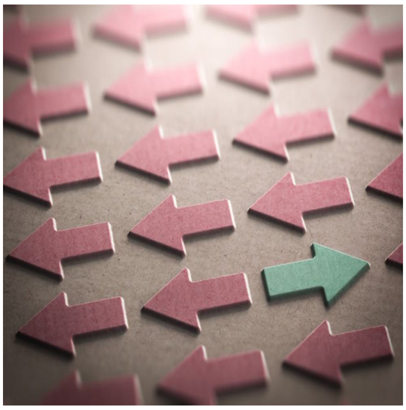

Canada’s Best Real Estate Stock Is Making a Contrarian Bet on Alberta

Description

Alberta’s economy has been in a tailspin since the price of crude oil collapsed in 2014. Now, the youth unemployment rate is at 20%, a level not seen since the 1980’s, and the real rate of gross domestic product growth for 2019 is estimated to be flat (0.8%). It’s fair to say the province is struggling.

As a consequence, the real estate market in Alberta has collapsed as well. “The resale prices have been falling for most of the past five years since the price of oil fell,” Jim Sparrow, a long-time realtor with Royal LePage in Calgary, told *CBC News*. The price of a new house fell by over 2.2% over the first few months of this year, while listings fell by 16% over the same period.

The continued struggles of the region have made it the least-loved housing market in the country, with some of the cheapest real estate in its history. It’s a potent recipe for some value-oriented investors like the team at **Mainstreet Equity** (TSX:MEQ).

Calgary-based Mainstreet has been snapping up real estate, even as prices crumble, locking in historically low valuations. The focus is on acquiring, re-developing, re-positioning, and managing mid-market rental apartment buildings in five major Canadian cities: Vancouver, Calgary, Edmonton, Saskatoon, and Regina.

The total portfolio now includes 12,898 units of rental properties (plus one warehouse) with a market value over $2 billion. However, the bulk of this portfolio, 57%, is invested in Alberta. In fact, the company has been using record-low interest rates to borrow more capital and double-down on the province.

This year, the impact of this contrarian move became apparent. Revenue has been growing by double-digit percentages for six quarters. In its most recent quarter, the company reported a 19% growth in rental revenue, 20% growth in net operating income, and 33% expansion in funds from operations.

This rapid acceleration in underlying fundamentals has been reflected by the share price. Mainstreet’s stock is up 67.8% over the past year, 110% over the past five years and a jaw-dropping 1,863% over the past 20 years. That makes it one of the best-performing real estate stocks in Canada.

According to the management, the intrinsic value of each share should be around $102 today. Meanwhile, the stock currently trades at $72, implying a 30% discount to underlying value. This is probably why the management team has been aggressively buying back shares over the past few years.

Bottom line

Being a contrarian investor can be immensely rewarding. Betting on markets and industries that are unloved and underappreciated can help bolster long-term gains if you're right.

At the moment, no other region seems as underappreciated as Alberta. The collapse in the region's core oil and gas sector has had a detrimental impact on the local economy. However, the long-term prospects of the region remain intact, with population growth and investments in other sectors.

This long-term turnaround could revive the province's property market. That's the bet Mainstreet Equity has been making since 2014. Now, more than half of its portfolio is based in Calgary, which makes the stock an ideal proxy for investors who are looking to make a contrarian bet on the Prairies. Growth-seeking investors should take a closer look.

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