As Subprime Lending Soars, Will the Canadian Housing Market Finally Tank?

Description

One of the intriguing growth sectors in recent years has been real estate lending — specifically, lending to subprime borrowers and those with difficult credit to assess or lower down payments has grown dramatically. The Canadian housing market has done nothing but go up, even during the pandemic. Accordingly, as house prices get out of reach for the average Canadian, various companies have stepped up to the plate to fill the funding gap.

One such company has been **Equitable Group** (TSX:EQB). This alternative lender has seen interest explode in its financial offerings. Despite a scare a few years back with a potential run on various sub-prime lenders, Equitable Group has soared higher in recent years.

Where the Canadian housing market goes from here is anyone's guess. However, those bullish on the need for alternative lending have gravitated toward Equitable Group.

Let's take a look at what may be in store for this company in this context.

The Canadian housing market shows no signs of slowing down

The Canadian housing market was little affected by the pandemic and immediately recovered completely by summer 2020. Due to the low supply and high demand of properties in metropolitan areas, the price of houses surged to all-time highs. And, as it seems right now, the housing sector shows no signs of declining.

Equitable Group's business model has taken advantage of this situation. The company allows investors to put their money to work in the real estate sector with lower down payments and worse or limited credit history than what traditional banks would allow. Additionally, Equitable Group operates as a savings bank and mortgage lender with nearly entirely online operations. This is more friendly to millennial borrowers, who are more closely aligned to the type of client Equitable Group is looking for.

The company's valuation multiple remains low, perhaps pricing in how hot the housing market has been of late. Concerns about a bubble brewing in the Canadian housing market have persisted for some time. Accordingly, many investors have chosen to go the traditional banking route, rather than invest in alternative lenders. However, such an investment in a company like Equitable Group has proven to be a smart one, considering where the housing market is today.

But what if it's all a bubble?

Concerns of a bubble in the Canadian housing market have been around for years. By some metrics, Canada has seen house prices increase more rapidly in percentage terms than any other developed country in the world in recent decades. Those expecting the same performance in the decades to come may be delusional.

However, whether there's a long period of stagnation or a crash, there's reason to worry about the sub-prime lending space. As we saw in the U.S. in 2008, anything's possible. And while the Canadian housing market has proven to be more stable than other speculative bubbles in housing in the past, investors may correctly have reason to not sleep so well at night being heavily exposed to this space.

Bottom line

I'm of the view that moderate long-term performance (perhaps in line with inflation) is in store for the Canadian housing market. Sure, recent decades have proven to be incredible for homeowners. However, trees don't grow to the sky. At some point, this sort of growth becomes unsustainable.

That said, Equitable Group's business model may still thrive in a moderate-growth environment. Those concerned about a housing bubble may want to steer clear. However, at a price-to-earnings ratio below 10, there's a strong argument in favour of Equitable Group stock right now.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:EQB (EQB)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. chrismacdonald
2. kduncombe

Category

1. Dividend Stocks
2. Investing

Date
2025/09/09
Date Created
2021/09/04
Author
chrismacdonald