Housing and Rate Hikes: 2 REITs to Keep an Eye on

Description

The Bank of Canada increased its policy interest rate by 50 basis points to 1% on April 13, 2022. Incidentally, home prices dropped 6% in April, the second month in a row. By the time this article comes out, the Feds would have announced another 0.5% increase — the third in as many hikes.

Jill Oudil, chairman of the Canadian Real Estate Association (CREA), said, "Following a record-breaking couple of years, housing markets in many parts of Canada have cooled off pretty sharply over the last two months, in line with a jump in interest rates and buyer fatigue."

The Feds are increasingly anxious about inflation getting out of hand that tightening their monetary policy is the logical fix. However, rising interest rates aren't good news for current homeowners. The poll results of a survey by RATESDOTA.CA and *BNN Bloomberg* showed that only fewer than 50% of Canadians could afford more than $200 in increased monthly costs.

Anxious homebuyers

Prospective homebuyers are doubly worried because housing prices aren't dropping as fast as the rise in mortgage rates. CREA confirms that prices remain about 7% from a year ago, notwithstanding the dip from their recent peak. Because of the current environment, many are deferring homeownership plans.

According to **Scotiabank's** Housing Poll, 43% of Canadians would put off their home purchases. On the other hand, Rentals.ca and Zumper.com anticipate the country's average rents in 2022 to continue an upward trend in the coming year. Demand will most likely shift from the ownership market to the rental market.

Investors' options

On the investment front, real estate investment trusts (REITs) in the residential sub-sector should rise in prominence due to the changing dynamics. Investors must keep an eye on **Canadian Apartment Properties**

(TSX:CAR.UN), or CAPREIT, and **Morguard North American Residential** (TSX:MRG.UN).

CAPREIT offers quality rental housing in Canada and the Netherlands. The real estate portfolio (67,000 units) of this $8.57 billion REIT consists of residential apartment suites, townhomes, and manufactured housing community sites. Canadians have affordable alternatives to the pricier homeownership.

In Q1 2022, CAPREIT's operating revenues and net operating income (NOI) increased 8.41% and 4.45% versus Q1 2021. Its president and CEO Mark Kenney said, "With the pandemic easing, we are seeing a return to near-full occupancies, increasing average monthly rents, and strengthening demand."

Morguard isn't as big as CAPREIT, but it's been a stable stock amid the challenging environment. At $17.71 per share, the trailing one-year price return is 13.36%, while the dividend offer is 3.95%. CAPREIT trades at $48.87 per share and pays a 2.97% dividend.

In Q1 2022, the $997.1 million REIT reported 8.18% and 14.75% increases in revenue and NOI versus Q1 2021. The quarter's highlight was the 524.72% year-over-year increase in net income to $171.14 million. As of April 26, 2022, Morguard has 13,275 residential suits whose locations are in Canada and the United States.

Welcome changes

Robert Hogue from **RBC** Economics said rising interest rates could bring welcome changes to the housing market. Besides a more sustainable activity. there should be fewer price wars, more balanced conditions, and modest price relief for homebuyers.

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