



## Bank of Canada: Trigger Event Coming in the Housing Market

### Description

The biggest worry of the Bank of Canada today is real estate. In May 2021, Governor Tiff Macklem said, “The biggest domestic vulnerabilities are those linked to imbalances in the housing market and high household indebtedness.” He added that while the issues aren’t new, they have intensified.

Macklem warns of serious damage to the entire economy if people don’t stop the bidding war for houses. Also, borrowers with significant loans are overstretched. The Bank of Canada cites the large decline in household income and house prices caused by an external trigger event as the biggest risk.

### Vulnerabilities

There was a mention of a sharp repricing of risk too. If it happens, there could be a sudden rise in global interest rates, a weakening of global trade, and a [stock market crash](#). The governor included the collapse of Bitcoin.

The identified vulnerabilities, elevated household indebtedness and imbalances in the housing market, are problematic if you’re an investor. It would be best if you rebalanced your portfolio to protect your capital. **Empire Company Limited** ([TSX:EMP.A](#)) and **Crombie** ([TSX:CRR.UN](#)) are [havens for risk-averse investors](#).

### The pandemic fuels growth

A well-established food retailer like Empire can [endure economic downturns](#). The pandemic even fuelled growth in fiscal 2021 (year ended May 1, 2021). Management reported a 6.32% and 20.22% increase in sales and net earnings versus fiscal 2020.

In Q3 fiscal 2021, Empire's e-commerce sales jumped 315% versus the same period in fiscal 2020. The launching of a three-year growth plan, Project Horizon, in Q1 fiscal 2021, focuses on core business expansion and acceleration of e-commerce. By fiscal 2023, management expects an incremental \$500 million in annualized EBITDA.

Empire also estimates EBITDA margin to increase by 100 basis points through a growing market share aided by cost and margin discipline. Sobeys, its wholly-owned subsidiary, operates 1,500 retail stores and over 350 retail fuel stations. Lawton Drugs is also under the umbrella of this \$10.75 billion grocer.

The consumer-defensive stock trades at \$40.23 per share and pays a modest 1.49% dividend. Most income investors invest in Empire for capital protection and dividend safety. The stock's total return (34,796.26%) in the last 39 years speaks volumes.

## Empire's REIT

Empire is also into investments and allied operations. It has a 41.5% stake in Crombie, a \$3.02 billion real estate investment trust (REIT). This REIT has 284 income-producing properties scattered across the country. Solid occupancy is the primary driver of the Crombie.

Its retail-related, industrial segment boasts 100% committed occupancy, while the office and retail segments have 94.1% and 96%. Crombie's portfolio is defensive, as evidenced by the 98% gross rent collections in Q1 2021 and April 2021.

The three months ended March 31, 2021, shows Crombie's resiliency amid the pandemic. Its property revenue and net property income increased 1.3% and 4.7% compared to the same period in 2020. Notably, operating income soared 55.8% to \$33.2 million. At \$18.22 per share, the corresponding dividend yield is a mouth-watering 4.88%.

## Preparing for normalcy

Macklem repeated that vulnerabilities could lead to calamities if left unchecked. One option to slow down the red-hot property market is to hike interest rates. The Bank of Canada is preparing for a return to normalcy. If it comes, borrowing costs wouldn't be at rock-bottom levels anymore.

### CATEGORY

1. Dividend Stocks
2. Investing

### TICKERS GLOBAL

1. TSX:CRR.UN (Crombie Real Estate Investment Trust)
2. TSX:EMP.A (Empire Company Limited)

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