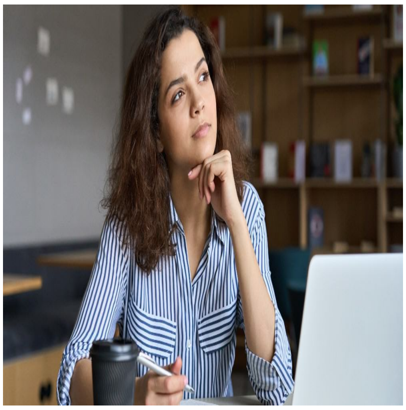

3rd Rate Hike in 2022: No More Surprise for Homeowners

Description

Whether the Bank of Canada (BoC) pushed through with another 50-basis-point increase in its key interest rate or not, homeowners and homebuyers are resigned to the new reality. The low-interest-rate environment is a thing of the past. Central banks around the world are working doubly hard to rein in surging inflation.

The rate-hike campaign of the Feds in Canada is ongoing, and another increase will instantly impact borrowers with variable-rate mortgages and other loans linked to prime rates. A survey by Leger reveals that 74% of Canadian homeowners can afford paying $200 more in monthly costs, but anything beyond that will result in financial pain.

Stress test for borrowers

Canadian Real Estate Association's (CREA) senior economist Shaun Cathcart expects the tightening of the markets to play out over the rest of the year. He added that BoC's hikes are being factored into fixed mortgage rates. The stress test for fixed borrowers is now on the low 6% range, which is nearly 1% from the previous 5.25%.

Shaun said that it's matter of time that it will impact variable mortgages. Thus, homeowners have no escape from paying more dollars on regular mortgages. Higher interest rates will likewise affect lines of credit, auto, and student loans.

Real estate value

Would-be homebuyers are caught in an affordability and mortgage crises. The exorbitant housing prices combined with rising interest rates is forcing them to evaluate their moves carefully. According to real estate experts, the rate hikes will only moderate, and not cause steep price drops.

CREA reported that national sales in April 2022 fell 12.6% from the previous month. CREA chairman Jill Oudil said that housing markets in many parts of the country have cooled off pretty sharply over the last two months. It could be the result of the jump in interest rates and buyer fatigue.

Based on the latest Nanos Canadian Confidence Index for Bloomberg, 51.6% of Canadians still expect real estate prices to rise. However, the assumption of respondents on the percentage of home-price growth has gone down from 60.8%.

Unaffected REIT

Real estate investors can shift their focus to defensive real estate investment trusts (REITs) to ensure unhampered income streams. **Slate Grocery** (TSX:SGR.U) remains unaffected, despite the crisis in the housing sector. The real estate stock outperforms the broader market year to date at 7.62% versus -1.43%. At $15.08 per share, the dividend yield is 5.70%.

This $916.74 million REIT owns and operates grocery-anchored real estate in the United States. Slate Grocery is resilient in the face of mounting macroeconomic pressures. In Q1 2022, rental revenue and net operating income (NOI) increased 20% and 38.2% versus Q1 2021. Also, 97% of the portfolio is secured by net leases, and therefore, there’s protection in an inflationary market.

Primary concern

Mortgage rates are more expensive now, not because the Bank of Canada discourages borrowings. The central bank’s primary concern is to curb inflation by tightening monetary policies.

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