

THE REINSCORE

RATING REAL ESTATE INVESTMENT MARKETS ACROSS CANADA



Red Deer



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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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Source: Mathew P Sharp 1984

Economy

Located right in the heart of the booming Edmonton – Calgary corridor, Red Deer and the surrounding county have enjoyed tremendous economic growth over the last several years. Driven by the Province of Alberta's wealth of natural resources, the Red Deer Region has a strong cluster of oilfield production servicing companies. The bulk of all benefits from oil sands development flow to and throughout the Calgary-Edmonton corridor and must pass through Red Deer to do so. With over 250 manufacturers located in the Red Deer area, nearly every component used in the oil and gas industry is manufactured within the city¹. These job opportunities have led to an influx of people from across Canada, helping to support one of the strongest rental and real estate markets in the province.

The City of Red Deer is only 15 kilometres away from one of the largest petrochemical clusters in North America. Located in Joffre, NOVA Chemicals produces ethylene and polyethylene. Ethylene is a building block to make plastics, film, fibers, and antifreeze. A number of major employers (such as BP Petroleum, Agrium, and DOW) have placed their facilities adjacent to the NOVA site in Joffre to capitalize on manufacturing opportunities², providing hundreds of jobs for Red Deer residents.

Located along the Queen Elizabeth II (QEII) Highway, the city has access to over 86% of Alberta's population within a two hour drive. This accessibility is important not only for those who live in the area, but for businesses looking for a place to locate. Red Deer's central location in Alberta offers businesses an ideal place for warehousing and distribution industries. In 2012, there were over 600 transportation and warehousing companies in the greater Red Deer region³. Having excellent access to move their goods and people around increases the city's market competitiveness and ensures the city will continue to attract new business, and consequently, provide even more job opportunities for residents.

Red Deer's rich farmlands have allowed the city to create a strong agriculture industry, an economic stabilizer. However, crops and livestock are not the only job and income creators, the city's food-processing sub-sector also stimulates the economy. Major meat producers like Olymel

and Nossack Food Group are located within the city, gaining Red Deer a reputation for top quality processed meats in the Central Alberta region⁴. Mmmm, spam.

With over 7,000 students enrolled, Red Deer College (RDC) is a primary source of Red Deer's educated workforce. Post-secondary institutions provide cities with access to a large and intelligent labour pool, as people look to higher education in good and poor economic times. Red Deer College recently underwent a \$110 million campus expansion project to help ensure that Central Albertans would have access to quality education without having to travel far from home⁵.

Outlook

Oil and gas will remain an important part of the provincial economy for decades to come. Major new oil sands projects are expected to be a main driver behind Alberta's job growth up to 2023⁶. According to CAPP's 2014 Crude Oil Forecast, total Canadian crude oil production will increase from 3.5 million barrels per day in 2013 to 6.4 million barrels per day by 2030⁷. Considering nearly every component used in the oil and gas industry is manufactured in Red Deer, the city stands to see significant job creation in the energy services, manufacturing, and transportation sectors.

A project is currently underway at NOVA Chemicals to increase production at the Joffre plant by as much as 40%. The \$900 million project is expected to create 500 construction jobs while the plant is being built, as well as an estimated 150-250 full-time jobs when construction is complete on the production facility, which is 2016. Red Deer should see an increase in population by the time the expansion is completed as workers move into the area looking for employment at the plant⁸, increasing demand for housing, and creating a large pool of potential renters.

While oil may continue to be a major economic driver, the City of Red Deer has made a conscious effort to shift towards other industries which in the long-term will provide eventual economic stability to the city. Other drivers that are quickly rising in the ranks include health care and value-added agriculture.

Red Deer's six main industries (Manufacturing, Oil & Gas Industry, Construction, Health Care, Professional services and Retail) are expected to add over 9,800 jobs in Red Deer by 2021⁹. This economic diversity ensures Red Deer is not a one horse-town, and will not be as negatively impacted as some other Alberta communities in times of economic turbulence.

Demographics

Population Growth

According to the last Federal Census (2011), the population of Red Deer was 90,564, an increase of 8.9% from 83,154 in 2006¹⁰. With a population growth of 22% between 2001 and 2006¹¹, the City of Red Deer has experienced a population increase of over 30% in the past decade. According to the 2014 Civic Census results, the current population is sitting at 98,585, with 8,021 new residents since 2010¹².

Red Deer should continue its strong growth in the next decade, with the city predicting an average annual growth rate of 2.43%. By 2026, the city is expected to have a population of 131,049¹³. 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

As of the 2011 Federal Census, the median age of Red Deer was 36.5, the same as the median age of the province¹⁴. Red Deer's 2013 Civic Census reports that the average age of residents in the city is had decreased to 32¹⁵, meaning the city is attracting young workers and families. A young population means good things for a city: there are more services geared to the young and young families, which attracts more young families to the area. Younger age groups have more movement in the housing sector than older ones, meaning they will move in and out of homes as their life stages change. This means more potential renters for investors and more buying and selling as these people age, stimulating the housing market.

Housing

Rental Market

In the spring of 2014, the vacancy rate for a private apartment in Red Deer was 2.1%, a slight increase from 1.6% the previous year¹⁶. While the vacancy rate rose slightly, it remains low when compared to other centres across Canada, and increasing average rents means there is still a significant demand for rental units in the city. The adjacent table outlines the average rental rate by the housing type and number of bedrooms.

Average Rents in Red Deer			
# of Bedrooms	Average Price	Lowest Price	Highest Price
House			
2	\$1,143	\$825	\$1,400
3	\$1,528	\$1,250	\$2,000
4	\$1,699	\$1,450	\$2,100
Basement Suite			
2	\$1,030	\$775	\$1,450
3	\$1,188	\$1,100	\$1,275
Townhouse			
2	\$1,239	\$1,050	\$1,350
3	\$1,240	\$1,075	\$1,500
Condo/Apartment			
2	\$1,239	\$1,050	\$1,350
3	\$1,240	\$1,075	\$1,500

Source: www.rentboard.com

Sales Activity

The continued creation of new jobs in Red Deer has led to an increase in the number of sales and the average price of real estate within the city. The adjacent table outlines sales activity in Red Deer and the surrounding communities over the last couple of years.

It is important for investors to note that different neighbourhoods command different selling prices and rent depending on their age and location. It is often harder to cash flow newer properties, (although they may be more desirable to tenants), but repairs and maintenance will be lower and lower operation costs means just as much as higher rents when it comes to the bottom line. Investors will have to do their homework to discover neighbourhoods where the rental rates will cover the expenses of the property.

Red Deer Sales Activity			
	Jan-Jun 2014	2013	% Change from 2012
Sales Activity	2,836	4,893	13.70%
Average Price	\$312,103	\$298,245	6.80%
New Listings	5,504	9,018	9.60%
Active Listings	2,513	2,710	-1.70%

Source: C.A.R.A. (2014). Market Stats

Recent Residential Developments

Red Deer's housing market has continued to stabilize after a few shaky years. In the boom years of 2006 and 2007, builders had so many projects on the go that many stopped taking additional orders until they completed sales. When the market crashed in 2008, the number of

housing starts in the city dropped by over 50% as projects were cancelled or put on hold. Starts were understandably at a depressed level between 2008 and 2011, but have since rebounded. In 2013, the city witnessed 784 homes begin construction, with 38 single-family homes and started and 395 multi-family units started¹⁷. As of June 2014, the city has already witnessed 471 residential units begin construction, an increase of nearly 60 units from the same time period last year¹⁸.

New residential projects in Red Deer include the 101-unit Savanna in Laredo townhouse project, currently under construction on Viscount Drive. Sales for available units start at \$270,000. The 23-unit single-family home project, Timberstone, is currently in construction at 100 Timber Way. Sales for available units range in price from \$318,574 to \$570,828¹⁹.

Residential building permits are a reaction to demand in the past. What is important is to see if supply is keeping up with demand or if it is out of balance. A glut of inventory can diminish values and rents, giving renters and buyers 'too much' to choose from, from an investor's point of view. Currently, it appears that supply is in line with demand. The pro-business attitude of the city will continue to attract businesses, creating new jobs, and attracting even more people to the city, ensuring demand for housing for years to come.

Infrastructure

While growth is positive for a city, a rapid increase in population can strain a city's existing infrastructure and capital budget. As Red Deer's population continues to grow, the city'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 does not have the capacity to educate its children, mend its ill-stricken, or manage its crime. Hospitals, schools, emergency services, as well as water, sewer, and roads are of paramount importance. We have outlined a list of important infrastructure projects that were recently completed or are currently under construction in Red Deer:

- Central Alberta Cancer Centre - \$46 million (Completed November 2013)²⁰
- New Civic Centre to accommodate 20 years of employment growth - \$88 million (December 2014)²¹
- New Red Deer Public School District K-5 elementary school to be located in Inglewood with an expected attendance of 500 students and the ability to meet the needs of 600 students - (Fall 2016)²²
- New Red Deer Catholic Regional Division 10-12 high school with a current capacity of 900 students and ability to meet the needs of 1,200 students - (Fall 2016)²³

- Hospital Parkade - \$44.3 million (Proposed)²⁴
- Wastewater Treatment Plant Expansion - \$53.8 million (Proposed)²⁵

Transportation

The City of Red Deer plans to have a ring road up and running around the city within the next 30 years. Preliminary construction has already begun, starting with the North Highway connector project that will provide a bypass route on the city's east side and eventually link to Highways 11, 11A and 595 and the QEII Highway. Phase 1A of the North Highway connector project was completed in the Fall of 2013. The project includes major earth moving operations, land acquisition, new utility installations and landscaping. Future phases of the project include²⁶:

- *Phase 1B*: Scheduled to begin in 2015. Includes the initial two of four lanes on 30 Avenue from Northland Drive to 67 Street. Also included in the project is six kilometres of two-lane roadway and the reconstruction of the 67 Street/32 Avenue intersection, which will begin in 2017.
- *Phase 2*: Scheduled to begin in 2017. Includes work on Northland Drive from Highway 2 to Gaetz Avenue making the existing two lane road into four lanes.
- *Phase 3*: Scheduled to begin in 2019. Includes the two-lane construction of 20 Avenue from 32 Street to Delburne Road and two lanes of Northland Drive from 30 Avenue to 20 Avenue.
- *Phase 4*: Scheduled to begin in 2022. Includes the initial two lanes of 20 Avenue from 67 Street to 32 Street.

For more information on the project, click [here](#).

Construction is currently underway to improve traffic flow on Taylor Drive. An estimated 30,000 cars traverse this road during peak times every week day, causing significant congestion. Major changes will be made to the intersections of Taylor Drive and Ross Street, improving access and connectivity for drivers and pedestrians alike. During construction, traffic will be detoured off Taylor Drive onto the newly constructed two lane by-pass road – one lane northbound and one lane southbound. Construction on the project is expected to be completed by 2016²⁷.

A study is also underway to develop plans for the twinning of Highway 2A between Highway 42 at Penhold and Highway 2 south of Red Deer²⁸.

These changes 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.

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. The landlord must give written notice in advance before he or she is able to increase the rent²⁹. For more information on province-wide tenancy laws, please click [here](#).

Secondary suites are only allowed in Red Deer in single family homes located in an R1, R1A, R3, and C1 residential district. You'll need a secondary suite permit if you want to develop a self-contained secondary suite in your home. For more information on secondary suites in Red Deer, click [here](#).

Tax Incentives

Red Deer's business incentives secure it as an excellent location for businesses. The city's competitive tax environment includes:

- No business taxes
- Corporate income tax of 10%, small business rate of 3%
- No capital, payroll, or machinery and equipment tax

In 2013, KPMG ranked Red Deer as the second most entrepreneurial mid-sized city in all of Canada. The city's business-friendly environment continues to attract companies from all over the country, creating new job opportunities, and stimulating the local economy³⁰.

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. The city's website is fantastic, and investors should have no problem locating the data and statistics they need. Our only concern was that the Red Deer economic development team was not quick to respond to inquiries via e-mail. In fact, it took over two weeks to receive a response. We recommend contacting them directly via phone.

Investment Rating

Economic Risk	9/12
Yield Growth Potential	9/12
Local Politics Conducive to Business	7/8
Access to Transportation	7/8
Investors' Insights	7/10
Total	39/50

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