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Cold Lake



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6 – 27250 58 Cr
Langley, BC V4W 3W7
Tel (604) 856-2825 Fax (604) 856-0091
E-Mail: info@reincanada.com
Web Page: www.reincanada.com

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Photo: Cold Lake, Alberta Source: MashleyMorgan

Economy

Cold Lake is located in Alberta's "Lakeland" District, 300 kilometres northeast of Edmonton, near the Alberta-Saskatchewan provincial border. Situated on the shores of its namesake, the city's location provides residents and visitors with access to almost 400 square kilometres of water sports. The area is ideal for swimming, diving, fishing, and sailing in the summer and snowmobiling, skiing, and ice fishing in the winter – attracting visitors all year round and creating hundreds of jobs for locals.

The city is the location of a Canadian Forces Base, and is home to the largest Air Force fighter base in all of Canada – the 4 Wing Cold Lake. 4 Wing currently has over 2,000 military and civilian personnel on base, generating over \$90 million in payroll and stimulating the local economy. 4 Wing also houses the NATO International Pilot Training Centre, meaning air crews from numerous countries utilize CFB Cold Lake as a training base¹, creating a constant flow of people into and out of the town.

The federal government is still Cold Lake's top employer, but soon energy sector workers will outnumber Canadian Forces personnel by a 2:1 ratio². The city has become an oil boomtown, with production in the vicinity of Cold Lake ramping up to half a million barrels per day (bpd)³. One of the city's largest employers, Imperial Oil, currently employs 400 full-time staff and an additional 1,200 contractors. Cold Lake is currently enjoying the benefits of the company's \$2 billion Nabiye project that will soon begin adding approximately 40,000 bpd to the company's oil sands production⁴. Osum Oil Sand's 35,000 bpd Taiga project is expected to begin producing in 2016, which will provide plenty of jobs during construction and several permanent jobs upon completion⁵.

The region also benefits from a vibrant manufacturing centre that includes the building of Ready to Move homes, truss plants, agricultural implements, truck parts, and specialized equipment for the oil and gas industry. The

expansion of the oil and gas industry and the innovation required has created a great number of job opportunities in the metal manufacturing industry as well.

It appears that the economic stars have all lined up for the Cold Lake region, for both investors and home owners. The city has one of the lowest unemployment rates in the country and oil and gas companies are dealing with piles of resumes on their desks. However, things aren't as rosy in the retail sector. Already, many businesses across the city advertise 'help wanted' signs, including the local Wal-Mart, which has begun hosting a weekly job fair. Businesses need to be able to offer competitive wages in order to attract new employees and retain existing ones.

Outlook

Alberta is expected to be a leader in job creation over the next decade, with major new oil sands projects driving job growth to 2023⁶. As a major player in the energy industry, Cold Lake's population will grow exponentially over the next decade. Nicknamed 'little Fort McMurray,' oil sands production in the region is forecast to grow an additional 150,000 barrels per day by 2017 if all current proposed development projects are constructed⁷. An increased tax revenue from these energy projects could mean an additional \$20 million flowing through the city's economy each year by 2017, stimulating the local economy and creating jobs in other sectors. It is estimated that for every 100 additional barrels of oil produced per day, the city will gain one new resident⁹.

It is likely that the oil sands will become the city's largest economic sector, and it is crucial that the city's leadership continues to pursue industries that will provide Cold Lake with more economic diversity. We all saw what happened to Northern BC when the forestry industry took a hit. In order to prevent the same downturn from occurring in Cold Lake, the economic development team needs to encourage growth in other sectors.

One such area that could provide the city with economic stability is the aerospace industry. Cold Lake's designation as a Canadian Air Force base means the city already has a solid foundation for the aerospace industry. The city is already home to a Aerospace Engineering Test Establishment, which employs 240 staff and 80 engineers. This number will grow as more companies utilize Cold Lake's controlled airspace for air vehicle systems tests. In addition, the city is currently pursuing a Jet Engine Icing Test Facility that would certify prototype aircraft engines for icing conditions for both civilian jet turbine manufacturers and helicopter manufacturers¹⁰. There is plenty of room for growth in this sector, which will provide the city with some economic stability.

In December 2013, the City of Cold Lake announced its intent to pursue the annexation of 1,220 hectares of land from the Municipal District of Bonnyville¹¹. This proposal is in the initial stages. Cold Lake still needs to ensure that all affected landowners and stakeholders have an opportunity to be fully informed on the proposal, and are planning to schedule a series of public open houses. Stay tuned on this project, as it will lead to increased opportunities for residential, commercial and industrial development if approved.

Demographics

Population Growth

According to the last Federal Census (2011), the population of the City of Cold Lake was 13,839, an increase of 15.4% from 11,991 in 2006¹². When you compare this with the growth witnessed between 2001 and 2006 (just 4.1%)¹³, it is quite substantial. According to the City of Cold Lake's latest Civic Census, the population of the city rose to 15,736, a growth of 9.3% from the city's last municipal census in 2012¹⁴, and an indicator that the city is growing in popularity with job seekers.

Investors should note that similar to Wood Buffalo, Cold Lake's population counts do not include the city's shadow population. Shadow population refers to the temporary residents of a municipality who are employed by a business establishment in the municipality for a minimum of 30 days within a municipal census year. As these employees do not live in the city on a full-time basis, they are not included in the city's official census results. However, these people live, eat, and shop in the community, and their presence should not go unnoticed. In 2013, the shadow population of Wood Buffalo was approximately 39,000¹⁵, accounting for nearly *one third* of the region's total population – a significant number that is not included in official population numbers. There is no telling how large Cold Lake's shadow population is. The City will be applying to have the shadow population included as part of the next municipal census in 2016, as 80 locations were identified in the 2014 census with occupants that did not meet the Government's residency requirements¹⁶. This is important to keep in mind, as the

need for rental housing in Cold Lake is greater than it may first appear.

New employment opportunities have and will continue to draw people to the area, people who need a place to live. In turn, housing values and rents will continue to climb.

Median Age

Cold Lake's population is getting younger! Since 2006, there has been a noticeable increase in the proportion of young adults ages 20 to 39 living in Cold Lake, bringing the average age down. This age group now makes up 32.7% of the city's total population. The city's median age was low at 36.8 in 2006, but dropped even further to 30.5 in 2011 (from 32 in 2006)¹⁹. The jobs that are being created are being predominantly filled by a younger mobile workforce from across Canada. Many come into town for a short period (and reside in rentals or camps) then fly home for a break. Cold Lake's younger population means there are more services geared to the young and young families, which in turn will attract even more young families to the area. Great news for investors – a younger population is more likely to rent. Working age residents also often consume more than older cohorts; the purchase of furniture, vehicles, electronics, more food, eating out etc., stimulates the local economy and creates even more jobs.

Housing

Rental Market

New oil sands project have rapidly increased the number of workers in the region, setting the city's rental market on fire. A quick look at rental websites such as Rentboard and Kijiji show that rental rates in Cold Lake have continued to rise over the last several months. In fact, it is nearly impossible to find a whole house for rent, as investors are making such a profit on renting out individual rooms. Local residents have begun renting out cabins for the hefty sum of \$4,000 per month for those looking for a little privacy. The table on page 4 outlines the average rental rate by the housing type and number of bedrooms.

However, the high rental rates are putting a squeeze on the city's Canadian Air Force personnel. Personnel on the Cold Lake CFB base currently pay local market rates to live in the 50-year-old homes at 4 Wing. With the market rental rate skyrocketing above \$1,000 for a one-bedroom apartment, city council is concerned that high wages and high demand for real estate will inflate housing prices to the point where Canadian Forces staff won't be able to afford to live in the city. In 2012, Cold Lake council voted against changing the city's bylaws to allow energy companies to build work camps within the city limits²⁰. Doing so would have alleviated some of the strain on the local housing market, but could have potentially caused a rise in vacancy rates and drop in the average rental rate. Keep an eye on this issue as it will certainly come to light again as the city's population continues to grow.

Average Rents in Cold Lake			
# of Bedrooms	Average Price	Lowest Price	Highest Price
House			
3	\$2,600	\$2,600	\$2,600
4	\$3,200	\$3,200	\$3,200
House – Top Floor Only			
3	\$2,600	\$2,800	\$2,400
4	\$3,700	\$3,700	\$3,700
House- Basement Suite			
1	\$1,400	\$1,400	\$1,400
2	\$1,772	\$1,750	\$1,795
Room			
1	\$925	\$750	\$1,100
Townhouse			
2	\$2,000	\$2,000	\$2,000
Condo/Apartment			
1	\$1,650	\$1,650	\$1,650
2	\$1,900	\$1,813	\$1,725
<i>www.rentboard.com. www.kijiji.com (October 2014).</i>			

if supply is keeping up with demand or outpacing it. A high level of housing inventory can diminish both values and rents, giving renters and buyers 'too much' to choose from, from, from an investor's point of view. With all the jobs being created in the region, demand should remain higher than supply for the next few years.

Cold Lake Sales Activity			
January - September			
	2014 YTD	2013 YTD	2012 YTD
Total Sales	334	432	444
Total Sales	132,450,940	153,784,497	145,035,298
Average	\$396,560	\$355,983	\$326,656
Median	\$395,000	\$357,950	\$325,000
<i>Source: Edmonton Real Estate Board. (October 2014).</i>			

Infrastructure

As the city's population continues to grow, Cold Lake's leadership must ensure that the city's infrastructure keeps up with resident demands. Infrastructure is important to meet the needs of the residents. People will leave a city that doesn't have the capacity to educate its children, mend its ill-stricken, or arrest its bad guys. Hospitals, schools, emergency services, as well as water, sewer, and roads are of paramount importance. Here is what Cold Lake has on its books as prioritized projects:

- Infrastructure upgrades to Cold Lake CFB, including training and simulator operation services and expanding the daycare to meet the needs of growing families - \$120 million (2015)²⁴
- Improvements to First Avenue, including water main upgrade, water service connection to property line, road rehabilitation, storm drainage improvement - \$6.1 million (2015)²⁵

Transportation

Cold Lake is a 3.5 hour drive north of Edmonton via highway 28. Residents can also take Highway 55 west, towards Lac la Biche and connect to Northern Alberta via Highway 63. However, the growth of the oil sands industry and the subsequent population growth have caused significant congestion on Highway 55²⁶. Significant transportation improvements need to occur in order to meet future population growth.

The City is also serviced by the Cold Lake Regional Airport, located 4 kilometres west of the city boundary. The airport is currently being looked at for expansion to handle the needs of the growing population and businesses. There has also been pressure to increase air service to Edmonton and Fort McMurray. The feasibility of both of these options is under review.

Investors must keep in mind that different neighbourhoods command different rent and value depending on their desirability. Keep in mind that a lack of public transportation will impact tenant choices, particularly if your tenant profile caters to service and retail employees.

Of utmost importance for anyone investing in a small town like Cold Lake, is to consider the impact of property management, particularly since it is not likely you will self manage here. This component alone can make or break an investment. It is often very difficult to find good management, let alone any management, and poor oversight can be very costly. This is also true for repairs and maintenance in small and/or booming communities. Be sure to have a reliable team in place before putting in an offer.

Sales Activity

According to the Edmonton Real Estate Board, the average price of a house in Cold Lake was \$372,838 as of October 2014²¹. The following table outlines the activity in the Cold Lake real estate market over the past three years.

Recent Residential Developments

Residential building activity in Cold Lake has trended up in recent years, with building permit values hitting new records. In 2013 the city witnessed 167 homes begin construction, with 92 single-family homes started and 75 multi-family units started²². As of September 2014, 79 homes had begun construction, an increase of 23.4% over the same time period in 2013²³.

Investors should note that residential building permits only show past demand for housing. What is important to see is



Photo: Cold Lake, Alberta Source: JustMe

If constructed, these transportation improvements will benefit not only residents but make it even more attractive for businesses to locate here, once again creating jobs and increasing the coffers of the local economy. Strong population growth in the city means we will most likely see these changes happen sooner rather than later.

Public Transit

Cold Lake does not currently offer residents public transit. This puts tremendous pressure on lower income residents and many who work in the service and retail sectors and need to get around and must make different housing choices. Keep this in mind when considering rental stock location and tenant profile. The city briefly offered residents a public bus service between the fall of 2004 and the spring of 2005; however, this project was later cancelled due to a \$111,279.95 deficit, according to city council. A surge in population over the last decade has the city once again considering the feasibility of offering residents public transportation²⁷. The city is in the process of determining which streets the transit system would use. Stay tuned to hear more about this topic in coming months.

Political Climate

Rental Rules

Unlike other provinces in Canada, there are no controls on the amount of rent increases in Alberta. Rent may be increased if there has not been a rent increase within the previous 365 days or since the start of the tenancy, whichever is later.

Cold Lake allows secondary suites within homes located in the city's R1B-1 zone. Every other zone is a discretionary use. All secondary suites require a permit to

be approved. If the home is located within a discretionary use zone, the city charges an additional \$50.00. For more details on secondary suites, contact the City of Cold Lake directly.

Business Incentives

Cold Lake's business incentives secure it as an excellent location for businesses. The city currently grants property tax rebates to property owners who build new non-residential buildings or improve existing ones. The rebate is worth 50% of the increase in assessed value of the property that come from an investment worth at least \$5,000 and will be granted to the property owner over a three-year time period for an existing building and five years for a brand new building. The program also includes a one-time grant of \$5,000 to help business owners with demolition/renovation costs²⁹.

In 2013, the city began offering developers up to \$7,500 per unit to build new rental apartments. Under the policy, developers can apply to receive a grant of up to \$5,000 per unit when constructing a three-to-12-unit multi-family rental project, or up to \$7,500 per unit for a building that will have more than 13 units. When developing a 100-unit building in Cold Lake, a landlord could walk away with up to \$750,000³⁰. This cash offer is hoped to help the housing crunch the city is currently facing.

Economic Development

Investors should always be aware of how friendly a community's Economic Development team is, because how they treat you is how they are likely to treat potential employers looking to move into the region. Investors will not find Cold Lake's website very useful when looking for data on the community. However, the economic development team is very helpful and quick to respond to any questions. The city's pro-business attitude will continue to attract businesses for years to come.

Investment Rating

Economic Risk	6/12
Yield Growth Potential	11/12
Local Politics Conducive to Business	8/8
Access to Transportation	4/8
Investor's Insights	9/10
Total	38/50

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