



Are There Still Storm Clouds on the Horizon for Canadian Housing?

Description

A report from the Organization for Economic Co-operation and Development (OECD) raised its economic growth forecast for Canada but warned in its report about the dangers present in the Canadian housing market.

A **Moody's** analytics report in September predicted a deceleration that would drag over a five-year period in Canada. This could severely hamper growth and has the potential to spill over into many facets of the Canadian economy due to high consumer debt.

Moody's continues to be skeptical when it comes to Canadian banks because of these risks. But what of alternative lenders? Should investors avoid them at all costs?

In a September 12th meeting, more than 88% of **Home Capital Group Inc.** ([TSX:HCG](#)) shareholders voted against Warren Buffett acquiring an additional tranche of shares worth \$246.7 million. The shares should have come at a significant discount.

Experts and analysts surmised that the company had regained confidence after passing through the difficult spring and early summer period. Since the news, Home Capital Group stock has dropped 4.5% as of close on September 20.

On September 20, Home Capital Group made the announcement that it had filed a preliminary shelf prospectus with the Securities Commissions in each Canadian province to make an offering of up to \$750 million in the near future. This filing was a requirement of the original purchase of shares by **Berkshire Hathaway Inc.**

Shares of **Equitable Group Inc.** ([TSX:EQB](#)) closed at \$53.30 on September 20 — down 1.44%. The stock has also experienced downward pressure since the Home Capital Group shareholder vote.

Both alternative lenders have expressed concerns that the new mortgage regulations introduced by the OSFI, which would require uninsured mortgage applicants to undergo a stringent stress test, could hurt sales growth.

The foreign buyers' tax instituted by the Ontario government has seemingly yielded the results that were intended. Purchases of Toronto homes by foreign buyers fell 1.6% from May to August. Sales of luxury homes in Montreal has seen a significant uptick in 2017, as the city may be benefitting from buyers turning away from the Toronto and Vancouver markets.

Still, home sales and prices have experienced some recovery in August, and real estate experts are predicting the market will stabilize in the fall. Though Moody's has predicted a deceleration across Canada, markets in Vancouver, Toronto, and cities surrounding the Greater Toronto Area are expected to see more modest gains in comparison to recent years.

Brokers have launched a campaign to appeal to the OSFI to loosen some of the new regulations in the pipeline. However the campaign shakes out, investors should temper their expectations when it comes to the medium-term growth potential of Home Capital Group and Equitable Group. Both companies are going to be forced to adjust to slower growth.

I like the value offered with Home Capital Group's stock right now, but investors looking for a more defensive play should look to Equitable Group and its 1.8% dividend yield.

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