The BoC Raised Interest Rates: Will Canada Housing Suffer?

Description

Canada's housing market has soared to new heights over the course of the COVID-19 pandemic. Initially, some analysts predicted that the pandemic may finally force a reversal in Canada's real estate space. Instead, the housing market gorged on historically low interest rates and surging demand. However, the looming threat of interest rate hikes has continued to loom large. Today, I want to discuss whether the recent rate hike will spell bad news for the Canada housing market. Moreover, I'll look at two housing stocks that are worth consideration.

Canada housing is still on fire to start 2022

The Bank of Canada (BoC) raised the benchmark rate by 50 basis points on Wednesday, March 2. In late 2021, I'd argued that interest rate hikes could spark turbulence. However, in the long term, the fundamentals were still too strong to keep the market down.

It is far too early the judge the impacts of the most recent rate hike. However, if it has already been priced in, the real estate market has little to worry about. Home prices in Toronto soared 28% from the previous year in November 2021. Moreover, the average sale price climbed 21% to $1.16 million. Vancouver posted sales growth of 11%. In Hamilton, Ontario, the average price of a detached home rose above $1 million.

Despite the promise of tightening monetary policy, demand to enter the housing market is still sky high.

How will this market react to interest rate hikes?

Jean-Francois Perrault, the chief economist with **Scotiabank**, projected that marginal rate hikes will have little impact on the trajectory for Canada housing going forward. He stated that "a series of rate hikes" would be more likely to have a near-term impact. The BoC may not be enthusiastic about a series of quick hikes considering the fragile geopolitical climate.

Canada housing is still in a strong position right now, coasting on the back of high demand, low supply, and friendly monetary policy. This is not guaranteed to last throughout 2022 and beyond. Canadian investors should pay close attention to future rate hike decisions from the BoC. This early bump may not have a big impact on real estate, but future rate hikes could apply pressure to the market.

Two Canada housing stocks to watch in March and beyond

Bridgemarq Real Estate (TSX:BRE) is a Toronto-based company that provides various services to residential real estate brokers and REALTORS across Canada. Shares of this housing stock have dropped 2.3% in 2022 as of close on March 10. However, investors on the hunt for big income will be nicely rewarded.

In 2021, revenue rose to $50.2 million compared to $40.3 million in 2020. Meanwhile, it added more than 1,000 new realtors to its stable. Bridgemarq offers a monthly dividend of $0.1125 per share. That represents a monster 8.5% yield. Better yet, this housing stock is still trading in favourable value territory.

Equitable Group (TSX:EQB) is another housing stock I'd look to snatch up today. This housing stock is up 1.7% so far in 2022. Its shares have increased 4% year over year.

The company unveiled its final batch of 2021 earnings on February 7. Total assets under management rose 17% to $42.0 billion. Meanwhile, single family alternative loans climbed 30% year over year to $14.4 billion. Shares of this housing stock possess a very favourable P/E ratio of 8.7. It offers a quarterly dividend of $0.28 per share, representing a 1.5% yield.

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