



# Top Canadian Investment Cities 2010-2015

Based on Key Economic Fundamentals



Don R. Campbell, President  
Melanie Reuter, Manager, Research  
Allyssa Epp, Research Analyst  
[www.reincanada.com](http://www.reincanada.com)



# Executive Summary

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**O**verall, the Canadian real estate market is deemed a safe place for investors and is increasingly seen as a safe place for *foreign* investors to park capital in the tumultuous global market. Yet, there is really no national Canadian real estate market. The market in Canada needs to be analyzed on a regional basis due to differing economies in each province. Real estate varies provincially and regionally, and even differs from one neighbourhood in a city to another. Cities with a tendency to have a lot of equity gain over a period of time may not cash flow well and conversely, solid cash flowing properties may *just* be steady performers with an appreciation equivalent to inflation.

Canada was never affected by the sub-prime mortgage crisis experienced and still being experienced in the United States (and dare we speculate that it never will due to Canadian banks' more conservative lending practices). The dip (the plunge in some markets) in prices is starting to rebound in most cities and in others, is, and always has been, incredibly high. In many of these markets, values are too high for investors resulting in a lack of net yields (monthly cash flow), and appropriate stock is too low. Low interest rates subsequently entice buyers with low mortgages, but because of the tighter restrictions on lending, getting a mortgage for many has never been more difficult.

The national market has entered into balance and as RBC describes in their affordability report, it is a Goldilocks market – not too hot, not too cold, but just right. Starts are moderating and the resale market will plateau from a bit of an uptick. Net migration will increase to just under 300,000 new residents in the next few years due to an improving economy. Immigrants add fuel to the rental market particularly in ports of entry and the surrounding suburbs. Many cities across Canada benefitted from the government's economic stimulation plan and are in the process of building new infrastructure in the forms of bridges, roads, and other transportation improvements, which create great real estate rental niches by attracting residents to homes with short commute times to work. These fundamentals form excellent opportunities for real estate investors.

But just like the stock market, not all cities see real estate values increase in a booming market and many actually underperform. Your job as a real estate investor is to pick areas that provide the best returns for the lowest risk. There is a simple and easy strategy for doing this called **“Focusing on the Fundamentals Not Emotions”**.

Successful real estate investing is all about identifying a town or neighbourhood that has a future, not a past. Sadly, many investors like to invest based on past performance; thus, they are constantly chasing the market. This is called speculating — not investing.

To dramatically reduce the risk, investors should ask key questions instead of falling in love with a property. There are thirteen major influences on the long term values of property. Each of these affects real estate prices in both directions, and each one is an important component in finding which way real estate values will be going. The more “yes's” that are revealed, the better the market will perform.

# Economic Fundamental Questions

- 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. This is especially important during today's market turmoil and mixed economic signals, as this economic focus is critical for investors identifying regions with future long-term potential.

## Top Canadian Investment Cities

- 1) *Calgary, AB*
- 2) *Kitchener-Waterloo-Cambridge, ON*
- 3) *Edmonton, AB*
- 4) *Surrey, BC*
- 5) *Maple Ridge, BC*
- 6) *Hamilton, ON*
- 7) *St. Albert, AB*
- 8) *Simcoe Shores (Barrie-Orillia), ON*
- 9) *Red Deer, AB*
- 10) *Winnipeg, MB*
- 11) *Saskatoon, SK*



## **Calgary**

Calgary, after having experienced one of its best economic and real estate periods in Canadian history, entered a strong (and needed) correction. During the economic downturn, Calgary's market is making a predictable correction resulting in slightly more affordable housing compared to recent years passed. It was economically impossible for the market to continue at the pace at which it was heading and now finds itself adjusting to market realities. This adjustment period, as the market searches for its new foundation from which to build, should continue in 2010 as the provincial economy is poised for another growth spurt. The in-migration pace continuing to lead the nation combined with the renewed affordability will help propel the market over the coming years. We, fortunately, should not see the massive over-boom situation we previously witnessed as the market remains more in line with the fundamentals



## **Technology Triangle: Kitchener-Waterloo-Cambridge**

Comprising Canada's Technology Triangle - the communities of Kitchener, Waterloo, and Cambridge - are becoming known as a competitive area in which to build high-tech businesses. The area is so strong economically that the Real Estate Investment Network™ research team has dubbed it the "Economic Alberta of Ontario". Within a 24 hour drive, the Technology Triangle has access to more than 60% of Canada's population and 40% of the U.S. population. The reinvention of the region's economy in the last few years has led to investment in the information technology sector, a venture which has protected the Triangle from the steep increase in job losses experienced in many other Ontario communities. A commitment to infrastructure improvements and transportation projects will also help drive the economy and the real estate market in this area.



## **Edmonton**

Edmonton still remains near the top of the list for future potential. Because of the diversity of the economy, we should see the job growth kick back in and this growth will attract migrants from across the country who in turn will build the foundation for real estate demand. A perennial over-achieving market, Edmontonians and investors have learned to choose their neighbourhoods wisely with a focus on areas with improved ease of access, affordability and nearness to job centers. Edmonton provides investors with a growing market, an increasing population, and a forward looking leadership. We will begin to witness market norms and balance being achieved in the coming years, without the frenzy of the last boom, or the fear of the last downturn. The good news is that Edmonton's historic norms will be at, or near, the top of performance for all of Canada, both economically and in the re-sale and rental housing sectors. A focus on the major infrastructure improvements (i.e. ring road and LRT expansion) will prove to be keys for investors.



## **Surrey**

As the second largest city in British Columbia, Surrey has already experienced tremendous growth. As the fastest growing city in Canada, Surrey is predicted to take Vancouver's place as the largest city in Canada in upcoming years. With two border crossings to the United

States, links to five major highways, deep sea docks, and four railways, it's easy to see why. Surrey is a prime location to do business, with access to local, national, and international markets.

When reviewing Surrey's economic fundamentals, we see an area going through a positive transition. Others have taken notice as well, as we see an increase in population and business opportunities. Surrey has experienced tremendous growth and the trend looks to continue for many years to come.

There are many renters in the region, providing potential landlords with the ability to provide safe, quality housing to a growing rental population. This is why it is important to examine this city on a micro level and take the neighbourhood's and even the street's characteristics into consideration when deciding where to purchase.



### **Maple Ridge & Pitt Meadows**

This region has been hampered by poor transportation infrastructure for decades. Thus, property values have been lower historically than other areas located the same distance from the Central Business District (CBD). As the Translink/Gateway Project components are completed, Maple Ridge will be among the most accessible regions in the Lower Mainland; this will drive demand for both residential and commercial/industrial property due to having some of the lowest average priced real estate in the Lower Mainland. The City predicts an additional 400 businesses will call Maple Ridge their home. Pitt Meadows will also feel this impact positively and benefit from the new transportation projects. In the Metro Vancouver area, the cities are prime locations for those wanting access to the amenities of a larger city without the constant activity and commotion a large city creates. A decade from now, as the transition begins to take hold, this area will become known as "The Place To Live For Lifestyle."



### **Hamilton**

Located in the 'most densely populated corridor of economic activity in Canada', the City of Hamilton is poised for continued growth. Known formerly as a hard-working steel town, Hamilton has transformed itself into a diverse economy. A forward thinking government and Economic Development team have propelled Hamilton to nearly the top of our list of Ontario Investment Towns. An entrepreneurial spirit has entered the city as it puts the wheels in motion to create a major high-tech industrial park, in conjunction with growth at McMaster University. In fact, Hamilton's leadership has been very innovative in terms of its revitalization plans throughout the city. The City has beaten its overall building permit value for the second year in a row.



### **St. Albert**

With consistently low vacancy rates, high rents, and strong property value increases, combined with a strategic location, St. Albert is definitely poised to take advantage of the next phase of the recovery. Immediately adjacent to the northwest corner of Edmonton, St. Albert experiences a positive economic ripple effect from the larger city which will increase as the northern section of the Edmonton Ring Road is completed. This major transportation improvement will improve access to St. Albert not only from Edmonton but also the airport region, which will heighten

demand from both companies and citizens alike. In addition, St. Albert has worked hard to create its own stable and diverse employment base. It has turned itself into a major retail centre for the northern region while adding to its industrial and commercial job base. As economic vitality re-emerges in Alberta, we will witness new companies attracted to the city that will tap into its higher-educated population and improved access.



### **Simcoe Shores — Barrie**

Barrie is an attractive community for people seeking the nearness and vitality of Toronto, but wanting a more laid-back lifestyle. Located approximately an hour's drive away from Toronto, Barrie has really begun to expand from a 'recreational' area to a solid year round diverse economy in past decades. Job growth, economic diversification, major transportation improvements and a very aggressive Economic Development Team have helped Barrie to become a magnet for new residents, new development and new businesses. With the youngest residents on average in a Census Metropolitan Area (CMA) in Canada, the City has attracted couples in their thirties and people looking to raise families. Due to the high level of young people looking for affordable housing, Barrie's rental market and resale market have remained fairly strong during the economic downturn.



### **Simcoe Shores — Orillia**

With year round outdoor recreational activities and two lakes within its City limits, Orillia has become part of the "Sanctuary Trend" that we have seen in other areas such as Sylvan Lake, Alberta. People who want that small town feel with the amenities of a major city like Toronto less than an hour and a half away have seen the benefits of Orillia and moved to the City. Residential building will continue to rise to feed the growing demand. The City's rising population and expansion of post-secondary institutions will create tremendous opportunities for investors to provide student housing. In addition, as traditional family units change and smaller homes are sought, there is an increased demand for condominiums in recent years that has not been seen before.



### **Red Deer**

Situated right in the heart of the booming Edmonton – Calgary corridor, it is hard for Red Deer to do anything but become one of Canada's best locations for real estate investment. Red Deer and the surrounding county have enjoyed tremendous economic growth over the last seven years, and the negative effect of the global downturn has been muted compared to other cities in Western Canada. The underlying economic stability has led to an influx of people from across Canada, helping to support one of the strongest rental and real estate markets in the province. It has become the main commercial and retail center for all of Central Alberta. The leadership in the city has created a vision of renewal, revitalization, and economic stability, all of which make the opportunities in Red Deer very strong. From transportation changes to increased localized job growth and an increasing population, the City will continue to attract people from across the province. Red Deer will go through the inevitable growing pains as diversification continues. Investors should review the plans the city has in place to identify the hidden opportunities.



### **Winnipeg, MB**

After nearly ten years of housing prices increasing by over 10% annually, Winnipeg saw a dip last year, but in 2010 is back up to double digit increases supporting a seller's market. Winnipeg generally does not experience the up and down experienced in larger cities across Canada. As the largest city in Manitoba, it will greatly feel the positive effects of the province's expanding economy, GDP and employment opportunities after a decline that resulted in a decrease in employment and emigration of residents to other provinces. International immigration is expected to increase under the provincial nominee program being undertaken by the government, which will provide more renters in the housing market. A low inventory of multi-family homes, coupled with low vacancy rates have spurred starts in the rental apartment construction centre. Investors need to be aware that the double digit increases of home values will lead to of an influx of inventory on the market, which although will bring a more balanced market, may dilute potential rent and increase vacancy rates (although with one of the lowest vacancy rates in the country at 1.2%, there is room to give).



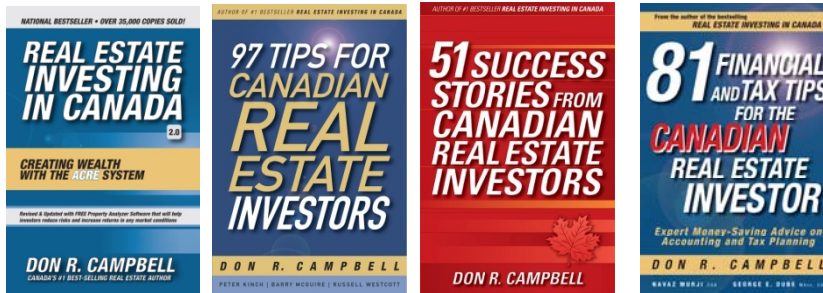
### **Saskatoon, SK**

The city of Saskatoon provides a wonderful opportunity for those with a long term view and who are not afraid of short term fluctuations. In the last couple of years, an over-abundance of speculation hit the market and pushed values above the economic fundamentals; subsequently, we are witnessing the market response to that. This speculation, coupled with an influx of workers from other provinces, created a triumvirate of positive attributes for an investor: increases in values; rents; and a decrease in vacancy rates. This influx of intra-migration will not be sustained over the next 18 months but the city should see resurgence in late 2012 as the oil and gas economy kicks back into gear and employment opportunities and incomes subsequently increase. After a record level of starts in 2007 and 2008, new housing levels will return to normal and are forecasted to increase in the next two years as population growth continues at a more measured rate.

Investors in Saskatoon must pay very close attention to obtaining positive cash flow and not just rely on the value increases experienced in this market.

## ABOUT THE AUTHORS

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### Don R. Campbell

Don R. Campbell is a Canadian-based real estate investor, researcher, author and educator. He is president of the Real Estate Investment Network™, and Cutting Edge Research Inc. He and his experienced team are

leaders in providing Canada’s most current real estate investment education programs and economic research materials. Don is the author of the best-selling Canadian real estate book Real Estate Investing in Canada. Published in May 2005, with over 41,000 copies sold, it is the all-time best-selling real estate book in Canadian history. Real Estate Investing in Canada 2.0 was released in 2009 with an update on current market conditions and includes a section on property management to help investors better manage their portfolios. Don’s second book, 97 Tips for Canadian Real Estate Investors was released in 2006 and became a #1 best-seller with over 20,000 copies sold. His third book, titled 51 Success Stories of Canadian Real Estate Investors, was released in December 2007 and chronicles real estate investors’ stories and follows with detailed analyses of their journeys so that all investors can mirror the successes and avoid the pitfalls. 81 Financial and Tax Tips for the Canadian Real Estate Investor, released in February 2010, is a practical, compact, and easy-to-understand guide to accounting and tax-saving strategies.

Don donates 100% of his author royalties from all four books directly to Habitat for Humanity and so far he and the members of REIN™ have raised over \$500,000 to build homes for those in need of a hand-up.

### Melanie Reuter

Melanie joined REIN™ in 2006 as a research analyst and has contributed in many areas including Top Investment Towns; the Impact of Transportation Improvements on the Lower Mainland, Calgary, Edmonton and Greater Toronto and the Hamilton region; grow-ops and methamphetamine labs in rental housing and crime prevention through environmental design. Melanie holds a Master’s Degree in Criminal Justice from California State University, San Bernardino and a Bachelor’s Degree in Criminology from Simon Fraser University. She has worked with law enforcement agencies in southern California on many projects including a methamphetamine task force and Community Oriented Policing initiatives. In Canada, Melanie consulted with local transit agencies to help reduce crime at rapid transit stations along the Millennium line and has helped develop crime prevention and safety projects with various law enforcement agencies around the Lower Mainland.

### Allyssa Epp

Allyssa is one of the latest additions to the research team and provides much of the information for REIN™’s transportation and investment town reports. She is currently pursuing her Bachelor of Arts Degree from the University of the Fraser Valley.