2 Top Real Estate Stocks to Buy to Benefit From Canada's Housing Boom

Description

Canada's real estate has been quite a tough space to make money over the past two years. Stocks that were linked with the nation's slowing housing market remained under pressure amid speculations that the market will collapse, bringing some top mortgage brokers with it.

In its efforts to avoid hard landing of the housing market, the government tightened mortgage rules, making it tougher for borrowers to get money from the nation's large lenders.

But that situation didn't produce only losers. While Canada's largest banks struggled to win new mortgage business, non-bank lenders benefited from this shift in the market dynamics.

Here are two small lenders whose stocks could still provide more gains as their lending business boom.

Equitable Group

Equitable Group Inc. (TSX:EQB) is one of Canada's largest subprime lenders, offering products to borrowers who find it hard to get loans from traditional banks.

Since the federal government introduced stress-test for borrowers, the non-bank lender has been seeing a surge in demand.

For the quarter ended on June 30, Equitable Group reported record earnings on the strength of its diversified portfolio. Adjusted diluted earnings per share surged 31% to a record $3.18 from the same period a year ago, as retail loans rose 23% and commercial lending 19%.

With this growth momentum, the lender also announced its plan to hike its dividends between 20-25% per year in each of the next five years, up from its previously stated target of more than 10% per year.

Trading at $95.92 at the time of writing, Equitable shares have gained more than 60%. The stock offers 1.44% dividend yield and has analysts' consensus price target of $100.

Home Capital Group

Home Capital Group (TSX:HCG) is another non-bank lender which is benefiting from Canada's growing shift to alternative market for loans. Similar to Equitable, it has staged a very powerful comeback this year after emerging from a near-bankruptcy situation about two years ago.

The Toronto-based alternative mortgage lender was rescued by Warren Buffett's **Berkshire Hathaway** , which provided a lifeline of about $400 million in equity.

Trading at $24.70 at the time of writing, its stock has surged more than 70% this year, as more and more mortgage borrowers turn to this non-bank lender to meet their financial needs.

If that trend continues, Home Capital stock has more room to the upside. Just before the 2017 liquidity crisis, HCG stock was trading close to $30 a share, while its five-year high was more than $50 a share.

It won't be easy for this lender to regain the full glory after such a massive setback to its loan book, but I won't be surprised to see a gradual recovery if the big banks in Canada to lose their share in the home lending market. Analysts have about $26 a share consensus price target for HCG.

Bottom line

Both Equitable and HCG have had a great run this year, but I don't see that growth is ending anytime soon. Investors still have an opportunity to enter this trade and make some money.

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