COLLIERS INTERNATIONAL | MARKET REPORT

GREATER EDMONTON ALBERTA

MARKET INDICATORS

	2010	2011
VACANCY	▲	▼
NEW CONSTRUCTION	▼	▲
RENTAL RATES	◀▶	◀▶
CAP RATES	▲	◀▶

EDMONTON ECONOMIC UPDATE (as of January)

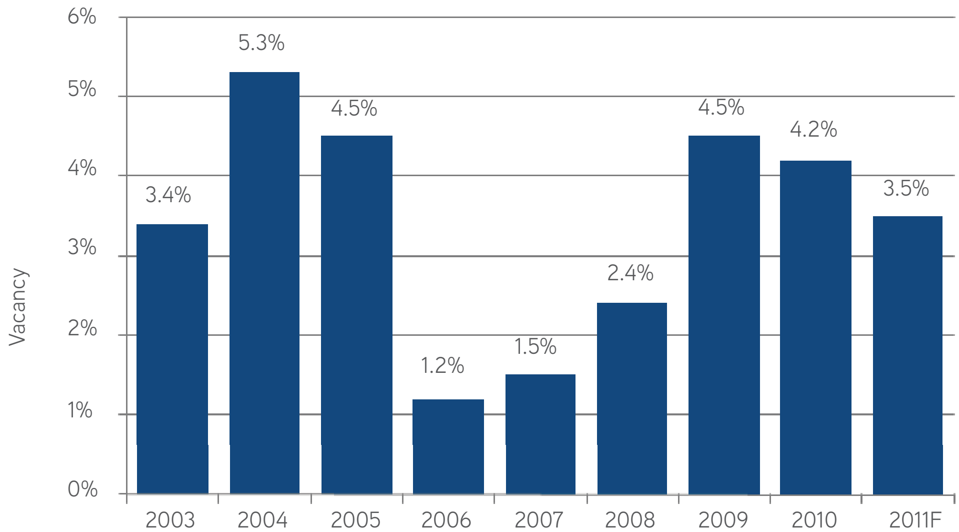
	2010	2011
CRUDE OIL (USD/Barrel) Unadjusted	$77.09	$88.39
CANADIAN DOLLAR	$0.98	$1.00
INTEREST RATES	2.25%	3.00%

	2008	2009	2010
UNEMPLOYMENT RATE	3.7%	6.7%	5.6%

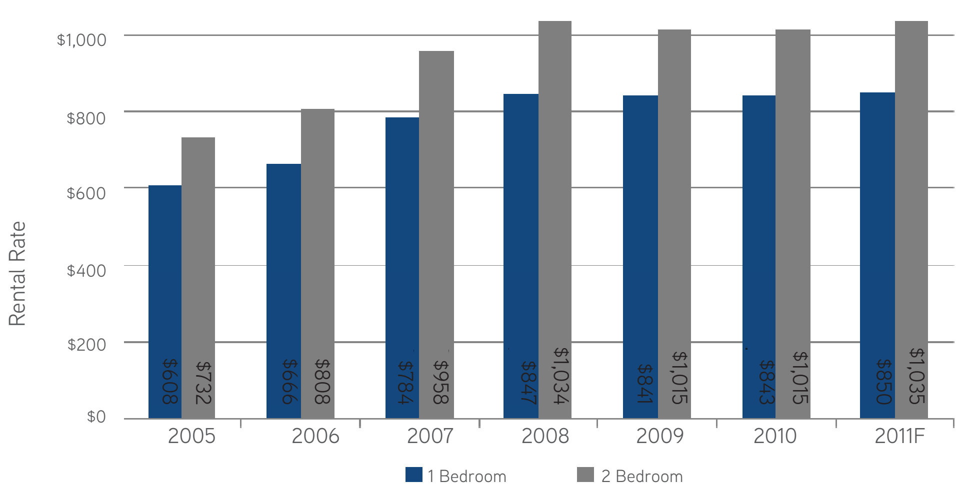
2010 Year in Review | 2011 Outlook

2010 began with some uncertainty in the multi-family investments market. As vacancy was on the rise, rental rates were decreasing and landlords were more willing to offer incentives to tighten up their vacancy. Considering economic conditions at the time, this trend was expected to continue and lower the price of multi-family product in the Edmonton market. However, the two rounds of mortgage restrictions has made home ownership more difficult, thus increasing the number of renters. With Alberta having Canada's lowest unemployment rate (5.5%), migration should also return to normal levels and further increase the renter pool. This is supported by the surging price of oil and job creation that follows. Overall, vacancy rates will continue to come down and rental rates will increase marginally in 2011 as a result of high demand.

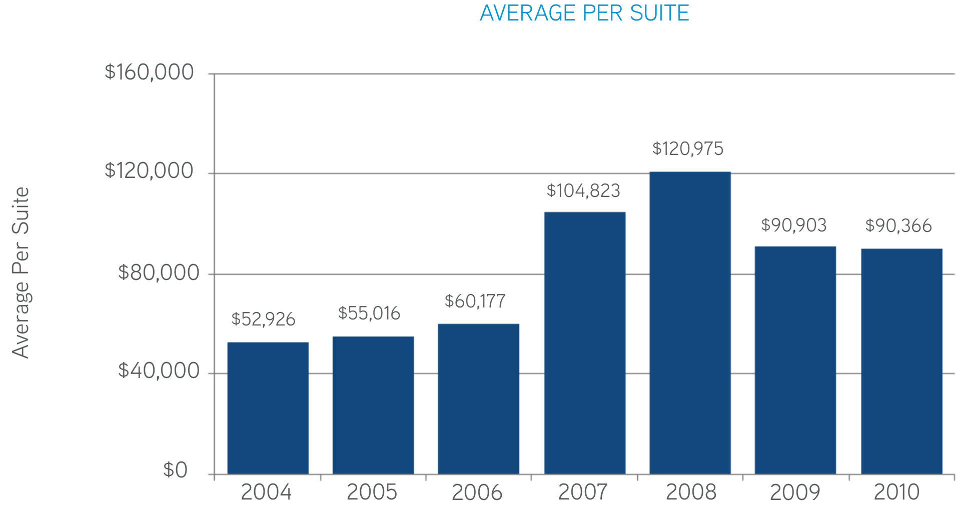
VACANCY RATE



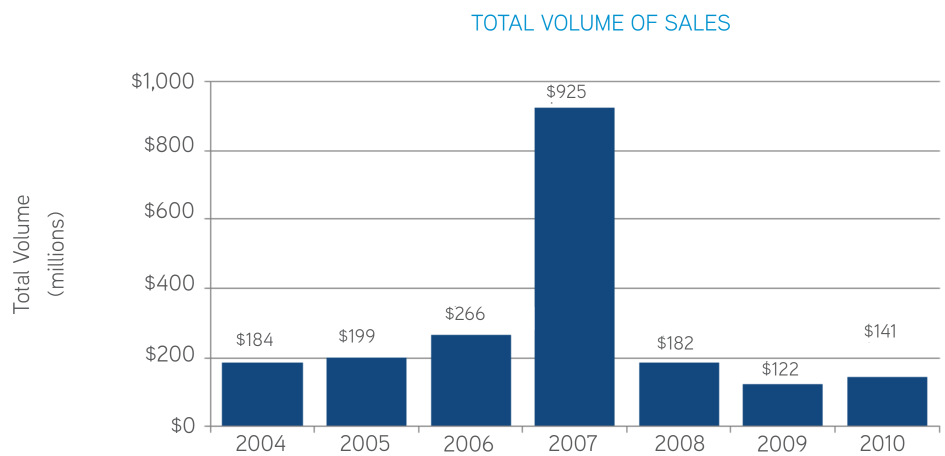
AVERAGE RENTAL RATES



The vacancy situation will also be affected by the recent mortgage restrictions introduced by the Canadian government. As home ownership becomes tougher with minimum down payments increasing and amortization length for loans decreasing, vacancy will decrease. An increasing number of rental tenants will require additional savings to meet the minimum down payment guidelines for their first home purchase. The new guidelines will place upward pressure on rental rates as demand for apartment units in the market will be strong.



The average suite price in 2010 remained unchanged from the 2009 figure of $90,000. Total value of multi-family sales were $186 million in 2010. 2010's largest sale was the Brighton and Ashby building in Oliver Square, sold by Westcorp Properties Inc. The 305 unit building sold for $58 million, or $190,000 per suite, well above the average suite price of $90,000 in 2010. Other notable sales include Hampton Court (150 Units) purchased by Mainstreet Equities Corp ("Mainstreet") for $15,520,000 ($103,466/suite). Mainstreet was very active in the Edmonton Market last year, with the acquisition of approximately 300 suites.



2011 will see larger companies and REITs taking a special interest in the multi-family investments market. With vacancy reducing and rents stabilizing, apartment buildings have become an attractive asset for such investors. The number of units purchased by larger companies and REITs will depend on where suite prices are during 2011. With forecasted interest rates to increase by the end of the year, one school of thought suggests that there could be an influx of investors looking to take advantage of these historically low interest rates. This would suggest that apartment door prices are going to stay stable. Another possible outcome is for door prices to increase by a small amount as a result of strong oil prices and low unemployment rates. Nonetheless, door prices have decreased substantially from the 2008 condo conversion figure of $120,000 per suite and will remain steady at the $90,000 per suite mark for the foreseeable future.

In addition to the steady multi-family prices in the market over the last year, the financing market has provided creative options for potential purchasers. With the low interest rates offered by CMHC, most investors started 2010 by leaning towards CMHC financing. However, the split between the number of investors entering into CMHC and conventional loans evened up by year end as the interest rate differential returned to the historical level of 75 basis points. Coupled with the fact that the interest rate differential does not prove to be beneficial for the investor until the end of the 5 year term because of the CMHC premium, it is not surprising that there was no clear choice as to which is the better option. Investors must be cautious as there is no clear cut better option in a 5 year window, but long term, the rate discount offered by CMHC proves to be very beneficial. Therefore, the short term investors were moving towards conventional financing, whereas the longer term investors stuck with CMHC financing to take advantage of the favourable 75 basis point interest rate.

Colliers Deals Currently **Pending**:

Nova Ridge 1 Spruce Ridge Drive (102 Units)

- 2 four storey buildings, each with an elevator
- All units above grade with glass railed balcony or walk-out patio
- All units have 5 appliances
- 2 bedroom units feature a fireplace and two full baths
- Year Built: 2003
- Asking Price: $13,000,000

Colony Park 11530 – 34th Street (62 Units)

- Extremely large suite sizes (2 and 3 bedrooms are approximately 1,000 SF)
- 2 and 3 bedrooms have a walk-in closet and two bathrooms (one of which is an ensuite)
- All units have a balcony or walk-out patio
- Located on 2 acres of land
- Asking Price: $7,500,000

Orchid Apartments 9910 – 156 Street (15 Units)

- All units above grade with large wrap around balconies
- 6 three bedroom units all have 1.5 baths and are approximately 1,100 SF
- New boiler and hot water tank
- Along the proposed LRT west expansion line
- Asking Price: $1,755,000

Condominium Conversion

Although the condominium conversion market has slowed down almost completely, there are some apartment units that are being sold for investor use. The investors will usually purchase 2 or 3 units from the syndicator and collect rental income on these units. However, there are certain building characteristics that work better for these syndication projects. The suites are usually average to large in size with most or all of the suites having balconies. The buildings are newer and are usually located in strong rental areas. These projects are rare, but still exist in today's market. It is important to keep in mind that these assets are still price sensitive due to reduced profit margins and falling condo prices.

New Construction

New condominium sales were down in 2010, resulting from the introduction of the first round of mortgage rules. This trend is expected to continue as the 2nd round of mortgage rules will be implemented in late March and early April. Interest rates will also drive condominium sales down. However, there could be resurgence in sales over the first quarter of 2011 to beat the implementation date. The slow sales have forced developers who are not willing to sell their units at discounts to inject the vacant units into the secondary rental market to produce cash flow. This increased the amount of rentable inventory in the market and affected vacancy levels in 2009 and 2010. With less new construction starts in both the primary and secondary rental pool over the last year, vacancy improved as more people were coming to Alberta. With this migration expected to continue, vacancy will decrease and developers will feel comfortable with new construction. Some possible deterrents may be the existing new condominium inventory in the market or the high construction costs of approximately $160 per square foot for four storey wood frame apartment projects.

Forecast for 2011

- Improved economic environment in Alberta (rising oil prices) will increase migration and help tighten up vacancy rates
- Increased occupancy levels and a decrease in incentives offered will put slight upward pressure on rents
- Ample capital in market will be looking to take advantage of favourable mortgage terms, which will increase demand for inventory
- A+ inventory will move quickly as investors are looking for quality property in quality areas
- New rental starts will rebound in 2011 as vacancy decreases
- Delta between vendors and purchasers will decrease as expectation of condominium onversion prices continue to diminish

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