Canadian Housing Market: Is it at the Saturation Point?

Description

The Canadian housing market has had an exciting run these last few months. In fact, calling it “exciting” would be underplaying the explosive growth phase the market has been through. The housing bubble was already at dangerous proportions before the recovery mood, with low interest rates fuelling the investor’s frenzy for the housing market.

Now, property prices are at all-times highs in several of the country’s most prominent housing markets. The growth, while kept the money flowing into the market and served the economy (in a sense), also pulled affordable housing away from an average Canadian’s hands. Even people with good credit and decent incomes that would allow them to afford a reasonable mortgage would have a hard time entering the market since the down payments have risen to abnormally high levels.

This affordability issue might be an indication that the housing growth spurt has run its course.

Home-buying affordability

Desjardins, the largest federation of credit unions in North America and one of the largest financial services cooperatives in the country, has an affordability index akin to the Big Five banks. For the first quarter of 2021, that index plunged to the lowest point in the decade. From Vancouver, the least affordable housing market in the country, to relatively affordable housing markets like Saguenay’s, affordability has been impacted across the country.

According to the index, housing affordability is the worst since the great recession of 2008. Even though there are relatively affordable housing markets, the attention has been concentrated on hot spots like Vancouver, Toronto, and Hamilton. A deduction made from this index is that the housing prices will have a difficult time growing at a rapid pace from this point on.

A stock to consider

In a housing market like this, a mortgage lender like **MCAN Mortgage** (TSX:MKP) might be worth considering. While the company has grown its market value by about 50% in the last 12 months, given its price-to-earnings of 10.3 and price-to-book of 1.3, it's still quite fairly valued. But the relatively unpredictable and modest growth isn't the primary reason to consider this stock.

MCAN is offering a mouthwatering 7.5% yield at a sustainable payout ratio of 77%. If you invest about $30,000 in this company and put it in your Tax-Free Savings Account (TFSA), you can start a sizeable tax-free passive income of $187. That might be a significantly more affordable investment compared to a rental property in Canada.

Foolish takeaway

The Canadian housing market might go one of two ways from here on. It might slow down and normalize over the next few months and reach a relatively stable point by 2022 (from where it can restart growing, or it might come crashing down. The chances of a housing crash are relatively low, but they are definitely not non-existent, and thanks to its sheer weight, a crashed housing market might deal a significant blow to the newly recovered economy.

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