# Should You Buy or Sell the Surge for Alternative Lenders?

## Description

**Equitable Group Inc.** (TSX:EQB), one of the top Canadian residential and commercial alternative lenders, rose 1.54% on December 20 to close at $71.81. It is fast approaching the all-time high reached in February of $74.66. **Home Capital Group Inc.** (TSX:HCG) was up 1.05% on the same day and has reached above the $17 mark for the first time since the **Berkshire Hathaway Inc.** asset purchase in June.



In a recent article, I'd discussed whether or not investors should be prepared to take profits from alternative lenders as 2018 draws closer. I'd argued that alternative lenders were still a hold in anticipation of a year that may surprise those calling for a deeper correction next year.

Experts and analysts have been sounding bearish signals for the beginning of 2018, as new mortgage rules implemented by the OSFI are set to come into practice in January. The consensus is that the new rules will slow down activity in the first months of next year before the market balances in the second half. However, alternative lenders are picking up steam just before 2017 comes to an end.

New data from Statistics Canada released on December 19 shed some much-needed light on the state of housing. Real estate industry experts appeared to be vindicated by the data that revealed foreign ownership was below 5% in Toronto and Vancouver markets. A foreign buyers' tax of 15% instituted in both Ontario and Vancouver was thought by some to be predicated on the assumption that foreign ownership had been one of the largest, if not the largest, factor in the inflation of asset prices.

This new data calls that assumption into question. However, properties with a single residential unit owned by non-residents were higher valued than those owned by residents on average. In Toronto, single-detached properties owned by non-residents were 12.3% more expensive than those owned by residents. This may explain the increased activity seen in lower-valued brackets in recent months, as the housing market began to balance in the fall.

In November, I'd covered alternative lenders and speculated that a late rush could develop, as uninsured buyers tried to finalize their purchases before the new rules came into play.

Equitable Group reported net income of $37.9 million in the third quarter — a 7% increase year over year. Year to date, it reported mortgages under management of $22.8 billion compared to $19.9 billion at the same point in 2016. Home Capital Group saw total loans under administration dip to $23.2 billion compared to $26 billion in Q3 2016. Total mortgage originations fell from $2.54 billion to $385 million, as the company undergoes a dramatic restructuring of its processes.

There are other headwinds in 2018 beyond the new OSFI mortgage rules. The Bank of Canada is eventually expected to continue its gradual rate hikes as economic data has remained strong. Still, a good deal of loan growth is already baked in for lenders due to new construction.

The first half of 2018 will be one of clenched teeth for the real estate industry and lenders. The Re/Max Housing Market Outlook predicts a 6.8% rise in Toronto housing prices in 2018. If patient investors in alternative lenders can stomach what is shaping up to be a turbulent beginning to 2018, they will likely be rewarded.

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