

Should You Bail on Canadian Housing and Alternative Lenders in 2018?

Description

New analysis from Mortgage Professionals Canada, a mortgage-broker industry association, projected that up to 50,000 home buyers could be frozen out of the market due to new OSFI rules. About 18% of potential buyers would be unable to qualify for their preferred home. The report ultimately projected a 6-7.5% drop in home sales in 2018 as a result of the changes.

Despite this, the report also projected that mortgage borrowing would increase in 2018 by 5.5%, with buyers scheduled to take possession of newly constructed homes that require financing. In an early November article, I'd [discussed](#) why the new OSFI rules would be a huge determinant for the direction of Canadian housing in 2018.

A report from the OECD has also [stirred anxiety](#) for the housing market. Analysis showed that Canadian households are the most indebted of any country in the developed world. However, on November 28, Bank of Canada governor Stephen Poloz appeared optimistic that conditions were improving. Poloz said that new policy was bringing about a "gradual easing" that would continue into 2018 and beyond.

Realtors and industry experts are projecting a shaky start to 2018, but expect housing to re-establish momentum next year. In November, Toronto home sales were down 13.3% year over year and house prices fell 2% from November 2016. Still, sales were up from October, indicating that the market has continued to stabilize since the spring and summer correction.

Vancouver, however, saw home sales surge 26% year over year. The benchmark price for detached properties rose 6% to \$1.6 million from November 2016. The Vancouver market underwent a dramatic correction after instituting a foreign buyers' tax last summer, but it has gradually worked back into an uptrend.

Alternative lenders have managed to buck the pessimistic trend. Shares of **Home Capital Group Inc.** ([TSX:HCG](#)) were up 23% month over month as of close on December 6. The market responded well after the company reported a return to profitability with the release of its third-quarter results. However, net income was more than halved at \$30 million compared to \$66.2 million in Q3 2016. Mortgage originations were also down to \$385 million from \$2.54 billion in the prior year.

Equitable Group Inc. ([TSX:EQB](#)) stock has increased 31% in a three-month span dating back to September 6. The stock is up 14% in 2017, despite losing half of its value in the volatile month of April. In its third-quarter results, Equitable Group posted net income of \$37.9 million, representing a 7% increase year over year. The company has seen a 14% increase in mortgages under management year to date in 2016.

Genworth MI Canada Inc. (TSX:MIC), the largest private residential lender in Canada, has climbed 24% in the same three-month span. Investors should be confident in Genworth, as it should be unaffected by the stress test implemented on buyers that are uninsured.

Although housing sales may dip in 2018, credit growth is not expected to experience a significant decline. With interest rates remaining low and buyers gradually warming up to lower prices, Canada housing could reward optimists in 2018.

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