Buy This Real Estate Stock to Escape the Inevitable Market Downturn

Description

When income-oriented real estate investors think about Canadian real estate companies, rarely do you hear the name **Tricon Capital** (TSX:TCN), which is not a huge surprise given that the name is a bit confusing and doesn't scream "real estate company."

In fact, Tricon can feel more like a real estate-focused private equity fund. I don't particularly mind that because all I care about is the company's financials, growth strategy, and dividends.

However, Tricon slips below the radar for many retail investors because it doesn't look like the "rest of them" and that's a shame; but it is also a phenomenal opportunity for smart investors to load up on shares while no one else is looking.

Let me tell you a few ways in which Tricon is a phenomenal buy right now for the inevitable market downturn.

Families need a roof no matter what

Tricon operates in a segment of real estate that is absolutely necessary, regardless of the economic climate. That is residential real estate.

In simple terms, it specializes in rental housing for the family segment, which is one of the fastest-growing segments in North America and just about the best type of business for a market downturn, because everyone needs a roof no matter what.

Tricon describes its mission as providing quality housing for families across North America and generating strong risk-adjusted returns for investors. This is not just a "castle-in-the-sky" sort of statement.

Tricon puts its money where its mouth is. As of October 2019, Tricon had about 20,000 single-family rental homes and 7,500 multi-family rental apartments with another 3,000 multi-family units under development.

This means that Tricon will eventually have 30,000 single and multi-family dwellings earning stable and predictable cash flow.

Roofs translate into rents

The company has proven that it knows how to execute its strategy with very steady and impressive growth in book value per share. From a modest $3.38 per share in 2012, book value per share has grown three times to $10.77 per share as of October 2019. This represents a 20% annualized growth since 2012, which is truly astounding and worthy of investor attention.

This growth has translated to about $10 billion in assets under management and a $2 billion market cap, which gives Tricon the scale that is necessary to be successful in a market downturn.

What is most impressive about the company's financial strategy is that it is also focused on third-party capital, which is a fancy way of saying that it also manages other people's money, giving outside investors access to their real estate platform.

The company charges a management fee for this, and its stated goal is to grow its third-party capital by $1.5 billion in the next three years. The management fees generated from this additional capital will effectively cover Tricon's corporate expenses.

The fact that it can cover its corporate overhead like IT, HR, finance, procurement, and the call centre with management fees gives the company resiliency, even in downward economic cycles, because it will generate a cleaner income statement with corporate expenses being less of an issue.

Starting to look like a traditional real estate company

Tricon's share price has been stuck in the $10-$11 range for the last three years, primarily because investors have a hard time understanding the metrics the company reports. Up until now, Tricon did not report one of the standard industry metrics: funds from operations (FFO).

However, as the company stabilizes its recurring cash flow, it has announced plans to start reporting FFO per share as a key performance indicator going forward.

This means that retail and institutional investors can finally start stacking up the company against a more traditional real estate company like **First Capital Realty**, which is a top pick of mine in this industry.

The final verdict

Tricon's share price has been stuck in the $10-$11 range for the last three years, as it scales up and executes a strategy of more recurring cash flow.

Smart investors would do very well to scoop up shares at below $10 if they can, because the company is gathering steam. It will be hard to buy in after institutional investors realize that Tricon is a fantastic long-term stock with significant growth in the real estate sector.

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