Is Canada Housing Over the Hump or Is the Worst Yet to Come in 2018?

Description

The Toronto Real Estate Board (TREB) released a report showing that Toronto home prices were down 4.1% year over year in January. The average home sold for $736,783 in the Toronto area last month. TREB also reported a 22% fall in home sales compared to January 2017, further demonstrating the apprehension of buyers to get into an uncertain market.

Condo prices, however, have continued to increase to start 2018. The average condo sold for $507,492 in the Toronto region, which represented a 14.6% rise year over year. TREB director of market analysis Jason Mercer said that very low inventory drove the housing surge in the beginning of 2017.

Real estate industry representatives from Royal LePage have said that buyers and sellers are still feeling out this new market, and it may take until spring for anxiety to dissipate. Re/Max representative Christopher Alexander says that prices will likely continue to climb when the market stabilizes, barring an “unforeseen event.”

But what about stocks linked to housing? Does the recent drop in the S&P/TSX Index provide an attractive entry point for investors? Or are real estate stocks simply too risky right now?

Equitable Group Inc. (TSX:EQB) has seen its stock fall 12.4% in 2018 as of close on February 14. The company is expected to release its 2017 fourth-quarter and full-year results on February 28. Investors should keep an eye on Equitable Group; a late season boom in November and December could reflect in its final earnings. Many buyers were rushing to lock in purchases before the new OSFI mortgage rules came into effect, which included a stress test on uninsured buyers.

Home Capital Group Inc. (TSX:HCG) has been mostly flat in 2018 thus far — up 0.17% as of closeon February 14. Home Capital released its 2017 fourth-quarter and full-year results after trading closedon the same day. It managed to bump up results from its third quarter, as net income grew 2.1% to$30.6 million and diluted earnings per share rose 3.7% to $0.38. Total mortgage originations alsojumped 126% from the previous quarter to $872.1 million. However, mortgage originations were stilldown substantially — 64.1% — from the $2.43 billion in Q4 2016.

Genworth MI Canada Inc. (TSX:MIC), the largest private residential insurer in Canada, has seen its stock fall 4.6% so far in 2018. In 2017, premiums earned rose 6% from 2016, and net income increased by 27% to $528 million for the year. Genworth also delivered an attractive quarterly dividend of $0.47 per share, representing a 4.5% dividend yield.

Will further rate hikes batter housing?

Canadian GDP rose 0.4% in November, but this news has been dampened somewhat by subsequent reports. Inflation edged down to 1.9% in December after posting a surprise jump to 2.1% in November. The most alarming piece of news was the jobs report from Statistics Canada, which said that Canada shed 88,000 jobs in January — the highest mark since 2009.

Bank of Montreal analysts have said that the Bank of Canada will be reluctant to move in March and April after the jobs numbers. A slumping TSX is also likely to give policy makers pause going forward. If the central bank elects to hold off, Canada housing could see an early boost, as investors get a clearer look at the market impact of recent regulations.

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