Real Estate Slide Continues: Toronto Sales Fall Almost 50%

Description

The downturn in Canada's housing markets is deepening and spreading far and wide, according to the latest special housing report by **RBC** Economics. Robert Hogue, a member of the bank's Macroeconomic and Regional Analysis Group, reports that the buying frenzy in the Toronto area and elsewhere is completely gone.

In the Greater Toronto Area (GTA), home sales in July 2022 sank 47.4% compared to the same month last year. Data from the Toronto Regional Real Estate Board (TRREB)also shows a 6% month-on-month decline in the average benchmark price for a home. According to TRREB, some homebuyers are sitting on the sidelines, while some would-be sellers are holding off putting their properties on the selling block.

The market will keep chilling

Hogue expects the market to keep chilling with further rate hikes by the Bank of Canada. He expects another 75 basis points increase in the overnight rate by the fall. The correction is mostly felt in high-end markets like Toronto and Vancouver. Both have outsized price gains during the pandemic that have stretched affordability excessively.

Rishi Sondhi, an economist at the **Toronto Dominion Bank**, said the central bank is determined to rein in sky-high inflation, notwithstanding the softening economic growth and low unemployment rate. The bank forecast the policy rate to be 3.25% by year-end 2022.

REIT downgrades

Analysts at Canaccord Genuity Corp. lowered their recommendations and price targets on several Canadian real estate investment trusts (REITs). They believe that rising interest rates will impact on future returns. As of this writing, the real estate sector is down 18% year-to-date.

One Canaccord analyst, Mark Rothschild, said, "We attribute the underperformance of REITs relative to the broad market to rising long-term interest rates, widening credit spreads and outsized returns for the Canadian energy and materials sectors." Rothschild's average reduction of his 12-month price target for eight REITs is 5.5%.

It includes top REITs like **Canadian Apartment Properties**, **Dream Industrial**, and **Granite**.

However, Rothschild predicts sub-sectors such as offices, retail, and seniors' housing to bounce back from the pandemic's fallout. He also thinks that **InterRent (**TSX:IIP.UN) will outperform over the next year.

Encouraging demand trends

InterRent is growth-oriented and owns multi-residential properties. The $1.8 billion REIT limits the expansion of its portfolio in markets with stable vacancies. There also must be a sufficient number of suites to achieve critical mass. As of June 30, 2022, InterRent had 12,573 suites (100% ownership), 6.1% higher than the same month-end in 2021.

In Q2 2022, management reported a 17.5% increase in total portfolio operating revenues versus Q2 2021. The occupancy rate in June improved to 95.1% compared to 91.5% a year ago. Notably, net operating income (NOI) and net income increased 16.9% and 27.1%, respectively, year-over-year.

Brad Cutsey, InterRent's President and CEO, said the financial results demonstrate the resilience of the business model despite ongoing macro headwinds. He looks forward to the performance in the third quarter due to the encouraging demand trends.

InterRent trades at $13.31 per share and pays a decent 2.62% dividend. Market analysts covering this REIT have a 12-month average price target of $16.85 (+26.6%).

Defensive buyers

Hogue expect homebuyers to be more defensive in the coming months. They won't rush their purchases due to rising interest rates or poor affordability.

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