CUSHMAN & WAKEFIELD
Edmonton

MULTI-FAMILY MARKETPLACE

There is still a demand for concrete high rise at low Cap Rates. Is this going to continue or do we see the market evolving where older underperforming assets in need of Capex become more prominent.

In the Edmonton marketplace, nine high-rise properties sold in 2018 at an average cap rate of 3.62 percent. These nine sales represent a combined total of 1,221 units and $331,516,000 in volume. Drivers of these transactions include investor flight to quality amongst uncertainties in the provincial economy, and pent up demand for concrete institutional quality properties, both new and old.

The average price per high-rise unit ($251,021) is almost double that of wood-frame walk-up apartment building units built prior to 1990 ($129,155). If similar concrete high-rise assets become available strong demand will remain. Such coveted product will outpace wood-frame which has shorter life expectancy timeframes. Concrete high-rise product has proportionally smaller capital budgets combined with greater ability to increase rents thereby producing higher yields.

The continued construction of purpose-built rental stock is vital to the longevity of affordable housing stock in Edmonton. From the mid 1980's to the mid 2000's there was not much for purpose built rental constructed, and this led over time to rents exceeding cost of ownership and while the detached housing market prospered, the urban sprawl caused over those years, led to deficiencies and inefficiencies with the City struggling to keep up with the infrastructure required for the pace of land development.

Multi-family rentals are seen as a better position for investors as home affordability has decreased in the past 10 years. Government stress test and creeping interest rates will land more people to be longer term renters keeping this sector of commercial real estate to be highly coveted.

The higher inventory of new homes and resales of multi-family and detached homes will likely cause new starts to decrease slightly in 2019. They will rebound with positive economic news and potentially positive in-migration numbers as many developers hold onto several development positions within the City. Provincial and Federal elections results will effect planning, but new development will likely rebound in the second half of 2019.

The downtown multi-family market continues to do well with baby boomers downsizing and moving into the city core. Affordability still remains an issue, as millennials looking to live in the core are not seeing their dollars achieve as much square footage as they desire. The rentals in the core are experiencing some turnover due to low interest rates luring millennials to the suburbs for their first or second homes.

Uncertainty surrounding labour markets, oil pricing, pipeline construction, and carbon tax will cause purchasers pause before buying. However, equity market volatility and the continued low cost of capital will ultimately spur offers as multi-family remains a greatly sought-after asset class. Stabilized cap rates and prices per unit are expected. The scarcity of available product will continue to balance the Edmonton multi-family market throughout 2019.

CUSHMAN & WAKEFIELD
Edmonton

STRONG DEMAND CONTINUE FOR CONCRETE HIGH RISE

MULTI-FAMILY RENTALS BETTER POSITION FOR INVESTORS
HOME AFFORDABILITY HAS DECREASED IN THE PAST 10 YEARS

NEW HOME STARTS TO DECREASE SLIGHTLY IN 2019

MULTI-FAMILY MARKETPLACE

BABY BOOMERS DOWNSIZING AND MOVING INTO THE CITY CORE

MULTI-FAMILY REMAINS A GREATLY SOUGHT-AFTER ASSET CLASS
STABILIZED CAP RATES AND PRICES PER UNIT ARE EXPECTED

STABILIZED CAP RATES AND PRICES PER UNIT ARE EXPECTED