Is the Canada Housing Market Heading for a Big Correction?

Description

The Bank of Canada (BoC) announced that it would pursue a shift in monetary policy in October. This started with the suspension of its QE bond-buying program. Moreover, the BoC aims to hike interest rates after nearly two full years of accommodative policy in the face of the COVID-19 pandemic. Back in February, I'd discussed why the Canada housing market would be tough to slow down. The hot streak for Canadian real estate is in serious jeopardy. Let's dive in.

Why the Canada housing market has thrived in the face of the COVID-19 pandemic

Some analysts believed that the COVID-19 pandemic would be the catalyst to stir a crash in the Canada housing market. There was some instability early on, but central banks worked to offer radical support to Canadian citizens. This accommodative policy spurred a scramble for real estate.

Demand surged in this environment. This created a perfect storm, as Canada is still plagued by low supply. Moreover, historically low interest rates have led to a friendly environment for prospective buyers seeking credit. Alternative lenders like **Home Capital** and **Equitable Group** have thrived and posted record earnings in this climate.

Will a shift in policy bring that momentum to a screeching halt?

Last week, I'd discussed why interest rate hikes could halt momentum for the Canada housing market. Canadians are already broadly overleveraged, and inflation has put the squeeze on consumers. Higher benchmark rates would demand even more of a citizenry that is still recovering from the economist impacts of the pandemic. Oddsmakers currently expect a BoC benchmark rate hike by March 2022.

Interest rate hikes may lead to some heightened volatility on the market. However, Canada housing will still benefit from strong fundamentals. Low supply, high immigration to bolster demand, and a crafty lending industry should keep a strong floor for one of Canada's most important industries.

Two stocks to watch out for in this climate

Investors may want to take advantage of any discounts that arise for Canada housing stocks in this climate. **Bridgemarq Real Estate** (TSX:BRE) is a Toronto-based company that provides services to residential real estate brokers and REALTORS across Canada. Its shares have climbed 15% in 2021 as of close on November 13. The stock is up 19% year over year.

In Q3 2021, the company delivered revenue growth of 16% to $12.4 million. Meanwhile, net earnings came in at $3.9 million or $0.28 per share — up from a net loss of $2.2 million, or $0.23 per share, in the third quarter of 2020. Moreover, distributable cash flow rose to $5.2 million over $4.4 million in the previous year.

This Canada housing stock offers a monthly dividend of $0.1125 per share. That represents a monster 7.8% yield.

Atrium Mortgage (TSX:AI) is another Toronto-based company that provides financing solutions to real estate communities in Canada. The stock is up 15% in the year-to-date period.

The company saw its mortgage portfolio rise 2.7% year over year to $765 million in the third quarter of 2021. Meanwhile, net income increased 11% to $10.6 million. Shares of this Canada housing stock possess a price-to-earnings ratio of 15. That puts Atrium in favourable value territory. Better yet, it offers a monthly distribution of $0.075 per share. This represents a strong 6.1% yield.

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