



Executive Summary



# Top Alberta Investment Towns

Based on Key Economic Fundamentals



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## Executive Summary

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After a few years of economic turbulence, Alberta's economy has come out on top. For the coming few years we will witness some regions underperform their economic fundamentals while others will out-perform.

As an investor or home-buyer it is critical that you consider the underlying economic structure propping up your region and confirm that it has long term sustainability. Identifying regions with a well structured and well supported future must remain your #1 priority.

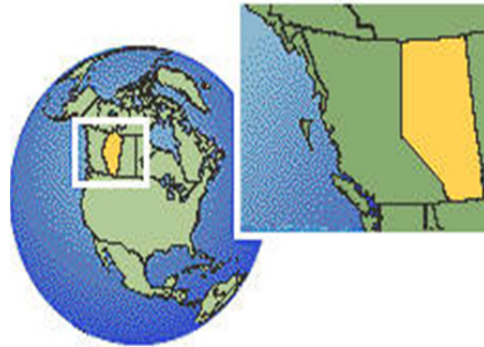
In this report, we are identifying cities, towns and regions that are poised to outperform other regions of the province over the next 3 – 5 years. Past, or even current, performance is not an indicator of how a region will perform in the future; that is why investors must focus solely on the economic fundamentals that will drive the real estate market in the future. As part of the development of this Top Investment Town List, we have considered these key fundamentals:

- Is the area's average income increasing faster than the provincial average?
- Is the area's population growing faster than the provincial average?
- Is the area creating jobs faster than the provincial average?
- Does the area have more than one major employer?
- Is the area in the RBC Affordability Index Hot Zone (25% to 39%)?
- Will the area benefit from an economic or real estate ripple effect?
- Has the political leadership created an economic growth atmosphere?
- Is the Economic Development Office progressive and helpful?
- Is the area's infrastructure being built to handle the expected growth?
- Are there any major transportation improvements in the works?
- Is the area attractive to Baby Boomers' lifestyle?
- Is there a short term problem occurring that is slated to disappear in the future?
- Is there a noted increase in labour and materials cost in the area?

The answers to these questions provide a base from which to work while analyzing any region in North America. Especially during today's market turmoil and mixed economic signals this pure economic focus is critical. The long-term opportunities are there; it will just take a practiced eye and a non-emotional outlook to uncover them. The good news is we have completed a lot of the initial research for you and the results follow.

## Top Alberta Investment Towns:

1. **Calgary**
2. Edmonton
3. **Airdrie**
4. Red Deer
5. **St. Albert**
6. Fort McMurray
7. **Lethbridge**
8. Grande Prairie
9. **Okotoks**
10. Leduc
11. **Sylvan Lake**
12. Lacombe



### Calgary

After a couple of roller coaster years, Calgary is back on a roll. The return of jobs to the city, as well as greatly reduced office vacancy rates show us that the city's short slump has come to an end. Recording a GDP growth of 3% in 2011, and one of the lowest unemployment rates in the country, it's no wonder Calgary is sitting as one of the top places in North America for property investors. When you combine the economic fundamentals, the population growth, and a burgeoning provincial economy, it is easy to see why so many businesses and people have come to call the city home.

The market is hot! With the pressure on the resale housing market, there is similar pressure on the rental market. Inventory has dropped for rental accommodations while monthly rents have increased. Real estate investors and real estate agents are reporting that rental listings are being pounced on. Savvy investors purchasing units and advertising them for rent upon close are receiving calls from anxious tenants wanting to see the unit before the investor has possession and/or has done any improvements to the property. Rental sites are reporting difficulty in compiling statistics because some communities have nothing for rent!

Housing affordability will begin to be an issue in Calgary, with rents increasing and a high average sale price. However, a look at that price versus average income shows that other cities in Canada have a much larger problem on their hands. Calgary has the long-term economics to support long-term market strength while other cities do not.

### Edmonton

Investors and homeowners have survived the recent downturn in Edmonton's real estate market. The recession brought the market back to reality; giving it the opportunity to get back in alignment with the economic fundamentals that fuel the area. Edmonton is back near the top of all lists when it comes to the best places to invest, whether you are talking provincial, national or world-wide. The city is now attracting more international investment than ever before, due to its unique position as Canada's most diverse and stable metropolitan economies.

In the next few years, Edmonton will need to ensure that it is providing enough housing for the next wave of people moving into the city to fill job vacancies. During the plateau of 2008, the city's real estate market shook out a lot of speculators, allowing a return to more stable market conditions. With Edmonton's economy beginning to fire on all cylinders again, now is a good time for city officials, property investors, and developers to plan for the future growth so they don't get caught in another 'feeding frenzy' like the one we witnessed in 2006.

It will be important for homeowners and investors to re-normalize lower percentage growth rates in property values and rents. Right before the 2008 downturn, values were increasing at unsustainable rates in the 20 per cent range, which helped to push the market off the edge. A normal market growth in the 3 – 7 per cent range would be sustainable and more realistic.

## **Airdrie**

There is no denying that Airdrie has been one of the fastest growing communities in the province and homeowners, developers and investors have done very well over the last several years. Its proximity to the economic engine of Calgary and the growth of the surrounding economy will push the physical and economic growth limits of the city in the next decade. The city's leadership is handling the tremendous growth better than others in the province and with their positive steps towards densification (which will help investors receive increased income), council and planning departments are setting Airdrie up for a long term win.

What these numbers should give investors and homeowners is a feeling of confidence that the current market is built on a foundation of economic fundamentals, not the speculation we witnessed back in 2006/2007. With increasingly easy access to many areas of Calgary via the ring road as well as the growth of job centers in and around the city, Airdrie property owners should continue to feel upward pressure on both rents as well as home prices.

As affordable housing becomes a growing problem in Calgary, Airdrie will benefit from lower average house prices. As the office centre of the west, Calgary may offer employment opportunities that Airdrie does not, but much of the labour force will turn to Airdrie as a place to call home. With the completion of the north section of the Calgary Ring Road, Airdrie is better connected to its larger neighbour than ever before. In coming years, we will see the population of Airdrie continue its rapid growth as many current Calgarians see the benefits of this smaller city.

## **Red Deer**

Midway between Alberta's two largest urban areas, the Red Deer region has enjoyed tremendous economic growth over the last decade. Near the top of our list in the last several editions of this report, record breaking industrial and residential land sales, major expansions, and a continued growth in new services and retail businesses signal that businesses have begun to see the advantages of locating in the city. Red Deer is no longer just a stretch stop on the road between Edmonton and Calgary; it has become Central Alberta's trading and distribution centre.

The location provides a tremendous spot to situate and grow businesses designed to service the whole province. Attracting residents to fill all the job openings in the city should be easy, but providing them with housing is going to be an ongoing issue for the city. Red Deer's steady growth has strained the city's infrastructure, forcing city leaders to work hard on long term planning. However, with a recent annexation and transportation plans in place for the next 30 years, the city should provide investors and homeowners with a strong real estate and rental demand for many years to come.

## **St. Albert**

St. Albert has always been a city in the shadows. Located immediately north of one of the province's largest metropolitan areas, the city was often overlooked by businesses and families; however, all that is about to change. In November 2011, the Northwest section of the Anthony Henday Ring Road was officially opened to traffic, opening Edmontonians' eyes to the opportunities waiting in St. Albert.

Once known solely as a bedroom community to Edmonton, the leadership in St. Albert has worked hard to shed this label by becoming an employment center. It has turned itself into a major retail center for the region while adding to its industrial and commercial job base. And the city is poised to witness another growth spurt over the coming decade. As the economic arteries are once again re-opened (such as the completion of Ray Gibbon drive and the northwest portion of the Edmonton Ring Road), we will witness new companies attracted to this city strategically situated on major transportation routes to service the province, tapping into the higher educated population.

If consistently low vacancies, high rents, and strong property value increases located in a strategically situated city surrounded by a major job base is something you are looking for as an investor (and you should be), then St. Albert fits the bill.

## **Fort McMurray**

The Regional Municipality of Wood Buffalo functions as the gateway to Canada's oil sands. The heart of Alberta's booming oil and gas industry, the Region's population has more than doubled in the last ten years. As the major commercial, cultural and recreational centre for the oil sands region, Fort McMurray has absorbed a majority of the region's enormous growth. Over the next 20 years, Fort McMurray is expected to emerge as the third largest urban area in Alberta, with overall growth accelerating faster than nearly any other city in Canada.

The Economic Scorecard of Fort McMurray is truly second to none. With the massive oil sands projects bringing literally millions of dollars into a small center, this influx cannot help but drive demand beyond what any current or even future infrastructure can handle. The biggest issue the town will witness is keeping up with the growth.

The economic stars have all lined up for the Fort McMurray region, the investors and the home owners. However, anyone considering investing in Fort McMurray should go there for at least two full days to investigate the scope of the economy. Many new investors do not have all or any of the tools needed to get into the Fort McMurray investment arena. The market has become expensive to get into, but can create positive cash flow if you have the capital to get in and you select your properties well. The future looks very bright for those who can position themselves in the market for the long-term.

## **Lethbridge**

Located in Southern Alberta, Lethbridge is one of the few Alberta cities that does not rely heavily on oil and gas. Not prone to the cyclical up and downs that plague the province's northern oil-based municipalities, Lethbridge has flourished. The city has witnessed strong in-migration, expanded post-secondary education facilities, and a more diversified economic base over the past decade.

Functioning as the southern gateway into Alberta, Lethbridge has access to both national and international markets. Offering an extensive system of highways, the region facilitates the movement of goods and people. Job growth, economic diversification, major transportation improvements and an aggressive Economic Development Team have helped Lethbridge to become a magnet for new residents, new development and new businesses.

Lethbridge has a reputation as a consistent economic performer in a province of over-performers. The influx of people, the growth of the commercial and industrial base of the city, coupled with the growing demand for College and University enrollment should help Lethbridge provide home-owners and investors with strong long-term returns on their capital.

## **Grande Prairie**

Ah, volatile Grande Prairie - a place of higher risks and higher rewards than most of the locations listed in this report. Slipping slightly down our list from last year, Grande Prairie continues to perform well in spite of the decline in natural gas prices that are paramount to the city's economy. When oil and gas activity picks up again, increased residential activity and economic growth will follow.

People are attracted to Grande Prairie for a number of reasons: it boasts a low unemployment rate, high average incomes, and a high quality of life. Grande Prairie's oil and gas industry has attracted young people from across the country, significantly lowering the city's median age. In fact, Grande Prairie is currently the youngest city in Canada, with a median age ten years below the national average. And Grande Prairie has proven able to reward those who come seeking work, with one of the highest median incomes in the country.

Rents have skyrocketed since late 2011. Investors in this market have seen increases as much as 35-50%! And wherein the vacancy rate has plummeted to less than 1%, the tenant profile has made selections of perfect tenants a little tougher. Due to the City's cyclical nature, property management in Grande Prairie at any time is very challenging and not for the faint at heart. The transient nature of many renters, the volatility of the sector employing many prospective tenants, and the lack of good tenant credit track records are part of the challenge. It takes steely nerves to invest here given the impact of spring break up and the fluctuating vacancy rates, dropping and surging rents, and a potentially tougher tenant profile.

## **Okotoks**

Okotoks is shedding its image of primarily being a bedroom community. Only a 15 minute commute to Calgary, the town benefits from superb transportation links and an influx of people from its larger neighbour. However, the town's growth has begun to strain its existing infrastructure. This is actually playing a strong role in the rapid diversification of the town's economy, with new businesses popping up. Being one of the fastest growing communities in Canada, Okotoks' Economic Development team is setting it up for a long-term win.

Okotoks is renowned for its unique decision to create a build-out municipal boundary capacity of 30,000 people. The current policy does not allow for annexation of adjacent lands, which has created a buying frenzy in recent years as people try to take advantage of the town's laidback lifestyle before the opportunity is gone for good. However, the population cap has created some serious controversy, and the town is currently re-evaluating whether or not to annex land for future growth. Whatever the final decision of council is on the population growth restriction, Okotoks will remain a place many will choose to raise their family. This, in turn will drive both the rental market and the housing purchase markets for many years to come.

Okotoks has been blessed in avoiding the worst that boom and bust cycles can have on a town and this less volatile market has proven to provide the town with a strong base from which to work. The increasing demand, the accessibility, and the 'green' choices the town has made (such as Drake Landing) continues to make Okotoks an attractive place to live, work and invest.

## **Leduc**

Leduc is appearing on our list of Top Alberta Investments towns for the first time. The city popped up on our radar due to its population growth of over 40 per cent in the last five years, an increasing number of major construction projects, job growth, and low vacancy rates. In a nutshell, Leduc and the surrounding region are rapidly moving away from being considered a bedroom community of Edmonton to being a region of economic and job growth. Leduc's location right on the main transportation artery of one of the strongest economies on the continent, and its proximity to one of the fastest growing airports in Canada, sets the city up for both residential and job growth.

The demand for real estate in Leduc has increased over the last few years due to the sheer number of people moving into the city. An affordable alternative to southern Edmonton, families have flocked to the region. And good news for investors – the city commands a higher average rent than Edmonton. According to CMHC, the average rent for an apartment in Leduc was \$1,031 in October 2011, while the average rent in the Edmonton CMA was sitting at \$934. Vacancy rates in the city have also consistently lowered over the past several years. With increasingly easy access to many areas of Edmonton as well as the growth of job centers in and around the city, Leduc property owners should continue to feel upward pressure on both rents as well as home prices.

The city's proximity to the Edmonton International Airport and the Alberta oil sands sets Leduc up as a prime location for export and manufacturing companies. As more businesses see the transportation advantages Leduc provides (through air, road, and rail), job growth will continue. And with job growth will come population growth and residential construction, providing investors with more opportunities than ever before. This may be the first year that Leduc has appeared on our list of Top Alberta Investment Towns, but it definitely will not be the last.

## **Sylvan Lake**

On the banks of a pristine freshwater lake, the Town of Sylvan Lake was once known primarily as an Albertan's recreational paradise. However, the town's prime location near Highway 2 and the centre of the Calgary-Edmonton corridor has caught the eye of hundreds of families in recent years as people begin to realize Sylvan Lake is not only a place to play, but to live.

Once known only as a place for recreation, people's view about the town is slowly beginning to change. Albertans are discovering that Sylvan Lake provides not only a fantastic lifestyle, but also is very accessible to many job centers. We are witnessing a larger percentage of residents who live and have their families in Sylvan Lake while working all across the province. With residents working in larger centres for income, but wanting to live outside the hustle and bustle of a larger city, Sylvan Lake is leading the country in this phenomenon we have dubbed the 'Sanctuary Trend'.

The Town's location in the heart of one of the strongest economic corridors in North America, coupled with one of the province's top recreation lakes, provides a unique combination of lifestyle and economic growth. This combination will continue to drive demand for all types of properties in the town.

### **Lacombe**

No longer recognized as a bedroom community with an economy based solely in agriculture, Lacombe has grabbed the 'small-town lifestyle' label and worn it with pride. The number of local jobs has increased with the expansion of the industrial park and proximity to the Joffre petroleum complex. The population is growing with young families; average incomes are starting to catch-up with the rest of the province, and we are witnessing Lacombe beginning to ride the 'Sanctuary Trend' that Sylvan Lake has been enjoying for years.

Lacombe has changed substantially since it began appearing on the Top Alberta Investment Towns list more than a decade ago. We have witnessed a more aggressive attempt to attract jobs into the town, thus providing it with a more stable economic foundation. Location and a strong forward looking Economic Development strategy will lead Lacombe with strength into the next decade.

