A Mortgage Rate Hike Will Reduce Buying Power by 15%

Description

Some people purchase Canadian real estate because they want bulletproof investments. However, the country's big banks believe that's no longer the reality in 2022. **Canadian Imperial Bank of Commerce** advises against buying properties at this time due to tremendous risks.

According to Canada's fifth-largest lender, a steep climb in overnight rates will result in a steep climb for mortgage rates. When the overnight rate was 1.5% in August 2018, the five-year fixed-rate mortgage was 3.5%. The bank added that the rise to the same level would be more than just paying more at renewal. It would mean a 15% reduction in buying power.

Not the ideal time to buy

Benjamin Tal, CIBC's deputy chief economist, said, "I think there is a risk of getting into the market at today's rates." He warned that the emergency or abnormal interest rates will eventually rise. Tal tell buyers to look for more manageable-sized properties at this time. It would be a gamble if you stretch yourself against rising rates, he said.

Based on recent market data, the Bank of Canada and the U.S. Federal Reserve will implement at least four rate hikes in 2022. market data indicated investors have priced in at least four hikes from the Bank of Canada and U.S. Federal Reserve this year. **Bank of Nova Scotia** has forecast the first hike to happen on January 26, 2022.

Meanwhile, Barclays Capital analyst Jonathan Aiken raised his price targets for Canadian bank stocks by an average of 10%. because of the looming interest rate hike. He said, "The outlook for the banks in 2022 has become decidedly more positive, particularly with expectations that interest rate hikes are looming."

Alternative to owning investment properties

Real estate investment trusts (REITs) are alternative choices if you want exposure to the real estate sector and earn rental-like income. **Slate Grocery** (TSX:SGR.U) and **H&R** (TSX:HR.UN) trade below $15 per share, so the capital outlay is significantly lower. Moreover, both REITs are cash cows and ideal holdings in a Tax-Free Savings Account (TFSA).

Slate Grocery owns and operates grocery-anchored real estate in the United States. Prospective investors to this $870.66 million REIT gain exposure to the world's largest grocers in markets with strong demographics. **Kroger** and **Walmart** are the top two anchor tenants. Although 96% of the properties are grocery anchored, 69% of the tenants are essential or necessity based.

At only $14.81 per share, this REIT pays an over-the-top 7.22% dividend.

H&R is one of Canada's largest landlords. The $4.52 billion REIT owns high-quality residential, industrial, office, and retail properties. In the nine months ended September 30, 2021, H&R's occupancy rate was 95.1%, while the average remaining lease term is 9.2 years.

In late October 2021, the REIT announced a transformational strategic reposition plan to create a simplified, growth-oriented company. H&R will focus more on multi-residential and industrial properties and become the leader in the sub-sectors.

Financial crisis

Real estate investors and homebuyers should heed the warning of economists. Rates are due to climb significantly and ultimately reduce buying power. Families and households might face a financial crisis with inflation rising faster than the normal pace, too.

CATEGORY

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cliew