Canadian Housing Market Selloff: Here's What Residential REITs Have Seen So Far

Description

For years, Canadians have wondered whether sky-high home prices would ever stop climbing and possibly come crashing back down. However, despite the continued surge in pricing and many headwinds that the economy has been facing, the current market environment may finally be what causes a Canadian housing market selloff.

Ever since oil prices crashed in the mid-2010s and the Bank of Canada had to lower interest rates to help spur the economy, Canadian housing prices have continued to see gains. Even when the pandemic hit, many thought that would slow the rise of housing prices.

What we did see were regional gains, as Canadians moved out of city centres and looked for properties in the suburbs. However, in general, price levels continued to gain due in large part to all the cash and stimulus that was added to the economy.

Now, however, the Canadian housing market is facing some of the most significant headwinds yet. Inflation is soaring, which is weighing on Canadian consumers' budgets. In addition, rapidly rising interest rates naturally make housing less affordable.

Because of this uncertain economic environment and the fact that the entire economy is being impacted, several experts and analysts at banks have predicted that residential housing prices could decline this year.

So, here's what some of Canada's largest residential REITs have been noticing.

Is the Canadian housing market starting to sell off?

So far, from what management teams have been saying over the last few weeks when major residential REITs have been reporting their earnings, there doesn't been much sign of prices for larger apartment properties budging just yet.

InterRent REIT, one of the top growth stocks in real estate, and a REIT that's constantly looking for new properties to add to its portfolio, mentioned that it's continuing to look for attractive acquisitions, but so far there have been no meaningful changes in private market valuations as a result of the increase in interest rates.

Similarly, **Killam Apartment REIT**, another high-quality residential real estate stock, said that there still seem to be a lot of buyers in the asset class, especially for high-quality properties and in large urban markets.

It's worth noting that roughly three-quarters of InterRent's portfolio is in Ontario, with the rest located in the Montreal and Vancouver regions. Killam, however, is a lot more diversified across the country. Also, keep in mind that these REITs aren't buying individual houses but rather larger apartment buildings and communities.

According to the Canadian Real Estate Association (CREA), the average non-seasonally adjusted home price was $796,000 in March, up 11.2% year over year. However, while it may seem like the Canadian housing market is continuing to gain in price, March's average was down from the record $816,720 recorded a month before.

The financial challenges that larger businesses and REITs face are certainly different than what consumers face, so there could certainly be a temporary divergence in market rates.

However, watching how these massive REITs approach the current market environment can help point to whether this may be a longer-term decline, simply a plateau in prices, or if they will eventually continue to rise.

Bottom line

It's still early, and interest rates have only been rising for a couple of months. So, over the short term, watching how these REITs perform and what acquisitions they make can help point to how the economy may perform, what the Canadian housing market might do and whether they can recover quickly.

In addition, watching these stocks could also give you the chance to notice an excellent opportunity to buy one of these high-quality REITs. After all, they offer a tonne of advantages over buying a rental property. Not to mention, the price of many high-quality Canadian REITs are now ultra-cheap.

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