OSFI Warning: Household Credit Risk Could Rise in 2022

Description

Canadians should be careful about piling up or expanding debts, because it could lead to a financial crisis of epic proportions. Peter Routledge, the head of the Office of the Superintendent of Financial Institutions (OSFI), warned households about the home equity lines of credit (HELOC) specifically.

The banking regulatory head believes the widespread use of HELOC can make it difficult to assess credit risk. Routledge said, “The use of HELOCs and non-traditional housing backed products can lead to greater and more persistent outstanding principal balances, increasing the risk of loss to lenders.”

Market forecasts 2022

Despite the pandemic environment, Canada’s housing market is booming. According to the Canadian Real Estate Association (CREA), national home sales already hit a new annual record after October 31, 2021. While the association expects national home sales to decline by 12% in 2022, it predicts average home prices to rise 5.6% to $718,000.

Real estate organization RE/MAX forecast a higher 9.22% increase next year. It also thinks the momentum will carry forward into 2022 and that 36 of 38 markets across the country will maintain seller’s status. People who want to purchase physical properties to create rental income should be wary of inflated prices on the investment side.

An alternative to direct ownership is a real estate investment trust (REIT). The cash outlay is smaller, but the potential to earn recurring income streams is the same. More importantly, you avoid the headaches of an actual landlord.

Hottest property types

The accelerating adoption of e-commerce heightens the demand for multi-use industrial properties. This trend is evident in the Q3 2021 earnings results of **Summit Industrial** (TSX:SMU.UN), one of TSX’s top real estate stocks. The $3.92 billion REIT reported 15.6% and 16.4% increases in net rental income during the quarter and year to date (nine months ended September 30, 2021).

Summit's occupancy rate is a high of 99.2%, while the average lease term is 5.5 years. Moreover, the lease contracts have built-in annual contractual rent steps (1.9% on average). Its CEO Paul Dykeman said the future looks very bright. Summit will build on its success and continue to capitalize on the strong fundamentals of light industrial real estate. The stock trades at $22.35 per share and pays a 2.47% dividend.

Well positioned for the recovery period

First Capital (TSX:FCR.UN) owns, operates, and develops grocery-anchored and mixed-use real estate in densely populated urban areas or cities with high traffic count. The $3.85 billion REIT enjoys stable portfolio occupancy (95.9%), notwithstanding the challenges during the pandemic.

In Q3 2021, net income rose to $181.5 million from $11.3 million in Q3 2020. Because of rent escalations, net rental rates increased 8.8% compared to the same quarter last year. Also, overall rent collections were 97%. First Capital made additional investments of $58.3 million in development, redevelopment, and acquisitions in properties mostly in Montreal and Toronto.

First Capital's president and CEO Adam Paul said, "Looking ahead, First Capital's grocery-anchored and mixed-use portfolio is well-positioned to benefit from the continued and full re-opening of the Canadian economy." You can partake of the 2.47% dividend if you invest in this REIT today ($17.52 per share).

Supply-demand imbalance

OSFI head Routledge thinks the residential mortgage credit threat can become less of a threat if the supply-demand imbalance corrects. He added the housing market zeal will dissipate too when it happens.

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cliew