



ECONOMIC OVERVIEW



As Alberta and its capital progress through 2019, Canadian Real GDP is expected to grow at a modest 1.7%. Downward pressure from Alberta's oil industry and a slowdown in housing and geopolitical issues are largely to blame. While this had led the Bank of Canada (BoC) to hold off on increasing interest rates in December 2018, after 5 rate hikes since 2017, hopefully they will take a more cautious approach for any future rate hikes. A weaker Canadian dollar, lower interest rates, and the recent decision mandated by the Alberta Provincial government for the largest 25 oil producers to decrease production effective January 1, 2019 should be positive for the overall health of the economy

Improving market conditions will begin filtering down to commercial real estate and other goods and services sectors. Employment in the Edmonton area increased modestly in 2018 by 3.6% and were largely in construction and financial services. Job gains in the Edmonton Region demonstrate that the region is recovering from the downturn in 2016. Consumer based inflation is expected to slow in the coming months and it could translate to the average consumer seeing modest gains in their real spending power.

APARTMENT OVERVIEW

Despite decreased vacancy and increasing expenses, multifamily property continues to appeal to purchasers who seek a relatively stable cash flow. Continued low interest rates encouraged demand, but also enabled owners to make an easy decision to refinance instead of vending, thereby maintaining product scarcity and underpinning pricing. Capitalization rates remained stable, the 2018 average of 5.75% being only slightly lower than 2017's 5.9%. This may have been due to lower overall rent rolls affecting the underlying net operating income on the properties which transacted.

The total transaction volume in 2018 was \$454 million. Volume was down 3.2% from 2017 which saw \$469 million in sales. During 2018, 50 buildings comprising 1,131 units sold for an average of \$152,892 per unit. However, the average is skewed by numerous large sales of newer and/or institutional grade product that sold at very high prices. The average price per unit for a wood-frame walk-up apartment, built prior to 1990, with less than 50 units, was \$129,155.

In 2018, Edmonton wide vacancy decreased from 7.0% to 5.3%. Meanwhile, average rents increased by 1.2%. Until 2018, with the sole exception of 2009 and 2017, rents have increased every year since 1995.

OUTLOOK

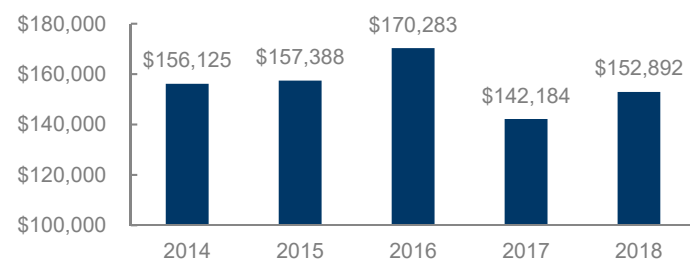
Uncertainty in labour markets, the uncertainty of the price of oil and to the construction of pipelines so hydrocarbons can reach coastal waters, and carbon tax implications will cause potential purchasers pause before buying. However, equity market volatility and the continued low cost of capital will ultimately spur offers as multifamily remains a greatly sought-after asset class. Stabilized cap rates and prices per unit are expected. The scarcity of available product will continue to balance the Edmonton multifamily market throughout 2019.

ECONOMIC INDICATORS

	2017	2018	CHANGE
Vacancy (%)	7.0	5.3	▼
Average Rents (\$)	1,101	1,131	▲
Sales Volume (\$)	469M	454M	▼
Sales Volume (# Units Sold)	2,572	2,089	▼
Average Cap Rate (%)	5.9	5.75	▼

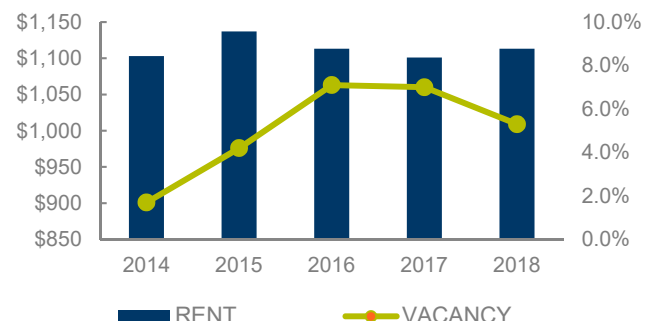
Sources: CMHC, The Network, Cushman & Wakefield Edmonton

AVERAGE SALES PRICE PER UNIT



Sources: The Network, Cushman & Wakefield Edmonton

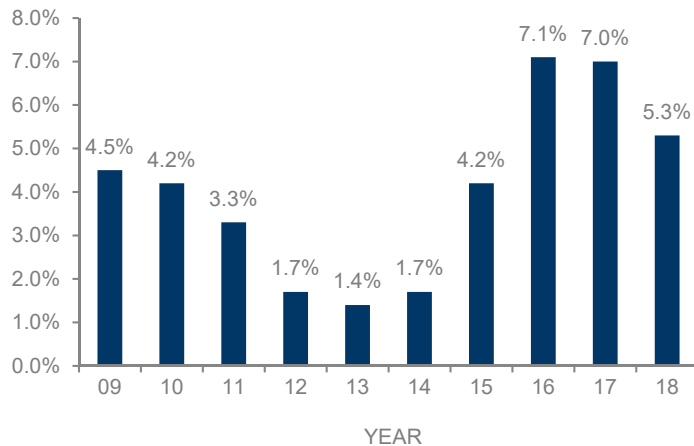
AVERAGE RENT PER UNIT VS. AVERAGE VACANCY



Source: CMHC

EDMONTON MULTIFAMILY VACANCIES 2018

APARTMENT VACANCY RATES



HISTORICAL VACANCY RATES BY AREA (%)

Year	Central	West	SW	SE	North
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
2012	1.8	1.4	0.7	1.2	2.4
2013	1.4	1.1	0.3	1.1	2.5
2014	1.8	1.3	1.4	1.1	2.5
2015	3.8	3.8	3.3	2.8	5.5
2016	7.3	6.6	6.4	6.2	7.6
2017	7.7	4.8	4.6	7.8	8.0
2018	5.2	4.6	3.5	6.4	7.2

- Edmonton's vacancy rate decreased for second consecutive year in 2018, beginning at 7.0% and dropping to 5.3%.
- Rental apartment demand outpaced supply. The purpose-built rental apartment universe increased by 1,638 units; demand was at 2,698 units.
- Stronger employment growth and migration supported rental demand. Edmonton added over 16,000 jobs in the first 10 months.
- Stronger migration flows into the Edmonton CMA have also contributed to increased demand for rentals.
- Lowest vacancies located in South West (3.5%), West Jasper Place (3.6%), St. Albert (2.3%), Leduc (1.7%), and Spruce Grove (3.6%).
- Highest vacancies located in East Central (8.0%), North Central (9.5%), Stony Plain (7.3%), and Fort Saskatchewan (8.6%).
- Suburban vacancies: Strathcona County (6.5%), Spruce Grove (3.6%), St. Albert (2.3%), Ft. SK (8.6%), Leduc (1.7%), Stony Plain (7.3%).
- Lowest average vacancy among buildings built between 1990 and 2004 (4.0%), while the highest is found in those built before 1960 (7.3%).
- Vacancy change from 2017 to 2018: Calgary 6.3% to 3.9%; Vancouver 0.8% to 1.0%; Toronto 1.1% to 1.2%; Saskatoon 9.6% to 8.3%.

EDMONTON MULTIFAMILY RENTS

APARTMENT RENTS (\$) BY BEDROOM TYPE (as at October 2018)

Area	Studio	1-Bedroom	2-bedroom	3-bedroom
Central	890	1,030	1,319	1,366
West	821	978	1,194	1,345
SW	948	1,112	1,298	1,442
SE	878	1,002	1,190	1,128
North	737	941	1,179	1,329
Edm Avg.	862	1,017	1,246	1,373

HISTORICAL CHANGES IN APARTMENT RENTS BY BEDROOM TYPE (%)

Year	Studio	1-Bedroom	2-Bedroom	3-Bedroom
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
2012	+4.2	+2.8	+3.4	+2.0
2013	+5.7	+5.5	+5.7	+6.0
2014	+7.5	+7.3	+7.7	+6.0
2015	+3.3	+2.8	+2.5	+1.5
2016	-2.4	-3.0	-2.1	-0.9
2017	-1.1	-1.2	-2.5	-1.1
2018	+2.0	+1.1	+1.3	+0.9

During 2018, overall rents increased by 1.2%. Expect further increases and less incentives in 2019 although vacancy remains above the 10-year average.

- For all unit types, Edmonton's average rental rate increased by 1.2% in 2018, following a -1.3% decrease in 2017.
- With the exception of 2009 and 2017, average rents had increased every year since 1995 (at which time the overall vacancy rate was 7.6%).
- The rental increase was influenced by increased rental demand, employment growth and stronger migration flows into the Edmonton CMA.
- Highest avg. rents: Millwoods (\$1,212), West Jasper Place (\$1,212), South West (\$1,239); only rental decrease in West central (-0.7%).
- Lowest avg. rents: North Central (\$903), Hudson Bay Reserve (\$953), West Central (\$996); greatest rental decrease in Millwoods (-4.0%).
- Suburban rents: Strathcona County (\$1,332), St. Albert (\$1,264), Spruce Grove (\$1,176), Ft. SK (\$1,009), Leduc (\$1,131), Stony Plain (\$1,067).
- The majority of landlords are still offering rental incentives, but they have been decreasing in dollar value and terms.
- Average 2018 2-bedroom rents: Edmonton \$1,246; Calgary \$1,258; Vancouver \$1,649; Toronto \$1,467; Saskatoon \$1,110.

EDMONTON MULTIFAMILY SALES 2018

	# Buildings	#Units	Price/Unit	Cap Rate	Note:	\$ Volume
Highrise	9	1,221	\$195,500 – \$369,615 \$251,021 avg	3.62		\$331,516,000
Lowrise	55	808	\$80,000 – \$287,879 \$129,155 avg *	3.7 – 8.8 6.0 avg	5 mixed used properties	\$453,994,130
Rowhouse	1	60	\$195,500	5.68		\$27,200,000
Totals	65	2,089	\$152,892 avg	5.18 avg		\$536,732,496

*The average price per unit for a lowrise walk-up apartment building, built prior to 1990, with less than 50 units, was **\$129,155**.

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
# Bldgs Sold	50	67	63	87	71	78	73	60	45	50
# Units Sold	1,387	1,832	1,724	1,815	2,484	2,281	2,624	3,152	2,572	2,089
Avg Price/Unit	\$99,570	\$111,791	\$107,978	\$117,023	\$130,850	\$156,125	\$157,388	\$170,283	\$142,184	\$152,892
Avg Cap Rate	6.7	6.3	6.5	6.3	6.1	6.0	5.9	6.0	5.9	6.0
Avg GRM	9.9	10.1	9.9	10.0	10.7	10.9	11.4	10.9	11.1	10.9
\$\$ Volume	\$138M	\$205M	\$186M	\$210M	\$325M	\$356M	\$413M	\$537M	\$469M	\$454M

EDMONTON'S HOUSING MARKET 2018

- The number of rental apartment units increased by 2,698 additional units in 2018 even as construction levels slowed.
- Housing starts 2018: 10,038 total (4,814 single; 5,224 multiple); housing starts 2017: 11,435 total (5,028 single; 6,407 multiple).
- In Q4 of 2018, the number of multi-family housing starts rose almost 25% year-over-year, primarily due to higher apartment starts.
- A small increase (0.4%) in condominiums were added to the secondary rental market; condominium rentals account for 20,258 units:
 - Average 2-bedroom condominium rents: Edmonton \$1,321(2017:\$1,265); Calgary \$1,533(2017:\$1,512); Vancouver \$2,034(2017:\$1,874); Toronto \$2,353(2017:\$2,263); Saskatoon \$1,200(2017:\$1,263).
 - Higher rents are due in part to higher quality, numerous upgrades and greater amenities, e.g.: in-suite laundry, underground parking.
- Rented condominiums have higher average rents than rented apartments, and their average vacancy is lower (4.2% vs. 5.3%).
- Of the 53,787 condominiums in metropolitan Edmonton, 20,186 (37.5%) are rented out as opposed to being owner-occupied.
- Average condominium sale prices in December: 2018: \$236k; 2017: \$247k 2016: \$248k; 2015: \$249k; 2014: \$247k.
- Average single family detached house sale prices in December: 2018: \$434k; 2017: \$437k 2016: \$421k; 2015: \$425k; 2014: \$429k.
- In 2018, residential sales totaled 15,519 (single family, condo and duplex/rowhouse); in 2017, 16,435 homes sold.

EDMONTON AND ALBERTA'S ECONOMIES

- Edmonton's overall office vacancy in the 3rd quarter of 2018 was 15.0% (financial core 15.8%; government 3.7%; suburban 19.9%).
- Edmonton's overall industrial vacancy in the 3rd quarter of 2018 was 4.5%; average rental rate was \$9.34/sf (net) and \$13.44/sf (gross).
- In 2018, Alberta weekly earnings increased 2.0% to \$1,149; earnings increased across Canada up 2.5% to \$1,005.
- In-migration recovered significantly by the third quarter of 2018, Alberta's in-migration increased 70.8% to 32,375 from 18,960 from 2018.
- Alberta's interprovincial in-migration was +3,222 by the third quarter of 2018, an improvement on the outflow of 161 in 2017.
- Alberta ended 2018 with a 6.4% unemployment rate (down from 7.0% in 2017), and the rate is expected to decrease slightly in 2019.
- Alberta's real GDP was 2.3% in 2018, 4.4% in 2017, and is forecast to grow 1.4% in 2019.
- The oil prices, weaker loonie, and pipeline constraints lowering investment are three of the biggest factors looking forward in 2019.
- Alberta's labour market has been resilient but employment gains have been moderating compared to last year's strong pace.
- Exports have been aiding growth despite recent difficulties and manufacturing sales are up 8.5% through the first 3 quarters of 2018.
- As the housing market slows with tighter mortgage regulations, rising interest rates and elevated housing inventories, resale activity across most regions are expected to slow and the number of units sold is expected to decline further.
- An easing of trade tensions and protectionist policies would improve global growth prospects.
- Alberta households have been cautious and rising cost and weaker sentiment are slowing the pace of consumer spending.

EDMONTON'S PRIMARY RENTAL MARKET SIZE & MAKEUP

Unit Type	# of Units Apartment	# of Units Rowhouse	# of Units Total
Studio	4,135	12	4,147
1-Bedroom Unit	29,920	154	30,074
2-Bedroom Unit	32,081	2,509	34,590
3-Bedroom Unit	<u>2,934</u>	<u>5,989</u>	<u>8,923</u>
All Unit Types	69,070	8,664	77,734

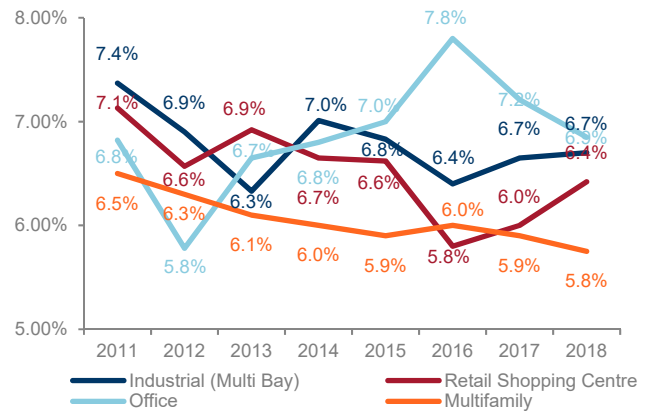
Building Size	# of Buildings
6-12 Units	630
13-19 Units	381
20-49 Units	682
50-99 Units	191
100-199 Units	118
200+ Units	<u>49</u>
Total # of Buildings	2,052

SELECT APARTMENT SALES TRANSACTIONS

Sale Date	Property	Units	Year Built	Price	Price/unit
January 2018	Bella Vista Place	48	1968	\$4,512,000	\$94,000
March 2018	Capilano Tower	97	1967	\$18,950,000	\$195,360
September 2018	Maple Leaf Court	48	1972	\$5,988,722	\$124,765
November 2018	The Hendrix	260	2016	\$96,100,000	\$369,615

Sources: CMHC, The Network, Cushman & Wakefield Edmonton

AVERAGE CAPITALIZATION RATES (COMMERCIAL SECTORS)



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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, RBC Economics, Statistics Canada, ATB Financial Economics & Research, The Alberta Government, KPMG Canada, and The Edmonton Journal.

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