



TFSA Investor Alert: Your Best Canadian Real Estate Stock

Description

Canadian investors are spoiled for choice when it comes to choosing the perfect real estate company or REIT for their portfolio. Some are focused on a particular asset class like office or retail and some are more aligned to a particular province, like Ontario or Quebec.

Rarely do you find a REIT that builds itself around where people want to live, work and play. The reality is that real estate is simply the “stuff” that helps people congregate in an organized way, be it a shopping mall, an office space or an amusement park.

That is precisely why the stock investment opportunity I am presenting to you today is so compelling because it has figured out where wealthy people live, work and play and how to be there.

The stock and the play

Enter **First Capital Realty** (TSX:FCR), one of Canada’s largest owners, developers and operators of “necessity-based” real estate in the most densely populated urban areas across the country.

In addition to having the most urban-focused strategy of all the publicly traded real estate companies in Canada, First Capital Realty is also one of the largest, with 165 properties and 25 million square feet of leasable space.

It’s all about being where people are

First Capital’s “necessity-based” real estate strategy means that they focus on renting to doctor and dentist offices, restaurants, pharmacies, daycare centers, fitness facilities and more. People simply need to go to these places to make their lives work and online shopping trends won’t change that.

The company measures population densities and compares its portfolio demographics versus the industry in both Canada and the U.S. For example, on average, there are 265,000 people living within 5 km of its properties in Canada.

This compares very favourably to 153,000 for its U.S. peers and 110,000 for its Canadian peers. This statistic is fascinating, as it demonstrates First Capital's dominance in the super-urban space.

What's even more fascinating is that the high-density population that surrounds its properties is largely composed of high-income earners who have plenty to spend at restaurants and premium-priced fitness club memberships.

The average household income for First Capital's portfolio demographics is \$113,000, which is significantly higher than its Canadian peers at \$100,000.

If you combine all these statistics, it essentially means that First Capital's properties are surrounded by a lot of wealthy people who still like to go out and spend money on food, entertainment, wellness, and other necessity-based activities.

This is a long-term trend that's getting even more powerful as the burgeoning Canadian tech industry in Toronto and Kitchener-Waterloo mints a greater number of millionaires.

Are the financials as good as the strategy?

Companies often have a great strategy but falls down on execution and shareholders suffer as a result of that. Luckily, First Capital doesn't have that problem. The company has a [rock-solid balance sheet](#), with more than enough cash flow to service its debt obligations.

In addition, it has a very well staggered debt maturity ladder, which means it has a conservative, predictable and highly-visible debt repayment schedule that won't put financial strains on the company in any given year.

The financial icing on the cake is that the company's cost of servicing its debt is forecast to go down from a rate of about 6% in 2019 to about 3.5% by 2026. This will translate into cost savings for the company that can be reinvested into new projects or returned to shareholders in the form of dividends.

The final verdict

First Capital has a very good strategy that differentiates itself from other real estate companies in Canada. It is also reasonably priced, at \$22 per share at the time of writing, which is slightly under its net asset value (NAV) of \$23.

Smart investors should pay close attention any time the shares of a top company trade below its NAV as in the case of First Capital. What's more, investors will not be disappointed at its stable 4% dividend yield, which will grow steadily over time.

First Capital is a perfect stock for a [long-term oriented portfolio](#) where the power of a good business strategy combines with good financials to create and sustain shareholder value.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:FCR.UN (First Capital Real Estate Investment Trust)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
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