

MARKETBEAT APARTMENT REPORT



EDMONTON

A Cushman & Wakefield Research Publication

2012



ECONOMIC OVERVIEW

In 2011 the Edmonton and Alberta economies continued to rebound despite the woes and uncertainty plaguing global markets. Provincial GDP increased by 4.0% in 2011, a rate that should hold steady for the next couple of years.

The again-booming oil sector has invigorated the labour market, creating over 100,000 jobs during the last year, a record for Alberta. Market confidence and optimism is rapidly increasing employment and boosting retail sales as Albertans enjoy the highest disposable income per capita in Canada. Housing starts are increasing as developers prepare for an influx of migrants eager to help relieve Alberta's guaranteed labour shortages.

Oil prices (surpassing \$100 per barrel) have revved up an industry that is now firing on all cylinders. With the continuation of mega oil sands projects, non-conventional oil production is sure to rocket to all time highs. Current obstacles in pipeline development, most notably the Keystone XL pipeline to Texas and the Northern Gateway pipeline to the Pacific coast, could hamper petroleum export over the coming years until said distribution channels are up and running at full capacity. Until then, \$125B worth of oil sands development will fuel the greater Edmonton economy.

APARTMENT OVERVIEW

In 2011, purchasers were eager to take advantage of record low mortgage rates and invest in the safe haven that is multifamily. Owners, on the other hand, remained happy to hold tight to their investments which continue to experience healthy occupancy rates and strong cash flows, electing to refinance instead of sell. Despite this, there was a modest increase in cap rates, which averaged 6.5% in 2011 as compared to 6.3% in 2010.

The total transaction volume in 2011 was \$186 million. Volume was down 9.3% from 2010 which saw \$205 million in sales, but was still more than 2009 which saw a meager \$138 million in sales. During 2011, 63 buildings comprising 1,724 units sold for an average of \$107,978 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, with less than 50 units, was \$92,899.

In 2011, Edmonton wide vacancy decreased from 4.2% to 3.3%. Meanwhile, average rents increased by 1.9%. This slight increase followed a year of stagnancy in 2010 and a decrease in 2009 (which was the first rental decrease since 1995).

OUTLOOK

In 2012, as record low interest rates persist, purchasers will continue to covet multifamily investment. However, as global equity markets exhibit uncertainty, owners will remain reluctant to relinquish their

apartment holdings. Only owners with specific reasons to sell, or those approached by aggressive purchasers, will vend in 2012. Continued economic growth should apply downward pressure on vacancy resulting in rent increases. But rent increases will be tempered by increased home ownership affordability as mortgage rates remain low and housing prices are expected to increase by only 2%. With low interest rates and low levels of supply in the apartment market, cap rates are expected to inch downwards throughout 2012.

ECONOMIC INDICATORS

	2010	2011	CHANGE
Vacancy (%)	4.5	3.3	▼
Average Rents (\$)	917	934	▲
Sales Volume (\$)	205M	186M	▼
Sales Volume (# Units Sold)	1,832	1,724	▼
Average Cap Rate (%)	6.3	6.5	▲

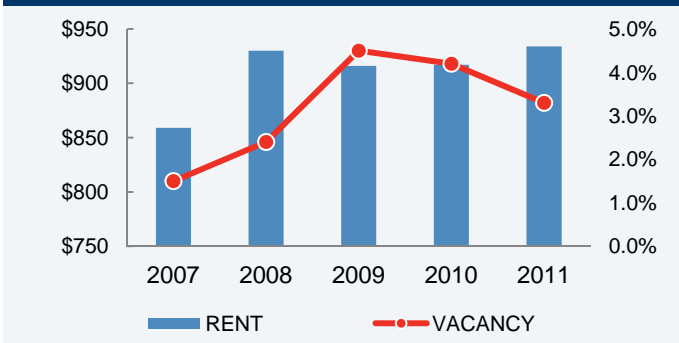
Source: CMHC, The Network and Cushman & Wakefield Edmonton

AVERAGE SALES PRICE PER UNIT



Source: The Network and Cushman & Wakefield Edmonton

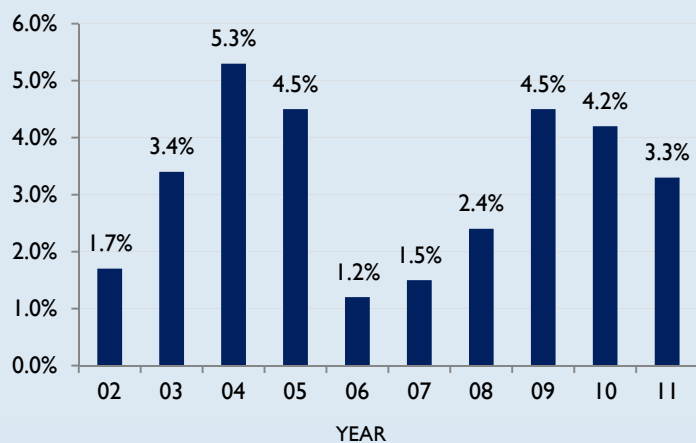
AVERAGE RENT PER UNIT VS. AVERAGE VACANCY



Source: CMHC

EDMONTON MULTIFAMILY VACANCIES 2011

APARTMENT VACANCY RATES



HISTORICAL VACANCY RATES BY AREA (%)

Year	Central	West	SW	SE	North
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
2011	3.2	3.7	1.2	1.7	5.0

- Edmonton's vacancy rate dipped for a second straight year, settling at 3.3%, down from 4.2% in 2010, and is expected to decrease slightly in 2012.
- The vacancy decrease is due in part to the improving labour market resulting in positive net migration to the Edmonton region, continued low levels of new rental apartment construction, and continued apartment-to-condominium conversions (albeit at lower levels than in previous years).
- The decrease is in spite of competition from condo investors seeking renters, and low interest rates enabling some renters to become home owners.
- A 2012 vacancy decrease is likely as the economy improves, despite an expected increase in condominium completions and conversions.
- Lowest vacancies located in southwest (1.2%), University (1.3%), Millwoods (1.3%), east central (2.1%) and Castledowns (2.1%).
- Highest vacancies located in north central (6.5%), Hudson Bay Reserve (5.3%), northeast (4.8%), Jasper Place (4.5%) and west central (4.5%).
- Suburban vacancies: St. Albert (0.5%), Leduc (1.2%), Spruce Grove (2.7%), Strathcona County (4.7%), Stony Plain (8.0%), Ft. Saskatchewan (10.7%).
- Lowest average vacancy occurs in complexes with more than 100 units (1.6%) and in buildings constructed since 1990 (2.3%).
- Vacancy change from 2010 to 2011: Calgary 3.6% to 1.9%; Vancouver 1.9% to 1.4%; Toronto 2.1% to 1.4%; Saskatoon remained unchanged at 2.6%.

EDMONTON MULTIFAMILY RENTS 2011

APARTMENT RENTS (\$) BY BEDROOM TYPE (as at October 2011)

Area	Studio	1-Bedroom	2-bedroom	3-bedroom
Central	734	871	1,090	1,230
West	702	834	1,010	1,213
SW	770	926	1,068	1,256
SE	700	838	1,018	1,256
North	625	792	953	1,121
Edm Avg.	713	857	1,034	1,191

*During 2011 rents increased by 1.9%.
The projection for 2012 is another slight increase.*

HISTORICAL CHANGES IN APARTMENT RENTS BY BEDROOM TYPE (%)

Year	Studio	1-Bedroom	2-Bedroom	3-Bedroom
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
2011	+0.7	+1.7	+1.9	+1.9

- For all unit types, Edmonton's average rental rate increased by 1.9% in 2011 following a stagnant 2010 and a 1.5% decrease in 2009.
- With the exception of 2009, average rents have increased every year since 1995, at which time the overall vacancy rate was 7.6%.
- The rental increase was influenced by operation cost inflation, growing in-migration, and low levels of apartment construction.
- Highest avg. rents in West Jasper Place (\$1,024), southwest (\$1,017), and Millwoods (\$1,005); greatest rental increase in Millwoods (+2.0%).
- Lowest avg. rents in north central (\$779), and Hudson's Bay Reserve (\$794); greatest rental decrease in west central (-0.9%).
- Suburban rents: Strathcona County (\$1,067), St. Albert (\$1,035), Leduc (\$1,031), Spruce Grove (\$968), Stony Plain (\$933), Ft. Sask. (\$916).
- Rental incentives were offered by 10% of landlords in 2011, as compared to 25%, 23%, 3%, 1%, 3%, 19% and 28% in the seven previous years.
- Average 2011 2-bedroom rents: Edmonton \$1,034; Calgary \$1,084; Vancouver \$1,237; Toronto \$1,149; Saskatoon \$966.

EDMONTON MULTIFAMILY SALES 2011

	# Buildings	#Units	Price/Unit	Cap Rate	GRM	\$ Volume
Highrise	1	125	\$113,600	6.4	9.6	\$14,200,000
Lowrise	61	1,582	\$40,385 – 186,170 \$107,125 avg*	4.4 – 9.1 6.5 avg	7.5 – 12.1 9.8 avg	\$169,472,455
Rowhouse	1	17	\$146,000	6.8	11.2	\$2,482,000
Totals	63	1,724				\$186,154,455

*The average price per unit for a walk-up apartment building, built prior to 1990, with less than 50 units, was **\$92,899**.

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
# Bldgs Sold	190	177	157	114	197	221	60	50	67	63
# Units Sold	4,478	4,124	4,110	2,878	5,002	8,474	1,871	1,387	1,832	1,724
Avg Price/Unit	\$51,226	\$53,275	\$63,952	\$61,739	\$63,158	\$116,770	\$116,318	\$99,570	\$111,791	\$107,978*
Avg Cap Rate	8.8	8.2	8.1	7.4	6.7	4.8	5.7	6.7	6.3	6.5
Avg GRM	6.9	7.5	7.8	8.1	8.5	13.0	12.2	9.9	10.1	9.9
\$\$ Volume	\$228M	\$218M	\$248M	\$178M	\$316M	\$990M	\$218M	\$138M	\$205M	\$186M

EDMONTON'S HOUSING MARKET 2011

- In 2011 condominium conversions removed 400 units from the primary apmt market (as compared to 746 in 2010, 1,077 in 2009 and 1,821 in 2008).
- Numerous condominiums were added to the secondary rental market (either newly built or recently converted); they often command higher rent:
 - Average 2-bedroom condo rents: Edmonton \$1,164; Calgary \$1,460; Vancouver \$1,663; Toronto \$1,608.
 - Higher rents are due in part to higher quality, numerous upgrades and greater amenities, e.g.: ensuite laundry, underground parking.
- Rented condominiums not only have higher average rents than rented apartments, their average vacancy is also higher (3.7% vs. 3.3%).
- Of the 41,183 condominiums in metropolitan Edmonton, 11,733 (28.5%) 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 in December: 2011: \$227,679; 2010: \$223,454; 2009: \$244,174; 2008: \$234,286; 2007: \$253,270.
- Average single family detached house prices in December: 2011: \$364,803; 2010: \$355,270; 2009: \$366,761; 2008: \$351,870; 2007: \$382,022.
- In 2011 residential sales (single family, condo and duplex/rowhouse) totaled 16,893; in 2010, 16,278 homes sold.
- Housing starts 2011: 9,332 (5,017 single; 4,315 multiple); housing starts 2010: 9,959 (6,062 single; 3,897 multiple).
- Overall, 2011 multiple starts were up 11% from 2010, following a 61% increase the previous year; most multiple starts were for the condo market.

EDMONTON'S ECONOMY

- Edmonton's overall office vacancy (head and sub lease) in 4th quarter 2011 is 11.0% (downtown 11.4%; government 4.3%; suburban 14.5%).
- Office rental rates in Class A towers in Edmonton's central financial district average \$20.85/s.f.; vacancy is 8.8%.
- Late 2011 saw an increase of leasing activity in large downtown core pockets; 2012 will see a shift from a tenant's market to a landlord's market.
- Edmonton's population, forecast to reach 1,198,000 in 2012, continues to grow; Alberta's population increased 1.7% in 2011 to 3,798,791.
- In 2011 the Edmonton International Airport was expanded by over 480,000 s.f. and served over 6.3M passengers (190,000 more than in 2010).
- Edmonton's light rail transit (LRT) stretches 20.5 km, carries over 92,000 passengers each day, and is rapidly being expanded north to NAIT.
- In 2011 Edmonton had the 4th highest GDP growth of all Canadian cities at 3.9% (after St. John's at 5.4%, Regina at 5.1% and Saskatoon at 4.6%).
- Alberta has the country's highest real GDP per capita (\$49,249) and the country's highest personal disposable income per capita (\$37,885).
- Alberta's unemployment rate in 2011 decreased to 5.5% from 6.5% in 2010 and is expected to continue its downward trend through 2013.
- Retail sales in Alberta in 2011 surpassed \$63 billion, the highest level on record, and are expected to grow by 6.2% in 2012.
- In December 2011 there were 338 rigs drilling in Alberta; this is an increase of 25.8% from the same time period one year earlier.
- 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
Studio	4,207	35	4,242
1-Bedroom Unit	27,394	205	27,599
2-Bedroom Unit	23,716	2,484	26,200
3-Bedroom Unit	<u>2,624</u>	<u>5,208</u>	<u>7,832</u>
	57,941	7,932	65,873

Building Size	# of Buildings
6-12 units	613
13-19 units	378
20-49 units	663
50-99 units	179
100-199 units	94
200+ units	<u>40</u>
	1,967

SELECT 2011 APARTMENT SALES TRANSACTIONS

SALE DATE	PROPERTY	# UNITS	YEAR BUILT	PRICE	PRICE PER UNIT
February 2011	Apartment at 10032 115 Street, Edmonton	12	1958	\$1,152,000	\$96,000
May 2011	Colony Park at 11530 34 Street, Edmonton	62	1976	\$7,050,000	\$113,700
June 2011	Darren Manor at 10635-123 Street, Edmonton	30	1969	\$2,820,000	\$94,000
October 2011	Juniper Estates at 10131 159 Street, Edmonton	43	1981	\$4,644,000	\$108,000

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, Government of Alberta Finance, RBC Economics, Edmonton International Airport, and Edmonton Economic Development Corporation.

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