Here's Why the Canada Housing Bull Run Will Continue in 2022

Description

Earlier this week, I'd discussed whether the Canada housing market was headed for a correction. The Canadian real estate industry has benefited from a historically low interest rate environment. However, the Bank of Canada (BoC) has hinted at its intention to move forward on rate hikes in the months ahead. Canada's inflation rate rose to a 20-year high of 4.7% in October. This will almost certainly increase the urgency for policymakers.

Today, I want to discuss why the bull run for the Canada housing market will continue in 2022 and beyond. Its fundamentals remain very strong, even in the event of several modest rate hikes.

Canada housing is gaining momentum in October

The Canadian Real Estate Association recently said that 2021 was the busiest year on record for the Canada housing market. Moreover, housing prices also jumped to all-time highs. The average selling price for a home that sold on Multiple Listings Service, which represents over 100,000 realtors, increased 18% year over year to $716,585.

Canadians have not been strangers to price inflation in the real estate space. However, sales are also on the rise. In October, home sales climbed 8% compared to September. The data revealed that 581,275 homes changed hands in the first 10 months of 2021. That means this year has already passed the previous Canada housing sales record of 552,423. The performance in October suggests that this market still has room to run.

Fundamentals are still strong for this sector

I’ve already discussed the long period of low interest rates that this sector has enjoyed since the 2007-2008 financial crisis. Rate hikes are almost certainly on the way in 2022. However, the BoC is undoubtedly going to proceed with extreme caution. The BoC was in the process of a gradual tightening before the COVID-19 pandemic hit. Even so, Canadian real estate was able to post strong numbers with the benchmark rate holding at 1.75%.

Beyond interest rates, the Canada housing market has benefited from consistently low supply. Canada’s housing supply stands as one of the worst in the G-7. The Trudeau-led Liberals laid out a plan to address this concern, but it does not look set to move the needle in any significant way. It fails to add even 100,000 new homes per year. Meanwhile, demand for Canada housing is soaring. This is a recipe for price growth going forward.

Here are housing-linked stocks I’d target today

Investors looking to get in on this ongoing bull market should look to snatch up housing-linked stocks. **Equitable Group** (TSX:EQB) is one of the top alternative lenders in the country. Its shares have climbed 52% in 2021 as of close on November 18.

In Q3 2021, Equitable Group saw assets under management (AUM) rise 13% year over year to a record $40.2 billion. Meanwhile, it achieved total loan growth of 14% compared to Q3 2020. This beat out its loan growth projections between 8% and 12%. Shares of Equitable Group possess a very favourable price-to-earnings ratio of 9.8.

Bridgemarq Real Estate (TSX:BRE) and **Atrium Mortgage** (TSX:AI) are two more Canada housing-linked stocks that I’d consider adding today. Bridgemarq provides services to residential real estate brokers and REALTORS across Canada. Meanwhile, Atrium provides financing solutions to real estate communities around the country. These stocks are up 16% and 13%, respectively, in the year-to-date period.

Better yet, both stocks offer enticing income. Bridgemarq last paid out a monthly dividend of $0.113 per share, which represents a monster 7.8% yield. Moreover, Atrium offers a monthly distribution of $0.075 per share. That represents a tasty 6.2% yield.

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