Should You Buy Low on Housing Stocks Right Now?

Description

The Canada Mortgage and Housing Corporation (CMHC) released a report on January 30 that concluded many metropolitan areas remain “highly vulnerable.” Specifically, housing markets in Toronto, Hamilton, Vancouver, and Victoria were at risk due to price acceleration and overvaluation.

CMHC said there was little evidence of overbuilding in cities in eastern Canada. High demand and supply issues have propelled housing in the Greater Toronto Area for some time, and some analysts expect that this trend will prop up housing, at least in the short term. Condo completions in Toronto are not expected to exceed 25,000 annually until 2020 at the very earliest.

Real estate industry representative and analysts were adamant that early 2018 would be difficult for housing. New OSFI mortgage rules, which include a “stress test” for uninsured buyers, were expected to dramatically decrease purchasing power for many prospective buyers. An early rate hike from the Bank of Canada has also sparked anxiety, as the country wrestles with record household and consumer debt.

A recent Ipsos survey carried out by the Toronto Real Estate Board (TREB) has shown that these developments have had an early impact on first-time buyers. The poll of 1,000 likely home buyers revealed that 41% were new purchasers compared to the two-thirds reported in the prior year.

However, even under these conditions, real estate industry experts remain skeptical that a significant price correction is on the horizon. The lack of supply combined with a booming Toronto economy — it recorded a 4.3% unemployment rate in December — will likely keep prices climbing in the years to come.

Alternative lender stocks have seemingly fallen victim to pessimism in early 2018.

Home Capital Group Inc. (TSX:HCG) dropped 1.2% in January. Short seller Marc Cohodes, who launched a highly critical public campaign against the company, is suing Home Capital and former executives for $4 million. Home Capital has vowed to present “valid defences” for its conduct.

After returning to profitability in the third quarter of 2017, Home Capital will be looking to build on its books going forward

. Mortgage originations were $385 million in Q3 2017 compared to $2.54 billion in the prior year. Home Capital has warned that new OSFI mortgage rules will likely put a dent in loan growth, but that retention rates will improve as a result of the changes. Tightening rate conditions should also boost retention as mortgage shopping becomes more challenging.

Equitable Group Inc. (TSX:EQB) stock dropped 6.1% in January. The company is set to release its 2017 fourth-quarter and full-year results on February 28, 2018. Equitable Group posted a reasonably positive third quarter, as net income rose 7% to $37.9 million, and mortgages under management saw a 14% increase year to date.

However, Equitable Group leadership also expects a drop in loan growth due to new mortgage rules. Of the two, Equitable Group has come out of a whirlwind 2017 with its business largely intact, and the stock still boasts a solid 1.5% dividend yield.

Home sales will likely continue to cool year over year, but a more balanced real estate market should stabilize the industry going forward. I like the market to pick up in the second half of 2018, and Equitable Group continues to be my preferred addition with its solid earnings and dividend yield.

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Author
aocallaghan