WESTERN INVESTOR

Search for cash flow may lead to Alberta

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Sep 29, 2021 5:14 PM

Calgary's trendy Beltline neighbourhood is picked as a good investment zone for multi-family cash flow. | Beltline Neighbourhood Association

Achieving positive cash flow was once fairly simple. An investor could purchase a condo with $20,000 down and, even after strata fees, it would usually generate enough rent to cover your costs.

Today in B.C.'s Lower Mainland, resale condo prices average north of $640,000 and most new condos start at $1,000 per square foot. As well, 2022 rent increases have been capped by the provincial government at 1.5 per cent, or about one-third the current rate of inflation.

Ozzie Jurock, head of the Real Estate Action Group, a well-known B.C. investment group, says it is still possible for smaller investors to achieve positive cash flow in but the price of entry has shot up.

Jurock recently bought a two-bedroom Surrey condo for $525,000, putting down $100,000 and arranging a 30-year mortgage at 1.5 per cent. The unit rents for $2,400 a month, far above the $1,400 monthly mortgage payment, he explained.

For those without a six-figure downpayment, Jurock recommends looking in secondary markets, such as smaller towns like Kamloops and area and Kootenay centres, such as Kimberley.

The prices appear attractive. The average composite home price in the Kootenays is now $475,232. This is about half the B.C. average of $891,000, according to the B.C. Real Estate Association. But when we searched Realtor.ca for two-bedroom Kootenay condos, the starting price was $520,000, and rents are lower than in the Fraser Valley.

For those willing to take a bit of risk, Alberta could be a better buy for those seeking positive cash flow with a condo rental.

Zolo, a residential real estate portal, recently studied Calgary in a comparison of average mortgage payments on a condo compared to potential rental income. They found two neighbourhoods, both in Northeast Calgary – where condo prices average less than $350,000 – that could generate positive income: Abbeydale, where the potential net was $102.50 per month; and Castleridge with a monthly net of $11.50.

But Samuel Dean, senior vice-president and a multi-family specialist with JLL Canada in Edmonton, said buying one or two condos is never a good bet for investors.

“You can lose control of costs,” he said, noting that investors can be surprised by high prices to replace a roof or windows on an entire complex, plus having to pay monthly strata fees and deal with potential rental restrictions.

Dean recommends pooling capital with other investors and buying a small apartment block in either the Beltline area of Calgary or the Oliver community of Edmonton.

Dean said there are a number of smaller (20 units or less) apartment blocks in both markets coming to the market as long-term buyers retire. The Beltline in particular is a “cool, uptrending” neighbourhood, he said. It is possible to buy multi-family rentals in Calgary and Edmonton at $120,000 to $130,000 per door, with Canada Mortgage and Housing Corp.-insured mortgages, available as low as 1.3 per cent for 10-year terms. And, of course, Alberta has no rent controls.

Commercial strata

Commercial condos offer a route for investors to share in steady lease demand Some B.C secondary markets, most notably Victoria and Kelowna, offer commercial strata opportunities with a lower entry price but similar income and yield potential as in Metro Vancouver.

Commercial strata offers an advantage over residential that tenants normally sign longer-term leases than in residential units, the property requires less maintenance and tenants are responsible for any improvements.

Retail lease rates range from lows of $25 to $60 per square foot in suburban strolls to $150 per square foot in prime Vancouver downtown shopping districts.

Commercial rents are calculated annually. For instance, if you rent your 1,000 square foot retail strata for $50 per square foot it is generating $50,000 annually, or about $4,100 per month.

However, commercial and industrial strata prices in Metro Vancouver soaring – the average is around $450 per square foot but can easily be twice that in top markets.

Kelowna, where the retail sector has seen the vacancy rate fall to 4.3 per cent, down from 5.5 per cent a year ago, is now offering new retail strata. The

new downtown space is selling from around $500 per square foot and lease rates range from $35 to $50 per square foot. The result is a typical capitalization rate for investors of from 5.5 per cent to 6 per cent, a potential cash flow higher than in most of Metro Vancouver.

Again, Alberta, where commercial strata is still uncommon, buying existing industrial space may hold potential, said Adam Kilburn, senior vice-president, capital markets for JLL Canada.

JLL’s third-quarter 2021 Canada Investment Outlook noted that Edmonton industrial space is selling for less than $120 per square foot, about the lowest price in the country. Still, industrial investments in the city were up 286 per cent through the first half of 2021, compared to the same period last year, to $296 million.

Kilburn said the Nisku area, which was hit hard by the downturn in the oil industry, is perhaps the best industrial buy. “There is a lot of Nisku space for sale and the market is starting to pick up,” he said.