What Will Impact the Housing Market in 2022?

Description

The Canadian housing market has been on an absolute tear for close to two decades. An elongated bull run coupled with record-low interest rates drove residential real estate prices significantly higher over time. Let's take a look at three housing trends investors might see in 2022.

Increase in mortgage rates

Due to rising inflation, most federal banks all over the world are likely to increase interest rates in 2022 reducing the supply of money in the economy. As interest rates move higher, borrowing costs will also rise going forward.

Mortgage rates have already risen substantially in 2022 due to interest rate hikes, and there is a good chance for the Bank of Canada to increase rates further in 2022. However, the pace of these increases will decelerate in the second half of the year.

Housing inventory might increase

The last few years have been a sellers' market, which means that demand outpaced supply, resulting in a surge in home prices. In the U.S. the inventory of unsold homes almost touched a million, representing a two-month supply. According to experts, it takes between four and six months of additional supply for the housing market to normalize.

So, if the number of unsold homes increases by the end of 2022, it's imperative for market prices to decline accordingly before they stabilize.

Will home prices decline?

According to experts, the oversupply of houses will be limited, indicating home prices will also remain elevated. It will be difficult for first-time home buyers to break into the housing market given higher borrowing rates. Most Canadian provinces continued to see an increase in home prices in Q1 of 2022, despite the above-mentioned headwinds.

Is Equitable Group a good housing stock to buy right now?

Equitable Group (TSX:EQB) provides personal and commercial banking services to retail and commercial customers in Canada. In the last 10 years, Equitable Group has returned close to 400% to investors in dividend-adjusted gains, easily outpacing the broader markets. Despite its stellar returns, Equitable Group stock is also trading 27% below all-time highs and provides investors a tasty dividend yield of 1.9%.

Valued at $2.1 billion by market cap, Equitable Group is estimated to increase revenue by 22.7% year over year to $714.63 million in 2022, valuing the company at less than three times forward sales. Analysts also expect it to expand earnings at an annual rate of 20% in the next five years. EQB stock is valued at 6.7 times forward earnings, making it one of the most undervalued stocks on the TSX.

Equitable Bank is fast gaining traction among Canadians, as it has increased bank deposits from $2.2 billion in Q1 of 2019 to $7.3 billion in Q1 of 2022. In the March quarter, Equitable Bank increased loan originations by 63% year over year to $1.7 billion on the back of widening broker partnerships and enhanced customer service.

It was one of the few banks to expand earnings in Q1 due to strong revenue growth, benefits from strategic investments, and high operating leverage. Right now, EQB stock is trading at a discount of 36% to average price target estimates.

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