



## This Residential Landlord Is Holding Firm During the Lockdown

### Description

Real estate investment trusts (REITs) have grossly underperformed the broader indexes in 2020. Commercial REITs are among the worst hit as they have huge exposure to establishments that have been shut due to countrywide lockdowns.

The rising unemployment rates and uncertainty have driven shares of other REITs lower as well. But with economies reopening, is it time to buy these beaten-down stocks?

One such residential REIT that might be attractive is **Tricon Capital** ([TSX:TCN](#)). The company recently announced its results for the [first quarter of 2020](#). Tricon wrote-down an amount of \$80 million in its for-sale housing investments.

This segment was underperforming compared to Tricon's expectations, and it looks unlikely that sales of units which aren't pre-sold will pick up in the coming months thanks to COVID-19.

Tricon opted to go down the rental route after giving up its pure for-sale approach in the wake of the 2008 financial crisis. It's taken them more than a decade but Tricon bit the bullet, resulting in a loss of \$40 million or -\$0.21 per share in the March quarter compared to a net income of \$23.7 million and \$0.16 per share in the same period of 2019.

This quarter was the one where Tricon officially completed its transition to a rental housing company. It has realigned its corporate structure and senior reporting relationships, adopted consolidated accounting and REIT-like disclosure, and has also proposed to change its name to Tricon Residential Inc.

### Major Q1 highlights

Tricon's core-rental business has continued to perform well with single-family rental posting the same home growth of 5.5%. Selby, the company's first Canadian multifamily business, touched 88% occupancy.

Tricon collected 98% of April rents across its rental portfolios. Less than 1% of single-family residents and around 3% of multi-family residents opted for rent-deferral plans in the quarter. This is a strong testament to the success of the stimulus plans that governments of both the United States and Canada have pushed through.

In fact, the relief payments under the *U.S. CARES Act* total up to over \$4,000 per month, per household for the four months of the stimulus. In some cases, the stimulus is more than the amount the household would have earned during regular employment. As the U.S. lifts lockdowns, and economic activity begins to pick up again, rent payment might not be a serious issue.

## The road ahead for Tricon investors

Tricon says it will focus on [the middle market](#) for its business expansion. The company defines this demographic as “households earning between \$60,000 and \$100,000 per year, paying rents of \$1,000 to \$1,800 per month.” This translates into a rent to income ratio of about 20% on an average, providing a decent safety net against any further economic tragedies like COVID-19.

The company is currently sitting on just 547 vacant homes but they are not going to be acquiring any more assets in Q2. While there will be a trickle-down of 50-80 acquisitions from Q1, there's a pause on Q2.

Tricon had a target of 800 acquisitions per quarter before the pandemic. However, this number might drop by 25%-40% when the company takes another look at acquisitions.

Tricon stock sports a healthy dividend of 3.55% and has a price target of \$8.36, which is 5% above the current trading price.

### CATEGORY

1. Coronavirus
2. Investing

### TICKERS GLOBAL

1. TSX:TCN (Tricon Residential Inc. )

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