Home Prices Today: Huge Discounts as High as $200K

Description

Canada's housing market defied gravity during the pandemic and extended the price rally until 2022 when inflation caught up with it. Robert Kavcic, a senior economist at BMO Capital Markets, said the Bank of Canada's 1% rate hike last week was a hammer that would trigger an even deeper correction in 2023.

Price discounts have replaced bidding wars in July 2022 as multiple interest rate hikes begin to impact the real estate market. Real estate brokers even note the sudden rise in delistings of houses for sale that failed to attract bids from prospective homebuyers. You can attribute the fast-declining home prices, with some falling as much as $200,000, to the end of the low-interest-rate environment.

Good and bad

Jill Oudil, the chairman of the Canadian Real Estate Association (CREA), said "Activity continues to slow in the face of rising interest rates and uncertainty." Based on data from CREA, the volume of home sales last month fell 5.6%. Notably, average selling prices have declined each month since February 2022.

While homebuyers have waited a long time to see home prices drop to a reasonable level, many are deferring purchases due to rising interest rates. No one wants to be squeezed with higher mortgages. The anxiety level of homeowners whose variable rate mortgages are expiring next year has risen.

Harder qualification

Mr. Kavcic adds that the increase in the prime rates of commercial banks would make it harder to qualify for a mortgage under the present stress test rules. Effective July 14, 2022, the uniform prime rate of Canada's Big Six banks is 4.70%. Most loans such as variable mortgage rates, home equity lines of credit (HELOC), and auto loans are tied to prime rates.

Now, the test sets the qualifying rate for uninsured mortgages at 2% above the contract rate or 5.25%, whichever is greater. Kavcic said the increase to around 6% for you to qualify is a massive pill for the market to swallow. According to Kavcic, the drastic changes will eat into purchasing powers.

Resilient REITs

Two REITs displaying resiliency and robust leasing activities amid the market chaos are **Slate Grocery** (TSX:SGR.U) and **H&R** (TSX:HR.UN). The former pays a mouth-watering 7.93% dividend, while the latter's yield is an attractive 4.38%. Both REITs are alternatives to buying physical properties and direct ownership.

Slate, a $646.3 million REIT, owns and operates a portfolio of grocery-anchored real estate in the United States. Its CEO, Blair Welch, brags about the unique and defensive nature of grocery real estate in all market conditions. In Q1 2022, rental revenue and net operating income (NOI) increased 20% and 38.2%, respectively, versus Q1 2021.

H&R has shifted its focus to higher-growth asset classes within strong urban markets in Canada. The $3.6 billion growth-oriented REIT operates high-quality office, industrial, residential, and retail properties. In Q1 2022, net income rose 508.2% to $970 million versus Q1 2021. Both Slate Grocery ($10.90) and H&R ($12.54) trade below $15 per share.

The real estate sector (-22.9%) is **TSX's** third-worst performing sector year-to-date. Nevertheless, investors who stay invested in REITs can still earn passive income streams. You can do the same, but you should limit your choices to resilient REITs like Slate Grocery and H&R.

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