

MARKETBEAT

EDMONTON MULTIFAMILY REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



2Q09

ECONOMIC OVERVIEW

The global economic slowdown and decrease in capital availability continue to affect the Edmonton economy. These factors were the primary cause of decreased economic activity in the first half of 2009. Despite these pressures, Edmonton has not been as adversely affected as many other centres in Canada or around the world.

According to Edmonton Economic Development Corporation, when compared to the rest of Canada, Edmonton has the second lowest unemployment rate (5.0%), the fifth highest fulltime employment rate, the fifth lowest consumer bankruptcy rate, and the lowest business bankruptcy rate in Canada. In addition, the city's 2009 personal income per capita was reported as \$44,967, which is 20% higher than the national average. These attributes indicate that Edmonton remains a comparatively sound environment for investment and growth.

The second quarter saw renewed interest from market participants in both investment sales and leasing transactions. Such renewed interest stems primarily from improving economic stability, as well as increased willingness by investors and lenders to place capital in the market. The price of oil rebounded to just below \$70 per barrel, after the extreme lows of less than \$40 per barrel. This pricing has provided the oil companies with good reason to re-start projects that were previously put on hold.

Overall, Edmonton's economy is facing challenges, but the outlook for the remainder of the year appears to be improving. As a result, a boost in activity is expected across all sectors of the real estate market.

APARTMENT OVERVIEW

Cushman & Wakefield Edmonton continues to see a cautious approach towards the multifamily market. Long-time owners or those who paid non-condominium-conversion prices are able to take advantage of today's healthy vacancy rates and traditionally strong rents. Vendors are choosing to sell only if the sale proceeds after taxes can be used to generate returns greater than the cash flows produced by the property. Purchasers are gently being encouraged by low mortgage rates to again take a look at multifamily investment; CMHC insured, five-year rates have been as low as 3.25%. That said, only those properties that are priced with reasonable rates of return, or those with superior quality and location, are attractive to purchasers.

OUTLOOK

Continued volatility in the equity markets draws investors towards real estate as they look for more tangible bricks and mortar asset classes. Despite this, prices are predicted to stabilize. Increasing vacancy and competition from rented condominiums should curb rental increases. Sales volume is likely to remain below average, although 2009 will see slightly higher volumes than 2008. Capitalization rates will continue to rise in 2009. Demand will grow as long as vendors price their properties competitively, thereby affording potential investors a reasonable rate of return.

BEAT ON THE STREET

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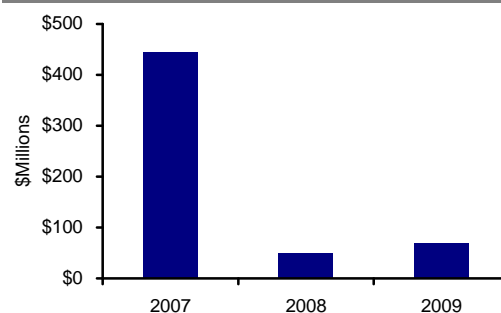
—Christopher Kamphius, Associate Partner

ECONOMIC INDICATORS

	2007	2008	2009F
GDP Growth	3.7%	1.5%	-0.2%
CPI Growth	4.8%	3.4%	0.6%
Unemployment	3.9%	3.6%	4.6%
Employment Growth	6.7%	3.5%	-0.7%
Personal income per capita	\$42,907	\$44,548	\$44,967

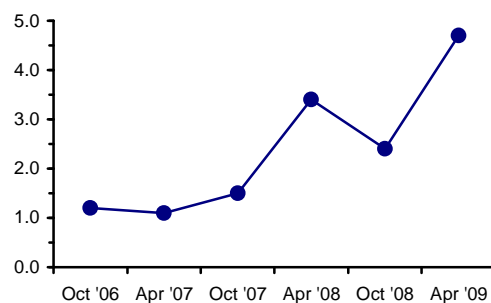
Source: Conference Board of Canada

SALES VOLUME (FIRST 6 MONTHS)



Source: C&W Edmonton and The Network

VACANCY RATE (%)



Source: CMHC

SALES ACTIVITY

Demand for product has increased slightly as investors take advantage of record low mortgage interest rates. The sales volume for the first six months of 2009 was \$70M—a 40% increase from the \$50M that transacted in the same time period in 2008, but still far below 2007's \$440M. The average capitalization rate is 7.0%, which is up significantly from the first six months of 2008 when the average cap rate was 5.3%. It is expected that capitalization rates will stabilize around 7.5%. The average price per suite is \$104,000. This average includes all property types (lowrise, highrise and rowhouse) regardless of age or construction type. It should be noted that current averages are easily influenced by outlying data considering the reduced market volume thus far this year. Twenty-five properties have closed so far this year, compared to 21 properties this time last year and 108 in 2007.

THE RENTAL MARKET

Edmonton's apartment rental market is made up of approximately 1,950 buildings containing over 65,000 suites. The majority of buildings contain a small number of suites: 50% of the buildings have less than 20 suites per building; 43% have 20-99 suites; and 7% have 100 suites or more. The secondary, or shadow, rental market continues to grow as investors rent newly constructed and newly converted condominium units to tenants.

VACANCIES

Edmonton vacancy has increased from 3.4% in April 2008 to 4.7% in April 2009. This increase is due in part to the depressed employment market and lowered provincial in-migration. Other influencing factors include tenants moving towards home-ownership as interest rates remain low, many new and recently converted condominiums being rented out as part of the secondary, or shadow, market, and an increase in cohabitation because of traditionally high rent levels. All unit types experienced year-over-year increases in vacancy rates: bachelor units increased

from 3.1% in April 2008 to 4.9% in April 2009; 1-bedroom units moved from 2.9% to 3.2%; 2-bedroom units from 3.1% to 4.4%; and 3-bedroom units from 8.3% to 13.2%. The largest increase in Alberta occurred in the municipality of Wood Buffalo (Fort McMurray), where vacancies increased from 0.1% to 6.9%. This was due for the most part to decreased activity in oil and natural gas exploration, production and support services. Last year's greatest increase was in Grand Prairie, where vacancies soared from 0.9% in 2007 to 8.8%. This year, however, that municipality's vacancy decreased slightly to 8.5%.

RENTS

The average rent increase over the last twelve months is 2.2% and the average rent in Edmonton is now \$928. This increase pales in comparison to the previous year's 14.2% increase. In April 2009, a bachelor unit averaged \$718 (up 5.3% from \$682 in April 2008), a 1-bedroom unit averaged \$852 (up 1.8% from \$837), a 2-bedroom unit averaged \$1,059 (up 5.9% from \$1,000), and a 3-bedroom unit averaged \$978 (down 5.9% from \$1,039). In the municipality of Wood Buffalo (Fort McMurray), rents decreased 4.8% from \$2,193 to \$2,088. Still, Fort McMurray remains Canada's most expensive rental market.

HOUSING STARTS

There were 346 housing starts in Edmonton in May 2009, making for a total of 1,462 starts so far this year, compared to 586 starts in May 2008 and a total of 3,584 for the first five months of 2008. There have been 242 single detached dwelling starts this year, a decrease of 12% when compared to the 275 starts during the same time period in 2008. This is in part due to the high number of unsold new speculative houses and the great supply of listings for resale homes. Multiple unit starts are down 75% year-to-date, with only 613 starts since the first of the year. Most multiple unit starts are for condominium, not rental apartment, properties.

Data sources include CMHC, The Network, Edmonton Economic Development Corporation, the Realtors Association of Edmonton, Alberta Finance and Enterprise



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