3 Reasons the Canada Housing Market Could Continue to Soar

Description

In late April, I'd discussed whether the Canada housing market will correct in the near term. The market has built considerable momentum in the face of the COVID-19 pandemic. Even international observers are beginning to pay close attention to the momentum in the Canadian market. Today, I want to look at three reasons the Canada housing market could continue to soar in 2021.

The state of Canada housing as we move into May

The Bank of Canada (BoC) hosted its policy meeting last month. It retained Canada's benchmark rate at 0.25%. The central bank also revealed that it would reduce its bond-buying efforts. BoC officials have refrained from commenting frequently on the state of the housing market. However, in its Quarterly Monetary Policy Report, BoC Governor Tiff Macklem warned that "it would be a mistake" for Canadians to treat housing as an investment opportunity. "High prices could result in stretched borrowing and lending," he said. "Leaving some households and financial institutions more financial vulnerable to an economic downturn."

Investors will eagerly await data on home sales and prices in April. March saw a significant jump in both. Spring is typically the busiest season for home sales, so activity should remain robust. Despite some warnings, policymakers are not jumping to curb the conditions that are fueling this red-hot market.

Reason 1: Low interest rates

Canadian lenders and prospective buyers have both benefited from historically low interest rates over the past year. This environment has provided a friendly environment for the real estate industry. Banks and alternative lenders are on a roll in this market.

Home Capital (TSX:HCG) and **Equitable Group** (TSX:EQB) have been strong holds during this real estate boom. Shares of Home Capital have climbed 90% year-over-year as of mid-afternoon trading on May 3. Equitable Group stock is up 115% from the same period in 2020. Both alternative lenders are thriving due to the scorching Canada housing market.

Net earnings per share rose 45% from the prior year to $3.33 at Home Capital in 2020. Meanwhile, mortgage originations came in at $6.95 billion – up from $5.66 billion in 2019. Equitable Group's customer base increased 82% to 173,000 in 2020. Loans under management rose 7% to $33.3 billion. Overall, it was an impressive year for both on the back of a surging Canada housing market.

Reason 2: Canada housing demand is rising

Soaring prices have not curbed demand. On the contrary, sales numbers seem to indicate that more Canadians than ever are chomping at the bit. In March, Canada posted 70,000 home sales. This shattered the previous monthly record of 22,000.

Officials have warned Canadians not to see homes as investment vehicles that are bound to increase in value. Of course, it is impossible for citizens to ignore the rise in valuations we have seen in recent years. More Canadians are going to want to get in on the party.

Reason 3: Supply is not keeping up

Last month, Finance Minister Chrystia Freeland said the country needed a boost in housing supply to help solve the affordability crisis. Supply in major metropolitan areas has lagged significantly behind demand. Moreover, Canada is catching up with its vaccine rollout. Immigration into the country is set to bounce back in a big way in the months and years ahead. This will create even more pent up demand in a Canada housing market suffering from low supply.

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