# Asset Manager Goes Back to Roots for Growth

## Description

Anyone who has followed **Tricon Capital Group Inc.** (TSX:TCN) in recent years knows that most of the real estate asset manager's growth has come from its foray into single-family residential rentals in the U.S.



After the collapse of U.S. housing prices between 2007 and 2012, Tricon saw an opportunity to invest in this area of the real estate market, creating Tricon American Homes (TAH), a self-funded subsidiary that now owns 15,000 single-family homes in nine U.S. states, including Florida, California, and Texas.

In the past six years since establishing TAH, Tricon's total assets have grown by 2,400% to US$1.4 billion at the end of 2017 — almost all of it on the back of its move into single-family residential rentals.

However, Tricon got its start investing other people's money in real estate in return for an annual fee for doing so, and it was pretty good at it.

**Back to the asset management well**

Tricon does three things: it invests its own money in real estate, partners with others to invest in real estate, and invests third-party funds in real estate in return for an asset management fee.

So, it invests its own money primarily into single-family homes, partners with home builders buying land for future development, and then it invests US$1.2 billion on behalf of third parties who pay it a 1% annual management fee to manage those assets.

Asset management isn't as glamourous as investing on your own behalf, but it pays the bills and isn't capital intensive. In 2017, it received US$23.5 million in contractual fees from its third-party assets under management with projected performance fees of US$73 million on top of that.

As I said, it isn't nearly as rewarding as the single-family homes business, but it pays the bills.

**The best of both worlds**

On June 27, Tricon announced a US$2 billion joint venture to buy 10,000-12,000 single family homes in the U.S. over the next three years in partnership with a state pension fund as well as a sovereign investment fund.

Each of them will invest US$250 million in capital (mortgages for the rest of the US$2 billion) with TAH making the acquisitions in its existing markets. At the end of the three-year investment period, TAH will manage the properties for another five years, at which point the three partners will decide whether to continue with the joint venture or go their separate ways. Should one or both of the institutional partners decide to liquidate their positions, Tricon would have first right of purchase.

Throughout this eight-year period, Tricon would receive an annual management fee plus potential performance fees.

So, not only does it get to expand its position within the single-family residential rental market in the U.S. using other people’s money, it gets paid to do so.

That’s a winning combination in my opinion.

**Where to from here?**

I believe that Tricon is one of the best stocks on the TSX. While it’s down 7% in 2018 on fears that its best days are behind it, I see its US$2 billion joint-venture deal as a sign that institutions want to partner with it both as an investor and investment manager.



Therefore, its goal to grow its assets under management from US$4.8 billion today to US$10 billion within the next five years is entirely realistic and achievable.

In recent years, every time TCN stock has come close or gone over $11, it’s retreated back below $10. It could happen again, and if it does, you ought to buy its stock by the bucket, because it’s a real estate winner.

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