Canada Housing: 2 Ways to Strike it Rich in 2020

Description

The Canada housing market has seen valuations soar over the past decade, which has attracted skepticism. Canada's economy is wrestling with the most severe crisis since the 2007-2008 financial crisis. Those skeptics have returned, and there has already been a marked decrease in activity. However, investors should not count out the Canada housing market just yet in 2020. Let's examine why.

Canada Housing: Buy the dip!

Earlier this month, I'd discussed how Canada's housing market could crash in 2020. Ultimately, I'd concluded that the fundamentals would prevent this from happening. That does not mean that we will not see a significant slide in sales and, most likely, a dip in prices in the near term.

In the middle of April, the Canadian Real Estate Association (CREA) reported a 14.3% drop in home sales in March compared to February. Homes for sale also fell 12.5% month over month. This should not come as a surprise. Open houses have been discontinued across Canada in response to the COVID-19 outbreak. Real estate is often a face-to-face business, and with social-distancing measures in place, it stands to reason that activity would grind to a halt.

Investors should not be too discouraged by this decline in sales activity. Canada housing was gearing up for a very strong year before the COVID-19 outbreak stirred government action. The domestic reopening may be slow, but when it does reopen, the fundamentals will be mostly unchanged. Canada housing will continue to benefit from sky-high demand and low supply, especially in major metropolitan areas.

One realtor-linked stock to watch

The decline in real estate activity has predictably had an impact on housing-linked stocks. Investors who are not in the market for a home purchase right now should look hard at some of these equities.

Bridgemarq is an interesting target for those with an eye on Canada housing right now. The company provides various services to residential real estate brokers and REALTORS across Canada. Its shares have dropped 26% over the past three months as of close on April 29. However, the stock has increased 25% week over week.

The company had increased its REALTORS network to record levels at the end of its previous reported quarter. Bridgemarq last paid out a monthly dividend of $0.1125 per share. This represents a monster 12% yield. The yield is enticing, but the stock offers middling value right now. To add to that, its earnings are certain to take a big hit due to the COVID-19 pandemic.

My top housing stock right now

Genworth MI Canada (TSX:MIC) is my preferred pick of the two housing stocks today. It operates as a private residential mortgage insurer in Canada. Genworth stock has dropped 35% in the past three months. However, shares have increased 16% over the past month.

The company is a top-tier dividend payer on the TSX. Genworth has achieved dividend growth for 11 consecutive years. It last paid out a quarterly dividend of $0.54 per share, representing a strong 6.2% yield. Moreover, its shares offer nice value right now. Genworth stock last possessed a favourable price-to-earnings ratio of seven and a price-to-book value of 0.7.

A decline in sales activity will hurt Bridgemarq and Genworth, but the latter is well suited to weather the storm. The federal government has stepped in as a guarantor for Canada housing by facilitating mortgage deferrals through lenders. Municipalities have also stepped in to offer property tax deferrals for homeowners under financial pressure in this crisis. Genworth’s business is secure in 2020 and beyond.

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