



1 Big Bank Predicts a Large Real Estate Drop

Description

Home prices in Canada are falling due to multiple rate hikes. [Real estate investors](#) who bought at the housing market's peak in February 2022 will incur considerable losses if they sell this month. While homebuyers welcome the price drop, high mortgage rates and borrowing costs are major impediments right now.

The Bank of Canada hopes higher lending rates will slow spending and cool inflation. Unfortunately, a housing market correction is underway due to the aggressive rate hike campaign. Data from the Toronto Regional Real Estate Board (TRREB) shows that sales in the Greater Toronto Area last month declined 34.2% year-over-year.

Rishi Sondhi, an economist at the **Toronto Dominion Bank**, said Canadian average home prices could fall by 20% to 25% on a peak-to-trough basis from Q1 2021 to Q1 2023. However, he describes the decline in national home prices as a market recalibration only and nothing more.

Market outlook

The question for many is how long the [market correction](#) will last. According to Sondhi, the bank's peak-to-trough decline forecast for Canadian home sales is well within the range of previous housing downturns. The giant tumble was 38% during the Global Financial Crisis in 2008.

Today, the switch from a tailwind to a headwind for average prices is apparent. TD notes that valuations for more expensive units, particularly detached housing, are unwinding quickly. Sondhi also expects the Bank of Canada to implement smaller increases, if not pauses, to rate hikes in the fourth quarter of 2022.

TD maintains a positive outlook for housing in the long-term, except for the fact that affordability will continue to be strained over the next several years. It also anticipates gross domestic product (GDP) to decline by as much as 1.5% from Q2 2022 to Q1 2023 due to the housing downturn. Falling home prices should likewise impact residential investment and consumer spending.

Investment alternative

The unstable real estate market has caused Canadians looking for investment properties to rethink their options. The risk of buying today is that prices could fall some more. Real estate investment trusts ([REITs](#)) aren't immune to market volatility, but the asset class remains a viable alternative to direct ownership. One of the advantages is that you can buy and sell your investment as often as you'd like.

A noteworthy prospect is **Canadian Apartment Properties REIT** ([TSX:CAR.UN](#)) or CAPREIT. This \$7.78 billion REIT portfolio consists of over 60,000 residential apartment suites, townhomes, and manufactured housing community sites in Canada and the Netherlands. This provides excellent diversification in terms of property types and regions. Plus, the REIT is continuously expanding its portfolio and increasing value for investors.

Thus far, in 2022, the operating and financial results have been strong. In the first half of 2022, net operating income (NOI) increased 7% to \$319.26 million versus the same period in 2021. As of June 30, 2022, the overall portfolio occupancy is 98.2%. Mark Kenney, CAPREIT's President and CEO, said, "Our growth continued in the second quarter, driven by increased occupancies and higher average monthly rents."

Prospective investors only shell out \$44.56 per share to receive a decent 3.25% monthly dividend.

Supply and demand imbalance

According to TD's report, as long as the economic downturn is shallow, home prices will probably retain some of the pandemic-era gains. I expect homebuyers to return if the supply and demand imbalance improves and the Feds achieve their inflation target range sooner rather than later.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CAR.UN (Canadian Apartment Properties Real Estate Investment Trust)
2. TSX:TD (The Toronto-Dominion Bank)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News

9. Yahoo CA

PP NOTIFY USER

1. agraff
2. cliew

Category

1. Dividend Stocks
2. Investing

Date

2025/08/28

Date Created

2022/09/08

Author

cliew

default watermark

default watermark