6.2% Home Price Growth: Invest in REITs Rather Than Purchase Real Estate

Description

Real estate investors beware when the Bank of Canada starts the rate-hike cycle, probably in March 2022. A report from **RBC** Economics forecasts a drastic slow down in price growth in the housing market. Home price growth could drop to 6.2% from the 17.8% gain last year.

Homebuyers or end-users should also take note that even if higher interest rates moderate demand, affordability will remain a concern. Robert Hogue, a senior economist at RBC, anticipates supply to increase and the market to cool down in the second half of this year.

Supercharged demand

According to Hogue, supply has been dwarfed by supercharged demand during the pandemic. Because inventories plunged to historical lows, there are fewer options for buyers. He believes any significant improvement in housing affordability hinges on supply.

Record low interest rates drove home prices higher, although the imbalance in supply and demand is a major factor too. Investors should think twice about purchasing real estate for investment purposes due to inflated prices. Real estate investment trusts are the next-best options to earn rental-like income.

The top choices today are **Summit Industrial** (TSX:SMU.UN) and **NorthWest Healthcare Properties** (TSX:NWH.UN) in the industrial and health care sub-sectors, respectively.

Strong fundamentals

Summit Industrial owns and manages a portfolio of pre-dominantly light industrial properties (156) across Canada. The $3.78 billion REIT had a strong growth and record operating performance last year. In 2021, revenue and net rental income increased 13.7% and 15.2% versus 2020.

As of year-end 2021, the occupancy rate was a high of 99.2%. while the average lease term is 5.4 years. Summit's rental collections are likewise increasing because of the contractual rent steps (1.9%

average annually) in the lease contracts.

Paul Dykeman, the REIT's CEO, said the performance indicates a proven operating platform and strong fundamentals in the industrial sector. Summit grew its property portfolio and increased the pipeline of development opportunities amid a challenging environment. If you take a position today, the REIT trades at $21.58 per share and pays a decent 2.61% dividend.

Generous passive income

NorthWest, the only REIT in the cure sector, is a generous passive income provider. At $13.37 per share, the dividend offer is 5.95%. Assuming you maximize your $6,000 TFSA limit for 2022 and invest in this real estate stock, you can generate $357 in tax-free income.

The $2.91 billion REIT owns and operates health care real estate infrastructure (hospitals, clinics, and medical office buildings). NorthWest's properties are in Canada, Australia, Brazil, New Zealand, and the U.K. As of September 30, 2021, there are 196 income-producing properties. The occupancy rate is 96.9%, while the weighted average lease term is 14.1 years.

In Q3 2021, net operating income and net income attributable to unit holders increased 3.4% and 552.6% versus Q3 2020. NorthWest CEO Paul Dalla Lana said it was another strong quarter, as evidenced by the solid operating results. Management will present the Q4 and full-year 2021 results on March 9, 2022.

Still red-hot

The Canadian Real Estate Association (CREA) said home prices soared 38% year-over-year in January 2022. While the housing market remains red-hot, the feds expect demand to soften with multiple rate hikes.

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