Canadian Housing: Interest Rates Rise, But Prices Soar 20% Anyway

Description

Canadian house prices continue their seemingly unstoppable climb higher. In February, the average price of a Canadian home reached $816,000 — an increase of 20% year over year. This year, the Bank of Canada made good on its promise to raise interest rates to fight inflation. The interest rate hikes have already begun, but so far, the housing inflation keeps on trucking.

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Why Canadian housing keeps rising

There are several reasons why Canadian houses keep getting more expensive, despite the higher interest rates.

The first is that there aren't that many sellers. While Canada's housing stock is rising, the supply actually hitting the market isn't. In many major cities, buyers outnumber sellers, which leads to price appreciation. The higher interest rates may not help with this. With rates rising, people who sell their homes may have to borrow at higher rates in order to buy a new one. Awareness of this fact may be part of why people just aren't selling.

A second factor is foreign investors. There are many foreign companies that will invest in Canadian housing just to watch the price rise. The prevalence of this phenomenon can be overstated, but it is big enough a factor that the Trudeau government is now taking action against it. In the latest budget, the Federal Government announced an extra tax on foreign home buyers and other measures to cool the housing market. So, the foreign investor thing is big enough that the Federal Government has set its sights on it.

More interest rate hikes to come

If interest rate hikes haven't brought houses to a level you can afford yet, it might pay to be patient.The Bank of Canada isn't done hiking interest rates in 2022. There are still more to come. Potentially,future rate hikes will cool demand for housing enough that prices will start to come down or at leastlevel off. It's no guarantee, but it could potentially happen.

Foolish takeaway

Despite all the interest rate hiking going on, housing remains out of reach to many Canadians. If you're one of them, you may want to wait. Future interest rate hikes could possibly cool the market. However, you will find yourself paying more in interest on a mortgage of the same size in such an environment. So, maybe housing isn't the best investment right now.

That doesn't mean you can't invest in real estate, though. Through REITs like **RioCan Real Estate Investment Trust** (TSX:REI.UN), you can buy and sell real estate portfolios on the stock market.

REITs are pooled investment vehicles similar to stocks that hold diversified real estate portfolios. And you can start buying them for very little upfront cost. RioCan units currently cost $24 on the TSX. With a no-free trading app like Wealthsimple, you could start buying REI.UN today! Of course, a single share is not exactly going to make you rich. But if you buy over time and gradually accumulate a $100,000 position, you'll earn $4,000 a year from REI.UN's 4% dividend yield. This is not to say you should invest in REI.UN, or any other REIT.

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As always, you need to do your own due diligence. But RioCan is a good example of the kind of income that's possible in the world of REITs.

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