2 Ways to Bet Against the Overheated Toronto Housing Market

Description

In the latest **UBS** report on global housing bubbles, Toronto made it all the way to the top. The nation's largest city was pegged as one of the riskiest housing markets in the world, second only to Munich.

This should come as no surprise to those of us who live and work here. The average price of a Toronto condo or house has blitzed past what the average household can reasonably afford. Those who got in early are holding tight, while those trying to get in are pushing their leverage to the limit.

With this in mind, investors should be concerned about an imminent correction in the Toronto housing market. Here are two ways Canadian investors can safeguard their real estate investments or bet against companies that are overexposed to this inflated market.

Bet against Minto

When **Minto Apartment REIT** (TSX:MI.UN) went public in 2018, the majority of its portfolio was based in Ottawa. That's not surprising, considering the fact that the real estate firm is controlled by a family based in the capital city. However, Minto has spent the past year shifting its allocation to Toronto.

According to the company's most recent report, 35% of the portfolio is now located in Toronto, with more developments on the way soon. Also, the entire portfolio is residential, with no exposure to the office or commercial space.

This makes Minto particularly vulnerable to a sudden correction in the Toronto housing market. At 78.5%, the company's debt-to-equity ratio doesn't seem worrisome at the moment, but a sudden drop in the value of its investment portfolio (which is currently 99.25% of assets) could change this ratio drastically.

Bet against Equitable

Toronto-based **Equitable Group Inc.** (TSX:EQB) is the nation's second-largest non-prime mortgage lender, which makes it particularly vulnerable to a housing market correction.

As a subprime lender, Equitable focuses on a niche that the country's largest banks tend to avoid. The company offers loans to recent immigrants, self-employed individuals, or those with less-than-ideal credit ratings. The group is also one of the largest providers of reverse mortgages in the country.

It should come as no surprise that this subset of borrowers is more likely to default when the economic cycle turns and the real estate market crashes. In fact, subprime lenders were the catalysts and biggest losers of the Great Financial Crisis of 2008-09.

Equitable has 66% of its mortgage portfolio is based in Ontario, mostly dominated by borrowers in Toronto. Meanwhile, the company now controls 35% of the nation's subprime market. In other words, it could be more exposed to Toronto's overvalued real estate than any other listed company in Canada.

Bottom line

Besides first-time buyers, a housing market crash is devastating for nearly everyone else. Income-seeking investors in real estate investment trusts, developers, highly leveraged households, and subprime lenders are particularly vulnerable.

While I can't claim to predict a housing market crash in Canada's largest cities, it seems obvious that Toronto's residential valuations are unjustified. The companies mentioned above are particularly vulnerable to a potential correction here and should be tightly scrutinized by investors if not directly bet against over the next few years.

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2. TSX:MI.UN (Minto Apartment Real Estate Investment Trust)

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