2 Housing Markets in Canada Where Prices Are Being Slashed

Description

Data showing sliding home sales is proof that a correction is happening in Canada's real estate market . The Bank of Canada has raised it policy rate four times already in 2022, and economists anticipate more increases within the year. Chilliwack (57%) and the Fraser Valley (50.5%) had the steepest percentage declines in home sales.

But because of the significant slowdown in sales, prices in some of the country's housing markets are falling, too. In Ontario, the average selling price in the city of London fell $76,110 in June, or 9.98% compared to May. According to HouseSigma, the median price in Metro Vancouver dropped 13.9% during the same period.

Prospective homebuyers are weighing their options carefully because of rapidly rising mortgages. Dane Eitel, an analyst and real estate agent, said that rising rates and price drops cancel each other out, and therefore, homebuyers are in the same financial spot.

Downturn will deepen

RBC Economics expect the downturn in the housing market to deepen in the coming months. It forecasts resale activity and home prices to reach their lower levels than what the bank previously anticipated. RBC project home resales this year to drop by nearly 23% and 15% in 2023.

On the national level, RBC predicts a 12% drop in the benchmark price from peak to trough, by the second quarter of 2023. The bank economists said the priciest and more interest-sensitive market faces larger declines relative to resilient and affordable markets.

Big bite for borrowers

It would be a big bite for borrowers if the central bank's overnight rate reaches 3.25% by October 2022. According to RBC, such scenario will delay, if not spoil, homeownership plans of many buyers. Super-low borrowing costs is a thing of the past in that variable mortgage rates could approximate fixed rates.

Higher interest rates will reduce the size of mortgages and maximum purchase prices. Moreover, the stress test's qualifying rates will hamper stretched-out buyers nationwide.

REIT to watch

On the investment front, interest in real estate investment trusts (REITs) in the residential sub-sector are likely to rise. The tight market conditions and mortgage affordability crisis are causing an escalation in rental prices. **Killam Apartment** (TSX:KMP.UN) is worth watching.

The $2.03 billion REIT owns, operates, and develops apartments and manufactured home communities across Canada. Killam's president and chief executive officer Philip Fraser said the strong first-quarter earnings growth and operating performance in Q1 2022 reflect the strong housing demand.

In the three months ended March 31, 2022, net operating income (NOI) and net income increased 12.41% and 118.98%, respectively, versus Q1 2021. Fraser expects Killam's development program to deliver much anticipated growth to its portfolio in 2022 and 2023.

REITs are the next-best alternatives to direct ownership. If you invest in Killam today, the share price is only $17.58. The real estate stock also pays an attractive 4.01% dividend.

Time frame

RBC Economics believes the cooldown of housing markets is a correction, not a collapse. While a longer slump is possible, the bank expects the correction to end by first half of 2023. RBC added that some markets will stabilize faster than others because of solid demographic fundamentals.

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