for well-located logistics space to remain strong. Market rents across its operating regions could also increase.

Nothing is sure

New measures, like a foreign ownership ban, and budget for the construction of more residential units could address housing affordability and return market balance. Broker Heaps said, “Whether prices actually see a decline in 2022, that remains to be seen.”

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