MARKETBEAT

EDMONTON APARTMENT REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

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ECONOMIC OVERVIEW

A disconnect persists between vendors and purchasers in the Edmonton multifamily market as prices continue to stabilize and uncertainty saturates the economy in general. Though the northern Alberta economy has not felt the full brunt of the subprime mortgage crisis spreading turmoil across North America and around the globe, it has certainly slowed. Alberta is not immune when one considers that oil that traded at $145 a barrel this past summer now trades at a third of that level.

Despite concerns raised by such volatility, Edmonton remains relatively healthy overall. The City of Edmonton still extrapolates continued positive growth for several years to come. Billions of dollars have been invested in the economic growth of northern Alberta and, unless the worldwide demand for oil remains depressed, the long-term forecast for Edmonton will continue to be positive. As worldwide demand for energy grows, Alberta's economy will grow with it, and the jobs created and labour required will no doubt have positive effects on the multifamily market.

APARTMENT OVERVIEW

Cushman & Wakefield Edmonton continues to see a degree of uncertainty in the multifamily market. The condominium conversion craze of 2007, which led to record prices being paid, coupled with today's increasingly stringent lending market, has caused problems for some apartment owners and converters. There are some cases of consolidation and foreclosure. However, long time owners or those who paid non-conversion prices are able to take advantage of today's healthy vacancy rates (average 2.4%) and strong rents (8.9% year-over-year increase).

As prices continue to stabilize, investors remain cautious about entering the multifamily market. Only those properties that are priced with reasonable rates of return, or those with superior quality and location, are attractive to purchasers. The average price per unit in 2008 was $116,318. It should be noted, however, that this average was influenced by several conversion sales that occurred at the beginning of 2008 as well as by numerous high priced transactions among parties juggling properties that they had paid record prices for merely months earlier. These unique circumstance sales do not necessarily provide an accurate snapshot of today's open market values.

OUTLOOK

Great volatility in today's equity markets may spur investors towards real estate as they look for more tangible, bricks and mortar asset classes. Despite this, prices are predicted to continue downward. Increasing vacancy and competition from rented condominiums should curb rental increases. Sales volume is likely to remain below average as high leverage financing remains difficult to attain. Over the next year, increasing operating costs and the price of money may be the greatest limiting factors of value appreciation. Capitalization rates will surely continue to rise in 2009. Demand will grow as long as vendors price competitively thereby affording potential investors a reasonable rate of return.

BEAT ON THE STREET

"Exodus from equity markets should turn investor attention towards stable multifamily investments as continued low vacancy and higher rents prove alluring. That said, considering the increasing costs to operate and finance, transactions will only occur if a property has been priced so as to offer a reasonable rate of return that is immediately achievable."

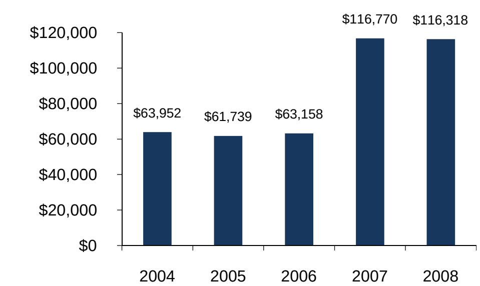
–Christopher Kamphius, Associate Partner

ECONOMIC INDICATORS

	2007	2008	Change
Vacancy (%)	1.5	2.4	↑
Average Rents ($)	859	930	↑
Sales Volume ($)	990M	218M	↓
Sales Volume (# Units Sold)	8,474	1,871	↓
Cap Rate (%)	4.8	5.7	↑

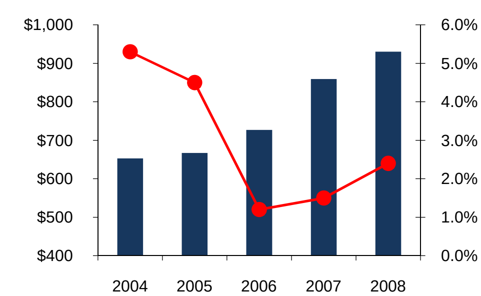
Source: CMHC, The Network and Cushman & Wakefield Edmonton

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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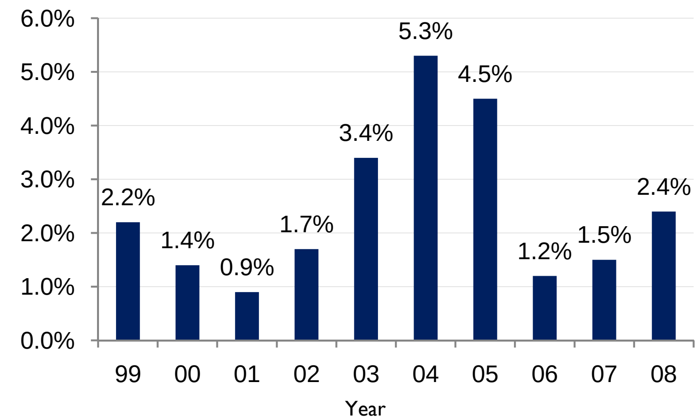
EDMONTON MULTIFAMILY VACANCIES 2008

APARTMENT VACANCY RATES



HISTORICAL VACANCY RATES BY AREA (%)

Year	Central	West	SW	SE	North
1999	2.1	1.4	0.7	1.4	2.6
2000	2.0	2.5	1.3	1.6	3.7
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

- Edmonton's vacancy rate of 2.4% is up from 1.5% in 2007.
- The vacancy increase is despite 1) low levels of new rental apartment construction, 2) increased rents hindering renters from accumulating down payments required to purchase a home, and 3) continued, albeit at a slowed rate, apartment to condominium conversions.
- The vacancy increase is due in part to 1) competition from condominium investors seeking renters, 2) high average rental increases implemented in 2007 which encourage cohabitation, and 3) reduced net migration into Edmonton.
- Lowest vacancies are around the university (1.4%), in the southwest (1.7%), downtown (1.8%), and in Millwoods (1.9%).
- Highest vacancies in the northeast and in St. Albert (both at 3.7%); greatest vacancy increase in Hudson Bay Reserve (from 1.3% to 3.5%).
- Highest rent units (>$900/mo.) have highest average vacancy (2.9%) and highest competition from rental condominiums.
- Buildings built before 1990 have average vacancy of 2.4%; buildings built since 1990 have average vacancy of 1.5%.
- 2007 vs. 2008 vacancy: Calgary 1.5% to 2.1%; Vancouver 0.7% to 0.5%; Toronto 3.2% to 2.0%; Saskatoon 0.6% to 1.9%.

EDMONTON MULTIFAMILY RENTS 2008

APARTMENT RENTS ($) BY BEDROOM TYPE (as of Oct-08)

Area	Studio	1-Bedroom	2-bedroom	3-bedroom
Central	722	854	1,089	1,209
West	715	851	1,027	1,216
SW	747	911	1,072	1,205
SE	714	834	991	1,135
North	616	794	958	1,103
Edm Avg.	707	847	1,034	1,170

During 2008, rents increased an average of 8.9%
The projection for 2009 is an increase of 3.5%

HISTORICAL CHANGES IN APARTMENT RENTS BY BEDROOM TYPE (%)

Year	Studio	1-Bedroom	2-Bedroom	3-Bedroom
1999	+3.6	+4.2	+4.7	+5.4
2000	+4.5	+4.3	+4.3	+1.8
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

- For all unit types, Edmonton's average rental rate increased 8.9% in 2008; the average increase in 2007 was 18.1%.
- The average rental rate increase was influenced in part by:
  - Operating cost inflation, including utilities, insurance, property tax, repair and maintenance, and renovation costs.
  - Landlords, who purchased properties at high prices, requiring high income to cover debt service.
- For all unit types, the average rental increase in 2008 was $71 (to $930), compared to $132 (to $859) in 2007.
- Highest rents: West Jasper Place ($1,022) and the southwest ($1,012); lowest rents: north central ($770) and Hudson's Bay Reserve ($784).
- Rental incentives were offered by 3% of landlords in 2008, as compared to 1%, 3%, 19% and 28% in the four previous years.
- Average 2008 2-bedroom rents: Edmonton $1,034; Calgary $1,148; Vancouver $1,123; Toronto $1,095; Saskatoon $841.

EDMONTON MULTIFAMILY SALES 2008

	# Buildings	#Units	Price/Unit	Cap Rate	GRM	$ Volume
Highrise	2	115	$140,625 – 156,863 147,826 avg	unavailable*	unavailable*	$17,000,000
Lowrise	57	1,710	$48,125 – 180,952 $112,486 avg**	2.5 – 11.0 5.8 avg	1.0 – 21.2 12.0 avg	$192,351,000
Rowhouse	1	46	$180,000	4.3	17.1	$8,280,000
Totals	60	1,871				$217,631,000

*Highrises sold to condominium converters; no income figures available.

**The average is influenced by several conversion sales that occurred at the beginning of 2008 as well as by numerous high priced transactions among parties juggling properties back and forth that they had paid record prices for months earlier. These unique circumstance sales do not necessarily provide an accurate snapshot of today's open market values.

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
# Bldgs Sold	160	147	207	190	177	157	114	197	221	60
# Units Sold	4,476	3,847	6,106	4,478	4,124	4,110	2,878	5,002	8,474	1,871
Avg Price/Unit	$34,614	$35,938	$47,614	$51,226	$53,275	$63,952	$61,739	$63,158	$116,770	$116,318
Avg Cap Rate	9.3	9.4	9.4	8.8	8.2	8.1	7.4	6.7	4.8	5.7
Avg GRM	6.2	6.3	6.3	6.9	7.5	7.8	8.1	8.5	13.0	12.2
$$ Volume	$154M	$138M	$291M	$228M	$218M	$248M	$178M	$316M	$990M	$218M

EDMONTON HOUSING MARKET 2008

- In 2008, due to condominium conversions, the primary apartment market was reduced by 1,821 units (compared to 2,889 units in 2007).
- Many new and converted condominiums were added to the secondary rental market; they often command higher rent:
  - Average 2-bedroom condo rents: Edmonton $1,099; Calgary $1,293; Vancouver $1,507; Toronto $1,625.
  - Higher rents are in part due to higher quality, numerous upgrades and amenities, e.g.: ensuite laundry, underground parking.
- Rented condominiums not only have higher average rents than rented apartments, the average vacancy is also higher (4.3% vs. 2.4%).
- Of the 32,698 condominiums in metropolitan Edmonton, 7,616 (23.3%) are rented out as opposed to being owner-occupied.
- There are over 46,000 secondary units being rented, those units being single/semi detached houses, half-duplexes, basement suites, etc.
- Average condominium prices: December 2008: $234,286; December 2007: $253,270; December 2006: $227, 428.
- Average single detached house prices: December 2008: $351,870; December 2007: $382,022; December 2006: $341,933.
- In 2008, the number of residential sales (single family, condo and duplex/rowhouse) fell 14.3% to 16,962; in 2007, 19,803 homes sold.
- Housing starts 2008: 6,615 (2,613 single; 4,002 multiple); housing starts 2007: 14,888 (7,682 single, 7,206 multiple).
- Down 55.6% from 2007, 2008 is the first time in seven years that housing starts (single and multiple) have not surpassed 11,000 units.

EDMONTON'S ECONOMY

- Edmonton's ability to attract skilled labour is crucial to its continued economic success; housing affordability is a key factor.
- Edmonton continues to have some of the lowest unemployment and bankruptcy numbers in Canada.
- Edmonton's overall office vacancy in 4th quarter 2008 is 4.5% (downtown 4.1%; government 0.9%; suburban 7.1%).
- Office rental rates in Class A towers in Edmonton's central financial district are low to mid $30s/sf.; vacancy is 2.3%.
- Office vacancy rates are healthy, however the market's primary drivers (government, engineering) are currently in holding patterns.
- Despite some delayed projects there are still $172B worth of major projects ongoing in Alberta (oilsands, oil, gas, infrastructure, etc.).
- The fundamentals of Edmonton's economy are solid despite the slowdown. A slowdown can have a silver lining in lessened inflationary pressures and reduced Dutch Disease (deindustrialization due to increased exchange rates affected by increased natural resource revenues).
- The world remains dependant on oil despite alternatives and conservation and Alberta remains the largest politically stable source of oil.
- Recession is part of a cycle inevitably followed by recovery; prudence today prepares for tomorrow's growth.

EDMONTON'S PRIMARY RENTAL MARKET SIZE & MAKEUP

Unit Type	# of Units Apartment	# of Units Rowhouse	# of Units Total
Studio	4,496	36	4,532
1-Bedroom Unit	27,982	202	28,184
2-Bedroom Unit	24,005	2,620	26,625
3-Bedroom Unit	2,890	5,495	8,385
	59,373	8,353	67,726

Building Size	# of Buildings
6-12 units	586
13-19 units	353
20-49 units	612
50-99 units	159
100-199 units	87
200+ units	43
	1,840

CUSHMAN & WAKEFIELD EDMONTON…*LOCALLY CONNECTED*

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THE EDMONTON APARTMENT REPORT

The Marketbeat Edmonton Apartment Report is a quarterly report, published by Cushman & Wakefield Edmonton, to keep you informed of the apartment investment climate. The vacancy and rental 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, Edmonton Economic Development, CBC News, Statistics Canada, Conference Board of Canada and the City of Edmonton.

SELECT 2008 APARTMENT SALES TRANSACTIONS

SALE DATE	PROPERTY	# UNITS	YEAR BUILT	PRICE	PRICE PER UNIT
January 22	Grasslands/Westwood at 11935 102 St	32	1968	$2,000,000	$62,500
May 22	McQueen Garden at 14311 McQueen Rd	47	1980	$7,450,000	$158,511
August 1	Lexington Manor at 11025 124 St	39	1963	$3,900,000	$100,000
November 26	21 Unit Apartment at 10012 83 Ave	21	1979	$2,335,500	$111,214

Source: The Network

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