Will the 0.5% Interest Rate and Future Hikes Lead to a Housing Market Balance?

Description

The Bank of Canada had no choice but to raise its key interest rate this month due to rising inflation. For borrowers, the low-interest-rate environment era is over. However, the doubling of interest rate by the Feds could have a positive outcome in relation to the housing market.

Since the first interest rate hike isn't aggressive as it should be, industry experts say it won't cool the red-hot housing market. The affordability crisis still exists, and, therefore, homeownership remains expensive. Sung Lee from rate comparator Ratesdotca said, "I think the initial increase of 25 basis points will be a good kind of warning shot to everyone."

If the fervent demand and low supply lingers, real estate investors are likely to hold buying investment or rental properties. Many will gravitate towards real estate investment trusts (REITs) to earn passive income.

First rate hike not a deterrent

The backdrop in the housing market today is the strong demand and very low inventory. Throw in speculators that help drive home prices higher. Christopher Alexander, president of Re/Max Canada, said gradual rate increases by the central won't take too much steam out of the market.

Alexander and Lee contend that prospective homebuyers still have plenty of buying power. The 0.5% interest or minimal rate increase isn't a deterrent to obtaining a mortgage. Most economists agree that only a significantly higher borrowing cost can have a meaningful impact on the housing market.

Market balance is needed

Royal Bank of Canada reports month-on-month increases in new listings across major markets based on data from local real estate boards. Supply restraints could ease if more sellers enter the housing market. It will also reduce the upward pressure on home prices.

Only a more balanced demand-supply condition can end the affordability crisis. Robert Hogue from RBC Economics expects higher interest rates to cool down demand over time.

Passive-income providers

Crombie (TSX:CRR.UN) and **Choice Properties** (TSX:CHP.UN) are reliable passive-income providers. Both real estate stocks trade below $20 per share and their average dividend yield is 4.94%. A $15,000 position in each will produce a combined passive income of $1,482, or $123.50 every month.

Food retailing giant **Empire Company** has a 41.5% equity stake in Crombie ($17.63 per share). The portfolio of this $3.1 billion REIT consists of grocery-anchored retail, retail-related industrial, and mixed-used residential properties.

According to its president and CEO, Don Clow, the solid operational and financial performance in Q4 and full-year 2021 were due to very strong fundamentals. Tenants are necessity-based and logistics provider. In 2021, property revenue and net property income increased 7% and 5.3% versus 2020. Chow said Crombie is becoming increasingly urban and diversified with the addition of urban residential assets.

Choice Properties ($15.28 per share) has a market capitalization of $5 billion and boasts a diversified portfolio. The REIT owns, operates, and develops high-quality commercial and residential properties. It held steady in 2021 owing to the 97.1% occupancy rate. Rental revenue and net operating income increased 1.6% and 3.2% versus 2020.

Wait for the right time

Homebuyers can wait for the market balance before buying. Prices should be lower if there is less competition.

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