



Edmonton Multi-Family Market Report

Year-End 2008 / 2009 Outlook

partnership.
performance.

**AVISON
YOUNG**

Intelligent
Real Estate Solutions

Economic Overview

The Edmonton Region has inevitably been impacted by the instability gripping the global economy and financial markets. After the collapse of the U.S. subprime mortgage market in 2007, the credit crunch became a credit crisis that then spread to the equity markets in 2008. All of the industrialized nations are either in or approaching recessionary times, and though Edmonton can take some comfort in its healthy employment and immigration levels, all forecasts have been pulled back to more conservative figures.

In the month of December 2008, full-time employment in Alberta decreased by 19,900 people, mainly due to job losses in construction, but part-time employment increased by 4,100 people. While job growth is expected to moderate in the upcoming years, Edmonton's unemployment rate, currently sitting at 3.6%, will stay among the lowest in the country, and median family income among the highest. According to Statistics Canada, Alberta's net interprovincial migration for the first nine months of 2008 far surpassed any other province (Alberta at 14,418, followed next by British Columbia at 4,997). Total net migration in Edmonton is projected to be 18,000 in 2008 and 16,500 in 2009.

In Alberta's oil-driven economy, fluctuations in commodity prices over the short term have created some uncertainty at the regional level. With the price of crude tumbling from its July peak of \$147 U.S. a barrel to its current price of around \$40 U.S. a barrel, oilsands activity has eased off indefinitely, and some oilsands and upgrader projects have been delayed, though not entirely cancelled. However, in the long run, global demand for energy resources, especially from emerging markets like India and China, is expected to grow and oil prices will stabilize - the big question, of course, is when.

Business and consumer confidence has been shaken by the "doom and gloom" headlines. Talks of government intervention in the weakened economy by way of bailouts, cash injections, and stimulus packages further reinforce the gravity of the situation. This raises another question: Will public infrastructure spending be enough to displace the lost investment in the oilsands? After years of surpluses, Alberta looks as though it might be facing a technical deficit in 2009.

No one can expect a full recovery in the near future, but trusting the cyclical nature of the economy, as well as the real estate market, improvement does lie ahead. After years of red-hot expansion, there is no doubt that the Region is headed toward a period of slower economic growth, and albeit small, it's still growth. Relatively speaking, Edmonton's outlook is positive.

Economic Indicators

ANNUAL ECONOMIC GROWTH RATE (GDP)

	2005	2006	2007	2008F
Canada	2.9%	2.8%	2.7%	0.7%
Alberta	4.6%	6.6%	3.3%	0.6%
Edmonton	3.7%	5.9%	5.5%	3.1%

LABOUR FORCE (000's)

	2007	2008 (Est.)
Canada	18,189	18,212
Alberta	2,021	2,078
Edmonton	614	651

EMPLOYMENT GROWTH (Annual % Change)

	2007	2008 (Est.)
Canada	2.2%	1.6%
Alberta	4.3%	2.7%
Edmonton	6.5%	3.6%

UNEMPLOYMENT RATE

	2007	2008 (Est.)
Canada	5.9%	6.1%
Alberta	3.2%	3.6%
Edmonton	3.9%	3.6%

EDMONTON CMA POPULATION PROJECTIONS

2008	1,102,400
2009	1,124,800
2010	1,145,200
2011	1,165,200
2012	1,185,200

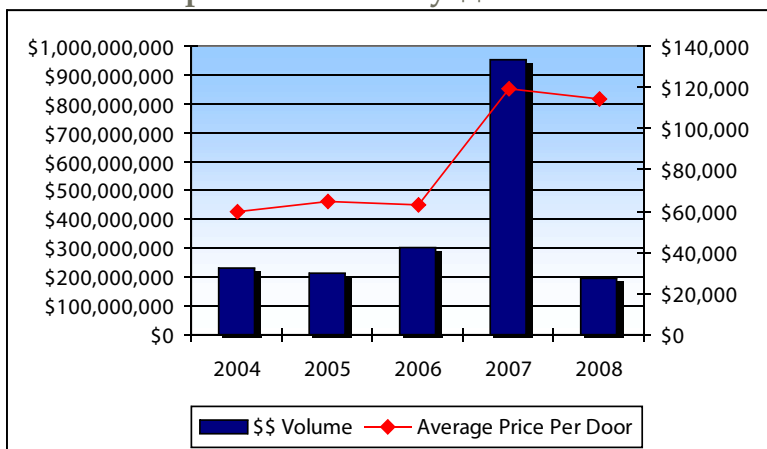
The Investment Market

Edmonton Historical Apartment Sales

	2004	2005	2006	2007	2008
No. of Properties Sold	150	109	177	213	51
No. of Units Sold	3,801	3,302	4,807	7,976	1,705
Lowest Price Per Door	\$13,442	\$18,000	\$24,167	\$42,764	\$56,593
Highest Price Per Door	\$107,143	\$118,705	\$147,059	\$202,454	\$185,000
Average Price Per Door	\$59,938	\$64,382	\$62,969	\$119,079	\$114,427
\$\$ Volume	\$227,824,828	\$212,588,473	\$302,693,305	\$949,776,592	\$195,098,400

Sales in the Edmonton Region including Sherwood Park, Fort Saskatchewan, Leduc, St. Albert, Spruce Grove and Stony Plain. "Properties" can include two or more adjacent, or otherwise related, buildings (5+ units). No. of properties sold includes properties that traded more than once in the year - ie. counted as multiple transactions. The two walk-up/retail buildings (residential units on top of main floor commercial) and one rooming house were not included in the 2008 statistics.

Historical Apartment Sales by \$\$ Volume & PPD



Not surprisingly, the softening of the real estate market compounded by the uncertainty of the economy and the volatility of the financial markets led many investors to adopt a "wait and see" approach this past year. The sales volume for apartment transactions in 2008 was down 80% from 2007, and down 35% from 2006. The average price per door for all transactions in 2008 was only down 4% from 2007, but up 82% from 2006.

The vast majority of buildings that transacted in 2008 were walk-ups - 48 of the total 51 transactions, to be exact. For the 1,544 low density units that traded, the price per door ranged from ~\$56,500 to \$185,000, averaging at ~\$110,000 per door. It is worth noting that the transaction with the lowest price per door at \$56,593 was a 182 unit seniors home. If the seniors home is not included in the list of walk-up buildings, the average price per door becomes ~\$117,000. Conversely, the transaction with the highest price per door at \$185,000 was acquired in April of 2008 with the intention of converting the units into condominiums. Four months later, it was resold at \$181,000 a door.

There were two mid-rises, totaling 155 units, that sold at an average price per door of ~\$148,000 - both are also condominium conversions. A 46 unit rowhouse property sold for \$180,000 per door, an aggressive price but at the time of purchase, the rents were well below market. After 10 high-rises totaling 2,525 units traded in 2007, no high-rises have closed this past year.

44 of the 51 transactions in 2008 were for smaller buildings that were less than 50 units. The total 861 units in properties of this size range averaged ~\$119,000 per door, accounting for just over half of the total dollar sales volume for all sized properties.

All three trades of properties consisting of 50 to 100 units (two of which are also mid-rises) were purchased as intended condo conversions. One has since been retained as a rental property, whereas the others are being renovated in preparation of selling the units to individual owners.

Again, if the seniors home is excluded from the list of properties of over 100 units in size, the average price per door for the transactions of the largest sized buildings then becomes ~\$114,000, as opposed to ~\$101,500.

In 2008, capitalization rates ranged anywhere between 3.0% and 7.5%, depending on whether current or stabilized income was used in the analysis. The majority of the cap rates fell between 6.0% to 7.0% on a stabilized basis.

In comparison to 2007, which in itself was very much an extraordinary year, 2008's multi-family market in Edmonton was definitely slow, but reverting closer to long-term trends. The condo conversion market collapsed due to competition from high inventory levels in the resale condo market. Towards the end of 2007, the condo market had become saturated, as demand from small investors, speculators and owner-occupiers declined sharply. With converters no longer buying, cap rates were forced up based on income analysis. As 2008 progressed, the lenders tightened up across all classes, increasing their requirement to qualify on both a borrower's covenant and the asset itself. Purchasers were no longer able to borrow at a 75% Loan-to-Value on aggressively priced properties.









The combination of limited debt availability and a lack of demand from converters allowed cash flow buyers to justify offers at lower prices. Offer prices fell - a reality that many vendors had difficulty accepting, and thus deals were not getting started. Even if buildings were put under contract at high values, the inability to get financing caused many deals to fall apart. The result was lower pricing and dramatically less activity in 2008.

Land:

There were 43 multi-family land transactions in 2008, as compared to the 112 that occurred in 2007. The parcels ranged in size from a 520 square feet lot to a 10.82 acre site in North Edmonton bought by the City of Edmonton. There were 12 RA7 (Low Rise Apartment Zone) trades, ranging in size from 5,940 square feet to 6.38 acres. Total sales volume for RA7 land was \$44,574,250. The lowest price was ~\$603,000 per acre (\$13.85 per sq. ft.), and the highest was ~\$2,168,000 per acre (\$50.44 per sq. ft.). At a maximum density of 125 dwellings per hectare (~50 units per acre), the average cost for RA7 sites was approximately \$22,500 per buildable unit.

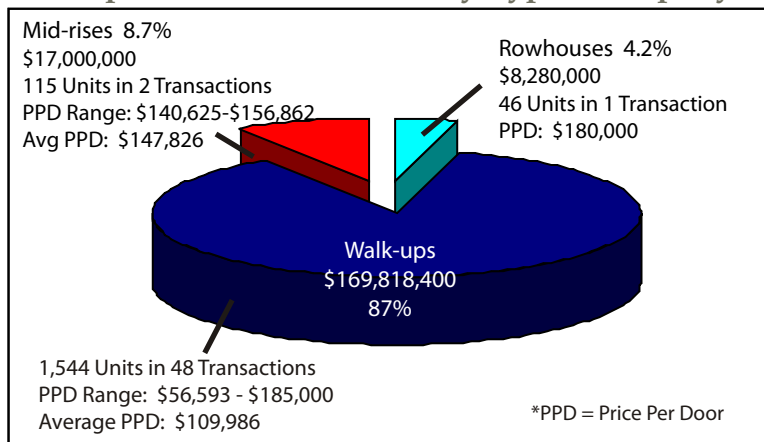
The Investment Market - continued...

2008 Notable Transactions

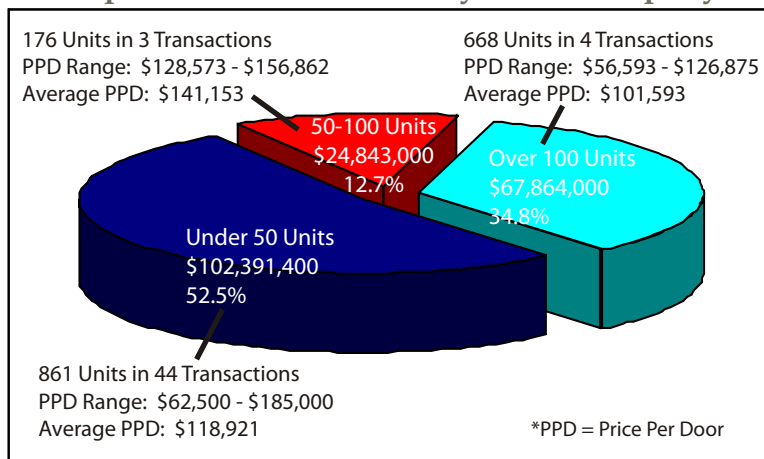
Property	Purchaser	Construction Type	Year Built	Total Units	Sale Price	Price Per Door	Cap Rate
 WESTLAWN VILLAGE 9535 165 Street	Out of Province	Wood Frame Walk-up	1968	144	\$18,270,000	\$126,875	6.78%
 HARDISTY CARE CENTRE 6420 101 Avenue	Out of Province	Concrete Block Seniors Home	1966	182	\$10,300,000	\$56,593	10.97%
 CHERRYHILL PARK ESTATES 10103 / 93 158 Avenue	Local	Wood Frame Townhouse Complex	1981	46	\$8,280,000	\$180,000	4.25%
 ASTORIA GREENS 14420 88A Street	Local	Wood Frame Walk-up	1973	192	\$20,544,000	\$107,000	7.07%
 LIBERTY QUARTERS 9342 103 Avenue	Local	Concrete Block Mid-rise	1981	64	\$9,000,000	\$140,625	N/A
 LEXINGTON MANOR 11025 124 Street	The City of Edmonton	Concrete Block Walk-up	1963	39	\$3,900,000	\$100,000	5.01%
 HAMPTON COURT 16404-16424 115 Street	Local	Wood Frame Walk-up	1978	150	\$18,750,000	\$125,000	6.46%
 WHITEHALL PLACE 10135 120 Street	Local	Concrete / Steel Mid-rise	1962	51	\$8,000,000	\$156,862	N/A

The graphs below depict the breakdown with respect to the percentage of total dollar sales volume for the different types & sizes of apartment properties that traded in 2008.

2008 Apartment Transactions by Type of Property



2008 Apartment Transactions by Size of Property



At the start of 2009, the fact is that the fundamentals in multi-family are still solid; vacancies are low, rents are high, and mortgage payments are being made. Both lenders and borrowers are exercising more caution and being more conservative in their assessment of multi-family properties. As the supply of capital remains tighter than in previous years, the markets have gone back to underwriting risk and deriving values from the income being produced. As long as the cash flow is there, good borrowers will be able to get good financing for good buildings in good locations. Distressed properties and foreclosures are coming to market in early 2009, but the only cause for concern is for those who got caught up in the condo conversion frenzy and fell victim to bad timing, or are over-extended in their commitments. Most Edmonton apartment owners who bought their buildings before the big boom have seen huge appreciation in their real estate in just a couple of years, and will find success in realizing an attractive return on their investments this year and in the years to come.

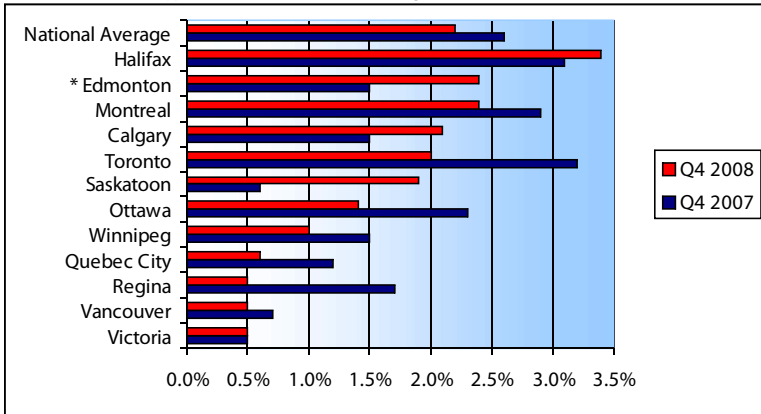
Further good news is that interest rates are historically very low. Purchasers who qualify for a CMHC insured mortgage can see rates as low as 3.20% on five year fixed mortgages, but valuations are typically done at capitalization rates of 7.0%. For the time being, this will keep demand for apartment product strong.

Although it may be more difficult to secure financing, it is by no means impossible. At a time when a bit of creativity is needed to get deals done, joint ventures, assumption of mortgages, and vendor-take-back mortgages are becoming increasingly popular.

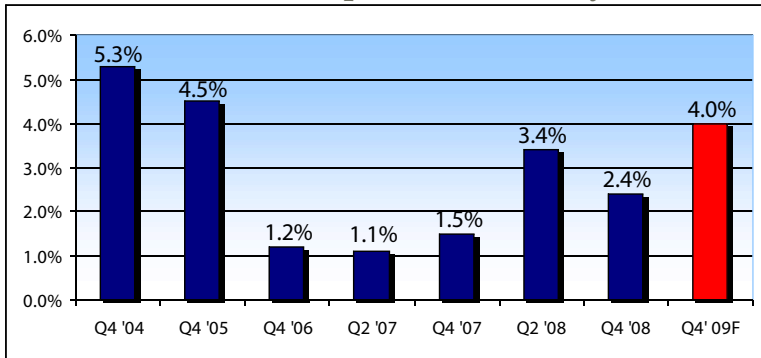
We anticipate that cap rates will grow slightly to lie within the 6.5% to 7.5% range in 2009. Most trades will be low-rise walk-ups, with a small premium on very well-located, very well-maintained buildings and high-rises. Investors, particularly those who are not highly leveraged, who take on smart risks will be rewarded in this market.

The Rental Market

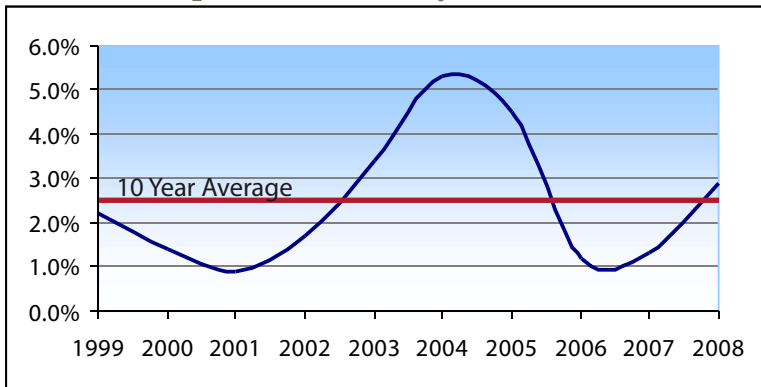
National Apartment Vacancy Rates



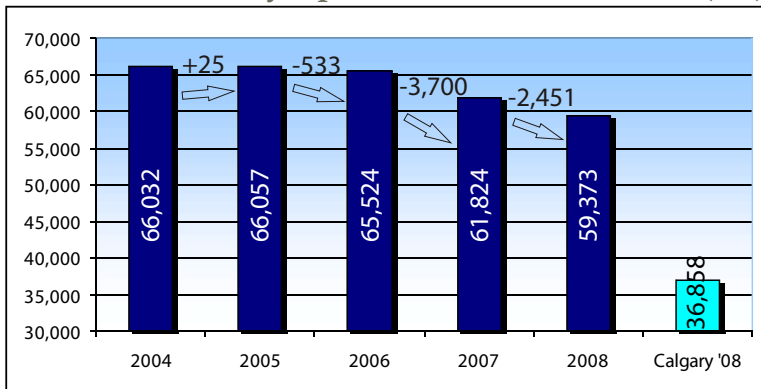
Edmonton Historical Apartment Vacancy Rates



Edmonton Apartment Vacancy Rates Over 10 Years



Edmonton Primary Apartment Rental Universe (Q4)



According to CMHC's October rental survey, Edmonton's rental apartment vacancy rate in the fourth quarter of 2008 was 2.4%, compared to the provincial average of 2.5% and the national average of 2.2%.

Despite low levels of new rental construction and the steady loss of traditional rental units to condo conversions, the purpose-built commercial rental sector is seeing vacancies creep upward from 1.5% in Q4 2007 to 2.4% in Q4 2008. Following a couple years of a very tight rental market, this year's slight upturn in vacancy can be attributed to three key factors: reduced net migration, affordability constraints, and competition from the secondary rental markets.

Demand has been tempered by the slow down of new residents to the city, while rapidly accelerating rents in the past couple of years have encouraged some renters to double up, and deterred other new renter households from forming at all. On the supply side, the condo boom - both new construction and recent conversions - was largely driven by the number of investors who will inject their units into the rental pool. Speculators who recognize that quick flips are not so profitable in today's market will have no choice but to lease out their units in order to mitigate their carrying costs. In their survey, CMHC identified a total condominium universe of 32,698 units, of which 7,616 or roughly 23% were rental units rather than owner-occupied. Rental condo vacancy was 4.3%.

The only districts where apartment vacancies actually decreased from 2007 were West Jasper Place and Castledowns.

The same reasons behind the rise in vacancy in 2008 will continue into 2009, particularly growing competition from the secondary rental market. With almost 7,000 condo apartment units currently under construction in Edmonton, landlords can expect the marketplace to become increasingly competitive in the upcoming months. The effect will be felt most by units in the upper rent ranges that must contend with investor-owned condos that typically rent for over \$1,200 per month.

Also, while grim economic conditions may keep some renters renting, lower house and condo prices and more options in terms of availability, along with low mortgage rates, will cause some prospective first time homebuyers to vacate their rental units in favour of home ownership.

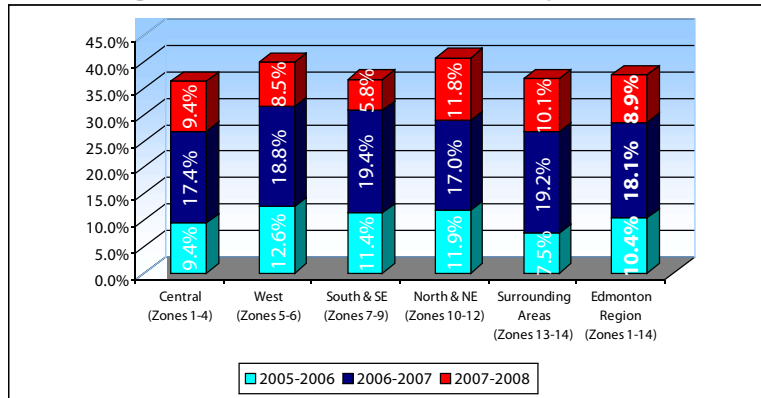
In 2009, Edmonton's rental apartment vacancy rate is anticipated to approach 4.0%. However, Edmonton's vacancy has averaged out to be 2.5% over the last ten years, and this market remains one of the most stable in the country.

The depletion of the rental universe in Edmonton has been substantial over the last two years, due to a great number of condo conversions and a lack of new rental completions. Even with a recent decrease in the number of primary rental units, Edmonton's rental stock is still about 60% more than Calgary's - an indication of the demographic difference between the cities. New rental construction activity in Edmonton will stay fairly minimal in 2009 by historic standards as costs still hinder financial viability. Most rental projects will be demographically specific, such as life-lease and senior assisted-living facilities, while others will be government-supported affordable housing initiatives.

*Note that these figures do not include private row structures (townhouses). Please contact us for more details on row units.

The Rental Market - continued...

Percentage Growth of Rental Rates by Area



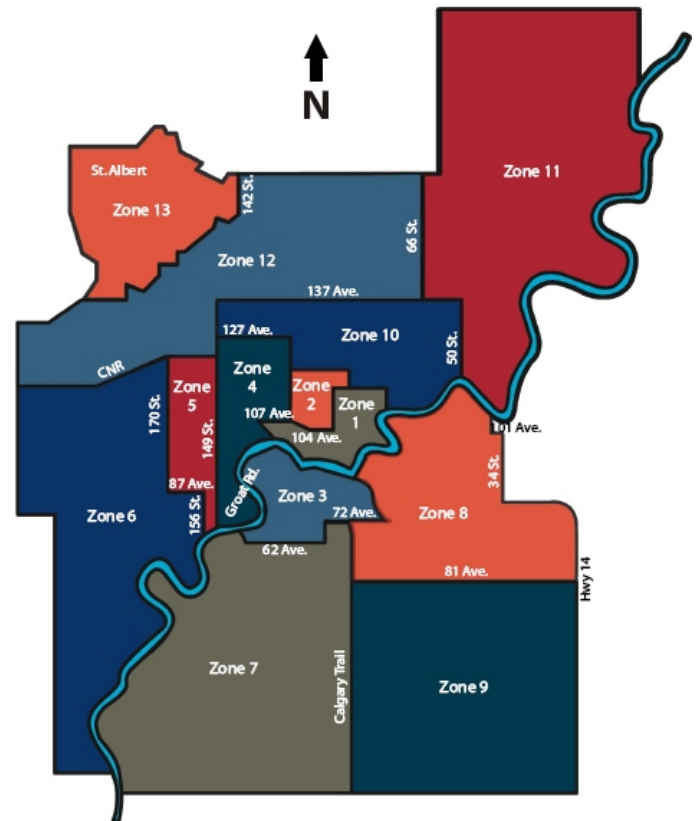
Higher vacancies in 2008 helped to restrain the strong rental increases witnessed in 2007, and will continue to moderate further increases in 2009. After a \$132 year-over-year jump recorded in the Q4 2007 survey, average apartments rents for all unit types in the entire Edmonton Region grew by only \$71 per month in 2008's survey. In spite of the added competition, rents were pushed upward by rising costs for upgrades, repairs, maintenance, insurance, taxes and other monthly operating expenses.

This past year, based on a dollar basis, the largest rent increases occurred in the University and St. Albert zones, both up by \$127 per month on average. The South West saw the smallest rise in rents at a modest \$33. When looking at the percentage change, rents climbed the most in the Hudson Bay Reserve at 14.1%, while rents rose only 3.8% on average in the West Central district.

In 2009, rents are forecasted to increase by an average of \$30 per month for two-bedroom units, or by approximately 3% for all unit types.

In an effort to limit turnover and attract new tenants, landlords have begun to offer incentives again, and these enticements are expected to become more common in the next year. Benefits to renters may include one month free rent or longer leases with locked-in rents, extra appliances or parking, and free cable TV or high speed internet.

Edmonton Census Metropolitan Area Vacancy Survey Zones (CMHC)



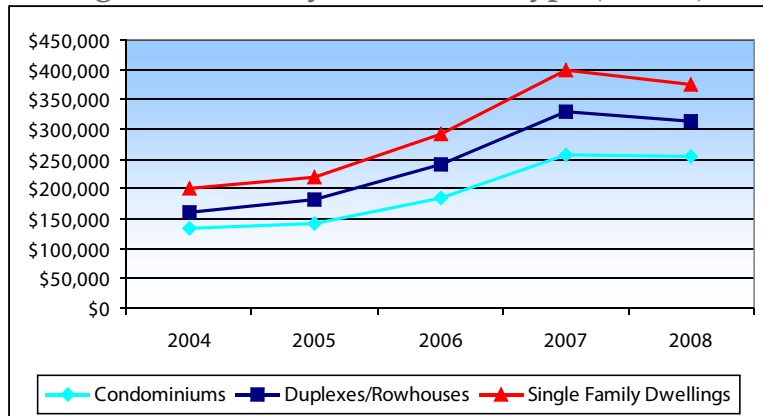
1. Downtown
2. Hudson Bay Reserve
3. University Area
4. West Central
5. Jasper Place
6. West Jasper Place
7. South West
8. East Central
9. Millwoods
10. North Central
11. North East
12. Castledowns
13. St. Albert
14. Other Centres:
Strathcona County
Leduc County
Parkland County
Sturgeon County

October 2008 Vacancy and Average Rents by District

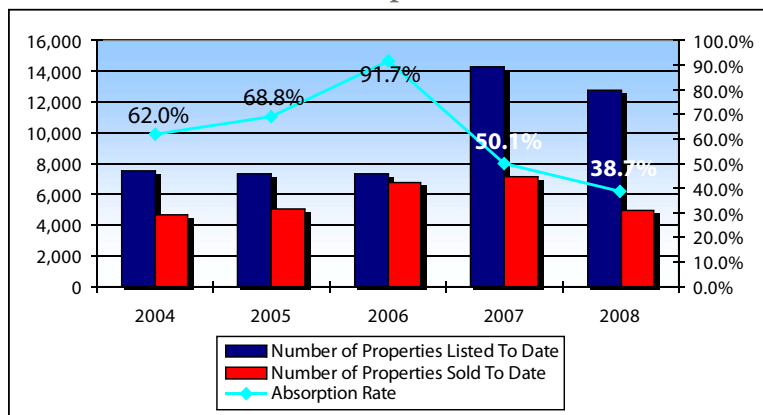
Zone No.	District	Vacancy Rate	Bachelors (\$)	1-Bdrms. (\$)	2-Bdrms. (\$)	3-Bdrms. + (\$)	Average (\$)
1	Downtown	1.8%	730	884	1,136	1,295	943
2	Hudson Bay Reserve	3.5%	615	734	925	1,151	784
3	University	1.4%	792	906	1,186	1,171	981
4	West Central	2.9%	629	784	943	1,137	832
5	Jasper Place	3.0%	632	810	971	1,143	893
6	West Jasper Place	2.8%	767	918	1,081	1,278	1,022
7	South West	1.7%	747	911	1,072	1,205	1,012
8	East Central	2.2%	683	787	930	1,022	858
9	Millwoods	1.9%	744	881	1,052	1,247	990
10	North Central	3.4%	598	725	836	1,044	770
11	North East	3.7%	688	844	1,009	1,128	956
12	Castledowns	2.9%	702	889	1,017	1,142	978
13	St. Albert	3.7%	n/a	845	1,028	1,158	1,008
14	Other Centres	2.0%	700	816	993	1,085	937
Edmonton Region			707	847	1,034	1,170	930

The Housing Market

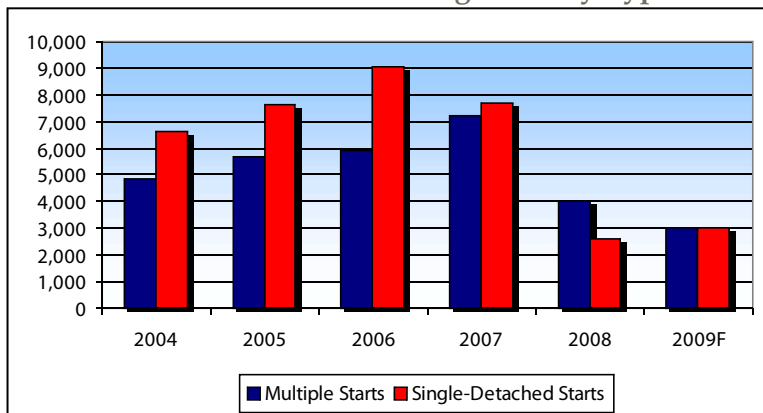
Average Sale Price by Residential Type (Resale)



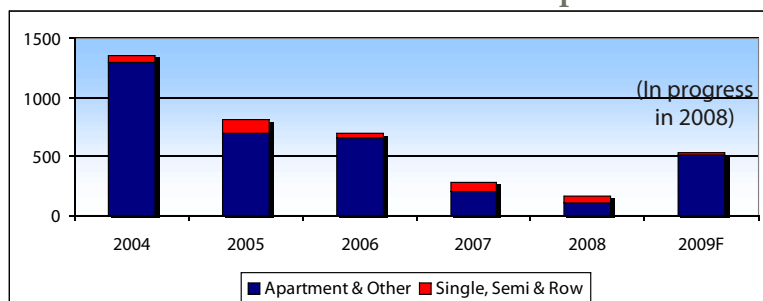
Resale Condominium Absorption Rates



Historical and Forecasted Housing Starts by Type



Historical and Forecasted Rental Completions



In the month of December...

- The average resale price of single family homes was \$351,870 - down 17.41% from its May 2007 peak. 2008 prices averaged \$375,952.

- The average resale price of duplexes and townhouses was \$292,893 - down 20.40% from its October 2007 peak. 2008 prices averaged \$312,812.

- The average resale price of condos was \$234,286 - down 13.84% from its July 2007 peak. 2008 prices averaged \$256,287.

Despite the significant drop in prices from their respective 2007 peaks, when comparing December 2007 sales to December 2008 sales, average resale prices for all three residential types fell by only 5.68%, suggesting that prices in 2008 did not plummet as many had expected. This supports the notion that the real estate market in Edmonton has not crashed, but is merely going through a much needed adjustment.

At the end of December, total residential inventory on the MLS amounted to 6,316 units - a number that will likely rise after the holidays, but down substantially from the 11,006 recorded in May, giving evidence that the market will gradually find a balance. Average days for a listing to stay on the market is 65 days, and sales are expected to stay slow and steady.

However, the resale condominium absorption rate (percentage of sales over listings) for 2008 still sits around 38.7%, well below the levels of 60%-70% typically considered to be normal market conditions. As a result, the Realtors Association of Edmonton predicts condo prices will fall by another 5% or so in 2009 to an average of \$222,500.

In 2008, the new housing industry has had to cope with weaker demand associated with lower net migration, competition from the existing home market, and an excess of unoccupied new units. In response to stagnant sales and the oversupply of product, builders have had to pull back dramatically in new construction activity. For all of 2008, total (ownership) housing starts reached 6,615 units down 55.6% from the 14,888 starts seen in 2007. At only a third of 2007's production, single-detached starts have not been at these levels since 1995. As for multiple unit starts, they have dropped 44.5% from 2007's 25-year record of 7,206.

Of the 4,002 multiple unit starts in 2008, the vast majority were condominium apartments. If one assumes that 50% of the units under construction have been presold, there is an estimated year and a half of new condo supply left to come to market. With the high volume of unabsorbed multiple units, developers and sales people will need to implement new strategies to deal with the elevated levels of inventory.

CMHC does not foresee much improvement in new housing activity in the upcoming year. Starts in 2009 will be reduced by another eight percent to a total of 6,000 units. The rebound in single-detached starts will be offset by a weaker year for multi-family construction of 3,000 units (built with the intention of individual ownership).

As condo development stalls, a small group of builders may shift focus onto rental projects in order to keep their crews busy.

*Only transactions tracked through the MLS. Figures for private sales by owner (eg. ComFree) not included.

Multi-Family Trends

- ↔ **TRANSACTION ACTIVITY** to continue to be slow for the first few months of 2009, but pick up in the latter half of the year
- ↓ **APARTMENT PRICES** to stabilize at lower, income-based levels but remain high by historical standards
- ↓ **CONVERSIONS** to cease for the most part except for buildings with superior quality or location
- ↑ **RENTAL SUPPLY** to be limited in new rental construction, but augmented by the secondary rental market (condos, basement suites, etc.)
- ↑ **VACANCY** to experience upward pressure, but will average no more than 4-5%
- ↔ **RENTS** to rise marginally by another 3-5% as landlords stabilize market rents except for suites in the upper rent ranges that will compete with condo rentals
- ↑ **INCENTIVES** to become more frequent and widespread as competition increases
- ↔ **OPERATING EXPENSES** to stabilize at current levels
property taxes to go up, labour & materials costs to go down
- ↓ **NEW HOUSING CONSTRUCTION** to decrease until excess inventory is absorbed
- ↓ **RESALE CONDO PRICES** to drop as investors and speculators try to unload newly constructed units and the number of listings climbs

Of all real estate investments, it is generally agreed that multi-family properties are the most stable asset class. There is less risk associated with this market, as multi-family demand relates more to demographics - immigrant flows, aging baby-boomers, younger adults, and to basic human needs. Housing is one of the last places people stop spending money simply because people will always need a place to live. In economic downturns and times of uncertainty in the real estate market, people tend to downsize and rent. This translates into solid, long-term fundamentals for landlords and investors.

Sources: Canadian Mortgage and Housing Corporation; the Gettel Network; Glen Cowan & Associates; the City of Edmonton; Edmonton Economic Development Corporation; Alberta Employment, Immigration and Industry; Alberta Finance and Enterprise; Statistics Canada; Realtors Association of Edmonton

The information contained herein was obtained from sources deemed reliable and is believed to be true; it has not been verified and as such, cannot be warranted nor form any part of any future contract. While every effort has been made to ensure the accuracy of this information, it is not guaranteed by Avison Young.

Edmonton Multi-Family Investment Sales Team

Since January 2006, Avison Young in Edmonton has successfully completed over \$110 million worth of apartment and multi-family land transactions. Whether you are a private investor or an institutional buyer/seller, you can be confident that our client-centric approach will focus on your specific real estate investment needs.

In these uncertain times, you can have the peace of mind that we have the ability and expertise to provide you with up-to-date market information and sound advice so that you can make informed decisions and achieve the best possible results.

We are dedicated to servicing our clients and building long lasting relationships. Our commitment to you is not only finding solutions that are tailored to your personal objectives and business goals, but also going above and beyond your expectations.

For more information on this report, the Edmonton multi-family market, investment opportunities, and to discuss your current assets, please contact us.

Paul Chaput, B. Comm.

P: 780.429.7559

E: pchaput@ay-ab.com

Victoria Pun, B. Comm.

P: 780.429.7569

E: vpun@ay-ab.com

AVISON YOUNG (CANADA) INC.

2500 Scotia Place, Tower 1

10060 Jasper Avenue

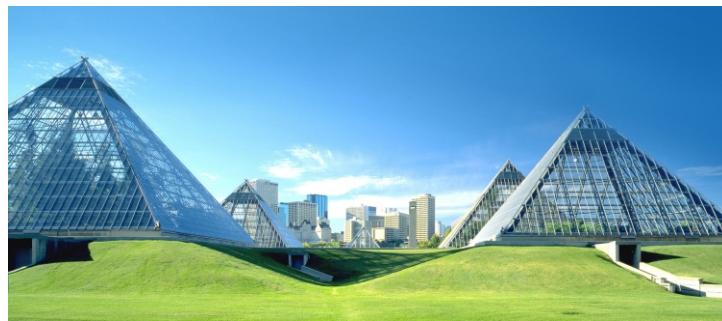
Edmonton, Alberta T5J 3R8

P: 780.428.7850 / F: 780.424.5815

www.avisonyoung.com



Intelligent
Real Estate Solutions



Local knowledge is the foundation of our professional practice. Based on this foundation, we support our client relationships nationally and internationally by leveraging our strong national organization and global partnerships.

Through our alliance with Grubb & Ellis, one of America's largest commercial real estate firms, Avison Young provides clients with a full range of office, retail, multi-residential and industrial property solutions throughout the United States, Canada and abroad. Avison Young, together with Grubb & Ellis, is one of the world's largest providers of real estate services.

Across the Country, Around the World

Halifax	USA
Quebec City	Mexico
Montreal	United Kingdom
Ottawa	Continental Europe
Toronto	Asia - Pacific
Mississauga	
Winnipeg	
Regina	
Calgary	
Edmonton	
Vancouver	
Chicago	

Grubb & Ellis
Global

Avison Young is the real estate partner business trusts for intelligent, integrated solutions. We deliver results that are aligned with your strategic business objectives, supporting real estate initiatives that add value and build a competitive advantage for your organization.

TRANSACTION SERVICES

Tenant Representation
Office Leasing
Acquisition & Disposition
Industrial Sales & Leasing
Multi-Residential Sales
Retail Services
Land Sales & Development

ASSET SERVICES

Property Management
Property Review/Operations
Financial Reporting
Tenant Coordination
& Relations
Project Management
Lease Administration

CONSULTATION & ADVISORY SERVICES

Consulting Studies
Real Estate Strategy
Valuation Studies
Mergers & Acquisitions
Market Data & Analysis
Acquisition & Disposition Strategies
Transaction Management & Advice

CORPORATE SERVICES

Integrated Services
Coordination
Transaction Management
Optimization Strategies
Project Coordination &
Reporting

REAL ESTATE FINANCIAL SERVICES

Mortgage Brokerage
Mortgage Bonds
Bridge Loans
Equity Facilitation

STRATEGIC ALLIANCES

Worldwide Agency Partners
Tax Consulting
Capital Market Partners
Technology Advisors
Space Planning & Design
Engineers & Architects