



5 or More Interest Rate Hike From 2022 to 2023: Heavy Burden for Canadians?

Description

The speech of Bank of Canada (BoC) Deputy Governor Paul Beaudry before the Ontario Securities Commission included a [warning to Canadians](#). He said that household debts increased significantly due to historically low interest rates. However, when borrowing costs increase next year, the impact on households could be severe.

Homebuyers, first-timers especially, should not rush to buy before [mortgage rates](#) increase. The feds also warn of sudden price declines, because the housing market is vulnerable to a correction. **CIBC's** deputy chief economist, Benjamin Tai, said, "Whenever interest rates start rising, people get into the market, including investors." He expects activities to even accelerate in the next few months.

Rate hike forecasts

RBC Economics senior economist Josh Nye said Canada's central bank will likely hike interest rates three times next year, the first in April 2022. For Derek Holt, **Scotiabank's** top economist, the BoC could implement as many as eight rate increases until 2023.

Holt's forecast is four quarter-point rate hikes next year, then four quarter-point hikes in 2023. If his expectation is correct, the benchmark rate would be 2.25% by year-end 2023, or 1.25% higher than the applicable rate today.

Real estate investors

A Toronto-based mortgage broker, Ron Butler, said that real estate investors comprise 25% of housing demand. This group is buying properties either for rental purposes or speculative gains. The feds confirm that investor buying has doubled since the start of the health crisis.

If you want exposure to the real estate industry but fear a housing bubble burst, real estate investment trusts (REITs) are viable alternatives. You can derive recurring [income streams](#) from **Morguard** ([TSX:MRT.UN](#)) and **Boardwalk** ([TSX:BEI.UN](#)). Both are well-known lessors of various types of

properties.

Long-term capital appreciation

Morguard incurred losses in the COVID year but has since recovered from the fallout. In the nine months ended September 30, 2021, it posted a net income of \$5.68 million compared to the \$289.5 million net loss in the same period last year. Notably, the funds from operations increased 7.3% to \$50.94 million.

This \$347.68 million REIT owns and operates industrial, office, and retail properties. Among its top assets are high-quality offices and full-scale regional shopping malls. Morguard trades at \$5.42 per share and pays a 4.4% dividend. The Management assures investors of long-term capital appreciation, as it continues to grow its portfolio.

Strong apartment fundamentals

Boardwalk boasts strong fundamentals in its core markets. This \$2.88 billion REIT owns and operates multi-family rental communities in Canada. While growths in rental revenue (1.9%) and net operating income (5.1%) in Q3 2021 versus Q3 2020 appear moderate, it indicates a resilient leasing business. Also, many Canadians might rent in 2022 instead of purchasing homes.

Sam Kolias, Boardwalk's chairman and CEO, said that the REIT's continued strong performance is due to its improvement in apartment fundamentals. The tenants reciprocate with high occupancy and retention rates plus positive leasing spreads. On the TSX, Boardwalk is a high flyer. At \$56.45 per share, current investors are up 70.8% year to date and partake of the 1.79% dividend.

Freeze commitment is gone

The Bank of Canada's freeze commitment on an interest rate hike by 2023 is off the table. Canadian households will carry a heavy burden whether the frequency of increases is three, five, or more.

CATEGORY

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Date

2025/08/14

Date Created

2021/11/28

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