Warning for 2022: Housing Market Could Fall Sharply Like Meme Stocks

Description

Real estate fever swept Canada in 2021, mainly due to historically low interest rates. However, despite the housing market's resiliency amid a pandemic environment, the outlook for 2022 isn't exactly rosy. RateSpy.com's founder Rob McLister says it's at risk of a significant correction due to extreme valuation and policy uncertainty.

McLister added the inevitable increase in interest rates next year is an essential factor that threatens market stability. The mortgage expert compared the situation to the meme stock frenzy. He said, "It's like any other asset. You know, you see **GameStop** go up to US$300, that corrects real quick because prices get totally detached."

The uneasiness stems from the turbocharged home price growth, where prices have reached stupid levels, according to McLister. Because of inflated prices and the possible bubble burst, some investors will hold off buying real estate. Instead, they'll invest in real estate investment trusts (REITs), an indirect but safer route.

Emeka Mayes, head of Canadian Capital Markets, Brokerage at Colliers Canada, said, "Overwhelmingly, I'd say the darling continues to be industrial real estate." She further said most property investors place their capital on this sub-sector of real estate.

More expensive homes in 2022

Economists predict the Bank of Canada will raise interest rates multiple times in 2022. The chief economist and managing director at **BMO** Financial Group Doug Porter said it could be five 25-basis point increases in lending rate, reaching 1.5% from the current 0.25%.

However, Re/Max Canada president Chris Alexander believes the Fed's slow and gradual rate hikes won't deter homebuyers. He said, "There will be a little less of a frenzy, but we'll still see a very, very strong market." His group predicted a 9.2% increase in the average residential price.

Meanwhile, the Canadian Real Estate Association (CREA) projected a 12.1% decline in sales, although it said 2022 could still be the second-best year on record for home sales. However, the association said home prices would be more expensive due to historic low housing inventories.

Top industrial REITs

Industrial REITs are stable performers in 2021 — notably, **Nexus** (TSX:NXR.UN) and **Dream Industrial** (TSX:DIR.UN). Investors in both stocks are mock landlords in high-quality industrial real estate. The attractive dividend yields are safe and sustainable due to the rise of e-commerce and very low vacancy rates.

Nexus is perhaps the top choice, because of the stock's stellar performance. At $12.63 per share, the year-to-date gain is an incredible 70.63%. The $704 million growth-oriented industrial REIT currently pays a 5.18% dividend. While it leases office and retail properties, 69 (65.7%) of the total 105 income-producing assets are industrial.

Dream Industrial isn't a high flyer like Nexus, but investors are content with the 33.82% year-to-date gain ($16.90 per share) and the 4.14% dividend. This $3.81 billion REIT has 326 properties scattered in key markets in Canada, the U.S., and Europe.

In the nine months ended September 30, 2021, net income soared 252.69% to $418.37 million versus the same period in 2020. Dream Industrial continues to scale, particularly in Europe. The strong demand from high-quality tenants is why rental rate growth is significant.

Undue comparison

Starlight Capital's CEO Dennis Mitchell disagree with the comparison to meme stocks. He said if the labour market continues to rise, there should be no significant housing market correction.

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