

Veritas Real Estate Investor Survey

Panic Room or Room to Panic?

Fall 2022

Nigel D'Souza, B.Sc., CFA
Investment Analyst, Financial Services

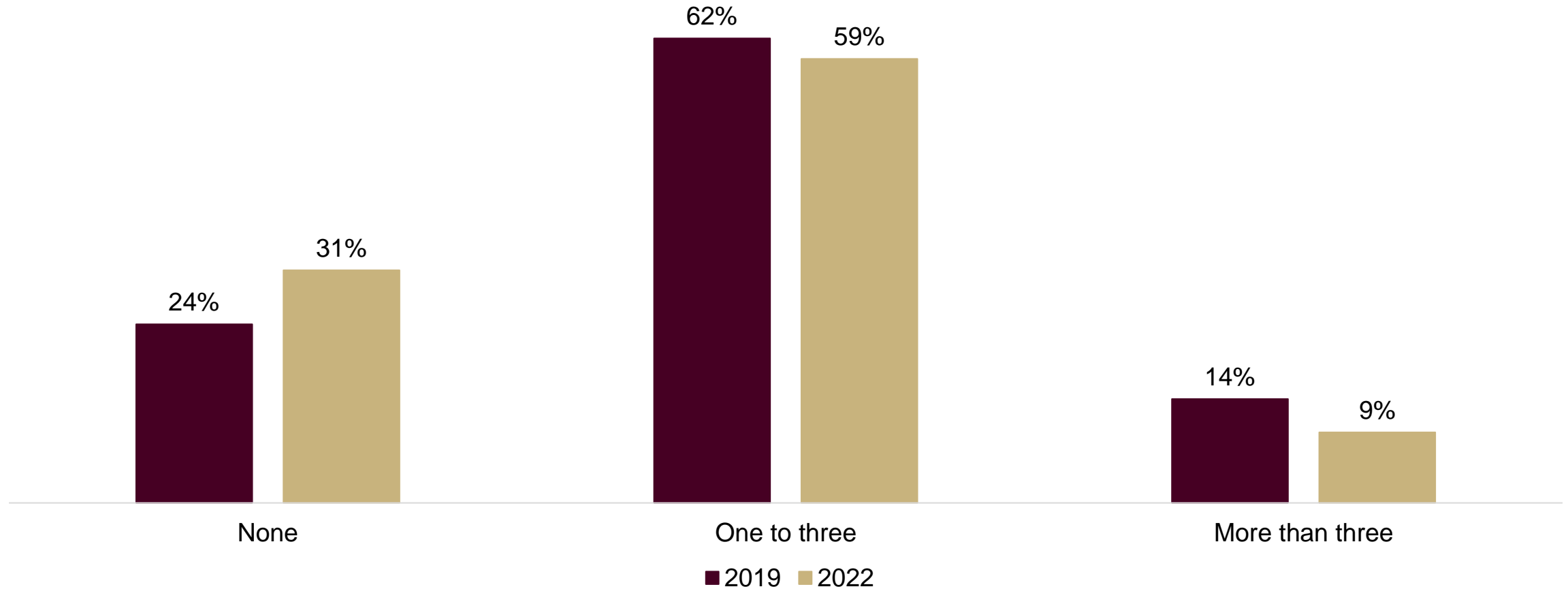


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- **What we did:** We informally surveyed residential real estate property investors from the fall of 2022 to get of picture of what their intentions are in the next 12 months. The survey was brief with six questions.
- **Why we did it:** Our belief is that residential real estate property investors, whether they are selling or buying, will play a big role in the future of house prices. If there is an economic shock, the first wave of selling is likely to come from this group, particularly investors with negative cash flow investment properties.
- **Who we surveyed:** This was an informal survey of Veritas clients and associates and it was our third one (first in 2019 and second in 2021). It therefore is not statistically significant, but it did convey some meaningful results.



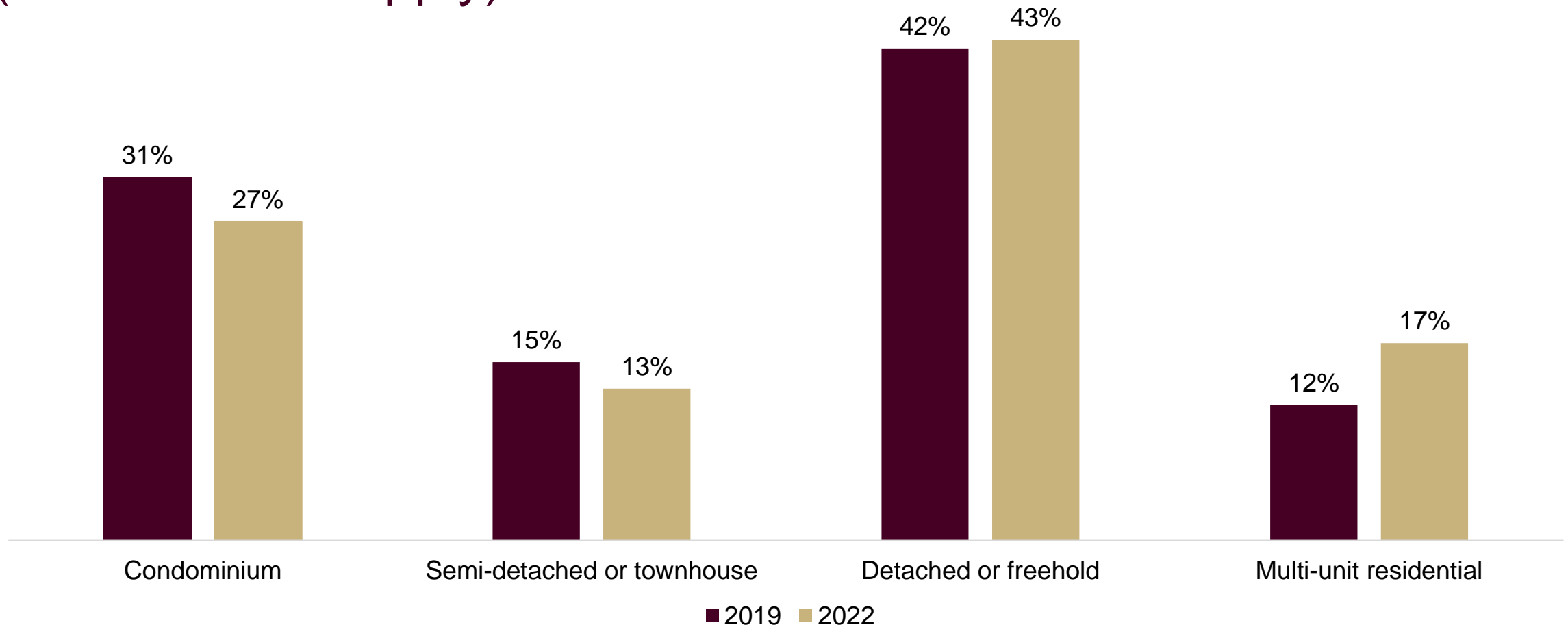
How many residential real estate investment properties do you own?



Most respondents own 1 to 3 real estate investment properties



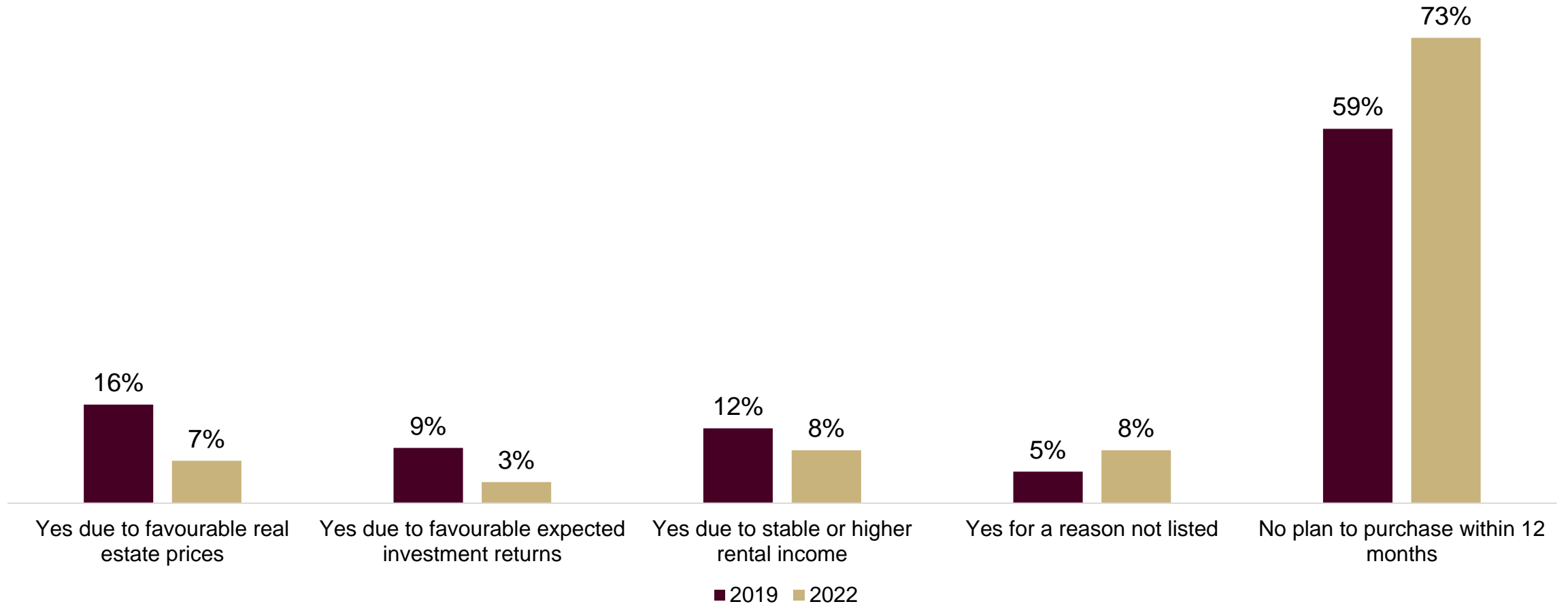
What type of investment properties do you own? (Select all that apply)



Real estate investment properties mainly comprised of detached single-family and condos



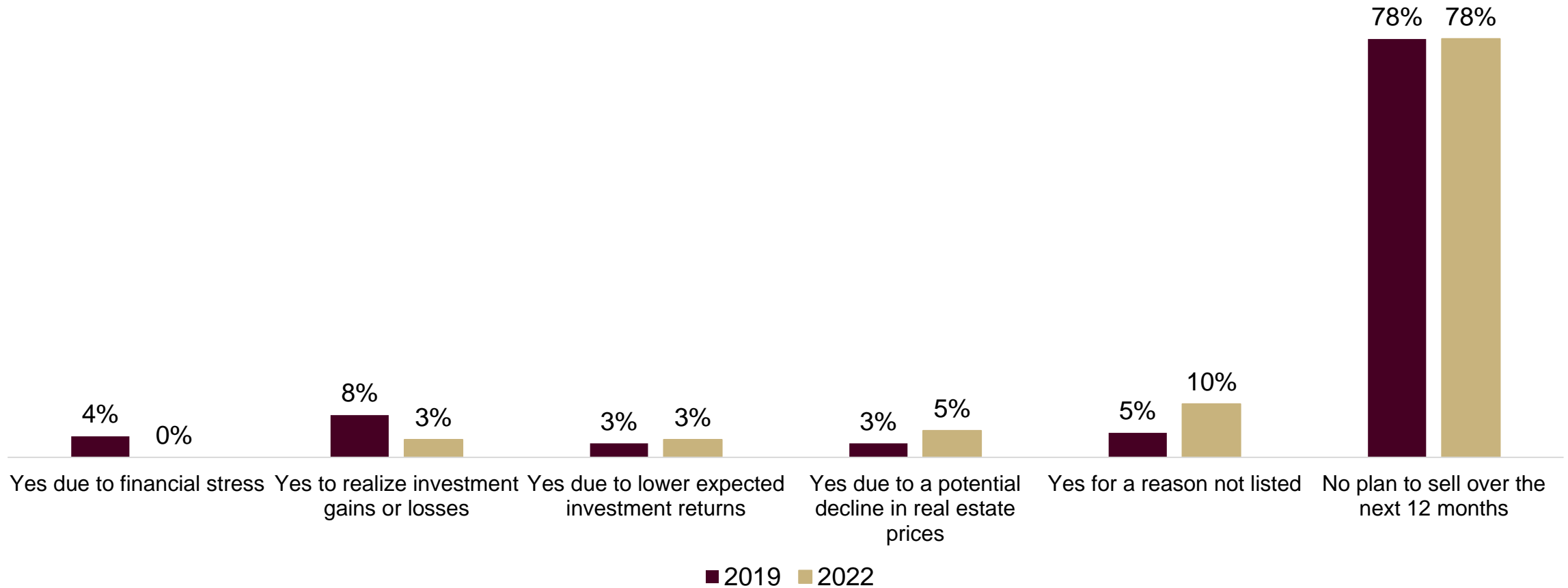
Do you plan to purchase one or more investment properties within the next 12 months?



Significant increase in investors that do not plan to purchase properties



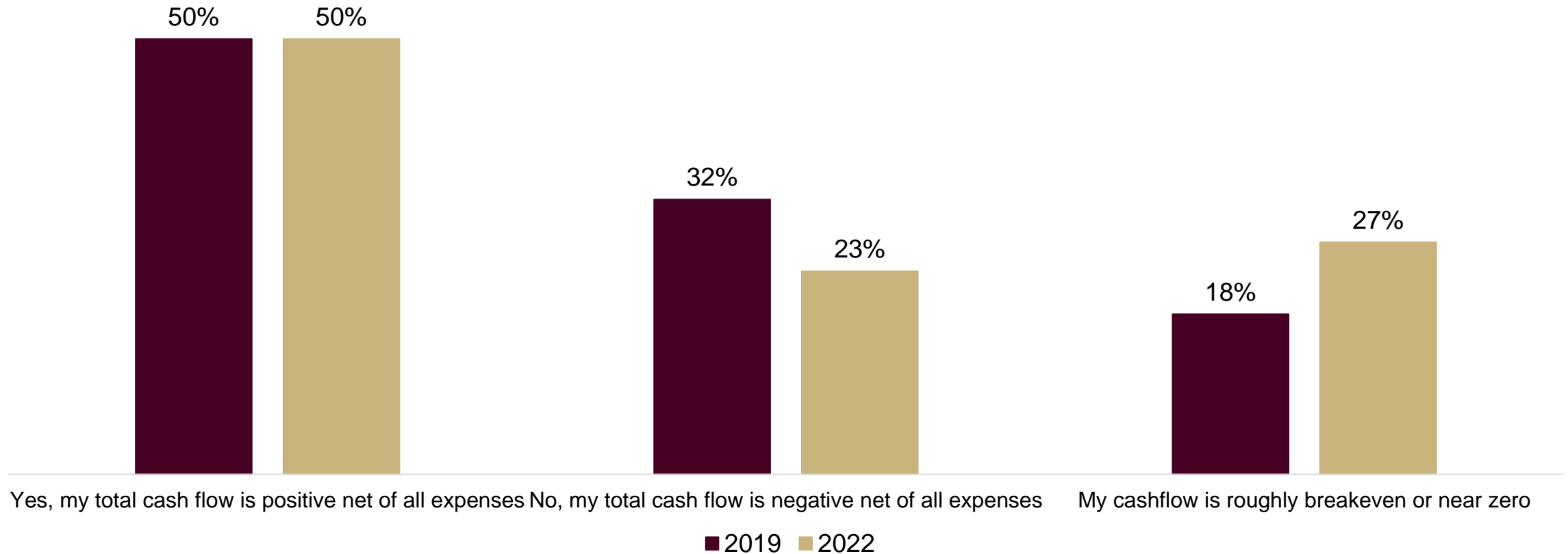
Do you plan to sell one or more investment properties within the next 12 months?



No change in investors that do not plan to sell properties



Do your investment properties generate positive cash flow net of all expenses?



Cash flow position of real estate investors is better relative to 2019



Conclusion

- **Sentiment:** Just 27% of respondents are looking to buy one or more properties over the next 12 months. But at the same time, there is no rush to sell, as just 22% of respondents are looking to sell in the next 12 months. Higher interest rates have so far led to lower demand but not higher supply.
- **Cash flow picture:** Fewer properties are cash flow negative than before the pandemic thanks to rising rents and mortgages that have not rolled over to higher rates.
- **Rising rates:** There is a lag between when rates rise and mortgages roll over at higher rates. There is no panic in Canadian real estate but that will change if rates stay high and some investors are forced to sell.
- **Outlook:** In 2019, the household debt service ratio (DSR) peaked at 14.9% with the Bank of Canada (BOC) policy rate peaking at 1.75% in 2018. With household leverage at record highs, above 2019 levels, and a BOC policy rate of 3.75% with additional hikes in the pipeline, we expect the household DSR to set a record high by the end of 2023.

No panic in Canadian real estate yet



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