Canadian Housing Market: Ride the Cresting Wave With These 2 Stocks

Description

Despite several alarms and warning signs, the Canadian housing market is going strong. While the growth is not uniform across the board, the general momentum is upward, both in sales and prices. The Greater Vancouver market saw a 73% spike in sales numbers, while Ottawa's home prices saw a 27% jump. As per an analysis, this market activity is being fueled by buyers relocating to other cities, and it might continue for the year.

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But the warning signs are still there. A **Royal Bank of Canada** report stated that the market would be highly vulnerable to a correction or an outright crash if some of the variables (stimulus money, low-interest rates, etc.) are taken out of the equation. The report said that it might turn the bullish market bearish.

The housing market has been a target of negative speculations for a while now. If you are thinking about entering the market, it might be prudent to wait for it to cool down a bit. But two stocks can help you benefit from this strong market momentum.

A small mortgage company

MCAN Mortgage (TSX:MKP) suffered both valuation and revenue loss in the first half of 2020. The revenue in the first and second quarter of the year precipitously, but the situation got significantly better by the last quarter. The share price rose as well, and it's just a shade lower than its pre-pandemic weak.

The company invests in a diversified portfolio of notional mortgages, but that's not the only attraction of this stock right now. The company is currently offering a mouthwatering yield of 7.89%, at a relatively safe payout ratio of 77.7%. The dividends are not rock-solid, as the company has already slashed them once in the last five years (2018), but it has also grown its dividends on four occasions since 2016.

From a capital growth perspective, the company offers a five-year compound annual growth rate (CAGR) of 15.5%, but the growth pattern is hardly smooth. It's a series of peaks and dips.

Canada's largest non-bank lender

First National (TSX:FN) is a Toronto-based lender that's furnishing residential and commercial mortgage loans for over thirty years. Most of the company's revenue is generated from new single-family residential and commercial mortgages and a relatively small portion from renewals. If the housing market stays hot for a long time, the company might earn a decent new crop of mortgages.

The stock has been growing since the fall. The share price has increased by over 139% since its lowest point in March 2020. It has naturally made the company a little overpriced. But its 5.8% yield and a ten-year CAGR of 19.3% might be worth the cost. If the company can sustain this growth rate for just one more decade, it can grow your investment to a decent-sized nest egg.

Foolish takeaway

You can also gain exposure to the housing market through certain REITs, but mortgage companies are also a good way to benefit from the upward trend of the housing market. The stocks offer a generous enough yield to become profitable additions to your dividend portfolio, and if they can sustain their growth pace as well, that would be the cherry on top.

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2. TSX:MKP (MCAN Mortgage Corporation)

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