



Canadian Stocks Poised For a U.S. Housing Recovery

Description

Strong U.S. housing numbers were released Tuesday morning, indicating that year over year prices in 20 cities increased by 6.8%, the biggest annual gain since July 2006. These figures were music to the ears of these three companies.....

Tricon Capital ([TSX:TCN](#))

Tricon is an investor in North American residential real estate. With 65% of assets under management allocated to the U.S., the company stands to directly benefit from a recovery in this market.

The company's legacy, and still primary, business is one of raising cash from investors, and allocating it to the development of residential properties in North America. For this service, it earns a fee, and historically an impressive IRR for its institutional investors of between 15 and 20%. A private equity-esque model.

Recently, Tricon has opened a secondary line of business in which it has taken direct ownership of distressed residential properties in the U.S. These properties have been converted to rental units and now generate an income stream for Tricon.

Tricon's legacy business stands to benefit from continued improvements in U.S. housing as AUM, and therefore fees, should increase under this scenario. In addition, significant income and capital appreciation could be garnered through the company's distressed property strategy.

This story has not gone unnoticed by the market as the stock has lifted by 65% over the past year, but if the recovery remains intact, Tricon could have further to run.

Brookfield Residential Properties ([TSX:BRP](#),[NYSE:BRP](#))

Brookfield Residential Properties (BRP) is a sizeable holder of North American residential development property. The company was born in March 2011 out of a combination of Brookfield Office Properties' residential land and housing division and Brookfield Homes.

Where Tricon primarily earns its money by financing new development, BRP physically participates in the various stages of land development and home construction.

The company owns approximately 100,000 lots in 10 North American markets. Scattered across the U.S. are roughly 49,000 of these lots – areas include California, Denver, Washington D.C. and Austin.

The thesis is that a continued U.S. housing recovery will increase the value of BRP's portfolio of land. BRP's stock has appreciated over the past year, up about 110%, however, according to Capital IQ, this is a company with just one sell side analyst covering it. If we're still in the early innings of a turn in U.S. housing and word spreads about this name, it's reasonable to assume there will be worse stocks to own.

The wildcard

One more company that is worth keeping tabs on is **WaterFurnace Renewable Energy (TSX:WFI)**. This is a U.S. company, based in Indiana, which trades on the Canadian exchange. WFI has not run like the other two names. The stock is actually down 10% over the past year.

WFI makes geothermal water source heating, cooling, and control systems for residential and commercial buildings in the U.S. and Canada.

The company has been around since the 1980's, has a pristine balance sheet, and what it perhaps lacks in growth, it makes up for with dividends. The stock currently yields 5.8%. Though it is not directly exposed to a move up in U.S. property prices like the other two names, if residential development is occurring south of the border, there is at least an opportunity for WFI to grow its installation base. This should translate into pleasing results for shareholders.

The Foolish Bottom Line

The 20 city S&P/Case Shiller Index is just 7% above its February 2012 low and remains 30% below its April 2006 high. Even though the two stocks with direct exposure to U.S. property prices have moved, evidently there is still a chance for more "recovering" to occur. While the horse appears to be out of the barn, it might still be in the corral.

[Follow us on Twitter](#) and [Facebook](#) for the latest in Foolish investing.

Fool contributor Iain Butler owns Tricon Capital convertible debentures. The Motley Fool has no positions in the stocks mentioned above.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:TCN (Tricon Residential Inc.)

Category

1. Investing

Date

2025/08/21

Date Created

2013/02/26

Author

tmfohcanada

default watermark

default watermark