3 Signs the Housing Market Could Correct in 2022

Description

Is there any topic hotter than the housing market right now? Home prices have surged across the world, but the gains in Canada have been phenomenal. In September 2021, the average home sold for $663,503 — up 13% from the year before.

Investors and prospective buyers believe the bull market could continue, as housing supply remains constrained and immigration rebounds. But there are some signs the national housing market could cool or even decline in 2022. Here's a closer look.

Three signs of cooling

Rising mortgage rates, buyer fatigue, and higher inflation could all squeeze the housing market in 2022.

Canada's five-year government bond yield has quadrupled over the past 12 months. The yield is up from 0.34% to 1.24%. This yield is the benchmark for all mortgage rates. Canadian banks and mortgage lenders may have to raise lending rates if this trend on government bond yields continues. Some have already started.

Higher mortgage rates mean fewer buyers may qualify for the homes they want. Meanwhile, the housing market is already severely overvalued. The average home in Toronto costs 10 times the average family's annual salary. In other parts of the country, the ratio is even higher. This has led to buyer fatigue — as some prospective buyers give up on ever owning a house. Declining home sales in recent months are a sign of this.

Finally, inflation is another factor that could impact the housing market. Families may have less money to place as down payment or meet monthly mortgage payments if the cost of travel, food, and energy are substantially higher. The current pace of inflation — 4.1% — is already the highest since 2003. Ordinary families are being squeezed, and that could reduce demand for multi-million-dollar properties.

Where to invest

Rising inflation and interest rates could cause sudden corrections in the housing market and stocks. Investors seeking refuge should consider essential businesses with tangible assets that can weather the storm.

NorthWest Health Property REIT (TSX:NWH.UN) is a great example. The real estate investment trust (REIT) owns and manages healthcare clinics and hospitals across Canada. This essential service is untethered from the rest of the economy.

Northwest's average lease term is 14 years, while its rental yield is far better than most commercial or residential REITs because the properties are highly specialized.

The stock price is up 75% from March 2020. However, it's still undervalued. NorthWest shares trade at nine times earnings and offer a lucrative 6% dividend yield. That means there's limited downside risk, even if the stock or housing market corrects in the near term.

Bottom line

Rising mortgage rates, inflation, and buyer fatigue could impact the housing market in 2022. Weakness in the real estate sector could have detrimental impacts on Canada's economy and stock market.

If you're looking for a safe haven, you may want to consider an essential business with tangible assets such as NorthWest Healthcare Properties.

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