



Interest Hike in 2022: Should You Get a Mortgage Pre-Approval Now?

Description

The low-interest-rate environment in Canada is ending soon. Homebuyers and mortgage borrowers are in a jam, if not frantic, about what is to come in 2022. The Bank of Canada can no longer avoid hiking interest rates due to the fast-rising inflation. Some economists predict the Feds will implement the [first round of increases](#) early next year, followed by at least five more hikes.

Apart from the affordability issue with buyers, sellers are in a fix, too. They might be buying replacement properties at inflated prices due to low inventory levels. But for borrowers stressed out by rate hikes, obtaining a mortgage pre-approval makes sense.

Interest rate hold

Banks or mortgage lenders would not dishonour pre-approval rates, and, in most cases, the interest rate hold could be up to 120 days. The primary benefit of mortgage pre-approval is protection against upward changes in interest rate. You'd avoid the rate hike or derive a discount as long as the pre-approval is valid.

Some brokers note that homebuyers are lining up, if not rushing, to lock in their mortgage applications. It should be meaningful and worth the effort if you follow the same approach. You'll know you're borrowing beforehand and make adjustments in case your chosen home is beyond your budget.

If you're a real estate investor, hold off buying physical properties in the meantime. Industry observers believe the demand will decline and prices will stabilize once borrowing costs increase. The next-best alternative to [earning income](#) is through real estate investment trusts (REITs).

Specialty REIT

Do you dream of being a landlord to automotive dealerships? **Automotive Properties** ([TSX:APR.UN](#)) is a \$531.69 million REIT that owns more than 60 income-producing automotive dealership properties. Despite the strong fundamentals of the automotive industry, it wasn't spared from COVID-19's

destruction.

Because of the significant drop in sales of auto dealerships. Automotive Properties incurred losses in 2020. However, 2021 sales are trending upward in that the REIT reported a net income of \$75 million in the nine months ended September 30, 2021. It lost \$3.21 million in the same period in 2020.

According to Milton Lamb, Automotive Properties's CEO, the REIT is now collecting 100% of contractual base rent every month. The real estate stock trades at \$13.14 per share and pays a 6.12% dividend if you invest today.

National REIT

A leading national REIT like **Crombie** ([TSX:CRR.UN](#)) is a valuable addition to any stock portfolio. This \$2.99 billion REIT has grown its properties under management to 284 in 57 years. More importantly, its [strategic partner](#) is **Empire Company**, an iconic grocery chain operator. The plan is to continue to build a high-quality REIT over the next 10 years.

In the first three quarters of 2021, Crombie's property revenue and net property income grew 9.3% and 9% compared to the same period in 2020. Its president and CEO Don Clow said the focus is to grow and optimize the grocery-anchored, residential, and retail related-industrial portfolio.

The REIT will invest consistently at scale in Empire initiatives and developments. At \$18.37 per share (+31.81% year to date), Crombie pays a lucrative 4.85% dividend.

Inevitable increase

Homebuyers don't know what lies ahead, except the inevitable increase in borrowing costs. Choosing between fixed and variable mortgages is a dilemma in addition to high real estate prices.

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