Here’s Why Canada Housing Will Soar in the 2020s!

Description

The 2010s saw a remarkable rise in the value of Canadian houses and condominiums, especially in major metropolitan areas like Toronto and Vancouver. Indeed, Canada’s housing market has experienced such dramatic changes that you will struggle to find a citizen that does not have something to say about it. In the back half of the past decade, many investors were worried that a sharp correction in the housing market had the potential to derail the broader economy.

Major housing markets were hit with turbulence in 2017. The provincial and federal government responded with a regulatory crackdown that has cooled key markets, but it has also stabilized the sector. **Home Capital Group** (TSX:HCG), one of Canada’s top alternative lenders, avoided collapse in 2017. It underwent significant internal change and comes into the next decade on a wave of exciting momentum. Shares climbed over 120% in 2019.

Experts are divided in making prognostications for 2020 and beyond. Royal Lepage has projected a 3.1% increase in housing prices in 2020, while Fitch Ratings has forecast growth of only 1%. This year holds some uncertainties for the sector, but below are three reasons why I’m betting the housing sector will continue to see robust sales and price increases over the next decade.

High immigration

Millions of new Canadians will arrive through various immigration programs over the course of this decade. The federal government has laid out immigration targets of 341,000 for 2020 and 350,000 for 2021.

Immigration has been a key driver in the housing market over the past decade. Investors can expect this to continue in the 2020s. Canada’s major metropolitan cities have experienced the highest rates of migration, which in turn is pushing up housing demand. In the third quarter, British Columbia experienced the highest population increase of Canada’s major provinces and territories.

Low supply

Yes, this next point goes hand in hand with the previous development. Supply has remained tight in major Canadian housing markets. Housing starts have failed to keep pace with Canada’s high rate of population growth.

To add to this pressure, many first-time home buyers have been frozen out of the market after the introduction of the stress test for insured and uninsured buyers in recent years. Tight supply coupled with strong demand will keep prices on the up and up in this decade.

Cheap credit

The Bank of Canada (BoC) elected to hold firm on interest rates in 2019. This was in sharp contrast to the United States Federal Reserve, which pulled the trigger on three rate cuts in the previous year. Recent reports indicate that the BoC will look to hold off the global easing trend, but the pressure is on in the face of high household debt and slowing global growth. Investors should expect the trend of historically low interest rates to continue into the foreseeable future.

If you want to bet on the health of Canada’s housing market, Home Capital looks like a great option. The stock is trading close to 52-week highs as of close on December 31, 2019. However, it boasts a price-to-earnings ratio of 15 and a price-to-book value of 1.1 at the time of this writing. These are favourable levels considering its massive spike over the past year. Shares have retreated from the technically overbought levels Home Capital reached in November and December, so investors can consider pulling the trigger in January.

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