

Residential Business

Southern Alberta Investment Analysis



Lethbridge is a vibrant community, and the third largest city in Alberta. It is known for agriculture and serving as the central location for Southern Alberta’s commercial and financial sectors. It has a strong real estate investment market, with a solid economic foundation and stable population growth¹. Its diversified workforce and large post-secondary campuses make it an attractive area for investors that enjoy the stability of real estate values. Lethbridge had a 9.1%² average sale price increase in late 2021 compared to 2020; which is higher than the (10.1%)³ incurred in Calgary in the same period.

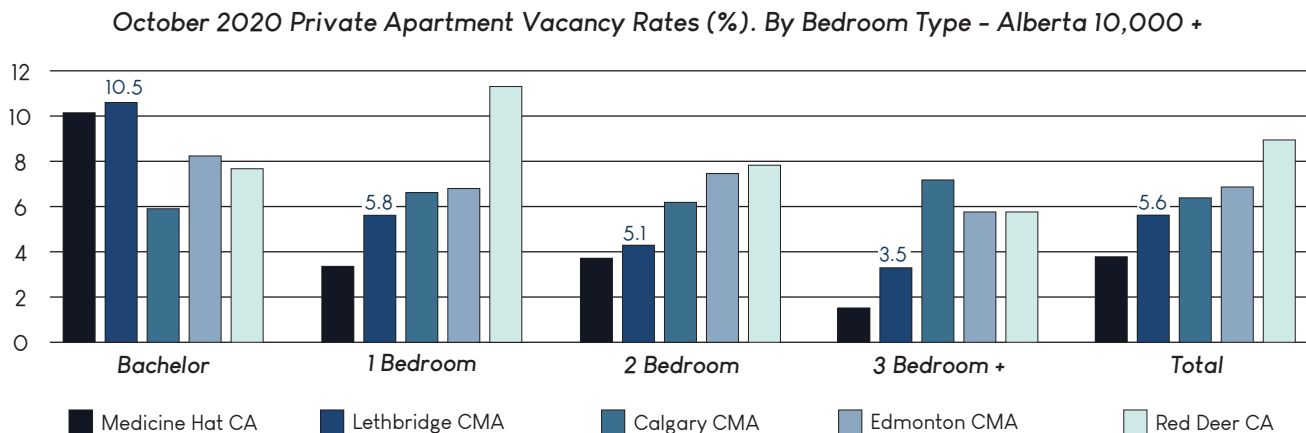


Figure 1 - October 2020 Private Apartment Vacancy Rates

Historical Vacancy Rates

Lethbridge’s rental vacancy rate is 5.6% of available suites (Figure 1). This is the lowest of the 4 major cities in Alberta, and one of the lowest of the major cities in Canada. During Covid-19, Lethbridge showed an increased vacancy of only 0.9%⁴ in the rental market, compared to 2.7%⁵ increase in Calgary. Lethbridge has its highest vacancy in Bachelor suites, and the lowest in three-bedroom suites. This vacancy rate, though one of the lowest in Canada, would still be considered high for Lethbridge looking back at historical data over the last 3 decades (Figure 2). This is a testament to the stable growth within the rental market.

Historical Residential Vacancy Chart

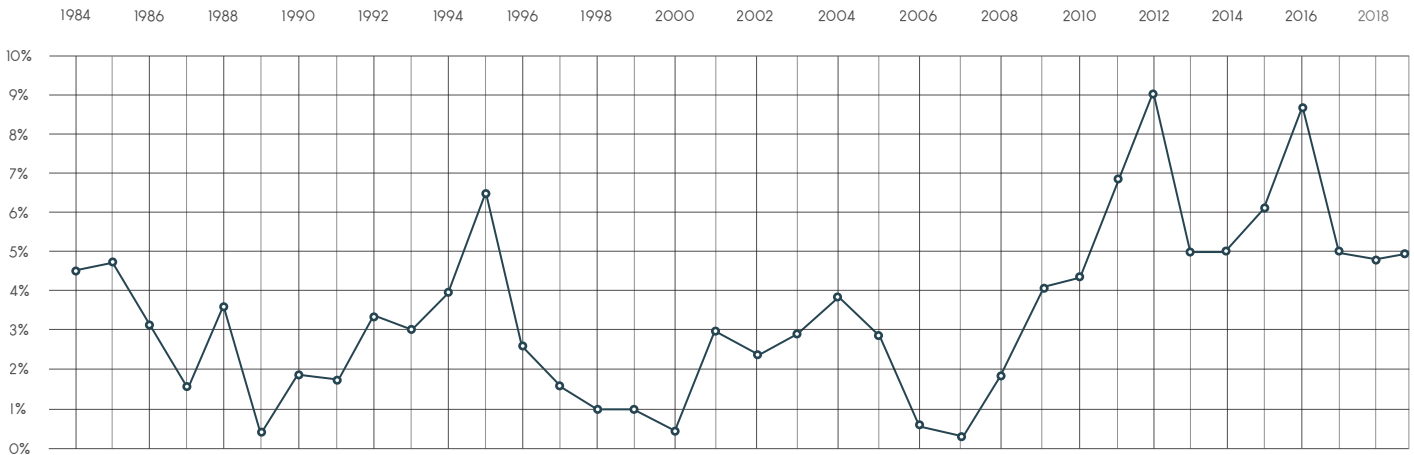


Figure 2 – Historical Residential Vacancy Chart

Black Elm has established a vertically integrated management protocol that has allowed us to obtain 4.54% vacancy as of May 2021. We have an in-house management team that proactively monitors lease terms to mitigate vacancy risk to the portfolio, as well as a thorough tenant application to ensure longevity in average tenant occupancy.

Rental Rates

Lethbridge was once again touted as being one of the most affordable places to rent in Alberta⁶. Our rental rates increase by 4% year over year, in line with the other comparable cities in Alberta. Though other areas in Alberta may be more affordable, often these communities are built on less stable industry than Lethbridge. Lethbridge is not heavily reliant on the oil and gas sector⁷, and other communities have much higher tenant turnover than Lethbridge (Figure 4).

Private Apartment Average Rents

October 2020 Private Apartment Average Rents (\$), By Bedroom Type - Alberta 10,000 +

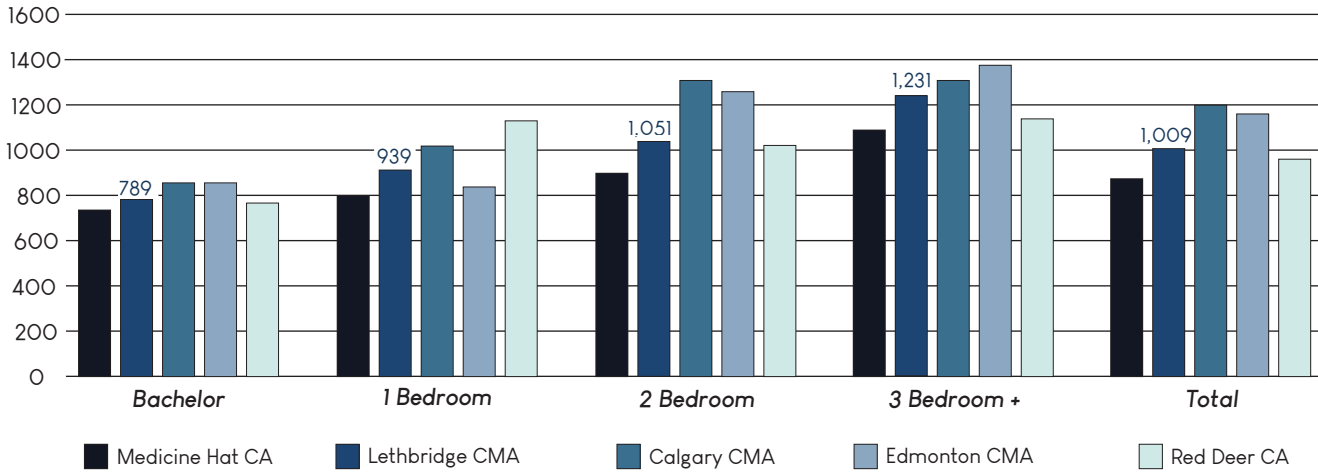


Figure 3 - October 2020 Private Apartment Average Rents

Private Apartment Turnover Rates

October 2020 Private Apartment Turnover Rates (%), By Bedroom Type - Alberta 10,000 +

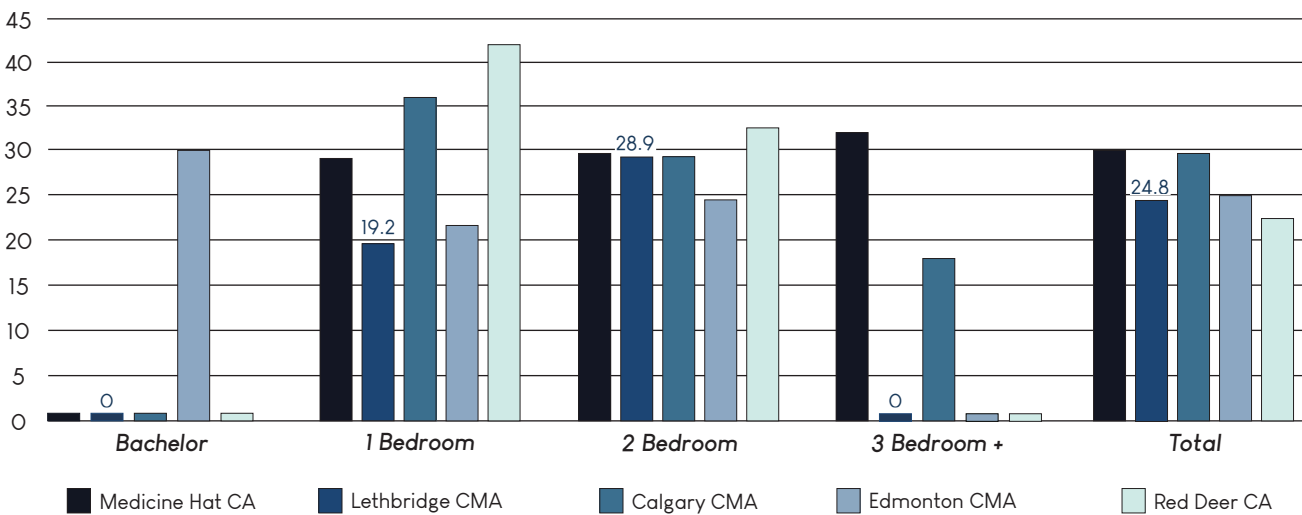


Figure 4 - October 2020 Private Apartment Turnover Rates

Population Growth

Lethbridge's population is approximately 102,911 and is growing at 1.41% per year 2021. West Lethbridge is showing the greatest population growth in all of Lethbridge at 3.05%⁸. This 1.5% growth is far greater than the National average of 1.1%⁹, and the Provincial growth rate of 1.3%¹⁰. Lethbridge's trade area consists of all Southern Alberta, parts of south-east BC, and spills into Montana. Lethbridge's real GDP is 2.7% in 2020 and has outperformed the provincial economy due to our strong agricultural sector.¹¹

Real Estate Value Appreciation

Lethbridge real estate has a house price index of 186.08 as of December 2021, which increased 4.64% from the prior year.¹² Lethbridge seems to be insulated from wide fluctuations in house prices, which makes for a more predictable value of assets in the long term¹³. As we move into large-scale multifamily, the annual increases of rent (4% year over year) translate into more profitable buildings and therefore increased asset values.

Cap Rates

Through review of recent sales data, Lethbridge and Southern Alberta have strong cap rates when compared to other areas in Alberta. Recently, median tier multifamily complexes have sold between 5.3% and 8% cap rate, with the average cap rate being 6.5%. In comparison to Calgary or Edmonton having a low-rise multifamily average cap rate of 4.5% and 5.25% respectively, this makes Southern Alberta an attractive area of investment in the multifamily world¹⁴.

Municipality	Number of suites	Sale Price	Capitalization Rate
Lethbridge	8	\$858,000	5.3%
Lethbridge	30	\$3,100,000	5.9%
Lethbridge	4	\$489,000	5.9%
Lethbridge	8	\$925,000	6.9%
Lethbridge	12	\$1,146,360	6.1%
Lethbridge	23	\$1,825,000	7.3%
Lethbridge	26	\$2,500,000	6.3%
Lethbridge	20	\$2,060,000	5.3%
Lethbridge	8	\$645,000	6.8%
Taber	12	\$850,000	7.1%
Coaldale	6	\$470,000	7.5%
Coaldale	7	\$530,000	8.0%
Coaldale	4	\$450,000	6.3%

Economic Drivers

Lethbridge and the surrounding communities’ economy are driven by agriculture and supporting services. The climate and the proximity to the United States border makes Southern Alberta an attractive area for large agricultural businesses and innovation.¹⁵ Some of the companies in these industries employ hundreds of workers. Lethbridge also serves as a hub for large-scale transportation companies with routes throughout Canada and into the United States.

Lethbridge is home to two large post-secondary institutions – the University of Lethbridge, and Lethbridge College. Between the two, approximately 15,000 students call Lethbridge home. These populations of workforce and students are a large, reliable pool of renters to draw on.

Summary

In management’s opinion, Lethbridge is an excellent location for real estate investing. Its core industries stabilize the city’s growth against the oil and gas boom and bust cycle that Alberta has been known for in the past. Southern Alberta continues to see stable and consistent population growth.

Southern Alberta’s economy keeps renters employed and keeps the value of the properties within manageable growth parameters. Overall, Lethbridge area shows strong occupancy rates with little turnover compared to other Southern Alberta markets (Figure 4), as well as stable value growth in rental properties over time.

Reference Notes

- 1 Economic Indicators: Economic Development Lethbridge. Economic Indicators | Economic Development Lethbridge. (n.d.). <https://business.chooselethbridge.ca/economic-indicators-1>.
- 2 City of Lethbridge Monthly Statistics. Lethbridge and District Association of Realtors. (n.d.). https://www.lidar.ca/dataimages/Stats%20-%20Dec%2031%202021_1.pdf
- 3 Monthly Statistics Package City of Calgary. The Calgary Real Estate Board (CREB). (n.d.). https://www.creb.com/-/media/Public/CREBcom/Housing_Statistics/Calgary_Monthly_Short_Summary.pdf
- 4 Housing Market Information Portal. Canada Mortgage and Housing Corporation (CMHC). (n.d.). <https://www03.cmhc-schl.gc.ca/hmippimh/en#Profile/O870/3/Lethbridge>.
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- 6 Rentals.ca May 2021 Rent Report. rentals.ca. (n.d.). <https://rentals.ca/national-rent-report>.
- 7 Top Alberta Investment Towns. Real Estate Investment Network (REIN). (n.d.). http://cdn3.reincanada.com/files/Executive_Summary_TAIT.pdf.
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- 9 Population growth (annual %) – North America. Data – The World Bank. (n.d.). <https://data.worldbank.org/indicator/SP.POP.GROW?locations=CA>.
- 10 Varrella, S. (2021, March 9). Population estimates for Alberta, Canada 2020. Statista. <https://www.statista.com/statistics/569880/populationestimates-alberta-canada/>.
- 11 Economic Indicators: Economic Development Lethbridge. Economic Indicators | Economic Development Lethbridge. (n.d.). <https://business.chooselethbridge.ca/economic-indicators-1>.
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- 15 2020 Agribusiness Market Study Fact Sheet. Calgary Economic Development (CED). (n.d.). <https://calgaryeconomicdevelopment.com/assets/Agribusiness-2020-Market-Study/2020-Agribusiness-Market-Study-Fact-Sheet.pdf>.