

# MARKETBEAT

## EDMONTON APARTMENT REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



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# 2010

### ECONOMIC OVERVIEW

The second half of 2009 exhibited strong signs of recovery for Edmonton, specifically in the housing market. December 2009 saw a 56% year-over-year increase in MLS residential sales with 948 homes selling, bringing the 2009 total to 19,139 homes sold. Inventories have hit near record lows with less than four months supply. New home sales had a similar turnaround. Major developers were scrambling to get serviced lots to the market as demand outpaced supply.

There are other signs of improvement: In Canada, Edmonton had one of the lowest unemployment rates at 7.1%. The last two quarters of 2009 saw renewed interest in retail investment with stabilized capitalization rates averaging 7.8% among all retail product types. Construction costs have appeared to normalize with a balance between supply and demand for labour.

The rebound in oil prices from the high \$30s to the high \$70s per barrel has resulted in continued expansion in the oil sector. Billions of dollars are being invested in northern Alberta and, unless global demand for oil decreases substantially, the long-term forecast for Edmonton is positive. 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 2009, purchasers and vendors did not necessarily see eye to eye. Purchasers cautiously returned to the multifamily market seeking a safe haven for investment. However, purchasers' capitalization rate expectations were often greater than the market was willing to yield. Owners, profiting from decent cash flows, were generally reluctant to vend such assets. The result was decreased transaction volume.

The total transaction volume in 2009 was \$138 million. Volume was down 37% from 2008 which saw \$218 million in sales, and was down sharply (an 86% decrease) from 2007 which saw \$990 million in sales. In fact, 2009's volume was the lowest since 2000 which also recorded \$138 million in sales. The difference is, in 2000, 147 buildings comprising 3,847 units sold for an average of \$35,938 per unit; in 2009, 50 buildings comprising 1,387 units sold for an average of \$99,570 per unit.

In 2009 vacancy increased from 2.4% to 4.5%. Meanwhile rents slipped 1.5%. This represents the first average rental decrease in thirteen years.

### OUTLOOK

In 2010, volatile equity markets will continue to direct purchasers towards tangible real estate investments. An improving economy should see vacancy reduced slightly and rents held from sliding further. But any rent increases will be limited by greater competition from both primary and secondary rental units. Sales volume is likely to grow, but still remain below average. Over the next year, increased operating costs and the price of money may be the greatest limiting factors of value appreciation. Interest rates can only go up, the result being purchasers demanding higher capitalization rates to maintain a reasonable spread. The risk to vendors during times of interest inflation is an ultimate reduction of the price per unit of their multifamily property.

### BEAT ON THE STREET

"A modest economic recovery in the second half of 2009 should set the tone for 2010. With renewed optimism and availability of investment alternatives, owners will be more likely to consider cashing out by vending to the numerous purchasers eagerly waiting for an opportunity to jump into the market. Look for stabilized cap rates and increased sales volume."

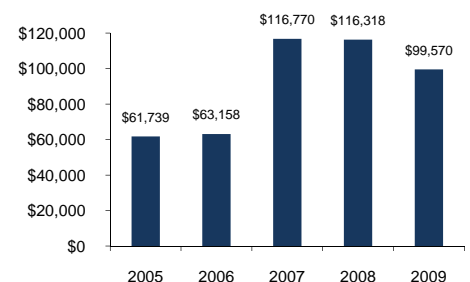
—Christopher Kamphius, Associate Partner

### ECONOMIC INDICATORS

	2008	2009	Change
Vacancy (%)	2.4	4.5	↑
Average Rents (\$)	930	916	↓
Sales Volume (\$)	218M	138M	↓
Sales Volume (# Units Sold)	1,871	1,387	↓
Cap Rate (%)	5.7	6.7	↑

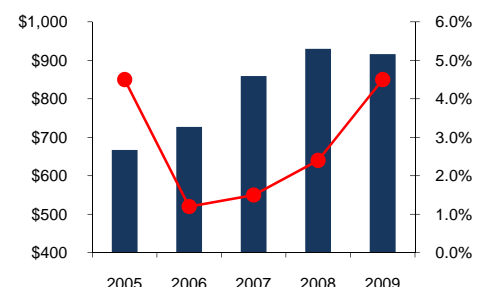
Source: CMHC, The Network and Cushman & Wakefield Edmonton

### AVERAGE SALE PRICE PER UNIT



Source: The Network and Cushman & Wakefield Edmonton

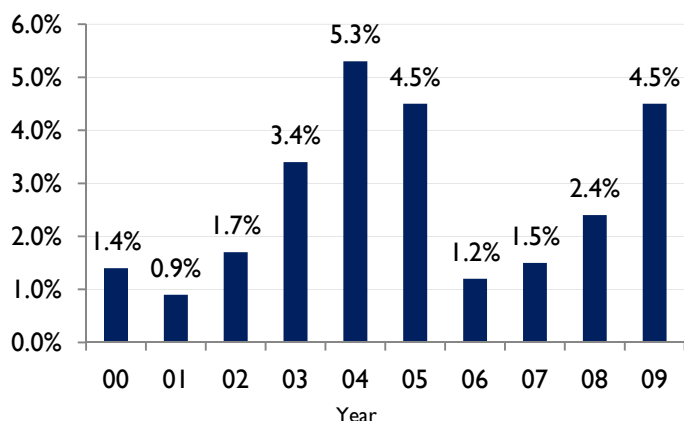
### AVERAGE RENT PER UNIT VS. AVERAGE VACANCY



Source: CMHC

# EDMONTON MULTIFAMILY VACANCIES 2009

## APARTMENT VACANCY RATES



## HISTORICAL VACANCY RATES BY AREA (%)

Year	Central	West	SW	SE	North
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
2009	4.4	5.1	3.0	4.7	5.3

- Edmonton's vacancy rate of 4.5% is up from 2.4% in 2008 (an 88% increase); vacancy predicted to decrease to 3.7% in 2010.
- The vacancy increase is due in part to competition from condominium investors seeking renters, increased affordability of home ownership, increased unemployment, and reduced net migration into Edmonton.
- The vacancy increase is despite low levels of new rental apartment construction, and continued, albeit at a much lower rate as compared to recent years, apartment to condominium conversions.
- Lowest vacancies are around the university (2.0%), in St. Albert (2.3%), and in southwest Edmonton (3.0%).
- Highest vacancies in Hudson Bay Reserve (HBR, 7.2%), and the northeast (6.5%); greatest vacancy increase in HBR (from 3.5% to 7.2%).
- Lowest average vacancy occur among units which rent for less than \$600/mo. (2.6%) and in complexes with more than 100 units (2.1%).
- Buildings built before 1960 have average vacancy of 5.9%; buildings built since 1990 have average vacancy of 4.7%.
- 2008 vs. 2009 vacancy: Calgary 2.1% to 5.3%; Vancouver 0.5% to 2.1%; Toronto 2.0% to 3.1%; Saskatoon unchanged at 1.9%.

# EDMONTON MULTIFAMILY RENTS 2009

## APARTMENT RENTS (\$) BY BEDROOM TYPE (as of Oct-09)

Area	Studio	1-Bedroom	2-bedroom	3-bedroom
Central	716	854	1,070	1,242
West	702	828	1,007	1,198
SW	742	880	1,037	1,242
SE	704	843	1,001	1,151
North	615	789	944	1,112
Edm Avg.	704	841	1,015	1,180

*During 2009, rents decreased 1.5%  
The projection for 2010 is an increase of 2.5%*

## HISTORICAL CHANGES IN APARTMENT RENTS BY BEDROOM TYPE (%)

Year	Studio	1-Bedroom	2-Bedroom	3-Bedroom
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
2009	-0.4	-0.7	-1.8	+0.9

- For all unit types, Edmonton's average rental rate decreased 1.5% in 2009; in 2008 average rental rates increased 8.9%.
- This is Edmonton's first average rental decrease since 1996, at which time the vacancy rate was 7.6%.
- The average rental rate decrease was influenced in part by landlords attempting to reduce turnover (retain current tenants) and increase occupancy (attract new tenants) in a market affected by increased vacancy and competition amongst landlords.
- For all unit types, the average rental decrease in 2009 was \$14 (to \$916), compared to a \$71 increase (to \$930) in 2008.
- Highest rents: St. Albert (\$1,033) and West Jasper Place (\$1,011); lowest rents: north central and Hudson's Bay Reserve (both \$785).
- Rental incentives were offered by 23% of landlords in 2009, as compared to 3%, 1%, 3%, 19% and 28% in the five previous years.
- Average 2009 2-bedroom rents: Edmonton \$1,015; Calgary \$1,099; Vancouver \$1,169; Toronto \$1,096; Saskatoon \$905.

## EDMONTON MULTIFAMILY SALES 2009

	# Buildings	#Units	Price/Unit	Cap Rate	GRM	\$ Volume
<b>Highrise</b>	1	42	\$100,000	8.4	8.3	\$4,200,000
<b>Lowrise</b>	49	1,345	\$61,538 – 137,821 \$99,557 avg	4.0 – 9.9 6.6 avg	6.5 – 14.7 9.9 avg	\$133,904,000
<b>Rowhouse</b>	0	0	n/a	n/a	n/a	\$0
<b>Totals</b>	50	1,387				\$138,104,000

- 2009 transaction volume of \$138M was lowest since 2000; 2009 volume was down 37% from 2008 and down 86% from 2007.

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
# Bldgs Sold	147	207	190	177	157	114	197	221	60	50
# Units Sold	3,847	6,106	4,478	4,124	4,110	2,878	5,002	8,474	1,871	1,387
Avg Price/Unit	\$35,938	\$47,614	\$51,226	\$53,275	\$63,952	\$61,739	\$63,158	\$116,770	\$116,318	\$99,570
Avg Cap Rate	9.4	9.4	8.8	8.2	8.1	7.4	6.7	4.8	5.7	6.7
Avg GRM	6.3	6.3	6.9	7.5	7.8	8.1	8.5	13.0	12.2	9.9
\$\$ Volume	\$138M	\$291M	\$228M	\$218M	\$248M	\$178M	\$316M	\$990M	\$218M	\$138M

## EDMONTON HOUSING MARKET 2009

- In 2009, due to condominium conversions, the primary apartment market was reduced by 1,077 units (compared to 1,821 units 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 \$1,122; Calgary \$1,310; Vancouver \$1,448; Toronto \$1,487.
  - 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, their average vacancy is lower too (3.1% vs. 4.5%).
- Of the 34,797 condominiums in metropolitan Edmonton, 8,415 (24.2%) are rented out as opposed to being owner-occupied.
- There are over 47,000 secondary units being rented, those units being single/semi detached houses, half-duplexes, basement suites, etc.
- Average condominium prices: Dec 2009: \$244,174; Dec 2008: \$234,286; Dec 2007: \$253,270; Dec 2006: \$227,428.
- Average single detached house prices: Dec 2009: \$366,761; Dec 2008: \$351,870; Dec 2007: \$382,022; Dec 2006: \$341,933.
- In 2009, residential sales (single family, condo and duplex/rowhouse) increased 12.8% to 19,139; in 2008, 16,962 homes sold.
- Housing starts 2009: 6,317 (3,897 single; 2,420 multiple); housing starts 2008: 6,615 (2,613 single, 4,002 multiple).
- Overall, 2009 multiple starts were down 39.5% from 2008, but 4th quarter 2009 saw an 82% increase as compared to 4th quarter 2008.

## EDMONTON'S ECONOMY

- Edmonton's overall office vacancy in 4th quarter 2009 is 8.3% (downtown 5.8%; government 4.4%; suburban 12.4%).
- Office rental rates in Class A towers in Edmonton's central financial district are low to high \$20s/sf.; vacancy is 4.0%.
- Office vacancy rates should stabilize centrally, but suburban rates are expected to increase due to new construction and weak demand.
- Despite some delayed projects there remain over \$170B worth of major projects ongoing in Alberta (oil, gas, infrastructure, etc.).
- Retail sales in Alberta, which were down 7.3% in 2009, are expected to rebound in 2010 by increasing 5.6%.
- Alberta's population growth rate was 2.3% in 2009, compared to a growth rate of 1.2% for Canada as a whole.
- After dipping 2.8% in 2009, Alberta GDP is expected to increase 3.0% in 2010; better crop conditions and increased oil prices will spur growth; business bankruptcies, which already decreased 8% in 2009, are expected to continue trending downward.
- New technologies enabling the recovery of shale gas from massive deposits across North America will keep downward pressure on natural gas prices; oil prices are expected to recover modestly thereby revitalizing Alberta's oil industry and service supply sectors.
- Canada is the world's 7th largest oil producer at 2.7M barrels per day of which 1.9M barrels per day are shipped to the U.S.A.

# EDMONTON'S PRIMARY RENTAL MARKET SIZE & MAKEUP

Unit Type	# of Units Apartment	# of Units Rowhouse	# of Units Total
Studio	4,184	45	4,229
1-Bedroom Unit	28,160	224	28,384
2-Bedroom Unit	24,063	2,481	26,544
3-Bedroom Unit	<u>2,632</u>	<u>5,416</u>	<u>8,048</u>
	59,039	8,166	67,205

Building Size	# of Buildings
6-12 units	608
13-19 units	374
20-49 units	660
50-99 units	177
100-199 units	93
200+ units	<u>43</u>
	1,955

## SELECT 2009 APARTMENT SALES TRANSACTIONS

SALE DATE	PROPERTY	# UNITS	YEAR BUILT	PRICE	PRICE PER UNIT
February 2009	112 Street Apartments at 10715 112 St	15	1966	\$1,315,000	\$87,667
April 2009	Wellington Arms at 13308 127 St	29	1969	\$2,175,000	\$75,000
August 2009	Madison Place 1 & 2 in Leduc	52	1973	\$4,500,000	\$86,538
October 2009	Hillside Gardens at 9737 105 St	8	1953	\$720,000	\$90,000

Source: The Network

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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, the Royal Bank of Canada, CBC, Edmonton Economic Development Corporation and the Government of Alberta.

To discuss a specific property or the market in general, please contact:

**Christopher Kamphius, B. Comm.**  
Associate Partner  
Investment Sales  
Phone: 780.917.8348  
Fax: 780.702.2983  
Email: [chris.kamphius@cwedm.com](mailto:chris.kamphius@cwedm.com)

**Raphael Yau, B.A. (Econ.)**  
Associate Partner  
Investment Sales  
Phone: 780.917.8326  
Fax: 780.702.2962  
Email: [raphael.yau@cwedm.com](mailto:raphael.yau@cwedm.com)

10123 - 99 Street, Suite 2300  
Edmonton, AB T5J 3H1  
Phone: 780-420-1177  
Fax: 780-424-9780  
Email: [multifamily@cwedm.com](mailto:multifamily@cwedm.com)

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