

A large, stylized, serif letter 'E' in a dark grey color, centered within a light brown square frame. The 'E' has a classic, slightly flared design.

Edmonton
Condominium
Market
Study
2006

ESSEX

a p p r a i s a l

Essex Appraisal Group Ltd. Edmonton Condominium Market Study 2006

In response to the wishes of our clients and as part of our ongoing commitment to the Edmonton real estate market, **ESSEX APPRAISAL GROUP LTD.** is pleased to present the 16th annual edition of the **EDMONTON CONDOMINIUM MARKET STUDY.**

Over the past 15 years, our objective with this survey was to measure the size of the new condominium project inventory, and to estimate the pace of sales. At the heart of the study was a survey that we conducted early in the year that would measure the size of the market on a given day. Using the historical sales performance of those projects, we could estimate the number of units sold throughout the year and predict a pace of sales for the coming year.

This year, market conditions have changed and so has our study. As anyone in the Edmonton area can tell you, the real estate market has experienced unprecedented activity in the past year. The local real estate board has reported record price increases. Homebuilders are starting more new homes than ever before. Not to be out done, the new condominium market has also been treated to a banner year.

As a result of the frantic pace of project development, we have found our survey methods from past years to be of little use in this type of market. A survey carried out on a given day now, is no longer representative of the past year, and is an equally unreliable predictor of the future. As such, we have found it neither useful nor practical to continue on with the traditional survey.

To characterize the market for new condominiums, we have seen many projects introduced to the buying public, and within just a matter of days, achieve full sell out. During these rather abbreviated marketing periods, prices will typically increase in the order of 10% to 30%. A sales pace short of this is the exception to the rule. We have seen many cases where developers will only sell small portions of a project, holding back units in the hopes of higher prices in the future.

Unlike past years where projects will market units at a pace of 5% of their units per month, we now see entire projects selling out in days or weeks. This hyper-elevated performance level is not measurable in any meaningful degree, and market averages are too skewed to be representative.

As an alternative to our past work, this study will focus in on some of the daily questions we are asked that typically arise within this changing market. Discussions about absorption levels and marketing techniques are no longer the focus amongst the building community.

Within the context of this study we will address the following:

- unit values
- land values and available supply
- future project trends
- profit margins
- the future of the market

Unit Values

With the market changing at such a rapid pace, keeping up with current unit values presents a daily challenge. Up until this year, values would increase anywhere from 5% to 10% over the life of a project. Some actually experienced decreases if marketing progressed poorly. Now, we are seeing double digit increases in days and staged value increases based on achieving sales quotas.

With that in mind, we have looked back in the archives at last year's values and compared them to the current values. The following pages present our value opinions for most of the major categories of condominium types. For each category, we look the upper and lower ends of the value spectrum.

Please note that this data is very generalized and applying it to actual projects may resulting in misleading results.

Suburban Wood Frame Values

The following values are expressed in a price per square foot format showing the low and high ends of the value spectrum. This accounts for variations in location, site quality, building specifications, and extra features.

Year	<i>Low</i>	<i>High</i>
2006	\$150/sq ft	\$180/sq ft
2007	\$250/sq ft	\$300/sq ft



Infill Wood Frame Project Values

The following values are expressed in a price per square foot format showing the low and high ends of the value spectrum. This accounts for variations in location, site quality, building specifications, and extra features.

Year	<i>Low</i>	<i>High</i>
2006	\$200/sq ft	\$275/sq ft
2007	\$300/sq ft	\$400/sq ft



High-Rise Project Values

The following values are expressed in a price per square foot format showing the low and high ends of the value spectrum. This accounts for variations in location, site quality, building specifications, and extra features.

Year	<i>Low</i>	<i>High</i>
2006	\$275/sq ft	\$325/sq ft
2007	\$400/sq ft	\$500/sq ft



Starter Townhouse Project Values

The following values are expressed in terms of whole dollar amounts, as unit sizes are generally quite consistent at approximately 1,200 square feet. The chart shows the low and high ends of the value spectrum. This accounts for variations in location, site quality, building specifications, and extra features.

Year	<i>Low</i>	<i>High</i>
2006	\$175,000	\$225,000
2007	\$300,000	\$375,000



Adult Bungalow Townhouse Project Values

The following values are expressed in terms of whole dollar amounts, as unit sizes are generally quite consistent at approximately 1,300 square feet. The chart shows the low and high ends of the value spectrum. This accounts for variations in location, site quality, building specifications, and extra features.

Year	<i>Low</i>	<i>High</i>
2006	\$250,000	\$350,000
2007	\$400,000	\$600,000



In summary, unit value increases have ranged from 45% to 71% depending on the market segment. The majority of this increase is attributable to the market, but some of the impact has resulted from some market shifts that we will touch on later. These include such changes as improved specifications, better locations, and more innovative units styles.

Land Values

As has been the case with all the other components of production, land has seen a remarkable increase in the past year. The following chart presents our estimate of the year-to-year value changes for three of the more popular land types used for condominiums.

<u>Low Rise Suburban Apartment Land</u>	<u>Low</u>	<u>High</u>
2006	\$500,000/acre	\$750,000/acre
2007	\$800,000/acre	\$1,300,000/acre
Increase	\$300,000	\$550,000
% Increase	60%	73%

<u>Infill Small Apartment Land</u>	<u>Low</u>	<u>High</u>
2006	\$30,000/suite	\$40,000/suite
2007	\$40,000/suite	\$55,000/suite
Increase	\$10,000	\$15,000
% Increase	33%	38%

<u>Central Core High Rise Apartment Land</u>	<u>Low</u>	<u>High</u>
2006	\$15,000	\$30,000
2007	\$35,000	\$55,000
Increase	\$20,000	\$25,000
% Increase	133%	83%

As we can see, land values have risen dramatically, even more so than the end unit values. This is a reflection of the demand for land amongst builders, coupled with new attention to this segment of the market from speculators. In order to fulfill the demand for developed condominium units, a builder must have land as an entry point to a project. With more builders in the market and a continual and seemingly unquenchable demand for units from the buying public, there is tremendous competition amongst builders to acquire this limited and rare resource.

Speculators are making up a large portion of the market as well with so much money flowing into Edmonton real estate. With the well-known success of the Edmonton multi-family market, buyers from inside and outside of the city are seeing multi-family land as a good investment. In many ways, land value increases are a self-fulfilling function. As the prices increase, it encourages even greater investment interest.

Something we have noticed in regards to land supply is a shift back towards the core. Infill sites are popular and builders are willing to pay more for the infill sites, as the unit values have risen to a level that justifies the cost. This is a rather cyclical change and affects just a small component of the market. This feature of the market is especially true with high-rise land. With end unit values approaching \$500 per square foot, high-rise development becomes very attractive and much more profitable. With the rise in values, better sites are now coming on the market.

Future Project Trends

Over the past year, we have seen some evolution in the condominium industry. These trends of the past year or so will undoubtedly continue and shape the market in the next few years. This is an examination of some of the things that have taken hold in the market.

The coach home is not a new innovation, but certainly one that has sprung back to life in the past couple of years. Pictured here is one of the more recent variations on the theme. Essentially, a coach home is a single level unit with an exterior entry in a small format structure. The benefit of this style of unit is the elimination of common area space making the project cheaper to build and cheaper to operate. With unit prices rising for conventional apartment style units, these units enter the market at a lower price point creating appeal amongst buyers that other wise could not afford units.



Another unit type that is making advances is the more common townhouse. For the past couple of years, this product line has been limited to entry-level buyers. Units were typically 1,200 two storeys with single garages. Now, as price points push up, builders have introduced the upscale version of the townhouse. These are more elaborately finished units in slightly stronger locations. Unit sizes tend to be larger. Price points for the new breed of townhouse rival new homes on standard lots. Locations for these projects are slightly harder to secure, as they need some type of premium feature. Land developers are quicker to accommodate these developments on premium lots with exposures to lakes, or greenbelts. The townhouse is taking on a new identity in this market as a competitor to single family homes.

High-rises and associated mega-developments have come to light with greater presence than ever in the past two years. Coming to the market is the Century Park project on the Heritage Mall site, a mega development by Alldritt in Clareview, a central core project by Carma just north of downtown, the Strathern Heights re-development site, and two or three other significant yet unannounced developments. The mega-



development combines high-density housing with onsite commercial amenities and low density housing on central and accessible sites. There have been few such sites in Edmonton apart from the Railtown development in the past few years. These high impact projects will consume a large portion of the condominium appetite at yet even higher prices to buyers looking for a more urban lifestyle. This type of project is a sure sign that Edmonton's housing tastes are becoming more cosmopolitan.

At the other end of the market is the trend in condominium conversions. Enterprising entrepreneurs are acquiring older apartment buildings and converting them from rental use to private individual ownership. This portion of the market generally takes advantage of low interest rates, rising rents, and the continuing rising cost of ownership by providing very economically priced units to a segment of the market that might otherwise have no opportunity to own. This part of the market does function at a cost to the real estate market in general. Buyers of these buildings tend to drive up the value of traditional rental buildings and in turn reduce the capitalization rates. Higher prices for acquisition will eventually lead to higher rents. The second impact relates to the evitable softening of the market. When values do back off even a little, the equity in these types of units erode quickly resulting in substantial hardship for a component of the market that can ill afford a loss. On the upside, it is a easy entry point into the ownership market.

Costs and Margins

It is an apparent ongoing trend now that the cost of building is going up as the housing market competes with the oil industry for labor. Other costs such as materials, soft costs, interest, and land costs are also pushing up the cost of doing business in Edmonton. This trend started in earnest in 2004 and has continued on to the present. These factors add up to higher costs to put the units on the market and will ultimately result in either higher price to consumers, or lower supply of units. In 2006, we say both market reactions fulfilled under the strength of excessive demand. There is no indication in sight that this trend in escalating costs or values will ease up anytime soon. Our prediction for 2007 is that we will see price increases in all sectors of the new condominium market over the next year and for some time to come.

Future of the Market

As always, this is the "million-dollar" question. The underpinning factor affecting the Edmonton housing market, as it is with most markets, is consumer demand. In-migration, move-up buyers, and first time buyers, are the key players in the market. All indications

suggest that the ongoing market strength would remain intact for some time to come. Employment growth is strong, and outside investment is bringing new money to the city to continue to fuel construction and new job markets. Oil sands investment in the north is a major supplier of investment to our region and with the world appetite for oil, we would appear to be positioned at the forefront of international interest.

In Appreciation

We hope this information will be useful to you. We would like to express our appreciation for the assistance we have received from all those involved in the condominium business. Obviously, we assembled this data for a purpose, and that is to provide the highest level of consulting services possible to our clients. As usual, we have not charged a fee to access this study, but we would suggest that if the data has been useful to you, that you would kindly express your appreciation in the form of a donation to a cause that is close to my heart. In the past couple of year, I have become involved with an organization in India, known as the “Native Missionary Movement”. This is a Christian group that operates schools, children’s homes, and medical facilities throughout the poorest and most remote regions of northern India. Their work can be seen on their website at www.nmmindia.org. Donations can be made out to Native Missionary Movement and sent to my office, and I will ensure that the funds are send on. All donations are fully tax deductible, and 100% of the money donated will be put to use in an active way to improve the lives of those in India. I fully and heartily endorse the work these people do and guarantee the integrity of the organization.

ESSEX APPRAISAL GROUP LTD.

#202, 10110-124 Street, Edmonton, Alberta, T5N 1P6

Tel. 488-4116 Fax 488-4477

E-mail randyw@essexappraisal.com

Randy Wyton