1 Real Estate Stock to Grab at a 37% Discount

Description

The healthcare sector in Canada has one thing in common with the real estate sector — it's dominated by one industry segment. For health care, it's the marijuana industry, and for real estate, REITs dominate the scene.

However, there are plenty of healthy stock picks if you venture outside the realm of REITs. And though these real estate investments might not give you as direct exposure to the industry or, more accurately, real estate assets as REIT would, the return potential can be just as, if not more, impressive.

And one such real estate stock that's also available at a heavy discount is **FirstService** (TSX:FSV)(NASDAQ:FSV).

An essential services leader

FirstService has two business segments. There is FirstService residential, through which it operates around 8,700 properties, mostly in the U.S. but also in Canada. These properties are made up of over 1.7 million individual housing units, making FirstService the largest residential property manager in North America.

It's also a leader in another space — i.e., essential property services. That part of the business is operated through FirstService Brands. Under this banner, FirstService Brands has consolidated seven companies and operates through +1,500 franchises. The company has adequate exposure to commercial real estate through this business segment.

Despite the heavy residential lean, the company is not as vulnerable to the housing bubble as a residential REIT would be. Residential REITs have properties on their books, and if the bubble bursts, the properties might lose their value, making the REIT financially vulnerable. The rents might go down as well, directly affecting the dividends.

However, as a property management company, FirstService's revenues are tied to the maintenance fees paid by the residents. And even if they go down, the scale might not be the same as it would be for REITs.

The stock

FirstService stock is currently available at a 37% discount, and the discount tag might become even heavier, given enough time. This discount has also pushed the value down to 44%, which is still aggressively overvalued for a real estate stock but is quite a decent number considering the stock's valuation history.

It's also a Dividend Aristocrat, though the yield has never been really attractive. Even now, when the stock has created so much, the yield is a mere 0.66%, though the dividend raises are quite substantial.

The primary attraction of this real estate stock is its capital-appreciation potential. In a bit less than seven years preceding the current decline, the stock rose well over 600%. And now that it's quite close to the pre-pandemic peak, it may resume its phenomenal growth.

Foolish takeaway

Real estate investing in Canada has become a faraway dream for most people, thanks to the massive hike in prices. REITs and, to an extent, real estate companies like FirstService offer a more affordable way to invest in this particular asset class, and the growth can be even more phenomenal than the actual hard assets.

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