



## 1 Thing Can Help This Real Estate Stock's Share Price

### Description

As real estate stocks go, **First Capital Realty** (TSX:FCR), is one of my favourites.

It's got a great business model, strong balance sheet, good cash flow, and lots of interesting retail real estate developments in the pipeline.

Unfortunately, it's got a share price that's been going nowhere since it hit an all-time high of \$23.31 in July 2016 despite delivering solid quarterly results in the two years since it can't seem to find its way out of a range between \$19-\$21.

Here's the one thing that can help get its stock price unstuck.

### A large shareholder

About a year ago, I [discussed](#) which stock was a better buy: First Capital or **Gazit Globe** (TSX:GZT)(NYSE:GZT), an Israeli-controlled real estate company that also trades on the Tel Aviv Stock Exchange.

Gazit Globe has its hands in a lot of pies, including a 31.3% ownership stake in First Capital. In addition, former First Capital CEO Dori Segal serves on the boards of both companies. Suffice to say there is a close relationship between the two companies.

At the time, I suggested that if you were risk-averse, First Capital was the better buy because it doesn't have currency issues like Gazit Globe and it has an attractive dividend yield of 4.1% (4.3% today) that's money in the bank.

However, if you were a value investor, Gazit Globe likely had better upside. As it turns out, both stocks have moved sideways in the year since.

### Downgrade with a catch

Raymond James analyst Ken Avalos recently downgraded First Capital's stock to "outperform" from

“strong buy,” a move that often suggests some displeasure with the company in question.

Not so in this case.

Avalos was merely bringing its rating in line with other two real estate investment trusts it competes with: **RioCan** and **Crombie**. On several occasions, I’ve [recommended](#) First Capital over RioCan, most recently in March 2018.

“We continue to recommend that investors acquire shares at these levels, given the retail-leading SPNOI [same property net operating income] and NAV [net asset value] growth and 14-per-cent NAV discount (largely in-line with the two aforementioned peers),” Avalos wrote November 8.

As I said, First Capital is a top-notch real estate owner and developer. Over the long haul, you will win owning FCR stock.

### The solution

The analyst’s comments focused on one particular issue holding back First Capital’s stock: Gazit Globe’s significant ownership position.

Gazit Globe’s exiting any of third-party ownership of real estate whether it’s the 31.3% stake it holds in First Capital or the July divestiture of its ownership position in Regency Centers, an owner of grocery-anchored retail centres in major U.S. markets.

Gazit Globe now wants to own real estate directly. Avalos argues that until the 31% block is sold, investors are leery to buy in while the ownership situation remains unresolved.

After all, would you be interested in owning First Capital stock if the buyer of the shares was Donald Trump or Jared Kushner? I say that half in jest but large institutional investors like to cover their behinds.

When will the block get sold?

That I couldn’t tell you. However, once it does, expect the shares to move up to Avalos’ \$22 target price relatively quickly.

### CATEGORY

1. Investing

### TICKERS GLOBAL

1. TSX:CRR.UN (Crombie Real Estate Investment Trust)
2. TSX:FCR.UN (First Capital Real Estate Investment Trust)
3. TSX:REI.UN (RioCan Real Estate Investment Trust)

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