



Could a Late Surge in 2017 Home Sales Power Alternative Lenders?

Description

The Toronto Real Estate Board released improved home sales numbers on November 2, which prompted some experts and analysts to declare that a bottom had been reached in the housing correction, which has stretched since the late spring. Home sales jumped 12% from September to October, and prices were also up 1% month over month.

Vancouver, which experienced its own sharp correction following a 15% foreign buyers' tax instituted in 2016, also reported interesting developments last month. Foreign nationals represented 5% of home purchases in Metro Vancouver in September, up from less than 1% in August 2016. The numbers are still significantly less than results in July 2016 before the tax was instituted, which showed over 20% proportion of foreign purchases.

Equitable Group Inc. ([TSX:EQB](#)) was my [top stock pick for October](#). Shares of Equitable Group rose 7% in October, also benefiting from a broader rise in the S&P/TSX. **Home Capital Group Inc.** ([TSX:HCG](#)), another top alternative lender, ended the month of October largely flat. Shares have been stagnant, hovering around the \$14 mark or below since August.

Alternative lenders voiced concern in recent quarterly conference calls that new mortgage rules introduced by the OSFI would potentially put a dent in new loan growth. I covered why the mortgage rules could be a [huge factor for Canada housing in 2018](#). To briefly recap, the new rules include a stress test for uninsured borrowers — those who wish to avoid a CMHC premium by putting down 20% or more on a new purchase.

Major Canadian banks have also focused in on the new rules and stated that it is possible alternative lenders could see a windfall from potential borrowers who were turned away from prime lenders. However, both institutions are confident that the new rules will help with retention rates.

Will there be a late-season rush?

The market is showing some bounce back, which was predicted by industry experts. Investors should not be surprised to see more pronounced numbers in the final two months of 2017. New buyers will still have the opportunity to avoid the new uninsured stress test, which comes into effect on January 1,

2018.

Prime and alternative lenders alike could see a significant surge in activity from savvy purchasers, who will undoubtedly be made aware of the new rules by agents and brokers. With sales and prices on the rise, speculators could also be thinking about aggressively re-entering the market.

Investors should also keep a possible caveat in mind when it comes to the stipulations published by the OSFI. Some real estate experts have noted a possible loophole, one that would allow lenders to extend amortization and qualify more borrowers than would be originally permitted with the stress test interest rate.

However the market reacts to the forthcoming rules, investors should still be careful not to burn themselves on alternative lender stocks. The industry is still tackling new regulations introduced by Ontario, and the new rules in 2018 will put added stress on an anxious real estate market.

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