



Escape Canada's Housing Bubble With This Dividend Stock

Description

Canada's real estate market doesn't inspire much confidence these days. Mortgages and housing-related financial products are so commonplace across the country that households have managed to rack up \$1 trillion in debt since 2011. Now, the amount of consumer debt outstanding is slightly higher than the entire nation's annual economic output.

This frenzy for real estate has made much of the country's urban centres unaffordable. The cost of owning a home in Toronto or Vancouver is now 79% and 88% of median income in those cities, respectively. It's not much better in the smaller cities. The cost could be as high as 46% even in Montreal or Calgary.

A combination of record-high debt, record-low affordability, and forecasts for only microscopic increases in household income over the next few years is an unsustainable cocktail that will eventually be reflected on the balance sheets of Canada's biggest developers and real estate investment trusts (REITs).

This is why I believe the best option is to escape [Canada's overheated market](#) through foreign REITs. One of the best options for this, perhaps, is **Tricon Capital (TSX:TCN)**. Toronto-based Tricon manages property assets worth US\$7.3 billion (CAD\$9.6 billion). 91% of that is based in the United States.

The U.S. housing market is much more subdued than the Canadian one. Prices today are only 7% higher than the peak reached in 2006, and only 40% higher than the low hit in 2012, according to a report by **JP Morgan**. The report also claims that overvaluation is apparent in only a few metropolitan areas and not on a national scale.

Meanwhile, Americans have spent much of the past decade paring down their debt. Household debt to gross domestic product (GDP) is only 76%, as compared to 98.6% in 2007.

Tricon has focused on acquiring these undervalued properties over the past decade and has focused outside the major metropolitan regions. Their properties are located in reasonably priced cities like Houston, Charlotte, Atlanta, and Orlando, rather than overpriced Manhattan or Seattle.

The company generates income from contractual fees for managing third-party properties and from rental income on its own portfolio of single and multifamily houses across North America. Over the past year, the number of homes and quarterly net operating income increased 19.3% and 29.6%, respectively.

Business has been accelerating through new acquisitions and partnerships. Tricon has managed to expand its book value per share at a compounded annual rate of 21% since 2012. If it can match that rate going forward, investors can expect book value to double in fewer than four years.

With that growth rate in mind, the stock's current valuation, at a 20% premium to net book value, seems justified.

Bottom line

Income-seeking investors looking to escape Canada's relatively overpriced real estate market may want to consider Tricon Capital.

CATEGORY

1. Dividend Stocks
2. Investing

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1. TSX:TCN (Tricon Residential Inc.)

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