



Edmonton Commercial Market Report

Fall/Winter 2008

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Overcoming The National Financial Crisis



While the United States reels from the global financial crisis, with credit markets still frozen and stock prices careening from highs to lows, Canada has remained relatively insulated. Canadian banks have not gone shaky like their American counterparts, economists and other experts said. There is no subprime mortgage or home foreclosure mess. And while the United States fears a prolonged recession, Canadians have remained relatively sanguine, convinced that they are in a good position to weather the economic tsunami from the south.

“We will be pulled down,” said Michael Gregory, chief economist at BMO Nesbitt Burns, an investment firm. “Not as deep, not as long.” The main reason for optimism here is the banking system. Experts here note that Canadian banks are more tightly regulated, more liquid and less highly leveraged. Instead of being highflying investment banks, they tend to operate in a more traditional manner, with large numbers of loyal depositors and a more solid base of capital.

According to the Canadian Banking Association, one reason for the system’s solidity is that banks are national in scope. Each of the largest five institutions has branches in all 10 Canadian provinces, meaning they are less susceptible to regional downturns and they can move capital from region to region, as needed.

Strict rules also govern mortgage lending. By Canadian law, any mortgage that will finance more than 80 percent of the price of a home must be insured. Two-thirds of all Canadian mortgages are insured by the quasi-governmental Canadian Mortgage and Housing Corp. As a result of the tough standards for insurance, “people tend not to get mortgages they cannot afford,” Gregory said. Defaulting on a loan is also more difficult in Canada than the United States, Gregory said. “You can’t just drop off the keys and walk away.”

For Canada’s seven biggest banks, the percentage of mortgages at least three months in arrears was 0.27 percent in July, close to historic lows, according to the banking association. Also, few Canadian banks got caught holding large numbers of toxic American mortgages. Another difference is that in Canada, mortgage interest is not tax-deductible, making it harder to buy a house. As a result, Canada did not have as strong a construction surge as the United States did during the boom years, and thus does not now have a big oversupply.

People do not take out mortgages just for the tax break. In Canada, “a mortgage is seen as something you want to get rid of as fast as possible,” said Peter Dungan, an economist with the Rotman School of Management at the University of Toronto. But Canada’s economy has not been entirely trouble-free. The Toronto Stock Exchange is down. The appreciation of the Canadian dollar has harmed exports. The slowdown in the United States -- which takes 80 percent of Canada’s exports -- has a direct impact here. In particular, the American housing troubles have hurt because much of the wood in new U.S. houses comes from Canada.

Fears about the global crisis helped Prime Minister Stephen Harper increase his Conservative Party’s presence in Parliament in Tuesday’s elections, many analysts here believe, though the party still fell short of an absolute majority. Harper called the election in September, just before the crisis hit. After some initial verbal stumbles -- he at first seemed to play down the fall of the Toronto exchange -- he campaigned as the steady hand to see Canada through hard economic times ahead.

Office & Retail Leasing On The Rise

Despite global economic uncertainty, the local business outlook remains optimistic. The Edmonton office leasing market should remain fairly active in the fourth quarter of 2008 as large user groups continue to focus on the suburban market. Rental rates in downtown Edmonton have likely reached a peak for 2008, while suburban rates may continue to increase marginally.

There is little indication that leasing activity in the fourth quarter will vary significantly from the first three quarters.



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Steady Climb For Multi-Family

In the first half of 2008, there were 22 properties sold totalling \$103 Million. A total of 919 units were sold within 21 walk-up buildings and one 182-unit seniors complex in Terrace Heights. The overall average price per unit at end of June 2008 was \$124,800 with buildings over 100 units averaging \$97,864 per unit, and buildings 20 to 100 units averaging \$133,117 per unit. Multi-family projects are now being sold strictly on an income basis with capitalization rates continuing to rise.

Out of thirty cities tracked by CMHC, Edmonton's vacancy is the twelfth lowest in Canada with the average rent for a 2-bedroom apartment being \$1,050, up slightly from \$958 at year-end 2007. Multi-family vacancy has increased from 1.2% in 2006 to 2.5% in the second quarter of 2008 or approximately a 48% increase. The jump in vacancy is a direct reflection of the amount of new product that has been added to our inventory through previous condo conversions, speculative investors, and new construction, which currently has over 9,500 units under construction.

The amount of proposed multi-family developments will effectively double the current number of units under construction if they were to start tomorrow, especially in downtown. Currently there are over 16 developments underway in the downtown core and West Jasper (Oliver neighbourhood) and another 15 developments proposed.



**3 Building Package in North Edmonton
60 + Units - \$89,000 Per Door**



**Queen Mary Park
15 + Units - \$90,000 Per Door**

Investing In The City Of Champions

Edmonton has finally hit the international stage for investors, and many are capitalizing on what local investors have been reaping the rewards from for years...and for a multitude of reasons. Our market has seen dramatic increases in average prices over the past few years, starting with a jump in 2001 with an average 16% increase, and continuous growth through to 2006 which saw an amazing 48% overall increase.

Our market is predicted to continue at an average rate of 8-12% average price growth through to 2012 (farthest current forecasts). This sustainable growth has been caused by a booming, diversified economy, population growth from both inter-provincial and international net migration, and increased incomes. With low vacancy rates, our rental rates have increased along with prices and investors have seen good cash flow from rental properties along with great appreciation growth in equity.



**INTERNATIONALLY FLAGGED HOTEL -
\$35,000,000**



**TRUCKIN 2000' WASH & LUBE - ELK POINT
\$1,163,000 INCL LAND, BUILDING, BUSINESS**

Industrial Movement

We are witnessing a small increase in vacancy across the city overall; but these vacancy rates are still very small percentages. For perspective, note that 2006 & 2007 saw 3,509,410 and 3,125,099 square feet absorbed, respectively; and 2007 saw over 2.8M square feet constructed. This amount of activity, paired with these low vacancy rates demonstrate the strength of the demand we've experienced.

In spite of strong statistics there has been a decline in confidence among buyers - largely due to sensational headlines that have been dominating media sources. A "wait and see" attitude is prevalent, resulting in an uptick in leasing activity from owner-operators previously interested in, and capable of purchasing, Investors are keeping one eye on the world economy, and the other on and there is a noted disparity between the two. The confusion has created a buying season for investors with a positive outlook and access to capital.



**5.02 ACRES ACHESON INDUSTRIAL LAND
\$2,500,000**

As of April 2008, over \$90 billion worth of projects were proposed for the industrial heartland region north east of Edmonton by 2020. According to the Industrial Heartland Association, fluctuations in the price of oil, conditions in the capital markets, and the rising cost of doing business in Alberta has put a handful of these projects on hold. The majority of slated projects are still scheduled to proceed, but at a slower pace, extending the impact these dollars will have on the local economy: \$100 billion of oil sands investment generates \$1 trillion worth in economic activity. This change of pace in local development is widely regarded as a healthy one for the long-term sustainability of Edmonton's robust economy.

Sources - "The Network" June 2008 Industrial Market Survey, Alberta Industrial Heartland Upgrader Summary - Spring 2008

Working With RE/MAX Commercial Downtown



RE/MAX Commercial Services is Edmonton's only RE/MAX office that is 100% focused on Commercial Real Estate. Located in the heart of downtown Edmonton, we are fully connected to the pulse of the city and our professionals have the expertise to meet all your commercial real estate needs.

Our Agents specialize in Business and Investment Real Estate. Our services range from small business brokerage to mergers and acquisitions. Our client list ranges from private Edmonton (and area) firms to publicly-traded multi-nationals. Our key to success involves a customer-focused approach to everything we do, coupled with a Real Estate 'Brand' synonymous with respect, trust and integrity.

When you work with us, you can rest assured that you will be dealing with highly qualified industry specialists who are well versed with the Edmonton-area real state and business market.

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