Here’s Why I’m Betting Against a Canada Housing Crash This Year

Description

Towards the end of 2020, I’d discussed the state of the Canada housing market ahead of the new year. At the time, I’d explained why I was unconvinced that this hot market would cool in 2021. I’m still bullish on the Canadian real estate space in the middle of January. Today, I want to discuss why I’m betting against a crash or even a small correction this year.

Canada housing: The pandemic has boosted demand

By the spring of 2020, it had become apparent that the COVID-19 pandemic would be a radically destabilizing force on a social, economic, and political level. There have been calls for a Canada housing crash for over a decade now. Naturally, the pandemic brought the bears out of the woodwork. The pandemic would finally prick the housing bubble!

Sales did take a hit during the initial weeks of the spring 2020 lockdown. However, the Canada housing market bounced back in a big way during the summer. Rather than cool the market, the pandemic seemed to spur demand in major metropolitan areas. This has been especially true for detached homes.

A survey from Nanos Research Group showed that over 50% of Canadian respondents believe home prices will rise over the next six months. This kind of optimism has not been seen in a decade.

Why you should be bullish for 2021

Experts were split on the Canada housing market ahead of the new year. However, bullish sentiment has started to take hold. **Royal Bank** Economics recently projected that the national benchmark price will grow by 8.4% in 2021 and reach $669,000 this year. This benchmark rose by 8.5% in 2020, nearly five times the growth rate of the previous year. Royal Bank predicts that low rates and tight demand-supply conditions will continue to underpin the Canada housing market in 2021.

The Canadian population was stagnant in the second half of 2020 due to the pandemic. Immigration targets are set to increase to 400,000 annually in the years ahead. We can expect a return to population growth once the pandemic is in the rear-view mirror. This will fuel a housing market dealing with low supply.

Two Canada housing stocks to consider today

Canada's housing market looks poised to put together another banner year in 2021. Investors should turn their attention to stocks linked to the Canada housing market.

Genworth MI Canada (TSX:MIC) is still one of my favourite housing and dividend stocks. It is the largest private residential mortgage insurer in the country. That means it is positioned to benefit from improved housing activity. Its shares have climbed 30% over the past three months as of close on January 14.

This stock has delivered dividend growth for 11 consecutive years. It currently offers a quarterly dividend of $0.54 per share. That represents a solid 4.9% yield. Better yet, Genworth stock boasts a favourable price-to-earnings (P/E) ratio of nine and a price-to-book (P/B) value of one.

Equitable Group (TSX:EQB) is the second Canada housing stock that investors should consider right now. It is one of the top alternative lenders in the country. Like Genworth, a strong housing market bodes well for this company. Its stock has increased 36% over the last three months.

In Q3 2020, Equitable Group's adjusted earnings per share rose 30% year over year to $4.13. Meanwhile, it declared a quarterly dividend of $0.37 per share. That represents a modest 1.3% yield. Shares of Equitable Group possess an attractive P/E ratio of nine and a P/B value of 1.2.

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