



Home Prices: Rate Hike to 0.5% Won't Cause Severe Correction Yet

Description

Speculation is over after the Bank of Canada raised its key interest rate to 0.5% on March 2, 2022. The central bank brought down the benchmark rate to 0.25% from 1.75% at the onset of the pandemic to help the economy. However, the BoC needs to end the low interest rate environment in 2022 to rein in rising inflation.

Economists now turn to the number of rate hikes that will follow the initial rate hike. However, for homebuyers, their question is whether the initial increase will [bring down home prices](#). Mortgage columnist Rob McLister said, "Mortgage rates are a primary determinant of housing demand, along with employment, household formation, and credit availability."

According to Samantha Brookes, CEO and founder of Mortgages of Canada, the impact is on variable mortgage rates. Industry experts say variable mortgage rates must move substantially higher to drag the housing market. Some analysts predict as many as five small rate hikes by the BoC before year-end 2022.

Housing market correction uncertain

Canada has one of the frothiest property markets in the world based on industry data. The party isn't over because the housing market could still defy gravity this year. Royal LePage's latest House Price Survey results suggest that [housing prices](#) will keep rising in 2022, notwithstanding the prospect of higher interest rates.

The market in winter was extremely active and it should continue into the spring, says Royal LePage President and CEO Phil Soper. His company expects the average housing price to increase 10.5% year-over-year, or to above \$860,000 by year-end.

Bryan Yu, chief economist at Central 1 Credit Union, adds, “Buyers are frantic, given price growth trends and low inventory, while racing against the clock as lower rate commitments come to an end.” A separate poll of property market analysts by **Reuters** showed Canada’s average home prices rising by 9.2%, 1.5%, and 2.0%, in 2022, 2023, and 2024, respectively.

Alternative investments for real estate investors

If housing prices will remain high for three years, real estate investors have [alternative options](#) to buying physical properties. Real estate investment trusts (REITs) are cash cows that can provide rental-like income.

Among the top real estate stocks to consider are **NorthWest Healthcare Properties** ([TSX:NWH.UN](#)) and **Summit Industrial** ([TSX:SMU.UN](#)). The former is the only REIT in the cure sector, while the latter leases light-industrial properties that are in high demand due to the e-commerce boom.

Investors in NorthWest are pseudo-landlords of medical office buildings, hospitals, and clinics. The \$2.97 billion REIT owns and operates a portfolio of high-quality international health care real estate infrastructure. Its 192 properties are in major markets globally. At only \$13.66 per share, the dividend yield is a fantastic 5.86%.

Summit Industrial had a record performance in 2021. Because of portfolio growth, a high stable occupancy rate, and rent escalations, revenue and net rental income increased 13.7% and 15.2% versus 2020. Stability is inherent in this \$3.9 billion growth-oriented REIT.

The strength lies in light-industrial properties with lower market rent volatility and operating costs. Summit trades at \$22.07 per share and offers a rock-steady 2.56% dividend.

Upward pressure

Homebuyers can’t expect the affordability crisis to dissipate any time soon. RE/MAX Canada President Christopher Alexander said, “The ongoing housing supply shortage is likely to continue, continuing to put upward pressure on prices.”

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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2. TSX:SMU.UN (Summit Industrial Income REIT)

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Date

2025/06/30

Date Created

2022/03/04

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