Could This Be the 1st Victim of Canada's Housing Market Crash?

Description

Has Canada's housing market nailed its soft landing? After a correction in 2017, home prices across the nation seem to have stabilized, and now some investors are preparing for a boom.

However, I see plenty of reasons to be wary of the real estate sector. Vancouver and Toronto, the two biggest markets, were on top of **UBS's** bubble index this year. Canada's household-debt-to-income ratio remains at a historic high, and Veritas research recently found that 51% of housing investors are either cash flow negative or just breaking even every month.

Meanwhile, cracks have started to emerge in certain provinces. Mortgage delinquency rates were steadily rising in Alberta and Saskatchewan throughout this year. The rate jumped by 11% in Newfoundland and 19% in Manitoba during the second quarter of 2019.

Coupled with the precarious state of the national economy, the level of borrowing across Canadian households and their growing inability to pay on time is cause for concern.

A sudden plunge in this market will likely claim many victims from property developers to real estate investment trusts focused on residential properties. However, one of the first casualties could be subprime mortgage lender **Equitable Group** (TSX:EQB).

Equitable fills the gap between unconventional borrowers and the mainstream financial industry. The company's credit services are focused on recent immigrants, self-employed individuals, or those with less-than-ideal credit ratings. In other words, it serves customers that traditional banks tend to shun because of their higher risk profile.

In an interview with the *Globe and Mail* earlier this year, Andrew Moor, Equitable Group's chief executive officer, said the company controlled 35% of the country's subprime mortgage market.

Equitable is also one of the largest providers of reverse mortgages in the country. These have become increasingly popular among Canadian homeowners over the age of 55 seeking liquidity. At $3.12 billion, Canada's reverse mortgage debt has doubled in less than four years.

66% of the company's mortgages are based in Ontario, which indicates a heavy exposure to Toronto's overheated market. Meanwhile, Equitable is also extensively exposed to Alberta's real estate sector.

All this puts Equitable at the forefront of the Canadian housing market, which could be a good or bad thing depending on your outlook for the country's real estate market. If you're expecting a boost in house prices, Equitable's stock, currently trading at 11 times annual earnings per share and a 46% premium to book value per share, seems like a bargain.

However, if you're skeptical like me, this is a stock primed for a correction over the next few years.

Bottom line

While most investors remain focused on the number of immigrants arriving every year and the undersupply of housing units in Canada's major cities, I believe the rising delinquency rates and dimming economic prospects tell a different story.

A downturn in the economy will make the average Canadian household's debt even more burdensome. This could have far-reaching effects on several companies, but I believe Equitable Group is the most exposed.

Despite the stock's relatively low valuation and steady dividend, I wouldn't bet my money on it.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. TSX:EQB (EQB)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Bank Stocks
2. Investing

Date
2025/07/27
Date Created
2019/10/31
Author

vraisinghani