

MARKETBEAT

EDMONTON APARTMENT REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

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2011

ECONOMIC OVERVIEW

In 2010 the economy exhibited signs of recovery in Edmonton, the province and the nation. The Canadian economy grew approximately 3% and outperformed its fellow G7 members. But the Bank of Canada, which began increasing its rates from record lows last summer, expects growth to retract to 2.3% in 2011, less than the 2.7% growth many expect for the United States. Though the United States will likely keep rates unchanged at record lows for a third straight year, Canada's central bank is expected to continue tightening by doubling rates to 2%. Nonetheless, the lending market remains healthy and robust with opportunity.

Over the past year investors have been shying away from volatile stocks in favour of secure Canadian government bonds, producing reduced yields in the order of 100 basis points. This, combined with lenders having returned to the market with ample capital to disburse, has resulted in some of the lowest priced mortgage debt in years.

The continued rebound of oil prices (surpassing \$90 per barrel) has resulted in billions of dollars in increased investment in the oil sector in northern Alberta. As worldwide energy demand grows, Alberta will prosper and the jobs created and labour required will no doubt have positive effects on the multifamily market in Edmonton.

APARTMENT OVERVIEW

In 2010, purchasers and vendors began to slowly narrow the gap between each party's price expectations after two years of general transaction stagnancy. Purchasers, seeking a safe haven for investment, began to approach the market more aggressively, applying downward pressure on capitalization rates which averaged 6.3%. However, purchasers' expectations were still often incompatible with those of vendors and not bullish enough to break vendor thresholds and trigger a large number of sales. Owners generally remained reluctant to sell, electing instead to refinance their properties.

The total transaction volume in 2010 was \$205 million. Volume was up 49% from 2009 which saw \$138 million in sales, but was still less than 2008 which saw \$218 million in sales. During 2010, 67 buildings comprising 1,832 units sold for an average of \$111,791 per unit. However, the average is skewed by several large sales of newer product that sold at very high prices. The average price per unit for a walk-up apartment built prior to 1990 was \$93,868.

In 2010 vacancy decreased from 4.5% to 4.2%. Meanwhile, average rents remained unchanged. This stabilization followed 2009's 1.5% rental decrease, the first decrease since 1995.

OUTLOOK

In 2011, purchasers will continue to be drawn to cash flowing multifamily opportunities as a stable investment in which equity can be sheltered and grown. Slow yet continued economic growth should apply downward pressure on vacancy resulting in slight rent increases. But any rent increases will be tempered by competition from both primary and secondary rental units as well as increased home ownership affordability. Going forward, increasing operating expenses and mortgage rates may be the greatest factors to influence value appreciation. Purchasers will require more favorable capitalization rates to maintain an acceptable margin over creeping interest rates. Interest inflation ultimately results in the gradual reduction of the attainable sale price of a multifamily property.

BEAT ON THE STREET

"Look for increased sales volume in 2011 as purchasers, flush with low interest mortgage funds, become more aggressive in attempts to acquire coveted multifamily investments."

— Christopher Kamphius, Partner

"Increased spending and activity in the Alberta oil sands will lead to new growth in capital region businesses. This should lead to lower unemployment, higher wages, and low vacancy in the Edmonton area."

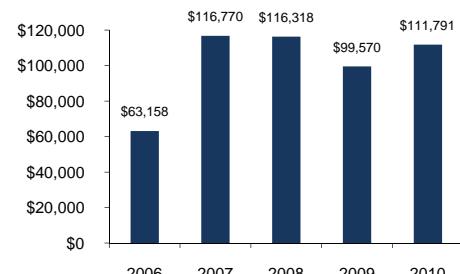
— Raphael Yau, Partner

ECONOMIC INDICATORS

	2009	2010	Change
Vacancy (%)	4.5	4.2	▼
Average Rents (\$)	916	917	►►
Sales Volume (\$)	138M	205M	▲
Sales Volume (# Units Sold)	1,387	1,832	▲
Cap Rate (%)	6.7	6.3	▼

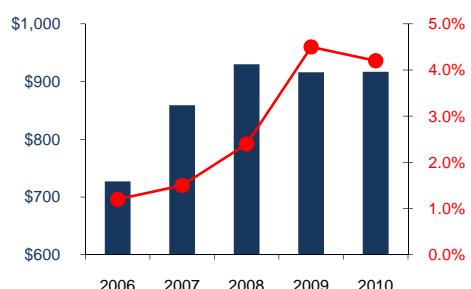
Source: CMHC, The Network and Cushman & Wakefield Edmonton

AVERAGE SALE PRICE PER UNIT



Source: The Network and Cushman & Wakefield Edmonton

AVERAGE RENT PER UNIT VS. AVERAGE VACANCY

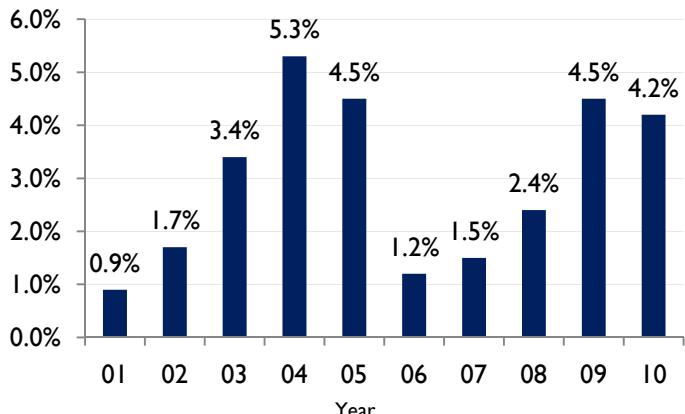


Source: CMHC

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EDMONTON MULTIFAMILY VACANCIES 2010

APARTMENT VACANCY RATES



HISTORICAL VACANCY RATES BY AREA (%)

Year	Central	West	SW	SE	North
2001	0.7	1.1	0.9	1.3	1.2
2002	1.7	2.4	1.5	1.2	1.6
2003	3.0	5.5	2.8	3.2	3.6
2004	5.3	7.2	3.6	4.9	5.6
2005	4.2	5.9	2.3	2.4	7.3
2006	1.2	1.6	0.3	0.6	1.9
2007	1.2	2.6	1.0	1.5	2.1
2008	2.1	2.9	1.7	2.1	3.4
2009	4.4	5.1	3.0	4.7	5.3
2010	4.1	4.0	2.6	4.0	5.7

- After three years of increases, Edmonton's vacancy rate dipped to 4.2%, down from 4.5% in 2009, and is predicted to settle at 3.5% in 2011.
- The vacancy decrease is due in part to continued low levels of new rental apartment construction, and apartment-to-condominium conversions.
- The extent of the vacancy decrease is restrained by competition from condominium investors seeking renters, increased unemployment, reduced net migration into Edmonton, and continued low interest rates coupled with reductions in housing prices granting affordability of ownership.
- A 2011 vacancy decrease is expected as the economy, employment and positive migration pick up while condominium completions taper off.
- Lowest vacancies around the University (2.6%), southwest (2.6%), West Jasper Place (2.8%), Millwoods (3.2%), and west central (3.6%).
- Highest vacancies in north central (7.2%), Hudson Bay Reserve (6.8%), and northeast (5.1%); greatest increase in north central (from 4.8% to 7.2%).
- Suburban vacancies: Strathcona County (1.0%), Leduc (1.8%), St. Albert (2.3%), Spruce Grove (3.2%), Stony Plain (6.2%), Ft. Saskatchewan (10.2%).
- Lowest average vacancy occurs in complexes with more than 100 units (2.0%) and in buildings constructed since 1990 (2.5%).
- Vacancy change from 2009 to 2010: Calgary 5.3% to 3.6%; Vancouver 2.1% to 1.9%; Toronto 3.1% to 2.1%; Saskatoon 1.9% to 2.6%.

EDMONTON MULTIFAMILY RENTS 2010

APARTMENT RENTS (\$) BY BEDROOM TYPE (as at October 2010)

Area	Studio	1-Bedroom	2-bedroom	3-bedroom
Central	718	854	1,070	1,223
West	701	824	994	1,194
SW	792	913	1,056	1,200
SE	672	827	996	1,210
North	630	790	934	1,117
Edm Avg.	708	843	1,015	1,171

HISTORICAL CHANGES IN APARTMENT RENTS BY BEDROOM TYPE (%)

Year	Studio	1-Bedroom	2-Bedroom	3-Bedroom
2001	+8.8	+9.8	+8.8	+9.6
2002	+7.0	+7.1	+8.4	+5.7
2003	+2.7	+2.3	+1.8	+2.7
2004	+0.2	+1.5	+1.1	+0.9
2005	+1.8	+1.8	+0.3	+1.2
2006	+9.4	+9.5	+10.4	+10.8
2007	+17.0	+17.8	+18.8	+17.1
2008	+9.2	+8.7	+9.2	+10.3
2009	-0.4	-0.7	-1.8	+0.9
2010	+0.6	+0.2	0.0	-0.8

During 2010 rents remained stable.

The projection for 2011 is a slight increase.

- For all unit types, Edmonton's average rental rate remained unchanged in 2010 following a 1.5% decrease in 2009 and an 8.9% increase in 2008.
- The rental decrease of 2009 was the first average rental decrease since 1995, at which time the overall vacancy rate was 7.6%.
- The stable rental rate was influenced in part by landlords attempting to reduce turnover and increase occupancy while covering expenses.
- Highest avg. rents in southwest (\$1,004), West Jasper Place (\$1,002), and Millwoods (\$978); greatest rental increase in southwest (+\$25 or +2.6%).
- Lowest avg. rents in Hudson's Bay Reserve (\$777), and north central (\$787); greatest rental decrease in Castledowns (-\$15 or -1.6%).
- Suburban rents: Strathcona County (\$1,062), St. Albert (\$1,004), Leduc (\$991), Spruce Grove (\$969), Stony Plain (\$931), Ft. Saskatchewan (\$902).
- Rental incentives were offered by 25% of landlords in 2010, as compared to 23%, 3%, 1%, 3%, 19% and 28% in the six previous years.
- Average 2010 2-bedroom rents: Edmonton \$1,015; Calgary \$1,069; Vancouver \$1,195; Toronto \$1,123; Saskatoon \$934.

EDMONTON MULTIFAMILY SALES 2010

	# Buildings	# Units	Price/Unit	Cap Rate	GRM	\$ Volume
Highrise	0	0	n/a	n/a	n/a	\$0
Lowrise	67	1,832	\$28,846 – 189,542 \$111,791 avg*	3.0 – 9.1 6.3 avg	7.1 – 16.5 10.1 avg	\$204,801,192
Rowhouse	0	0	n/a	n/a	n/a	\$0
Totals	67	1,832				\$204,81,192

*The average price per unit for a walk-up apartment built prior to 1990 was \$93,868.

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
# Bldgs Sold	207	190	177	157	114	197	221	60	50	67
# Units Sold	6,106	4,478	4,124	4,110	2,878	5,002	8,474	1,871	1,387	1,832
Avg Price/Unit	\$47,614	\$51,226	\$53,275	\$63,952	\$61,739	\$63,158	\$116,770	\$116,318	\$99,570	\$111,791*
Avg Cap Rate	9.4	8.8	8.2	8.1	7.4	6.7	4.8	5.7	6.7	6.3
Avg GRM	6.3	6.9	7.5	7.8	8.1	8.5	13.0	12.2	9.9	10.1
\$\$ Volume	\$291M	\$228M	\$218M	\$248M	\$178M	\$316M	\$990M	\$218M	\$138M	\$205M

EDMONTON HOUSING MARKET 2010

- In 2010, condominium conversions removed 746 units from the primary apartment market (as compared to 1,077 in 2009 and 1,821 in 2008).
- Numerous new and converted condominiums were added to the secondary rental market; they often command higher rent:
 - Average 2-bedroom condo rents: Edmonton \$1,050; Calgary \$1,385; Vancouver \$1,610; Toronto \$1,590.
 - Higher rents are due in part to higher quality, numerous upgrades and amenities, e.g.: ensuite laundry, underground parking.
- Rented condominiums not only have higher average rents than rented apartments, their average vacancy is also higher (5.2% vs. 4.2%).
- Of the 39,413 condominiums in metropolitan Edmonton, 11,312 (28.7%) are rented out as opposed to being owner-occupied.
- There are over 45,000 secondary units being rented, those units being single/semi detached houses, half-duplexes, basement suites, etc.
- Average condominium prices in December: 2010: \$223,454; 2009: \$244,174; 2008: \$234,286; 2007: \$253,270; 2006: \$227,428.
- Average single family detached house prices in December: 2010: \$355,270; 2009: \$366,761; 2008: \$351,870; 2007: \$382,022; 2006: \$341,933.
- In 2010, residential sales (single family, condo and duplex/rowhouse) totaled 18,293; in 2009, 19,139 homes sold.
- Housing starts 2010: 9,959 (6,062 single; 3,897 multiple); housing starts 2009: 6,317 (3,897 single, 2,420 multiple).
- Overall, 2010 multiple starts were up 61% from 2009, but December 2010 saw a 32% year-over-year decrease when compared to December 2009.

EDMONTON'S ECONOMY

- Edmonton's overall office vacancy (head and sub lease) in 4th quarter 2010 is 10.3% (downtown 8.4%; government 4.3%; suburban 15.9%).
- Office rental rates in Class A towers in Edmonton's central financial district average \$22.05/sf.; vacancy is 7.8%.
- In 2011, in lieu of rental increases, office landlords will primarily focus on renewals and securing tenants with strong covenants.
- Greater Edmonton's population in 2010 is 1,155,000 and it continues to grow: forecasts are 1,179,000 in 2011 and 1,198,000 by 2012.
- Alberta's unemployment rate in 2010 remained unchanged from the previous year at 6.6%, and is expected to dip to 5.8% in 2011.
- After increasing by 3.5% in 2010, Alberta real GDP is expected to again increase by 3.5% in 2011 (surpassed only by BC & NL) and by 3.4% in 2012.
- The petroleum industry is healthy as indicated by the fact that, in 2010, Alberta sold a record \$2.39B worth of land (averaging \$884/acre) to prospectors searching for oil and gas reserves; the previous record was in 2005 when \$1.83B worth of land was sold.
- The number of jobs linked directly or indirectly to construction and operation of the oil sands exceeds 456,000 across Canada.
- Over the next 25 years, Alberta's oil sands, serviced primarily through Edmonton, will generate over \$1.7 trillion in economic activity in Canada.
- Containing 170 billion barrels, the oil sands represent 97% of Canada's total reserves which are the world's second largest after Saudi Arabia.

EDMONTON'S PRIMARY RENTAL MARKET SIZE & MAKEUP

Unit Type	# of Units Apartment	# of Units Rowhouse	# of Units Total	Building Size	# of Buildings
Studio	4,297	39	4,336	6-12 units	615
1-Bedroom Unit	27,644	175	27,819	13-19 units	377
2-Bedroom Unit	23,956	2,523	26,479	20-49 units	661
3-Bedroom Unit	<u>2,660</u>	<u>5,336</u>	<u>7,996</u>	50-99 units	178
	58,557	8,073	66,630	100-199 units	93
				200+ units	<u>40</u>
					1,964

SELECT 2010 APARTMENT SALES TRANSACTIONS

SALE DATE	PROPERTY	# UNITS	YEAR BUILT	PRICE	PRICE PER UNIT
January 2010	Naniloa Apartments at 10830 112 Street, Edmonton	15	1967	\$1,395,000	\$93,000
May 2010	Woodcrest Manor at 10556 84 Avenue, Edmonton	21	1967	\$2,373,000	\$113,000
August 2010	King Edward Apartments at 7108 79 Avenue, Edmonton	21	1968	\$1,911,000	\$91,000
November 2010	Countryview Estates at 5716 50 Avenue, Wetaskiwin	26	1979	\$2,116,000	\$81,384

Source: Cushman & Wakefield Edmonton

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The **Marketbeat Edmonton Apartment Report** is a report published by Cushman & Wakefield Edmonton to keep you informed of the apartment investment climate. The vacancy, rental and housing starts statistics were obtained from CMHC, but in some cases re-formulated to meet specific categories. Other data sources include The Network, the Realtors Association of Edmonton, BMO Capital Markets Economics, CBC, CitiFund Capital Corp, Edmonton Sun, the Conference Board of Canada and the Oil Sands Developers Group.

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