

The logo for Jesse Appraisal is a large, stylized, serif letter 'J' in a light tan color, set within a square frame of the same color. The 'J' is the central focus of the logo. Below the 'J' frame, the word 'ESSEX' is written in a large, light tan, serif font. At the bottom of the logo, the word 'appraisal' is written in a smaller, light tan, lowercase serif font, with a horizontal line above the letters 'a', 'p', 'p', 'r', 'a', 'i', 's', 'a', 'l'.

Edmonton
Condominium Market
Survey
2011

ESSEX
appraisal

For the first time in five years, Essex Appraisal is pleased to present a study of the inventory conditions of the Edmonton Condominium Market. Since our report last appeared in 2006, it has been a bumpy ride in this sector of the real estate market. Through much of 2006, 2007 and well into 2008, there was strong demand for condominiums fuelled by homeowners making life style changes, investor purchasing for rental purposes, and speculators chasing appreciation. In 2008, the market took a dramatic turn for the worse as Edmonton felt the effects of a global financial crisis and a decline in buyer confidence.

During these periods of market flux, our traditional means of measuring the market failed. Units were either selling too quickly to keep track of; or so slowly that nobody cared.

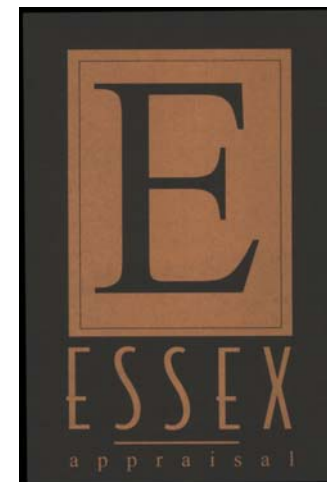
As we stand in 2011, inventory conditions remain a bit of a mystery. We feel that our survey will be beneficial in shedding some light on the market and alleviating some of the unjustified concerns for some sectors of the industry.

In past years, the focus of this survey was absorption performance; the pace of sales either within a project or within the industry as a whole. Using actual sale performance from each project in the market, we could calculate the sales rate projects could anticipate if suitably priced. In other words, we used past performance as a predictor of future performance.

With the fluctuation of the market over the past four years, the use of this historical measurement is no longer possible or even relevant. The past four years have shown us that an historical perspective of sale performance does not necessarily translate into a good predictor of future sales performance.

So the big change in this year's study is that rather than looking to the past statistical performance of the market as a precursor for the future performance, we will instead concentrate on an analysis of the inventory conditions and where this inventory will lead us.

Within this study we will address several questions regarding the present inventory of units.



How many units are out there?
What is the level of vacant and unsold inventory?
How old are the projects?
What is coming next?
How long will it take to reduce inventories to a balanced market?
Who is building the most?
How many trouble projects are out there?
Why did the market get into trouble and how can we avoid it happening again?

Armed with a comprehensive supply of data, we will make some predictions and point out some of the complicating factors that will present hurdles to the condominium building industry in Edmonton in the coming years.

The criteria we used for inclusion of a project in this survey is as follows:

"New condominium projects being offered for sale by the original developer to individual end users, whether or not the project has actually been constructed."

For those who are unfamiliar with our survey, this is a compilation of all **new** condominium projects currently being marketed in Edmonton, Sherwood Park, or St. Albert. When a project sells out completely, we remove it from the survey, as it no longer forms part of the new inventory. This survey does not include any units in conversion projects, freehold projects (duplexes), or re-sale units that are available for sale from private owners.

For clarification, our inventory chart features several columns of information, some of which are new this year. "*Phase*" indicates the currently marketed portion of larger projects. The "*Size*" category is quite self-explanatory, limited to strictly the current phases only in multi-phase projects. "*Location*" covers some rather board parameters. Later in the report, we will illustrate the boundaries on a map. The following is a list of projects that fit our criteria:

<u>Project Name</u>	<u>Location</u>	<u>Type</u>	<u>Phase</u>	<u>Size</u>
12th Street Station	Southeast	TH		46
Air Harbour Townhouses	North	TH		32
Alta Vista South	Downtown	Apt		122
Aspen Lanes	West End	TH		50
Aspen Meadows	Southeast	Apt	III	65
Axxess at Terwillegar Towne	Riverbend	Apt	I	111
Brio	North	TH		68
Californian Parkland	West End	Apt	I	82
Capstones at Callaghan Ravines	Heritage Valley	TH		36
Carlton Villas	North	TH		54
Centre in the Park	Sherwood Park	Apt	I	78
Century Park	South Central	Apt	I & II	388
Creekside Village	Sherwood Park	TH		98
Element Lofts & Flats	Sherwood Park	Apt	I	38
Ellerslie Lane	Southeast	TH		40
Eton Park Villas	Sherwood Park	TH	All	39
Glastonbury Estates	West End	Apt	All	60
Glastonbury Glenn	West End	TH		35
Glenavon	Riverbend	TH		15
Grand Scala	South Central	Apt		51
Heritage Landing	Heritage Valley	Apt	I	75
Hollick Kenyon Estates	North	Apt		60

<u>Project Name</u>	<u>Location</u>	<u>Type</u>	<u>Phase</u>	<u>Size</u>
Hollick Kenyon Pointe	North	Apt		103
Hudson	North	Apt		101
Icon	Downtown	Apt	II	147
Infusion	Riverbend	Apt	III	69
Ion	Riverbend	Apt	I	95
Landmark Emerald Hills	Sherwood Park	TH		128
Landmark Tamarack	Southeast	TH		146
L'Attitude Studios	Riverbend	Apt	I	99
MacTaggart Manors	Riverbend	TH		22
MacTaggart Ridge	Riverbend	TH		45
Madison on Whyte	South Central	Apt		80
McCrae Estates	North	Apt	All	59
Meridian Plaza	Downtown	Apt		111
Mosaic Meadows Parkland	West End	TH		135
Mosaic Summerside	Southeast	TH		195
Mosaic Towne Square	Riverbend	TH		171
Namao Terrace	North	Apt		52
NineTNine	South Central	Apt		19
North Ridge Place	St. Albert	Apt		72
Ospin Terrace	Riverbend	Apt	I	82
Palisades Estates	Sherwood Park	TH		47
Palisades Pointe	North	Apt	III	63
Panache on 12th	Downtown	Apt		39

<u>Project Name</u>	<u>Location</u>	<u>Type</u>	<u>Phase</u>	<u>Size</u>
Pearl	Downtown	Apt		174
Princeton Court	Sherwood Park	TH		52
Quest	Downtown	Apt		116
Rutherford Gate	Heritage Valley	Apt	III	53
Rutherford Park	Heritage Valley	TH	I	53
Sandstone at Walker Lake	Southeast	TH		135
Scona Gardens	South Central	Apt	All	193
Serenity Gardens	Downtown	Apt		62
Shorewinds	North	Apt	I	78
South Hamptons	West End	Apt	All	186
South Terwillegar	Riverbend	Apt	VII	114
South Terwillegar Village	Riverbend	Apt	All	120
Southern Springs Villas	Southeast	TH		63
Southwinds	Southeast	Apt		102
Suder Greens Estates	West End	TH		44
Summerside Pointe	Southeast	TH		59
Tamaya Wynd Estates	Heritage Valley	TH	II	32
Tapestry Ravineview	Riverbend	TH		16
Tenor on the River	St. Albert	Apt		65
Terra Sol Court	West End	Apt	All	138
Terwillegar Terrace	Riverbend	Apt	III	82
The Avenue at Hermitage	North	Apt	II	95
The Brigades at Griesbach	North	TH		33

<u>Project Name</u>	<u>Location</u>	<u>Type</u>	<u>Phase</u>	<u>Size</u>
The Brownstones	Riverbend	TH	II	26
The Essex	Heritage Valley	Apt		36
The Estates of Upper Windermere	Riverbend	TH		62
The Maxx	Downtown	Apt		93
The Silhouette at Carlton	North	TH	I & II	118
The Terrace of Oakmont	St. Albert	TH		42
The University Brownstones	South Central	Apt	I	43
The Venetian	Downtown	Apt		145
The Zen	Downtown	Apt		86
Times Square	Downtown	Apt		62
Trails of Mill Creek Estates	Southeast	TH		44
Trinity Pointe	South Central	Apt		37
Tuscan Village Apt	North	Apt	All	83
Tuscan Village TH	North	TH	All	114
Urban Village	South Central	Apt	II	80
Vanier	West End	Apt	I	72
Victory Point	North	Apt		60
Village on the Park	Southeast	Apt	All	243
Waterside Estates	South Central	Apt		30
Waterstone	Riverbend	Apt	I	99
Windermere Village	Riverbend	Apt	I	161
Windsor Park	Sherwood Park	Apt		150

STATISTICAL OVERVIEW

To summarize the above chart in general terms, we have the following totals. Previous year's statistics are shown for a comparative.

	<u>2011</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Number of projects	90	102	96	95
Total number of units	7,674	9,333	7,535	7,325
Total units sold	4,217	5,005	3,842	3,543
Total units available for sale	3,457	4,328	3,693	3,782
Average project size	85 units	92 units	78 units	77 units

We can see from this summary that the number of projects on the market is fairly low, and the number of units has not been this low since 2004. The most encouraging revelation from these statistics is that the number of units available for sale is at its lowest level in almost ten years.

In fact, most of the statistical categories for the market as a whole are at normal levels. One encouraging observation is that in past years, units sold usually sit at about 55% of all units. This is the level we are presently seeing in today's numbers as well.

Looking at these numbers, it would appear that the supply portion of the market equation has returned to a level we could characterize as "normal".

CONSTRUCTION STATUS

One of the biggest areas of concern amongst market participants is the status of construction of the projects. In former years, the flow of the market saw most projects start construction after necessary presales were achieved, and then by the end of marketing; the balance of the project would be sold out. This resulted in few units being unsold by the time construction completed.

The last two years of slow demand and collapsed sales contracts have changed the normal course of events. Projects that were at one time close to being sold out have now proceeded through to the end of construction with inventory remaining on hand. There is some notable and justified concern about the number of units vacant and unsold at present. To get a better look at this factor and its affect on the market, we have compiled some new statistics this year.

We have divided the units on the market into three categories. The following summarizes the construction status of the present market:

Units Not Started	1,276
Units Under Construction	2,185
Units Finished	<u>4,213</u>
Total Units	7,674

From the entire inventory of units, approximately 55% of them have now been completed. The more telling statistic is how many of these units from each category are already sold. That is summarized as follows:

<u>Status</u>	<u>Available</u>	<u>Sold</u>	<u>Not Sold</u>
Units Not Started	1,276	312	964
Units Under Construction	2,185	578	1,607
Units Finished	4,213	3,327	886

The unsold inventory amongst the “not started” portion of the market appears suitable. These are generally projects looking for pre-sales. These projects do not pose a risk to the state of the market.

The number of unsold units in projects “under construction” is somewhat more troubling. There are over 20 projects under construction with fewer than 50% of their units sold. Several of these projects have sold fewer than 10% of their units. As a general rule, most projects don’t get started until they have met a sales test of 40% to 50% of the units being committed to contracts. However, there are cases where builders have sufficient financial leverage to start construction without presales tests. There would appear to be a larger number of these types of developments underway right now.

The units vacant and unsold are the most visible and most costly problem facing the market presently. There are 886 units spread amongst 47 projects. Some level of vacant and sold inventory is to be expected and most of these projects have only a handful of units available. The problem projects are the ones with more than 20% of their total inventory vacant and available. There are 22 such projects carrying a total 631 units. Four of these projects have more phases planned. Most of this vacant and unsold inventory resides in projects that started construction in 2008. A total of 419 units sit empty from 2008 construction starts representing a full 20% of all units built in that year. This is mostly the result of collapsed contracts from purchases made in 2008 and 2007 when market prices were at their peak. Of the 886 units, 745 are apartment units.

Having described and classified the present inventory, we must now consider how long this present inventory will be with us in order to best decide when more new product will be met with favorable market conditions. To do this, we must make some assumptions.

Prior to 2005, we measured absorption for 15 years and found that in normal market conditions, the absorption rate was generally between 4% and 5% per month based on the full number of units being marketed. As a foundation point for our analysis of the present market conditions, we are going to adopt a conservative absorption rate of 4.0% to see what the future holds for the current supply.

With 7,674 units on the market and an absorption rate of 4%, we would predict monthly sales of approximately 307 units per month. These sales will be spread between the three categories of units with the “Under Construction” category getting the most action followed by “Not Started” units. The slowest category for sales will be the “Complete and Unsold” units. Our assumption or prediction is that the Not Started category will see absorption of 5%, Under Construction will get 7%, and the Finished Unsold grouping will get 2%.

With these assumptions in place, we can see how many units will be absorbed over the next few months. The following is an application of these predictions:

<u>Sales Status</u>	<u>Available</u>	<u>Sold</u>	<u>Unsold</u>	<u>Monthly Absorption Rate</u>	<u>Sales/month</u>	<u>Months Supply</u>
Units Not Started	1,276	312	964	5%	63.8	15
Units Under Construction	2,185	578	1,607	7%	152.95	11
Units Finished	4,213	3,327	886	2%	84.26	11

To summarize, if absorption sits at or near 4%, we will have an eleven-month supply of most of the product currently working through the system. The projects that haven’t been started will achieve their sales targets in the five or six months and be ready for the start of construction.

The estimate of 307 units per month is decidedly conservative. In the past we have seen periods of time when 500 units per month would sell. In this number were a large number of “speculator” purchases. These are investors that acquire units to gain the appreciation in value while the unit is under construction. At this point in the market, these buyers are nowhere to be seen.

If economic conditions in the Edmonton area continue to improve, buyer confidence will return, slowly. If we get stable interest rates, and a stronger resale market in conventional single-family homes, then we will get better monthly sales. We would suggest that sales of 400 per month could be achieved. If so, the unsold inventory across all categories could be cleared up in eight months.

BUILDING TYPE

A question most often asked of us is which type of building is selling well. The following chart gives the breakdown between apartments and townhouses, and their respective levels of performance.

<u>Type</u>	<u>Count</u>	<u>Size</u>	<u>Units Sold</u>	<u>Unsold</u>
Townhouse	34	2,295	991	1,304
Apartment	<u>56</u>	<u>5,379</u>	<u>3,226</u>	<u>2,153</u>
Totals	90	7,674	4,217	3,457

This particular classification always intrigues us with its consistency. In 2005, there were 34 townhouse projects and 68 apartment projects.

In the future, we may see a shift in these numbers with townhouses taking on a higher percentage of the market. Anecdotally, we have seen several apartment sites purchased in the past two years for development of townhouse projects. Similarly, several builders that were at one time strictly apartment builders are now turning their efforts to townhouses.

The genesis of this shift lies back in the vacant and unsold inventory. With apartment projects moving so slowly in the past two years, builders are looking at the townhouse market as a way of more quickly turning over projects and avoiding the costly circumstance of standing completed inventories.

Another impact of the present market conditions that is shifting developers to townhouses is the cost of land. With the apartment market being slow, the value of vacant land for apartments has come down significantly. Apartment land prices are now virtually on par with townhouse land and can now be affordably developed with lower densities and still produce a profit. In fact, townhouse development is proving to be more profitable than apartment development.

GEOGRAPHIC DISTRIBUTION

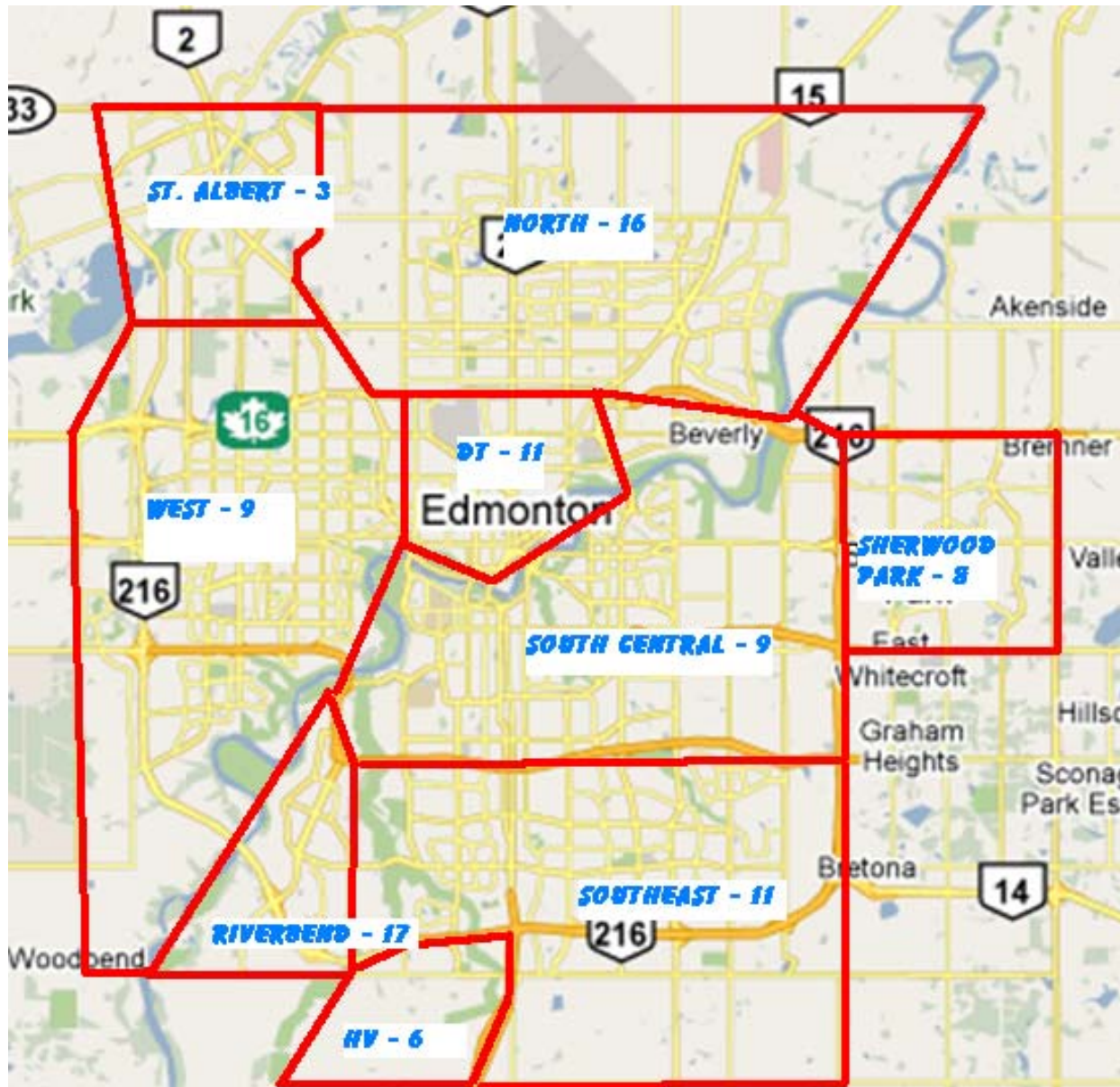
Next, we considered the various geographic regions of the city. This distribution is summarized below but is best illustrated on the following page.

<u>Location</u>	<u>Count</u>	<u>Size</u>	<u>Units Sold</u>	<u>Unsold</u>	<u>Future Phase Units</u>
Downtown	11	1,157	611	546	0
Heritage Valley	6	285	145	140	469
North	16	1,173	574	599	408
Riverbend	17	1,389	867	522	896
Sherwood Park	8	630	263	367	46
South Central	9	921	667	254	523
Southeast	11	1,138	413	725	0
St. Albert	3	179	72	107	0
West End	<u>9</u>	<u>802</u>	<u>605</u>	<u>197</u>	<u>142</u>
	90	7,674	4,217	3,457	2,484

Due to the growth of southwest Edmonton, we have divided it up into two separate regions, both of which seem to have an adequate supply of units. When we take into account future phases, the supply seems high. Not included in the future phases is Century Park. Inclusion of the approximately 2,500 remaining units skews the data significantly. Century Park is a long term project that will be staged in over several years, although its presence does serve as a major draw to the area.

In terms of unsold inventory, it would appear that the West End tends to demonstrate the strongest opportunity to handle new inventory.

The downtown inventory tends to be the slowest moving with a high percentage of high rise product that is still under going some price shocks and closing resistance.



PARTICIPANTS ANALYSIS

In past years we have touched on the topic of the dominance of a comparatively small group of builders in Edmonton. This year, we have given it a closer look.

The 10 largest builders in Edmonton contribute 48 of the 90 projects in our compilation with 4,525 units to their credit. This represents about 60% of all units.

These tend to be the same builders that dominate the market every year with the odd exception. There are now a total of 44 builders involved in the market.

The effect of this level of control by such a small group of builder is somewhat beneficial to the market as a whole. It starts with the land supply being less widely distributed and as a result, the pace of new projects is more controlled.

The other benefit is comparatively stable prices. With good market control, there is little evidence of predatory pricing and comparatively few recent project failures. Coming out of this most recent downturn, all the major builders in Edmonton survived and in fact carried on business with a consistent pace. These companies appear well funded and managed with sound principles.

The downside of the control level comes in the form of the potential for limited growth in the market and the comparatively small need for project innovations. Competition would be helpful in encouraging new styles and designs.

MOVING FORWARD

Looking ahead, what will be the opportunities and challenges facing the condominium market in Edmonton?

The first issue to be addressed is to clear up the vacant and unsold inventory of units. Projects with the “For Sale” out for four years or more will not be the first choice in buyer’s minds. These need fresh marketing campaigns with newer, more aggressive pricing to get some action. Perhaps bulk unit sales to rental investors would be a better use of the units in the long run.

The next issue is how to overcome buyer lethargy. If buyers were convinced that there is an “urgency to buy”, then demand would pick up. Unfortunately, the buyer knows he can wait for another day, or simply go down the street to the next project and get a better deal there. The buyer has many options and lacks the impetus to act at the present time.

A potential return to over-supply is also a real possibility. There are well over 2,400 units planned in additional phases of the existing projects, not including the Century Park project. This supply coupled with the thousands of units waiting in projects that were shelved during the last downturn, could bring a flood of new product on the market. Strong presales are the best precursor for any new project. Good sales and market level prices to end-users are the only assurance of profitable development.

One necessary element that the market needs to continue on an upward track is low interest rates and non-restrictive lending policies on the part of the government. By making borrowing more restrictive, the government is limiting the potential buyer pool especially at the entry-level portion of the market. As a healthy condominium market thrives on entry-level buyers, these restrictive practices on the part of government take direct aim at the market condominium builders rely on.

Lastly, the re-development of the City Centre airport could eventually be a matter of concern for participants in the condominium market. In its simplest form, it is just another competitive area that will have to function within the entire development landscape. But, the scope and magnitude of the potential development could shift a significant amount of development away from the growing peripheral communities. If preliminary density indications are correct, development of this site could use up about three to four

years worth of condominium buyers. Even if that is spread out over 30 years, it still represents about 10% of the potential condominium buyers every year. This site will have a major impact on development in Edmonton.

In summary, we see a condominium market that is catching its breath after a long period of uncertainty and buyer stagnation. With conservative participation by the major builders, we should return to a balanced market by mid-Summer. Buyer demand will creep up as the supply of units diminishes. This will clear the way for moderate amounts of new units and additional phases of existing projects. Unfortunately, this is a very precarious balance, as too much new product will take us quickly back into an over-supply position again.

Thanks go to all the builders that so willingly participated in this survey. For some, it wasn't pleasant, but we know that knowledge is power, and the more we know about the market we work in, the better off we will all be. For those builders that chose not to help out, I would ask that in future years you re-consider your stance.

And to the many who made contributions to the Grace Hospital Fund in India, I give my heartfelt gratitude. It means a lot to me personally that so many of you would get on board with my cause. Because of your generosity, there is a community that will be given new hope. Lives will be changed in untold numbers. Be proud that you had a hand in making it happen.

If you find this information has been helpful to you and you want to show your appreciation, please feel free to make a contribution to this cause. If you want more detail, please contact me, Randy Wyton at 780-991-1476, or go to www.essexappraisal.com and have a look at the information there. We are suggesting a donation of \$1,000, but please feel free to contribute at any level you are comfortable with. Cheques can be made out to Native Missionary Movement and sent to the offices of Essex Appraisal at #202, 10110-124 Street, Edmonton, AB, T5N 1P6. All donations are receipted and tax deductible in Canada. A full 100% of all funds donated go to actual construction costs.

This report is available digitally at www.essexappraisal.com.