Canadian House Prices Fall for 2 Months Straight!

Description

Canadian house prices fell 6% last month, making two consecutive months of price declines.

On Monday, the Canadian Real Estate Association (CREA) reported that the average sale price of a Canadian home was $746,000 in April. That was down from $796,000 in March and $816,000 in February.

Although the housing market is still up on a year-over-year basis, these sequential declines could mark the start of a real correction. In this article, I will explore some reasons why Canadian house prices are falling, and whether investors should take a look at housing investments today.

Why house prices are falling

Most experts studying the housing market agree that the collapse in prices is due to two main factors:

1. Steep valuations
2. Rising interest rates

Canada's housing market is among the most expensive in the developed world. The average Canadian home costs twice the average U.S. home in nominal terms and about 1.56 times as much in PPP terms. Canadian house prices have risen faster than incomes over the past two decades. Notably, Canada did not experience the buying opportunity that the U.S. got in the 2008 subprime mortgage crisis.

For a while, this situation of endless housing gains appeared poised to continue indefinitely. But this year, the Bank of Canada began hiking interest rates. Thanks to the higher rates, mortgage rates began to rise. So, it became more expensive to finance a home purchase. Predictably, housing market activity started to slow down.

Are REITs worth a look?

In today's market, you might feel tempted to buy a home. Indeed, if you have substantial savings, it might be wise to do so. If you have to take out a large mortgage, then you will pay out a lot in interest. But if you can buy outright, then you're looking at some mighty attractive prices.

As for housing investments, you might want to take a look at REITs. REITs are pooled investment vehicles that invest in diversified portfolios of rental properties. They make money by charging tenants rent. In many ways, they are similar to direct investments in housing — only they don't require that you spend half your time doing repairs and collecting rent.

Take **RioCan Real Estate Investment Trust** (TSX:REI.UN), for example. It's a diversified Canadian REIT that invests in a combination of retail space and living space. The REIT owns a number of "prestige" properties in Toronto, including top shopping centres and mixed-use buildings. In its most recent quarter, RioCan boasted

- $598 million in net income;
- A 96.8% committed occupancy rate;
- A 98.6% rent collection rate; and
- 3.4% growth in net operating income.

If you buy REI.UN today, you can lock in a 4.58% yield and potentially watch it grow over time. That's an above average yield for the TSX stock market index. REI.UN is definitely not a risk-free investment, but it's certainly less legwork than investing in housing. So, if you want to be a landlord, maybe give REITs a look. Investing in them is easier than rolling up your sleeves and fixing your downstairs tenant's toilet.

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