

## MARKET SUMMARY

We have noticed a slight increase in purchasing activity in the apartment market thus far in 2011 along with several other trends that will be discussed in this edition of The Quarterly Report. Buyers are plentiful and product is not. Demand continues to outstrip supply as buyers try to add assets to their portfolios at historically low interest rates. Alberta's unemployment rate continues to lead the nation and quality product continues to trade at a premium, most notably, product built post 2000.

Institutions and private buyers alike have been patiently waiting to deploy cash that has been sidelined due to the recent recession. Now that the economy is showing signs of life however, buyers have become slightly more aggressive and have seemingly bridged the gap to more adequately accommodate Seller expectations. Investor confidence is much higher than in recent years and this has undoubtedly increased the number of investors hoping to acquire multifamily product.

Interest rates coupled with increased buyer confidence is fueling the apartment market. Five year CMHC loans are still being locked in around the 3.25% range, with ten year deals hovering around 4.0%. Conventional loans, which have slightly less stringent guidelines, are growing in popularity and are approximately 75 basis points higher. There are still no indications of significant rate increases through to the end of 2011 despite what the Bank of Canada keeps telling us. This is good news for Buyers and Sellers alike.

With a growing number of buyers in the apartment market, quality is what they're after. Buyers want solid buildings in solid locations with big suites. Investors are more noticeably focusing on price per square foot as opposed to suite prices alone. Often buildings that are priced higher per door have larger suites and therefore warrant higher rental rates. Investors are also focusing on buildings that are predominantly comprised of 2 bedroom suites with little to no deferred maintenance; attributes

that will ultimately give them an edge over their competitors. This can certainly be a challenge in a market that is lacking supply however. When quality product does come to market, the result is usually a multiple bid scenario. There simply isn't enough product to satisfy the appetite out there. If there's any advice we can offer owners contemplating sale; if your building is well maintained, the number of interested buyers will significantly increase.

Edmonton's vacancy rate continues to trend downward. Currently sitting slightly below 4%, the downward trend can be attributed to Alberta's exceptional job growth. With most new jobs coming in the construction, health care and social assistance sectors, over the past 12 months, Alberta has posted the fastest rate of job growth in the nation. The Alberta government is forecasting a shortage of over 77,000 workers over the next decade as baby boomers retire and the economy continues to grow. This bodes well for the Edmonton multifamily market as it continues to put downward pressure on vacancy rates. We have to wonder what this means for new rental construction going forward.

Capitalization rates for older product is between 6.25% and 7.00%. Capitalization rates for product built post 2000 can be as low as 5.0% due to multiple bid situations as well as the numerous factors discussed above. Newer product is the most sought after in the multi-family market. They provide stability and they inherently have little to no deferred maintenance. The price tag usually matches.

Overall the multi-family market is healthy. There has been little in terms of new rental construction over the last decade, yet the number of renters continues to increase. This has put slight downward pressure on vacancy rates and further proves the stability of the multi-family asset class. Our focus for the remainder of the year is to introduce more product to the Edmonton market. If we can, we're confident it will sell.

### DID YOU KNOW?

If you're an owner and you're thinking about selling or re-financing your apartment building, please consider the following tidbit of information. Day to day operations heavily depend on the quality of your caretaker. Instead of paying your caretaker a monthly salary, it is often easier to offer free rent. Offering your caretaker free rent however, is actually detrimental to the sale and re-finance process. In order to successfully sell your building, an integral part of the deal is always Buyer financing. By offering free rent to your caretaker, the bank will place a lower valuation on your property because your monthly rent roll is lower. As a result, a potential buyer may not achieve the expected loan amount required to complete the deal, which will likely lower your overall purchase price as well.

**The solution:** pay your caretaker through the building expenses. It will help you maximize the value of your building.

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## SOLD

2011 has been an active year for multi-family transactions in Alberta. In the first few months, Colliers International closed 3 transactions totalling 214 units. After examining these sales, it seems quite clear that investors are seeing the value in larger suite sizes and suite mixes that include more two and three bedroom units:

### NOVA RIDGE (102 UNITS)



- › Price: \$12.9 Million (\$126,470/suite)
- › 2 four storey buildings, each with an elevator
- › Average square footage of suites: 972 sq. ft.
- › 72 two bedroom suites
- › All two bedroom suites include electric fireplace and two full baths
- › All units have 5 appliances (fridge, stove, dishwasher, washer, dryer)

### COLONY PARK (62 UNITS)



- › Price: \$7.05 Million (\$113,710/suite)
- › 3 storey building with all units above grade
- › Building is located on 2.08 acre land site
- › Average square footage of suites: 895 sq. ft.
- › 32 one bedrooms, 24 two bedrooms, 6 three bedrooms
- › All two and three bedrooms have walk-in closets and 1.5 baths

### HUDSON COURT (50 UNITS)



- › Price: \$5.3 Million (\$106,000/suite)
- › 4 storey building with all units above grade
- › Average square footage of suites: 847 sq. ft.
- › 28 one bedrooms, 22 two bedrooms
- › All fire upgrades completed up to code
- › Forced air through hallways

## SECONDARY MARKETS

There has been a recent surge in interest for multi-family property in secondary markets. As the price of oil increases, secondary markets such as Leduc become more attractive markets to invest in. Vacancy rates are lower than the Edmonton average (1.8%) and rents are well above \$1.00/Sq. ft. Also, there is a sense of reluctance from long time residents of secondary markets to move away. Thus, the rental pool does not change significantly from year to year. This trend is also quite noticeable in Spruce Grove where the vacancy rate is 3.2%. Due to inherent risk factors, secondary markets provide for higher cap rates. This does however, present a great opportunity for investors to interject these markets and obtain higher yields on each dollar invested.

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## CURRENT LISTINGS

### FOR SALE - AVAILABLE

#### ORCHID APARTMENTS (15 UNITS)



- › Asking Price: \$1,680,000 (\$112,000/suite)
- › 3 storey building with all units above grade
- › Average square footage of suites: 807 sq.ft.
- › New boiler (2008), hot water tank (2008) and roof (will be replaced prior to closing)
- › Upgraded large wrap-around balconies
- › All fire upgrades completed up to code
- › Condo conversion exit strategy with LRT expansion line in proximity

### FOR SALE - PENDING

#### SIERRA PLACE (15 UNITS)



- › Asking Price: \$1,190,000 (\$85,000/suite)
- › 2.5 storey building
- › Average square footage of suites: 695 sq. ft.
- › 2 one bedrooms, 12 two bedrooms
- › Roof replaced in 2002
- › New PVC windows installed in 2007
- › Upside potential on rental rates currently in building

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