



Why Tricon Capital Group Inc. Surged 12% in February

Description

Tricon Capital Group Inc.'s ([TSX:TCN](#)) objective is to earn fee income through its Private Funds and Advisory business and to invest for investment income and capital appreciation through its Principal Investment business segments.

The company's business activities are focused on four related business verticals within the North American real estate industry: Tricon Housing Partners (land and home-building), Tricon American Homes (single-family rental), Tricon Lifestyle Communities (manufactured housing communities), and Tricon Luxury Residences. As such, it has diversified exposure to different areas of the housing market.

Excellent track record

Tricon has an excellent track record of growing the business and taking advantage of the opportunity in the U.S. real estate market, as evidence by the way management took advantage of the 2008 housing crisis by buying at distressed levels.

In its Tricon American Homes vertical, the single-family homes that have been purchased to date have largely been completed at distressed values through foreclosure sales. Once acquired, the company invests in home renovations before renting to tenants.

Exposure to recovering U.S. real estate market

Experts agree that the U.S. housing market is still in the early stages of a recovery, and Tricon is well positioned to profit from its steady recovery. Housing starts were up 10.5% in January 2017 versus the prior year, and although January housing starts declined versus the prior month, building permits increased 4.6% and hit their highest levels in the south.

This is good news for Tricon, which has been focused on the higher-growth southern regions in the U.S., the “Sun Belt,” which includes southern California, Texas, Alabama, Georgia, and Florida. This region has been seeing faster employment growth and faster population growth than the national average, and this is expected to continue. Housing starts are still significantly below the long-term average.

The company’s investments on its balance sheet are almost exclusively in the U.S. residential real estate market.

Opportunities aplenty

Growth is strong, and management sees more opportunities ahead in all its verticals. In the latest quarter, assets under management increased 12% year over year to US\$2.5 billion, and adjusted earnings per share increased 25% to \$0.15.

The Tricon American Homes vertical currently has 7,595 rental homes with a 95.6% occupancy rate. The company has been making 400-500 new home acquisitions per quarter. Rents increased 4.7% in the quarter.

Tricon has been expanding its reach in the real estate market, and the most recent vertical that the company entered was the luxury residence segment, Tricon Luxury Residence, which is the company’s fourth major business line. This vertical experienced a loss this quarter as investments are being made to ultimately increase rents in this area.

In summary, in Tricon, investors get exposure to the recovering U.S. housing market and an experienced management team which has been good at capitalizing on the housing trend.

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