THE Investment Report

Q1 & Q2 Investment Sales Volume: $1.7 Billion | Fall 2014

ECONOMIC OVERVIEW

A strengthening American economy has helped to boost Canada's economic performance over the summer, due in large part to increases in export demand coming from south of the border. Compounding these improved projections for growth was the Bank of Canada's continuing policy of keeping the target overnight rate at 1%, where it has been since September 2010.

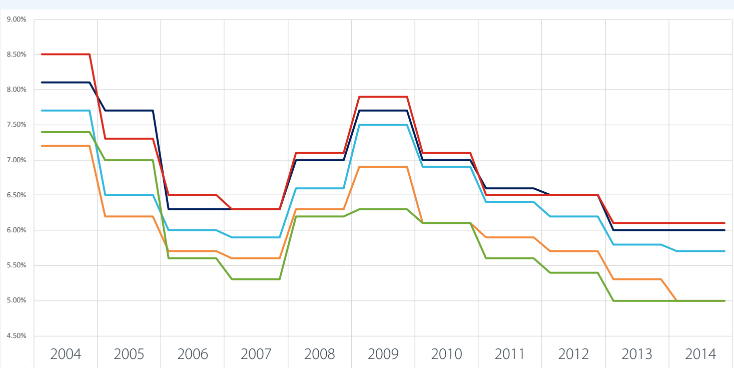
According to Statistics Canada annualized GDP growth over the summer (April - June) was 3.1%, considerably higher than projected.

In the Edmonton investment market however, increasing profitability from investment product has lead to a lack of trade volume, as current owners are seeing more than satisfactory returns on existing investment and few reinvestment opportunities. The result is that total real estate investment has been falling in dollar value as a result of compressed averages.

In the office sector, the announcement of a third office tower, the 62 story Stantec Building has alleviated some of the uncertainty that has stifled investment activity recently. Investors are now presented with a much clearer picture of what the market will look like over the next decade, and can act accordingly.

Across the market, deal volume is even compared to the first two quarters of 2013, showing 290 investment grade sales (arms length transactions exceeding one million dollars). Total dollar value remained even as well, clocking in at $1.7 Billion both years. As noted in previously in the publication, the majority of primary investment capital has been directed at new development land purchases, indicating a strong growth potential as well as a saturation of existing assets. The best example is Edmonton's South East industrial node where land and build to suit opportunities are being bought up at a blistering pace. Because of the exceptional demand, a single acre of serviced land now averages $875,000 or greater per acre.

DECLINING CAP RATES ACROSS ALL CLASSES

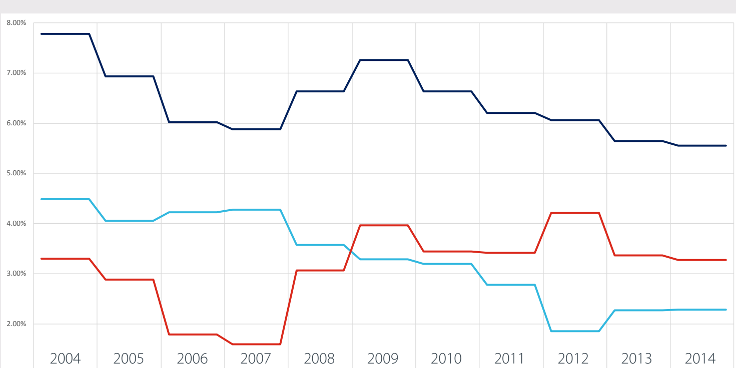


Q3 2014

6.1%	Industrial (Multi Tenant)
6.0%	Industrial (Single Tenant)
5.7%	Downtown AA Office
5.0%	Teir 1 Regional Mall
5.0%	Multi-Family

- Cap rates across all classes have continued their long term compression trend in 2014, though slowing slightly through the year amidst varying news about the state of the Canadian economy.
- Multi-Family and industrial product has stayed even for roughly 8 quarters, hovering around the 5.0% and 6.0% levels respectively.
- Although on paper multi-tenant industrial product is achieving slightly higher cap rates, the common valuation based on risk profiles still holds, as single tenant structures still command a higher cap when compared on an average per dollar invested vs an average per deal which is shown on the graph.

CAP RATE vs 10 YEAR BOND SPREAD



Q3 2014

5.6%	Aggregate Cap Rates
3.3%	Spread
2.3%	10 Year Bond Yields

- The ten year bond yield has remained at a relatively steady 2.3% in 2014, meaning that the spread over a rough aggregate of Edmonton cap rates has lowered slightly since the end of 2013.
- Because of the lower bond-cap spread, investors are accepting less of a risk premium as a result of strong performance in the commercial real estate sector.
- Lower risk premiums are a result of more capital allocated to investment in real estate assets.

Notable Investment Sales

Fall 2014

OFFICE MARKET

- Edmonton's office market is continuing to experience good liquidity despite recent market shifting decisions from major downtown tenants.
- Prices are expected to soften going forward, due to increased market instability, causing upward pressure on vacancy and downward pressure on rental rates.
- Market forces will dictate a widening spread in cap rates between old and new product, as older lower class buildings are expected to bear the brunt of an increase in vacancy.

Location	Type	Size (sf)	Price	Cap Rate	Price PSF	Sale Date
Executive Place Red Deer	Office	103,879	$42,353,857	6.5%	$407.73	June 30, 2014
Plaza 124	Suburban Office	154,631	$37,100,000	7.9%	$239.92	June 11, 2014
Sobeys Building	Suburban Office	96,804	$24,500,000	7.3%	$253.09	September 15, 2014
124 Street Place	Suburban Office	33,090	$6,880,000	7.1%	$207.91	February 28, 2014

INDUSTRIAL MARKET

- The industrial market continues to show great momentum, driven by strong demand from tenants and users in an environment where supply is continually tight.
- Rates on new product will continue to rise driven by increasing cost inputs. A strong example is the rapidly inflating rates to service industrial land. According to the 2014 Altus cost guide, the price to service one acre of industrial land in Edmonton is now between $127,900 and $196,200 . This is compared with $121,800 – $186,900 in Calgary and $115,000 - $165,000 in the greater Vancouver area. This price increase will come as a benefit to existing stock.
- Cap rates are expected to stay low as strong dynamics and rental rate growth will continue.

Location	Type	Size (sf)	Price	Cap Rate	Price PSF	Sale Date
6908 - 42 Street Leduc	Single Tenant Warehouse	31,362	$14,450,000	7.0%	$460.75	August 7, 2014
14215 Yellowhead Trail	Multi- Bay Warehouse	99,177	$10,477,814	6.5%	$105.64	February 11, 2014
10420 - 169 Street	Multi- Bay Warehouse	48,466	$6,800,000	6.0%	$140.30	March 18, 2014
53016 Hwy 60, Acheson	Multi- Bay Warehouse	61,049	$7,385,000	7.5%	$120.96	January 2, 2014
10420 - 169 Street	Multi- Bay Warehouse	48,466	$6,800,000	6.0%	$140.30	March 18, 2014

RETAIL MARKET

- Retail dynamics are very strong in the capital region, and are experiencing the same benefits the industrial market has been seeing over the first 3 quarters of 2014.
- Vacancy will continue to hover around 2%, fueled by substantial residential and employment growth and a population expanding at roughly 30,000 people per year.
- Rental rates will continue to rise due to tight supply and rising costs. In certain new build centres, rates have already comfortably crossed 40 per square foot for premium product. Because of this, cap rates are expected to stay low and liquidity to remain high.

Location	Type	Size (sf)	Price	Cap Rate	Price PSF	Sale Date
Century Park	Shopping Centre	86,429	$43,200,000	5.5%	$499.83	October 2014
Nottingham Centre	Shopping Centre	29,565	$9,900,000	6.3%	$334.85	January 22, 2014
Centre 34	Shopping Centre	20,018	$6,050,000	6.7%	$302.22	January 14, 2014
Heritage Links	Shopping Centre	11,276	$5,985,000	6.1%	$530.77	March 24, 2014
10127 - 124 Street	Retail	27,880	$5,000,000	6.6%	$179.28	January 23, 2014

MEET OUR INVESTMENT TEAM:

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