



Is This Canada's Best Real Estate Stock?

Description

Canadian real estate is in a league of its own. By some measures, house prices in the country have outpaced much of the developed world over the past two decades. It's been an excellent investment. But the best real estate stock in Canada isn't exposed to Canadian real estate at all.

Here's why **Tricon Residential** ([TSX:TCN](#)) should be on your radar if you're looking for Canada's best real estate stock in 2021.

Canadian real estate is overvalued

By most traditional measures, Canadian real estate is overvalued. A recent survey suggests that just 15% or less of residents in major cities like Vancouver or Toronto can afford local house prices. The house price-to-rent (136%) and mortgage debt-to-disposable income ratio (177%) is also at an all-time high.

Meanwhile, Canadian real estate doesn't offer sizable rental income. The average gross rental yield nationwide is just 3.9%.

American homes have more room to grow

By comparison, U.S. house price-to-rent ratio is 122%. Rents are rebounding strongly, as the national economy reopens. Meanwhile, economic output is growing faster, which means income and job creation is higher here.

States like Florida are experiencing significant migration, double-digit price growth, and roughly 6% in gross rental yield. Single-family homes in particular are extremely lucrative. American real estate is simply better valued. This is why Tricon Residential's U.S.-focused single-family rental model is superior.

Tricon's business model

Tricon owns and operates 31,000 single-family rental homes and multi-family rental apartments across North America. Most of its portfolio (98%) is based in the U.S., which means it is less exposed to economic risks and the property bubble in Canada. [18,000 of its units are single family rentals](#) — the hottest segment of the American market right now.

Tricon stock is up 62% over the past year. But it looks like it has more room to run. The stock is trading at a price-to-earnings ratio of 19.2. Earnings should increase as rents rebound across the U.S. this year. Ultimately, that should lead to higher dividends for shareholders.

Currently, the stock offers a 1.9% dividend yield. That's not the highest dividend yield on the Canadian market, but considering economic risks, it could be the safest one right now. Investors seeking passive income and steady appreciation over the long term should definitely consider this stock.

Bottom line

Canadian real estate investors face overvalued options. The average household can barely afford rent, and house prices have accelerated beyond the reach of most. That means there is little room for real estate companies to expand rental income or expect capital appreciation.

By contrast, house prices have more room to grow in the U.S., where incomes are higher and growing faster. Tricon Residential's exposure to the American market perhaps makes it the ideal real estate stock for Canadian investors.

The stock trades at fair value right now, but when income and book value rise, the stock should deliver substantial returns.

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Date

2025/08/17

Date Created

2021/07/27

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