



Here's Why Canada Housing May Have Reached its Top in 2022

Description

Canada's scorching housing market has attracted international attention in the beginning of this decade. Indeed, the domestic real estate market has thrived on the back of a seemingly unstoppable bull market that has stretched back to the beginnings of the Great Recession. Today, I want to discuss recent gains for Canada housing. Are we finally bearing witness to a top in one of the world's hottest [real estate markets](#)? Let's dive in.

Why Canada housing set another record in February

In December 2021, I'd [discussed](#) why the Canada housing market was headed even higher in 2022.

On March 15, 2022, the Canadian Real Estate Association (CREA) released housing data for the month of February. The price of an average Canadian home increased 20% year over year to \$816,720. Moreover, the group stated that this February was the second busiest for home selling on record. It fell just shy of the all-time high set last year.

The CREA did say that the price increase was misleading due to the activity in high-valued markets like Toronto and Vancouver. If investors remove these two cities, that average selling price drops by \$178,000. However, even accounting for this and using a more exact tool like the House Price Index shows that prices are up on the fastest pace on record.

Canadian policymakers instituted significant monetary easing in the face of the COVID-19 pandemic. This has led to record levels of borrowing. Demand in the Canada housing market has been bolstered over the past two years, while supply is still inadequate. That said, there are some developments that could lead to a correction in 2022.

The real estate market is facing hurdles in the months ahead

Late last year, I'd discussed whether [interest rate hikes](#) would lead to a decline in the Canada housing market. Experts and analysts have credited low borrowing rates for at least a portion of this bull

market. A rate-tightening cycle may not lead to a sharp correction, but it should have an impact going forward.

On March 2, 2022, the Bank of Canada (BoC) opted to raise its benchmark interest rate to 0.5%. This is expected to be the first in a series of small rate hikes this year. The first in a series of rate hikes should not lead to any significant downturn, as rates remain near historic lows. However, a steady increase should give borrowers pause, especially as costs have jumped in other areas.

Two housing stocks to watch in this environment

The action in the real estate space should keep investor eyes on top Canada housing stocks in the spring of 2022. **Home Capital Group** ([TSX:HCG](#)) and **Equitable Group** ([TSX:EQB](#)) are two of the top alternative lenders in Canada. Shares of Home Capital have dropped 2.7% in 2022 as of close on March 17. The stock is still up 20% year over year. Meanwhile, Equitable Group stock is up 5.2% in 2022, and its shares have climbed 14% compared to the same time in 2021.

Both companies have put together very strong earnings on the back of the torrid pace of borrowing over the past year. In 2021, Home Capital posted adjusted net income of \$249 million, or \$4.87 per diluted share — up from \$175 million, or \$1.73 per diluted share, in the previous year. Equitable Group saw earnings increase 31% from the previous year to \$292 million while earnings per diluted share (EPS) jumped 29% to \$8.36.

Home Capital stock possesses a very favourable price-to-earnings (P/E) ratio of eight. This Canada housing stock also brought back a quarterly dividend of \$0.15 per share, representing a 1.5% yield. Shares of Equitable Group last had an attractive P/E ratio of nine. It offers a quarterly distribution of \$0.28 per share. That represents a 1.4% yield.

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