Could a 10-20% Drop in Real Estate Happen Soon?

Description

Canada's real estate market might see its pandemic-induced boom end, as interest rates continue to rise. Economists don't see a crash happening, but a 10-20% price correction is possible. Realtors and brokers also noted the declining monthly and year-over-year home sales in major cities last month.

The Feds have increased their key interest rate three times already this year, and forceful increases are forthcoming. Homebuyers would be happier if the housing market returns to balanced territory, because they can purchase properties at their real worth — not at inflated levels.

Housing supply must increase

Daniel John, chairman of the Real Estate Board of Greater Vancouver, said that steady price increases have begun to ease in April and May 2022. However, the lack of choice for homebuyers remains a key factor as the market cools. He added, "Where home prices go next will depend on housing supply."

Mr. John noted the modest increases in home listings, but the still supply totals must more double for the market to approach balanced territory. He said rising interest rates is a positive sign and gives prospective homebuyers more time to make sound decisions.

No immediate price relief

Homebuyers aren't scarce, but the inventory is in the past couple of years. The Canadian Real Estate Association (CREA) doesn't see the situation reversing from a sellers' market to a buyers' domain. However, **BMO's** managing director of macro strategy, Benjamin Reitzes, would be shocked if prices don't fall double digits.

Reitzes said, "Home prices and sales are cooling following rising rates, abruptly ending an unsustainable run. Things have come off highs very quickly and will probably continue to do so." He estimates a 20% decline in home prices in the not-so-distant future.

If the cost of real estate remains elevated, expect many homebuyers to forego ownership and decide to rent instead decide. Landlords would welcome more renters and fewer vacancies.

Standout investment

Real estate is the third worst-performing sector on the TSX with its 16.06% year-to-date loss. However, not all of its constituents are underperforming. A real estate investment trust (REITs) with an investment-grade, majority unitholder display resiliency amid the inflationary pressures.

In Q1 2022, **CT REIT** (TSX:CRT.UN) reported 3.8% and 34.8% increases in net operating income (NOI) and net income versus Q1 2021. This $4.04 billion REIT owns high-quality assets with **Canadian Tire** as its anchor tenant in 263 of the 368 operating properties.

Its CEO Ken Silver said, “CT REIT’s growth and resilience drove strong results in Q1, reflecting the core attributes of our strategy and business model. These attributes have once again given our Board the confidence to announce a distribution increase.” The 3.4% dividend hike was the ninth since CT REIT’s IPO in 2013. If you invest today, the share price is $17.32, while the dividend yield is 4.8%.

Normalcy is near

Canada’s real estate market seems ready to cool down with rising interest rates. While prices won’t drop quickly as they should, the return to normalcy and an end to bidding wars are on the horizon.

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