



Q2 2018

Provided courtesy of Gerald Tostowaryk
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Commercial Market

Industrial

Calgary and Edmonton Markets Down Slightly but Stabilizing

In the early months of the year, vacancy rates dropped to around 6% in Calgary and Edmonton, but average net rents were also down in both markets to \$9.19 in Calgary (down 5.2%) and \$9.63 in Edmonton (down 2.1%). Since then, markets have stabilized or even improved with Calgary vacancy at 5.4% and Edmonton unchanged at 5.9%. Rents have stabilized with Calgary holding at \$9.19 (net) and Edmonton down slightly to \$9.46.

Busiest US Warehouse Construction Markets

Busiest U.S. Warehouse Construction Markets			
	Avg Cost/Acre	Land Price Growth YOY	Lease Rates (New)
Northern New Jersey	\$1,750,000	17%	\$11.50
Inland Empire, Calif	\$980,000	35%	\$5.52
Central New Jersey	\$650,000	10%	\$8.00
Chicago	\$250,000	16%	\$3.95
Pennsylvania Corridor	\$250,000	13%	\$5.85
Las Vegas	\$220,000	17%	\$6.00
Houston	\$196,000	14%	\$5.00
Dallas/Ft. Worth	\$163,400	7%	\$3.85
St. Louis	\$152,000	0%	\$4.25
Kansas City, MO	\$105,000	4%	\$3.95
Atlanta	\$100,000	14%	\$4.75



Office

Calgary and Edmonton Markets Continue to Soften

Vacancy rates edged downwards to 15.3% at the end of March in Calgary and 10.2% in Edmonton. Despite the drop Calgary was still higher year over year due mostly to increased supply and the rate is expected to increase again with the completion of TELUS Sky. Naturally sublet listings continue to increase.

This has resulted in a 1.1% net rent drop on the quarter, 2.2% y/y to \$16.92. net. Interestingly, the downtown asking rate at the end of Q1 18 was \$15.92, below the suburban rate of \$17.99. Edmonton was not fairing any better with a 10% decrease y/y to \$17.27.

In the last couple months Calgary's vacancy rate edged up to 15.5% and Edmonton edged down to 9.8%. Despite the increase in sublet listings, they actually account for less market share this year than last, sitting at 25.4% vs 28.8% at this time last year. Calgary rental rates dropped ever so slightly in recent months to \$16.80 and Edmonton dropped to \$17.24.

US Suburban Office Demand

In the US, 66% of households are located in the suburbs, vacancy at 15% is a tad lower than the national rate of 16%, and first year returns were up to 100 basis points higher.

Retail

The retail world continued its strong showing in the early months with vacancy at 2.7% in Calgary and 4% in Edmonton, although both numbers were up with Calgary rising 0.1% and Edmonton up 0.4%. Vacancies are expected to increase in the coming months. Rents were still up in both markets with Calgary up 2.6% to \$25.68 and Edmonton up 2.1% to \$21.67

In the last couple months vacancy was unchanged in Calgary and Edmonton dropped slightly to 3.8%. Despite early increases, year over year Calgary's rents are actually down, sitting at \$26.24 while Edmonton is up y/y to \$22.35.

US Retail World Continues Changing

The delineation between physical presence retail and online retail is blurring, and physical stores and e-commerce platforms are becoming more intertwined as technologies advance. In the U.S., retail store openings continue to outpace store closings. Vacancies remain steady at around 9.9% with rental increases of 1.9%. E-commerce has been growing at an annual rate of around 15%, now making up about 9% of total retail sales. In Canada, Loblaws and Sobeys are testing online ordering and then drive up to pick up orders. The end is not near for physical stores; many online retailers including Amazon are opening brick and mortar stores. The next key concept is what is termed "last mile solutions", or how to best get product from the nearest warehouse to the customer. This is still very much in the air as retailers test out various solutions.



Hotel/Motel

Acquisition Activity

During 2017 in the US, 36% of transaction activity was private equity, 25% was public REIT acquisitions, 14% was developers, 12% was owner/operators, with the rest made up of high net worth individuals, non-traded REITs and institutional investors.

Multifamily

Alberta's population continues to grow at faster rates. At the end of April our population was up .35% from the previous quarter to 4.334 M. On a Y/Y basis the rate grew from 1.2% same quarter last year to 1.4% this year. Growth was brisk on all fronts with the strongest natural increase of all the provinces as well as increasing interprovincial migration and substantial net international migration.

As mentioned briefly in the residential market section, year over year multifamily starts are 34.6% lower at 1000 units.

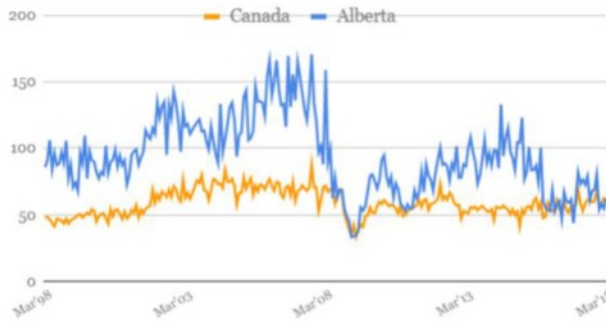
U.S Apartment Returns



Residential Market

Housing starts per 10,000 population

Seasonally adjusted at annualized rates



Source: CMHC, and Statistics Canada CANSIM table 051-0005



ATB Financial

Alberta's housing starts were generally much higher than the Canadian average of around 50-75 starts/10,000 population for the 10 years starting in 1998, dropping drastically during the recession of 2008, rebounding throughout the next several years, and finally falling again in 2015-16 to today's rates of around the current Canadian average of around 61 homes/10,000 population.

For years we were around or over 100/10,000 peaking at around 170/10,000 in the heyday years of 2006/2007 but we never fell below the Canadian average. For the last two years we have been, well, average.

Edmonton's housing starts came in at 1739 in Q1 18, a decline of almost 20% year over year from 2172 in Q1 2017.

Total starts were up 33% from Q4 2017 driven mainly by increased multi-family starts, which more than made up for a 17.4% decline in single family starts from Q4 17.

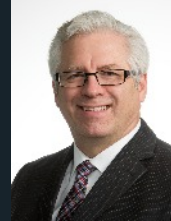
Year over year, single family starts are up just shy of 15% to 739 starts. Year over year multifamily starts are 34.6% lower at 1000 units.

City of Edmonton Housing Starts



Source: Canada Mortgage Housing Corporation

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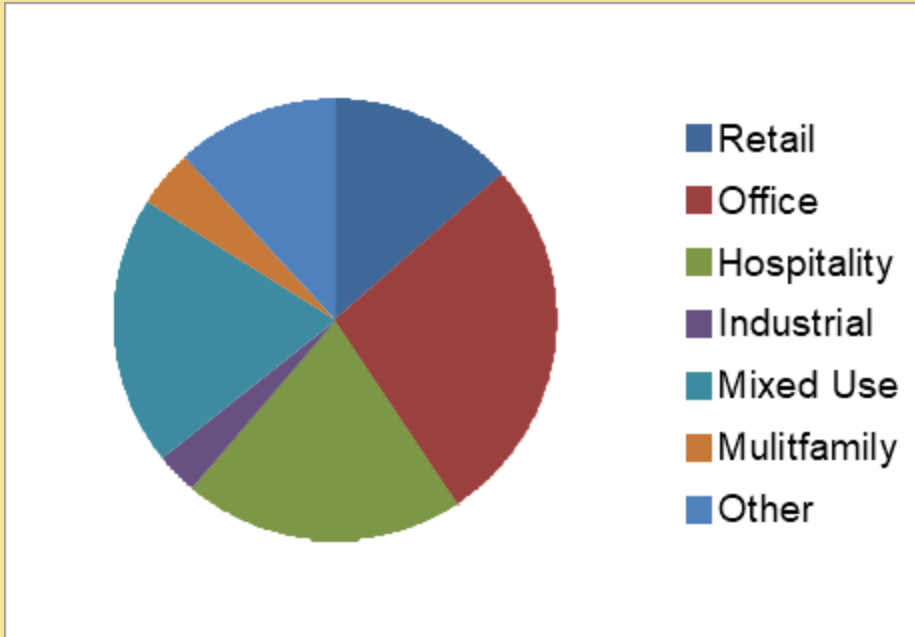
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Lending

Loans by Property Type- U.S. First Half 2017



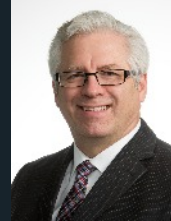
Edmonton Economy

Inflation on the Rise

Inflation in Edmonton has been on the rise for some time now. The CPI rose from an annualized rate of 1.5% in January to 2.3% in February, 2.4% in March, 2.5 in April and now 2.7% in May. Gasoline, electricity, water, natural gas, and other shelter related costs are the culprits.

Employment Mixed

Employment fell in Edmonton in February by approximately 5100 positions, fell again in March by another 2200, rose slightly in April and rose in May by approximately 4300 positions. Despite these the unemployment rate fell throughout, dropping from 7.2% in January to 6.5% in May. The labour force also dropped throughout, so some of the drop in unemployment is due to the funny counting governments use these days, where if you can't find a job within a year, you don't exist any more.



Alberta Economy

Business Bankruptcies showing signs of Increase

Business bankruptcies peaked in 2011 and have been steadily declining up until 2017 where things bottomed out and are now, while still low, beginning to increase.

Oil Prices up and up...and up

Oil prices have been increasing steadily over the last year, marching up to the current WTI price of around US\$73. While this falls somewhat short of the peak of around US\$120 in 2013/14, pump prices have miraculously recovered fully...but that's another story. WCS still lags behind at around US\$53. The approximate difference between WTI and WCS has been around \$16 lately, building pipelines would help reduce that spread.

New Vehicle Sales strong...for a while

New vehicle sales are generally a good indicator of the health of the economy and since the beginning of 2017, sales have been increasing steadily. The number of vehicles sold in January 18 was up about 7.5% from last January to 16,162 while sales \$ volume was up nearly 15% to \$737 million...that was until the last few months. Sales have been on the wane since January and we are down 5% from last year. Rising prices and interest rates are likely to keep sales down for the time being.

Record Retail Sales show signs of Slowing

Increased new vehicle sales have helped contribute to record retail spending in Alberta over the last couple of years. 2018 started out with record sales but February dropped a little and was slightly off the record at \$6.7B. Albertans spend more per capita than the Canadian average by about \$213/mo but (there's always a but) pullbacks in spending are appearing. Since June of 2017 year over year sales growth has slowed significantly from about 8% to almost 0 growth. A higher unemployment rate of 6.7% as well as mounting debt and higher interest rates may be contributing factors.

EI Numbers on the Decrease...the Question is Why?

After more than a year of increase, the number of Albertans on EI has been on the decrease for about a year and a half, with a 5% drop in claims from April over March; Edmonton's decrease was 7.3% (see Edmonton economy section above).

While economic recovery undoubtedly accounted for a significant portion of the decrease, it is also due to some Albertans running out of benefits...and as you know, in the world of government counting, you're not unemployed any more - you're just not looking for work...so you don't count.

The labour market is expected to grow at a rate of 1.9% this year, decreasing to 1.3% in 2019 which is still expected to be the strongest in Canada.

Alberta GDP Slowing but Still Strong

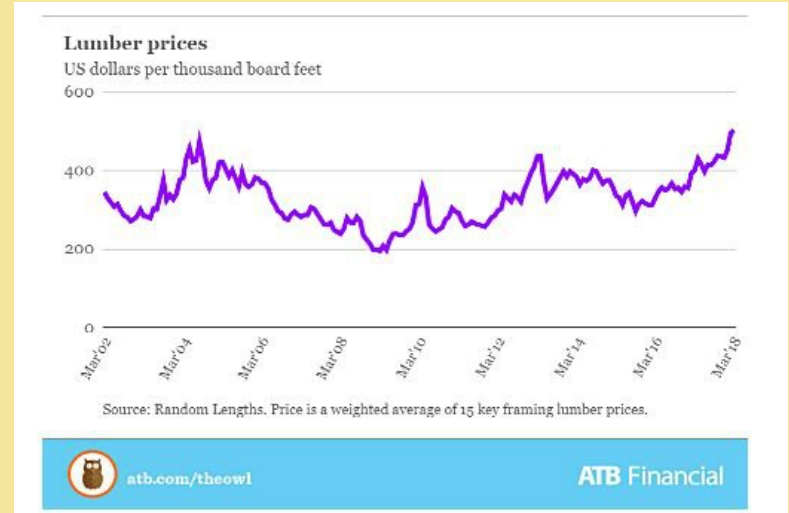
Alberta led the country in 2017 with a strong 4.9% (originally estimated at 4.1%) GDP increase, although that is expected to slow to a more moderate, sustainable 2.2% in 2018. Slowed by pipeline uncertainty and lower oilsands infrastructure capital investment, this is still above the national average.



Alberta Economy continued

Lumber prices Hit Record High

According to US based Random Lengths, framing lumber prices reached a record high at the end of the first quarter. Strong house construction in the US combined with the US-Canada trade disputes adding tariffs over 20% have contributed to the increase.



Wholesale Trade Continues to Perform Well

Wholesale trade (sales to government, business, institutions) reached \$6.8B in February which, although a slight decline from January, was up almost 6.5% from February 2017.

The biggest gains were in farm product sales (up 32.7%), followed by household goods and motor vehicles at more modest gains of 2.5% and 2.0% respectively. Machinery, equipment and supplies fell 3.2% as well as building materials down 1.2%. While wholesale trade is a good leading indicator (predictor of coming economic conditions), the recent moderation in numerous economic factors may affect this number in the coming quarters.

Sources: CCIM CIRE Magazine Nov/Dec 17 and May/June 2018, City of Edmonton, Government of Alberta, Realtors Association of Edmonton, ATB Financial, Construct Connect, CoStar, Altus.

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