3 Alarming Facts About Alberta’s Housing Market

Description

The impact of the oil rout continues to bite deep, affecting not only energy companies, but also Canada’s economy and real estate market. In fact, there are concerns that it may just be the catalyst required to burst Canada’s housing bubble.

Now what?

The impact on what was one of Canada’s fastest-growing regional housing markets has been startling. There are signs that Alberta’s real estate market is in serious decline because of energy companies slashing investments, cutting costs, and laying off employees.

First, residential sales in Alberta were down a startling 20% in March 2015 when compared with the same period a year ago. The hardest hit real estate markets in Alberta are Calgary and Fort McMurray, which is at the heart of the struggling oil sands industry.

However, for the same period national sales activity shot up a healthy 9%, highlighting just how much the collapse in oil prices is hurting the economy in the energy patch.

Second, average provincial house prices are falling. For March this year the average house price in Alberta dropped by 1% year over year compared with the national average for that period, which shot up an impressive 9%.

Finally, property listings in Alberta for March climbed by 2% year over year, while total listings of available properties grew by an alarming 28% for the same period.

So what?

Each of these indicators highlight that underlying fundamentals for the real estate markets in the energy patch are being disrupted by the oil rout.

However, it is hard to tell whether this will turn into a nationwide property rout because real estate markets in Toronto and Vancouver are still performing strongly. Nonetheless, it certainly doesn’t bode well for those businesses dependent upon Alberta's real estate market to generate a significant proportion of their earnings.

One industry that will be hit hard is residential real estate investment trusts that are focused on the region. This includes **Boardwalk REIT** (TSX:BEI.UN), which has 57% of its properties located in Alberta and generates 66% of its net income from that province.

Another casualty of weaker real estate fundamentals in the patch will be **Canadian Western Bank** (TSX:CWB). The bank has 39% of its total residential mortgages located in Alberta, while 31% of its uninsured mortgages are located in the province. This leaves it exposed to rising delinquencies and the impact that increasing non-performing loans and provisions will have on its profitability. This impact can already be seen, with Canadian Western's impaired real estate loans for first quarter 2015 more than doubling compared with the same quarter in the previous year.

One bank that stands out as being well positioned to weather a housing collapse is **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD). As one of the 10-largest U.S. banks, it will benefit from a resurgent U.S. economy and greater demand for credit.

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1. NYSE:TD (The Toronto-Dominion Bank)
2. TSX:BEI.UN (Boardwalk Real Estate Investment Trust)
3. TSX:CWB (Canadian Western Bank)
4. TSX:TD (The Toronto-Dominion Bank)

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