Will New Lending Rules Sink the Canada Housing Market?

Description

The Canadian housing market has undergone some significant changes over the past five years. Federal and provincial institutions and governments have not been shy about introducing new regulations. After the housing retreat in early 2017, Ontario introduced a foreign buyers' tax. The OSFI introduced new rules starting in 2018 that stipulated even uninsured buyers had to qualify with a stress test. Canada housing got off to a hot start in 2020, but the COVID-19 pandemic has hit the real estate industry hard.

Canada housing: Why the CMHC stepped in

Canadians have been hit hard by the pandemic. Unemployment has soared into the mid-teens, and many citizens are hurting. Fortunately, the federal government stepped in to provide relief with several radical programs. One of these saw the government push lenders to allow borrowers to defer mortgage payments. This past earnings season saw institutions like **Scotiabank** reveal that hundreds of thousands of clients had opted for loan deferrals.

The CMHC recently announced that it would ban the use of borrowed funds for a down payment. Moreover, it will also require a higher credit score from borrowers. The new criteria will come into effect on July 1. Economists predict that these new rules will have the most impact on first-time home buyers.

Will new lending rules slow things down?

History has shown that real estate brokers and agents have been able to boost activity, even in the face of tightening regulations. **Bridgemarq Real Estate** (TSX:BRE) provides various services to residential real estate brokers and REATORS across Canada. This is a stock to watch in this sector going forward.

Shares of Bridgemarq have dropped 20% in 2020 as of close on June 5. However, the stock is up 23% month over month. In the first quarter, the company saw revenues climb to $11.1 million over $10.1 million in the prior year. Management stated that the full impact of the pandemic had not yet shown itself in its results. Canada housing has taken a hit due to this crisis, but fundamentals are still strong. Demand remains high, and tighter regulations may increase urgency for those looking to enter the market as the economy reopens.

Bridgemarq stock last had a favourable price-to-earnings ratio of 11. The company has maintained its monthly dividend of $0.1125 per share. This represents a monster 12% yield. Bridgemarq is a solid target for Canada housing bulls right now.

Why investors should not get nervous

Sales activity has predictably taken a big hit, but investors should still feel confident in the Canada housing market. The federal government's actions in pushing forward deferrals demonstrates their willingness to take unprecedented action to protect homeowners. This should spur investors to target stocks like **Genworth MI Canada**.

Shares of Genworth have fallen 26% in 2020 so far. However, the stock is up 16% over the past week. Genworth stock still boasts a very attractive P/E ratio of 7.5 and a price-to-book value of 0.9. The stock still pays out a quarterly dividend of $0.54 per share, representing a strong 5.9% yield. Genworth is a Canada housing-linked stock that can be trusted in the long term.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BRE (Bridgemarq Real Estate Services Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn
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