2.5% Interest Rate and its Implications for the Real Estate Market

Description

Before the last **Bank of Canada** hike was announced, most people assumed a 75-basis point was coming. But in a surprising move, BoC raised the interest rate by 100-basis-point, a much harsher hike than many expected. The year-end interest rate baseline has also been revised.

While the impact of the high-interest rates will be felt by businesses and individuals alike across several areas including credit cards and business loans, the housing market might bear the brunt of it. The banks are raising their mortgage rates as per the BoC rates.

People who have yet to buy might have the luxury of waiting a year or so, but people with variable mortgage rates will suffer from this drastic hike.

Even if we don't see a significant rise in bankruptcies, the mortgage business will inevitably suffer from low demand in the market. The same goes for construction. The housing demand is already falling, along with home prices.

In June, the average price of a home in Canada was down 15% from February, though the numbers were drastically different in specific markets like Montreal, which rose by 0.1%.

This is the desired impact, but its implications will be far-reaching. Many real estate stocks might suffer along with the market as it goes through this rough patch. With this in mind, I'll highlight two real estate companies that might be able to weather the storm.

A real estate tech company

Altus Group (TSX:AIF) should theoretically be as far removed from the impacts of the housing market fall as possible. Not only is it essentially a tech company with dedicated software that offers data analytics and data-driven solutions to real estate professionals, it primarily caters to the commercial real estate industry.

The only significant overlap between Altus Group's services/clientele and the housing market is its multi-family properties and apartment buildings. Yet the stock has fallen almost 34% alongside the rest of the sector. However, it also rose ahead of the sector in the most recent rally.

While it's improbable that the aggressive overvaluation is pulling the stock down, if there's even a small possibility that the stock will grow the same way it did after the great recession, it should be on your radar right now. In the last decade, the stock has risen by over 480%.

A U.S.-leaning residential company

Another stock that might only suffer tangentially (in the long run) from the current housing crisis in Canada is **Tricon Residential** (TSX:TCN). This Toronto-based company has a portfolio of over 35,000 single-family and multi-family rental properties across Canada and the U.S. The bulk of the portfolio is made up of single-family homes situated in the U.S. sunbelt.

The heavy U.S. lean might be enough to save the stock from the long-term effects of the current housing slump in Canada, which could keep real estate stocks down for years to come. It's also relatively undervalued right now.

But the problem is that the stock was pretty stagnant before the pandemic, and in the post-pandemic market, it hasn't fallen enough to reach its pre-pandemic levels, so there is adequate room for correction.

Foolish takeaway

Even if we take the tangibility and reliability of real estate assets into account, real estate investing in Canada might remain a relatively dangerous avenue for some time. However, since the BoC has started making tough decisions already, the chances of a recession on the scale of the last great recession, which was also triggered by a housing crisis, are relatively low.

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