Real Estate Investors: Prepare Your Portfolio for a Mortgage Rate Spike

Description

Canada's housing market is soaring to new heights, and this trend is no longer isolated to a handful of underlying markets. As expected, Toronto sees more aggressive activity than most other real estate markets, and the home sales in February grew by 52% compared to the sales last year. The average housing price increased proportionally as well and crossed the $1 million mark.

And Toronto is not alone. The average home price in the country soared to new heights in January and grew by almost 22.8%. This activity has been triggered by low mortgage rates, but the tide is expected to turn soon.

Five-year mortgage rate spike

We might not be there yet, but the chances are that the mortgage rate growth turns from an "eager ascension" to a thorny spike. A sudden surge in the mortgage price rate might hurt the country's economy, as per the deputy chief economist of CIBC World Markets. He explained that a slow and gradual increase in the five-year mortgage rates' price would be a sign of healthy economic recovery and growth.

But if the price spikes are governed by the housing market's momentum, it might deal a significant blow to the environment. Thankfully, his warning comes at a time when the Big Five and the government can still rein the market in. Some people are drawing an analogy to the New Zealand market that was growing just as aggressively, and the government took measures to control the market.

Sooner or later, the government and the big banks will have to step in to control the housing market. Right now, the growth and the momentum are significant drivers of economic recovery, but they should be controlled or they might become liabilities instead.

A REIT far away

Whether or not you are worried about the local housing and, by extension, the real estate market, it's not a bad idea to go for some geographical diversification. One REIT that can help you with that is **Inovalis REIT** (TSX:INO.UN). With a completely Europe-based commercial portfolio, Inovalis is quite far from the Canadian real estate market.

That doesn't mean the company hasn't faced its fair share of trouble. The revenues have been declining for some time now, but once the region recovers from the pandemic's grip, the situation is likely to change. One positive impact of these troubling income statements is that they have kept the company discounted and relatively undervalued.

The share price is still 14% down from its pre-pandemic value, and it's trading at a price to earnings of 4.7 and price to book of 0.8. The share price devaluation has also resulted in a mouthwatering 8.5% yield with a stable 41.8% payout ratio.

Foolish takeaway

Once the housing market cools down a bit, you might have a chance of many other real estate stocks that are currently riding in their coattails at a relatively discounted price. Until then, you may want to consider real estate stocks that are fundamentally strong but might still be undervalued since they haven't recovered from the 2020 crash yet.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:INO.UN (Inovalis Real Estate Investment Trust)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/08/24
Date Created
2021/03/12
Author
adamothman