Canada's Housing Market: Rates Cool the Bubble

Description

We are finally seeing signs that Canada's housing bubble is starting to burst.

This month, *StatCan* released housing market data showing that the average Canadian house price declined sequentially in March. For the month, prices fell 3% from February highs. Although prices were still up on a year-over-year basis, the fact that they fell at all suggests that the market may finally be starting to cool off.

The culprit, it would seem, is higher interest rates. This year, the Bank of Canada increased the policy rate by 50 basis points, making borrowing more expensive than it had been before. Today, we seem to be seeing that reflected in house prices.

Could prices come down further?

While lower housing prices are a boon to Canada's cash-strapped, would-be buyers, it's not clear yet that the price decline observed last month is the start of a long-term trend. We have seen Canadian home prices decline before — typically on a month-to-month basis rather than a year-over-year basis. Historically, these little moves did not mark the beginnings of anything major.

However, there are some signs that a real estate correction may be occurring in Canada's big cities. Some real estate brokers are reporting substantially lower selling prices in Toronto's North York area, and there are similar reports from other cities as well.

REITs: An alternative real estate investment

Even with March's slight downturn, Canada's housing market remains very hot. It might pay to wait a while to see if prices come down further. In the meantime, you can always get some small exposure to real estate via real estate investment trusts (REITs). REITs are pooled investment vehicles that trade on the stock market. You can buy and sell them just like you would stocks.

Consider **Northwest Healthcare Properties REIT** (TSX:NWH.UN), for example. It's a healthcare REIT that leases out healthcare office space (e.g., medical clinics) to tenants across the E.U. and Canada. Healthcare is a robust industry set to profit from a rapidly aging population, and REITs like NWH serve as its landlords.

Healthcare in Canada and Europe is largely government funded. This gives NWH.UN's tenants unparalleled ability to pay. When your money comes from government tax revenue, you usually don't have to worry about paying the bills. So, it should come as no surprise that NWH's collection rates are excellent. In its most recent quarter, NWH.UN delivered

- A 97% occupancy rate
- $49 million in adjusted funds from operations (AFFO), up 22.5%
- $74.4 million in net operating income (NOI), up 6.1%

Those are all very solid results. NWH's business was already growing solidly in Q4, and that was before its recent $765 million property acquisition. Today, you can scoop up this REIT and lock in a high 5.84% dividend yield with a monthly payout. Factoring in business performance, stock market performance and income potential, NWH.UN has a very attractive mix of features. Yet it only costs $13.70! It's a very accessible real estate investment for those who aren't quite ready to jump into the housing market.

CATEGORY

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