



## Why Investors Need to Keep an Eye on Calgary's Real Estate Market

### Description

In the streets of Calgary, people are nervous.

According to recent estimates, 200,000 Calgarians are employed by the energy sector, with roles ranging from upper management to the folks who empty out office trash bins. Indirectly, every citizen of the city is dependent on oil money, since those energy employees are spending on everything from groceries to cars.

Although most people in the city are optimistic, all signs point to 2015 being a pretty miserable year for the energy patch. Layoffs are obviously coming now that major energy producers have announced spending cuts of up to 30% compared to 2014. Drillers, electricians, and other contractors are feeling the pinch as well. I've heard reports of contractors being told to bid at 25-50% less than current prices if they want work in 2015. Oil producers are taking this latest downturn in prices seriously.

Back in 1981, the world had seen nearly a decade of uninterrupted energy prosperity. Calgary was booming as a result of this, pushing up real estate prices to record highs. It seemed like the party would continue forever.

By 1986, real estate prices had fallen 50% from the peak several large energy producers had gone out of business, and there was a mass exit from the city. It took somebody who bought during the peak of 1981 until 2004 to breakeven (inflation-adjusted) on their house.

Is Calgary on the cusp of the same sort of real estate meltdown? Here's why everyone should care, not just Calgarians.

### It's not looking good

Although we only have a couple months worth of real estate data since the market really started to worry about crude prices, there still looks to be a bearish trend in place.

November active listings rose 5.1% compared to the same month in 2013, and December's numbers look even worse. So far this month new listings are up nearly 43% compared to last year, and active

listings are up 34%. The average selling price also declined approximately 1% compared to November. Calgary has quickly turned into a buyer's market.

Investors are also punishing stocks with exposure to the Calgary market. **Boardwalk REIT** ([TSX: BEI.UN](#)), which has 16% of its 34,626 apartments located in the city and an additional 36% of its portfolio located in Edmonton, has seen its stock decline nearly 20% over the last six weeks. An Alberta-wide slowdown will obviously affect Boardwalk going forward.

While that's true, the market is discounting a lot of things the company is doing right. It has a net-debt-to-assets ratio of approximately 30%, which is among the best in the sector. The company currently only pays out about 70% of its funds from operations, and management has done a good job of making the company's apartments places that people want to rent.

Still, at least over the short-term, don't bet against market sentiment.

### The worst-case scenario

There are fears that Calgary's market may just be the first shoe to drop. After all, oil is a huge influence on the entire Canadian economy.

Not only have provinces like Saskatchewan, British Columbia, and Newfoundland become more dependent on revenues from oil to help their budgets, but folks working energy jobs in Alberta are sending a lot of money back to other provinces. Even professions like teachers and nurses are moving from eastern provinces to Alberta, which needed to offer higher wages to attract talent.

We all know what could happen next. People lose their job in Alberta, so they move back home. Suddenly, unemployment starts to move across the country, which then starts to affect real estate prices. That's the big risk — that oil's decline starts a domino effect of falling house prices everywhere.

In that scenario, investors would want to avoid anything related to real estate. Canada's banks would struggle, but a company like **Genworth MI Canada Inc.** (TSX: MIC) would really take it on the chin. The company, which is Canada's largest private insurer of mortgages, has already started being extra careful of transactions from Alberta. That's a prudent step, but may end up being the equivalent of closing the gate after all the horses have ran away.

Calgary's real estate could get ugly in 2015. For now, I'd avoid anything to do with real estate in Canada, at least until oil starts to recover.

### CATEGORY

1. Investing

### TICKERS GLOBAL

1. TSX:BEI.UN (Boardwalk Real Estate Investment Trust)

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