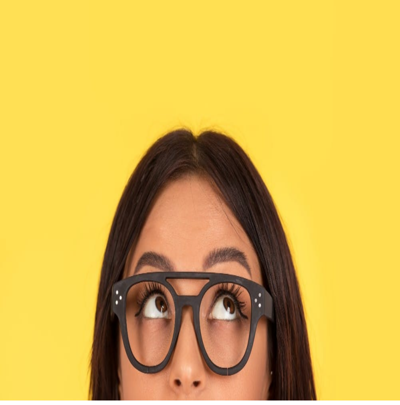

Is a Housing Market Correction on the Horizon in Canada?

Description

The Canadian real estate market saw an unlikely boom amid the pandemic. The combination of historically low interest rates and the injection of liquidity by the Canadian government through stimulus programs allowed many people to put money towards mortgages. The surge in demand and low supply resulted in more housing price hikes.

The pandemic-induced boom might be at an end, as the Bank of Canada (BoC) continues to enact interest rate hikes to cool down inflation. Housing prices have been declining in the last few months. The Canadian Real Estate Association (CREA) reported a 12.6% decline in home sales between March and April 2022.

Reduced activity in the housing market is another sign that the downturn could continue in the coming months. Economists do not think that the housing market will go through a full-blown collapse, but a downward correction of up to 20% could be possible.

Potential Canadian homebuyers will not mind if housing prices come down to more reasonable levels. It could allow them to buy homes at more affordable prices instead of highly inflated levels.

The supply could determine where the market goes from here

The slowdown in Canada's housing market indicates that the interest rate hikes have started having the intended impact. Reduced borrowing capacity due to higher interest rates makes it more challenging for people to take out mortgages to buy homes. As the housing market cools down, many investors might be wondering how things will proceed in the coming months.

A growing number of home listings in the real estate market could allow home prices to come down to more approachable levels. However, a lack of supply in the housing market could increase housing prices if demand rises. The interest rate hikes have forced people to be more careful about making real estate investments.

There has been a slight increase in new listings, but it has to increase significantly to balance the housing market to more reasonable levels.

A stellar investment in the current market

The real estate industry has been one of the worst-performing sectors in the Canadian economy this year, but not all segments of the industry have been underperforming. Real estate investment trusts (REITs) with diversified portfolios have shown greater resilience amid the economic pressure weighing on the sector.

CT REIT (TSX:CRT.UN) is one such trust that has displayed resilience during this time. The trust reported a 34.8% increase in net income and a 3.8% improvement in its net operating income in the first quarter of fiscal 2022 compared to the same period last year. The $1.81 billion market capitalization trust also owns **Canadian Tire**, which also happens to be the tenant for 263 of the 368 properties in its portfolio.

Stable cash flows and increasing revenue allowed CT REIT to introduce a 3.5% dividend hike. CT REIT trades for $16.98 per unit at writing and boasts a juicy 4.94% dividend yield that it pays out each month.

Foolish takeaway

There is no shortage of potential homebuyers in Canada, despite higher interest rates. However, the last two years have seen a scarcity in inventory. The CREA does not believe that the housing market will become a buyers' market anytime soon.

That said, Benjamin Reitzes, the managing director of macro strategy at Bank of Montreal, believes that it would not be surprising to see a 20% decline in home prices soon. The market has seen its unsustainable run come to a sudden end. Higher home prices could see many potential homebuyers resort to renting instead of buying homes.

The Canadian housing market might have a long way to go before it normalizes to more reasonable rates. However, REITs like CT REIT could provide a viable alternative to buying an investment property to generate reliable and truly passive income.

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