Home Resales Fall 8.6%: Chilling Effect of Rate Hikes?

### Description

Canada's red-hot housing market seems to be cooling down faster than expected. Robert Hogue from **RBC** Economics thinks the aggressive rate hike campaign by the Bank of Canada has a chilling effect on activities in the property sector. Based on the latest data, home resales last month fell 8.6% from April.



Hogue added that the exuberance during the pandemic has waned for three straight months since March this year. From here, RBC expects a bearish sentiment to build and spread further, as the central bank implements forceful monetary policy normalization. Moreover, the team sees a broad-based property depreciation in the period ahead.

## Pandemic rally is over

In May 2022, home resales dropped below 525,000 units for the first time since February 2020. The seasonally adjusted and annualized figure nationwide was 512,000 units. Also, new listings in the country climbed 4.5% month on month, as more properties are on the selling block.

Canadians appear to be in better financial shape to cope with higher interest rates. According to Statistics Canada, household debt grew 2% versus the 3.3% gain in disposable income in Q1 2022. Net worth likewise rose 2.6% to $17.6 trillion.

Because disposable income outpaced debt growth, Canada's household debt-to-income ratio is down to 182.5% from a record high 185% in Q4 2021. The housing market has indeed cooled owing to the substantial slowdown in sales and price declines for first time in two years. With more rate hikes coming, expect the housing market to slow further.

## Downward pressure on prices

A housing market decline looms if the average selling price is going down at a faster clip. Sellers are in a bind because they might not get the expected amount if the downward pressure on prices continues.

John Pasalis from Realosophy Realty Inc. said, “A lot of the sellers in the market today are effectively distressed sellers.”

Since they are caught by the rapid turn in prices, buyers and sellers are both distressed. According to real estate lawyer Greg Weedon, cases related to buyers unable to fulfill their purchase contracts are rising. Since the prices they are agreed to pay for the homes before are lower now, they want to avoid making a bad decision.

## Position of strength

Meanwhile, **RioCan** (TSX:REI.UN) in the real estate sector should attract more investors, despite its underperformance (-12.19% year to date). The $6.13 billion real estate investment trust (REIT) is ready to take advantage of opportunities and mitigate risk during the current economic environment.

In Q1 2022, net income increased 50.05% to $160.1 million versus Q1 2021, while the occupancy rate for quarter was a high of 97%. RioCan is retail-focused, but the mixed-use properties in its portfolio are growing. Management entered a joint venture partnership (50/50) with Parallax Properties Inc. to develop a high-rise residential condominium building.

Jonathan Gitlin, RioCan’s president and CEO, is confident that the portfolio is well positioned to drive performance, overcome challenges, and emerge even stronger. The real estate stock trades at $19.79 per share and pays a generous 5.15% dividend.



## Cooling trends

RBC Economics predicts that the cooling trend in Canada’s housing market will intensify in the coming months. Widespread price corrections are inevitable with multiple rate hikes from the Feds.

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**Date**
2025/06/30
**Date Created**
2022/06/20
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