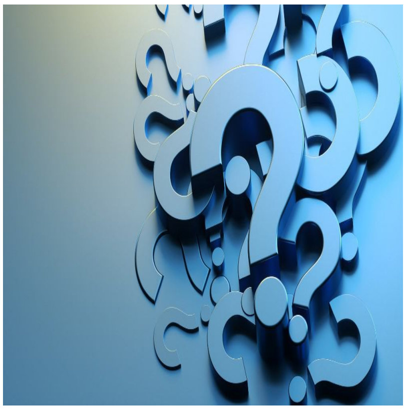

Rent Freezing: Could This Finally Pop the Housing Bubble?

Description

The Canadian economy has managed to fare better than expected throughout the pandemic. The initial panic-fuelled frenzy saw the stock market decline drastically through February and March. However, the markets bounced back due to the efforts of the government to stimulate the economy.

The real estate sector has miraculously managed to remain strong after slightly faltering. Analysts and investors alike presumed that the housing market bubble would finally pop with the onset of COVID-19 and its economic backlash. To everybody's surprise, the housing market activity reached all-time highs amid the pandemic.

All this might finally change with the recent announcement by Ontario to freeze residential rents.

Massive move by Ontario

Government stimulus programs like the Canada Emergency Relief Benefit (CERB) have helped Canadians unemployed due to the pandemic in taking care of their essential expenses. It has also managed to help markets return to better valuations. Still, the economy is not in good condition, and people do not have the spending power they would consider ideal.

Ontario is the largest province in the country. Recognizing people's weak economic circumstances, it has announced plans to freeze residential rents in 2021 to help people. The new rules will apply to most rental units in Ontario. If the government did not make this move, owners of rent-controlled apartments, condos, and houses could have increased their rent by 1.5% next year. This move will also effectively ban the evictions of small businesses and tenants.

Canadian real estate companies

The announcement immediately impacted Canadian real estate companies like Real Estate Investment Trusts (REITs) that rely on rental income for cash flow. **Canadian Apartment Properties REIT** (TSX:CAR.UN) is one of the companies affected by this change. The announcement was made on

Thursday, September 17, and CAPREIT immediately felt the statement's impact.

Since the announcement, CAPREIT is down 1.90%. The second-largest REIT by market value fell due to the announcement but did not comment on the move made by Ontario's government. The move is necessary to ensure that people do not have to worry about whether they can afford to stay at home, but it is bad news for companies that rely on rental income.

Remember that the move is only going to ensure that rent does not increase next year. It does not mean CAPREIT will lose its entire income. The company will not be able to boost its revenue by increasing rents next year.

CAPREIT is trading for $44.81 per share at writing with a 3.08% dividend yield. It is down more than 26% from its 2020 peak. 22% of its suites and sites are based in Ontario, followed by focused areas in Quebec and British Columbia. The move can take a hit on its earnings next year. However, it will be able to raise its rent again in the future.

Foolish takeaway

The move to freeze rent could drastically affect real estate companies in the short term. However, well-capitalized companies like CAPREIT can weather through the storm. There are possibilities that the move could result in problems for these companies, and there is no telling how it could affect the housing market value amid a weakened economy. Whether it leads to a housing market crash remains to be seen.

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