MARKET REPORT

Multifamily

Edmonton Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

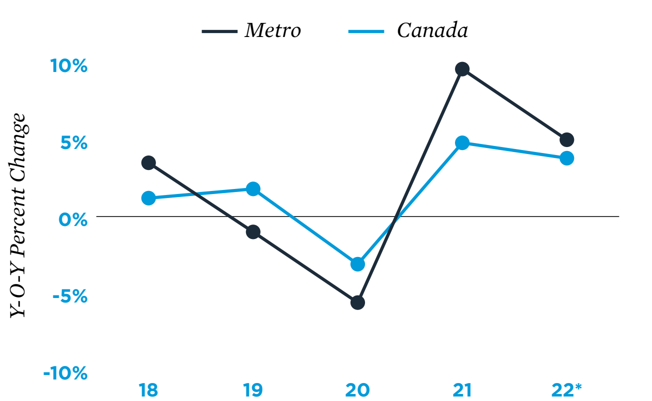
3Q/22

Widening Job Opportunities and Growth in the Oil and Gas Service Sector Boosts Economy

Recovering job market shows signs of continued expansion. Edmonton has long been known for its diverse workforce in the service sector for Canada's oil and gas industry. More recently, the metro has focused on broadening the scope of the local economy to be more resilient during challenging periods. As a result, Edmonton is not as influenced by changing oil prices, as a large share of the labour force is responsible for the maintenance and service of existing oil sands projects. It is true that when the price of oil falls, the economy tends to slow, but with Edmonton's oil and gas labour force focused on servicing existing projects, this node has become a consistent and reliable economic driver. With oil priced above $100 per barrel for the last few months, the market is expected to see a strong surge in related employment, trickling into other fields, such as construction and infrastructure. These new jobs will drive in-migration and continue to tighten vacancy in the rental market.

New developments coming at a slower pace in 2022. Edmonton entered the health crisis with a higher than average vacancy rate and a more robust than usual development pipeline. Weaker than anticipated demand caused by the pandemic resulted in a supply and demand imbalance, which softened the rental market, pushing vacancy up and slightly pulling down rents. Very strong oil prices and a general return to normal as the market recovers, coupled with the increasing cost of homeownership in the face of inflation and rising interest rates, will drive demand well in excess of new supply. This will tighten vacancy and help boost rents in the city. New multifamily developments are largely focused on purpose-built rentals, as the condo market continues to struggle to gain traction.

Employment Trends



* Forecast

Sources: Statistics Canada; Canada Mortgage and Housing Corporation

Multifamily 2022 Outlook

39,600 JOBS *will be created*

EMPLOYMENT:

Job growth is expected to slow from the pace recorded in 2021, but remain elevated from historic trends. A continued "return to normal" following the health crisis, plus strong oil and gas activity, are driving job growth and in-migration.

3,000 UNITS *will be completed*

CONSTRUCTION:

Construction will not be as active as in 2021, but the advancement of the technology industry and the higher-paying jobs that come with it has developers focused on the downtown core where young professionals are returning to work.

200 BASIS POINT decrease in vacancy

VACANCY:

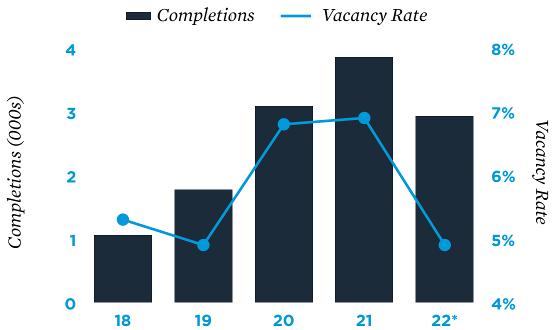
With Edmonton dropping COVID-19 restrictions faster than most other cities, and the metro's energy service sector growing, it is expected that vacancy will drop to 4.9 per cent by year-end, which is headed toward the pre-pandemic level.

4.1% INCREASE in effective rent

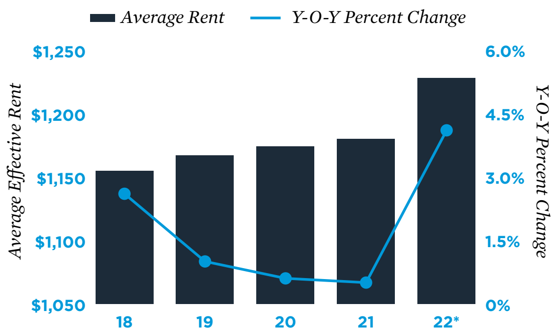
RENT:

With rising interest rates causing more households to consider the rental market, along with the delivery of Class A buildings, the average rent is expected to increase to $1,228 per month. This is the largest annual growth the metro has seen since 2014, when oil prices surged and the market saw a yearly increase of 7 per cent.

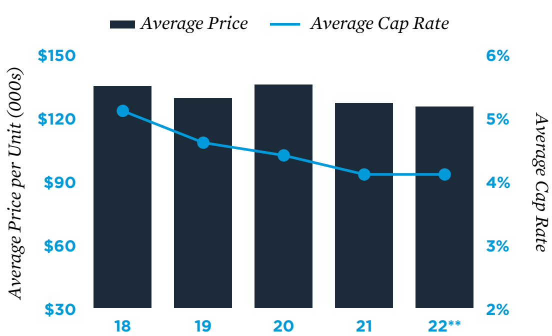
Supply and Demand



Rent Trends



Sales Trends



* Forecast **Through 1Q

Sources: Canada Mortgage and Housing Corporation; Altus Data Solutions

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Price: $250

2021 Overview

CONSTRUCTION

3,859 units completed

- Edmonton completed the most apartment units in its history, adding nearly 800 more rentals than the previous year, most of which were in the core.
- New supply has frequently challenged the metro, as oversupply has been a problem in past years. However, most of the newly-delivered units were absorbed as vacancy remained relatively stable between 2020 and 2021.

VACANCY

10 basis point increase in vacancy Y-O-Y

- The increase in vacancy paled in comparison to 2020, when vacancy rose by 200 basis points, driven by a supply overhang and the health crisis.
- The diversification of the economy and the rebound seen in the energy sector resulted in solid job growth throughout the year. This allowed vacancy to remain relatively stable, given the influx of new supply.

RENT

0.5% increase in the average effective rent Y-O-Y

- The average rent increased at its slowest pace since 2017, when Edmonton actually saw a decrease. This moderate pace of growth can be explained by new supply, the weakened economic environment and the lack of turnover.
- With the average rent sitting at $1,180 per month, Edmonton was the second-most affordable major market in 2021.

Investment Highlights

- Fundamentals suggest positive growth and family formation in the coming years, making the multifamily investment outlook positive. The stagnation seen in unit prices over the recent years were caused by oversupply and the fall in migration levels. Roughly 4,200 permanent residents and 1,700 non-permanent residents left the metro in 2020-2021, due to cuts in the energy sector. However, with the recovery of oil and gas and economic diversification, migration trends are expected to revert in 2023-2028.
- Over the yearlong period ending in March, Edmonton proper's total sales volume was $570 million, almost 140 per cent greater than the past year. Roughly 70 per cent of all transactions that closed this year in the Greater Edmonton Area were by private Canadian investors. That number jumped to 75 per cent when looking at Edmonton proper, with nearly 20 per cent valued above $20 million, suggesting large private investors are betting on an economic recovery.
- Areas like Spruce Grove and Leduc — more suburban markets with larger units and outdoor amenities — also experienced increased investment over the previous 12 months ending in March. These markets offer low-rise, garden style assets that are capturing investor interest, with these two areas experiencing a high influx of capital to support low-rise investment.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for $1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Statistics Canada; Canada Mortgage and Housing Corporation; Altus Data Solutions; CoStar
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