In 2022, Higher Home Prices and Mortgage Rates = Less Buying Power

Description

Will Canada's housing market lose significant momentum in 2022? It might not withstand mortgage rates reverting to pre-pandemic levels if it doesn't. Affordability is already a concern before higher interest rates take effect next year. Stephen Brown, the senior Canada economist at Capital Economics, said the combination of higher prices and mortgage rates would eat into buying power.

Rishi Sondhi, an economist at **Toronto-Dominion Bank** Economics, doesn't think affordability will improve next year. Sondhi added that prices could still march higher, even if interest rates creep upwards. Moreover, the rate hikes will not upend demand, because the environment remains supportive for sales, according to TD's economist.

Some industry analysts say more Canadians might choose to rent over purchasing homes if housing prices are out of reach. Meanwhile, real estate investors should be mindful of the glaring demand-supply imbalance. The Bank of Canada warns of speculators driving home prices higher.

Investment options

Because of the current market environment, real estate investment trusts (REITs) are alternative investment options for property investors. The asset class trades like stocks, requires less cash outlay, and provides recurring income streams. Furthermore, as a pseudo-landlord, you won't spend on maintenance costs or deal with tenants.

However, the choice of REIT is crucial. **Crombie** (TSX:CRR.UN) and **Automotive Properties** (TSX:APR.UN) are not only established landlords but also cash cows today. Likewise, both real estate stocks display steady performances, despite threats of a market correction.

Great asset mix and tenant profile

Food retailer giant **Empire Company** owns 41.5% of Crombie. Crombie's competitive advantages are its asset mix and tenant profile. The $2.91 billion REIT generates 82% of its annual minimum rent

(AMR) from grocery- and pharmacy-anchored properties plus retail-related industrial real estate.

About 70% of AMR comes from essential services tenants, while small business comprises only 7%. Given the insightful data, Crombie is a defensive investment, and therefore it's ideal for risk-averse investors. Its property revenue and net property income in Q3 2021 rose 9.3% and 9% versus Q3 2020. In October 2021, rent collection was 100%.

As of December 10, 2021, Crombie trades at $17.68% per share. Currently, investors enjoy a 28.8% gain on top of the lucrative 5% dividend.

Resilient industry fundamentals

Automotive Properties operates in Canada's automotive retail industry, known for its strong fundamentals. The $37.35 million REIT owns 66 income-producing automotive properties, including retail dealerships and original equipment manufacturers (OEMs). COVID-19 destabilized the industry, although things are returning to normalcy in 2021.

In the nine months ended September 30, 2021, rental revenue and net operating income (NOI) rose 4.3% and 5.8% versus the same period in 2020. The REIT's net income was $75 million compared to the $3.2 million net loss a year ago. Management reports that it collected 100% of its contractual base rent in October and November 2021, including those with deferral arrangements.

Like Crombie, Automotive Properties is excellent for income investors. The REIT is a steady performer with its 36.39% year-to-date gain. At $13.75 per share, the dividend yield is a juicy 5.93%.

You can minimize the impact

The Bank of Canada expects elevated inflation until the first half of 2022 before it tapers toward 2% in the back half. Canadians can minimize inflation's impact on purchasing power by earning passive income through REITs.

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