First Quarter 2018 - Multi-Family Report

Calgary

Calgary's multi-family residential market finished 2017 appearing poised to commence recovery.

However, it is not anticipated that it will be a rapid pace of recovery. While prominent economic forecasts for the city from groups such as the Conference Board of Canada and The City of Calgary are positive, it doesn't mean all the pain of the recent economic downturn has subsided.

Meanwhile, improvement in rental demand outpaced the number of new purpose-built rental units added to the market. This improvement occurred even with an environment of weak net migration to the city, and sluggish job growth. As a result, the overall primary rental vacancy rate saw the largest annual decline in vacancy since 2010.

The condominium sector in Calgary is expected to perform steadily in the near term, although at a slower pace than levels recorded prior to the downturn. Calgary continues to face an abundance of recently completed supply. There are still a small number of new projects going into the core, part of a push to drive more density in the city center. Condo units in the downtown core remain attractive to young professionals, whose appetite for the live/work/play lifestyle shows little sign of abating. They are joined by retiring baby boomers who are selling their single-family residences to enjoy smaller, more carefree condo living close to urban amenities.

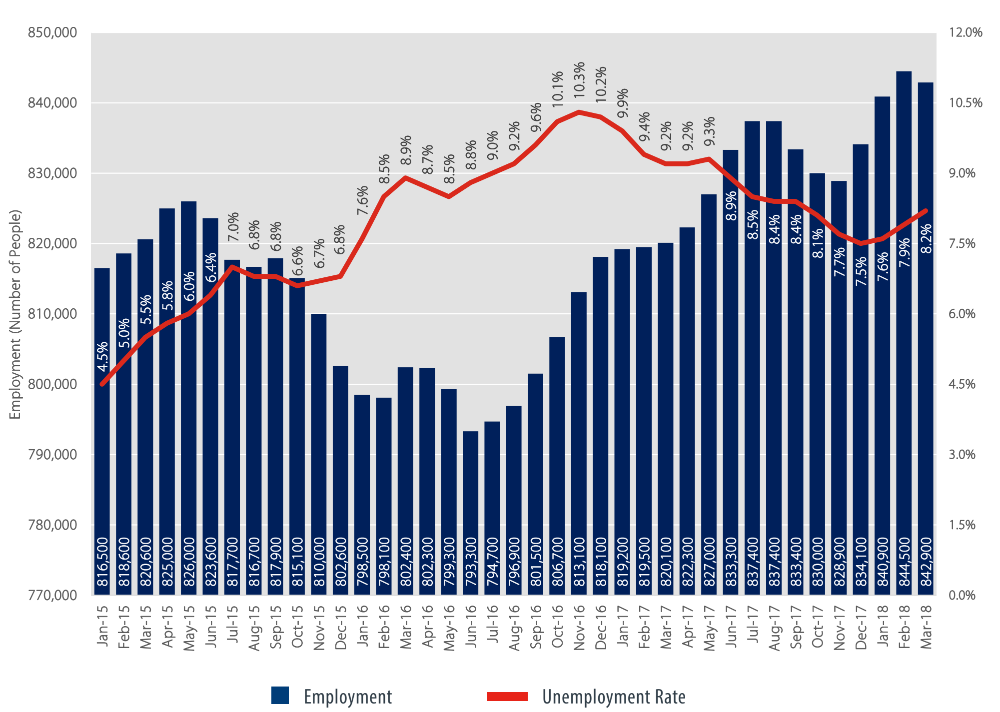
Economic Overview

Economic outlooks regarding Calgary now talk about how the economy has reached the turning point. It is now believed that Calgary has reached the end of this recession. Improvement in the labour market has been noted over the last year. The unemployment rate has fallen from a peak of 10.3% in November 2016 to 8.2% as of March 2018, but remains the highest among major cities in Canada. Employment has recovered and is growing, according to Statistics Canada data. As of May 2017, employment in Calgary is back above the peak level recorded in May 2015 (826,000 people), and is at 842,900 people as of March 2018.

Also, market sentiment has improved as compared to this time last year. A long journey remains for all economic indicators to show recovery, but progress is being recorded. According to the Conference Board of Canada, Calgary's 2017 GDP growth led major Census Metropolitan Areas (CMAs) across the country at 4.6%, and is forecasted to regain a dominant position in economic growth between 2018 and 2021. However,

	Primary Rental Market	Secondary Rental Market
Average Monthly Rent	$1,128	$1,419
Vacancy Rate	6.3%	3.8%
Number of Units	38,160	21,753
Starts / Completions	944/1,414	3,282 /3,094
Average Price Per Door	$190,157	

CALGARY CMA EMPLOYMENT AND UNEMPLOYMENT RATE



continued from page 1

this long-term growth is at a slower pace than Calgary experienced during the previous decade.

Another positive sign is that the rate of population growth in Calgary is increasing. According to The City of Calgary's 2017 Civic Census, the population increased by a net 11,166 people (0.9%) in 2017, an improvement over the net increase of 4,256 (0.3%) in 2016. Net migration (the difference between the number of persons moving into Calgary and the number moving away) did cross into negative territory (-6,527 people) in 2016, but thanks to the natural increase in population in 2017, this number was once again positive (974 people).

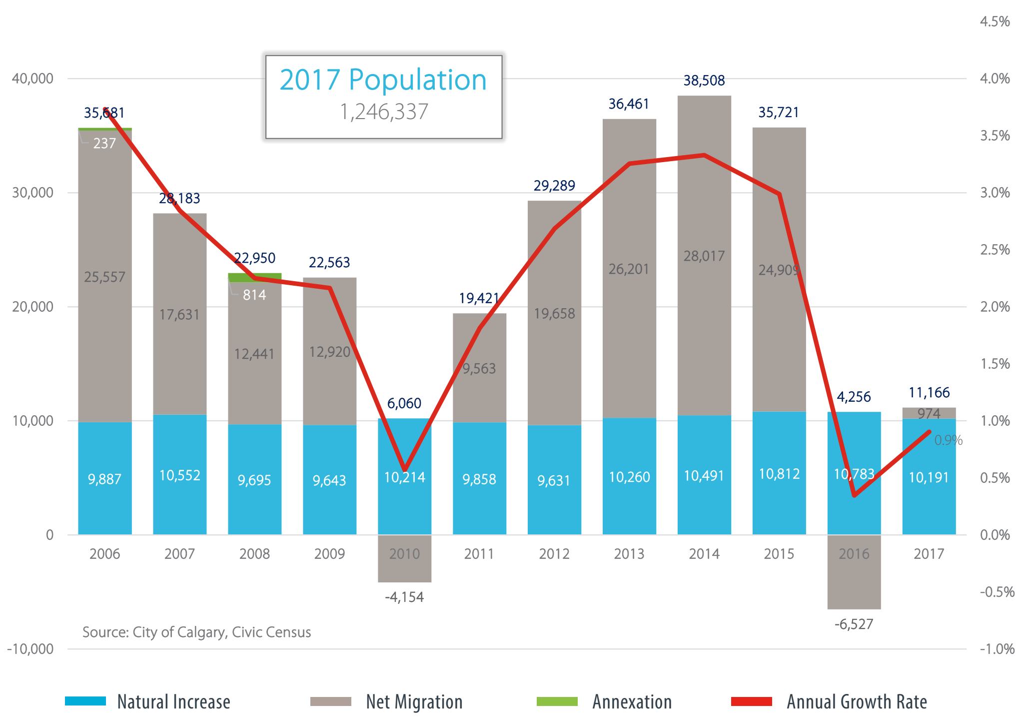
The biggest factor that everyone is watching in Calgary remains the price of oil, as Calgary's economy is primarily driven by the energy sector. As of late December 2017, West Texas Intermediate (WTI) crude oil hit US$60 a barrel for the first time in two years. Anecdotally, $60 per barrel is the price level where noticeable activity starts occurring in oil sector businesses.

Investment Commentary

Vacancy over the last three years has had an adverse effect on rental rates, driving down net operating income on investment grade multi-family assets. The average price per door has remained relatively stable despite these weakened rental rate market fundamentals. This, in turn, has led to compressed capitalization rates (cap rates). Looking forward, it is anticipated that rising interest rates may cause a mild rise in cap rates, although rising demand for investment properties coupled with demand from outside investors will likely temper escalation in yields.

Throughout 2015 & 2016, vendors attempted to hold on to pre-recession pricing levels despite a worsening bottom line, which caused a discrepancy between vendor and purchaser pricing

CITY OF CALGARY POPULATION GROWTH



2017 CALGARY MULTI-FAMILY TRANSACTIONS BY LOCATION AND PROPERTY TYPE

Location	Number of Sales	Total Price	Average Price per Door
Central Business District	12	$72,784,000	$207,954
High Rise	3	$42,772,000	$226,307
Mid Rise	2	$14,960,000	$213,714
Low Rise	7	$15,052,000	$165,407
Townhome	n/a	n/a	n/a
Suburban	35	$241,634,596	$185,378
Suburban North	17	$62,320,011	$182,936
NW	6	$10,110,000	$168,500
High Rise	n/a	n/a	n/a
Mid Rise	n/a	n/a	n/a
Low Rise	6	$10,110,000	$168,500
Townhome	n/a	n/a	n/a
NE	11	$52,210,011	$186,022
High Rise	n/a	n/a	n/a
Mid Rise	n/a	n/a	n/a
Low Rise	10	$30,370,011	$180,060
Townhome	1	$21,840,000	$195,000
Suburban South	18	$179,314,585	$186,242
SW	15	$115,054,585	$190,234
High Rise	n/a	n/a	n/a
Mid Rise	n/a	n/a	n/a
Low Rise	13	$98,642,000	$184,790
Townhome	2	$16,412,585	$231,163
SE	3	$64,260,000	$179,497
High Rise	1	$24,000,000	$184,615
Mid Rise	n/a	n/a	n/a
Low Rise	2	$40,260,000	$176,579
Townhome	n/a	n/a	n/a
Calgary Total	47	$314,418,596	$190,157

Sources: Avison Young & RealNet Canada

(Buildings with 5 units or more. Excluding non-arms length transactions)

continued from page 2

expectations. Bridging the gap between these two sets of expectations has proven difficult, however, recent sale data is showing that vendors are starting to adjust their pricing expectations, in order to better align with the market sentiment. Calgary remains on the investment market radar as an alternative to markets such as Vancouver and Toronto, where cap rates are highly compressed. Timbercreek's 6-building, 685-unit portfolio acquisition, which included the highly sought-after inner-city high-rise assets Centennial House and Premier Place, is an example of an out-of-province institutional investor seeking to strengthen their position in the Calgary market.

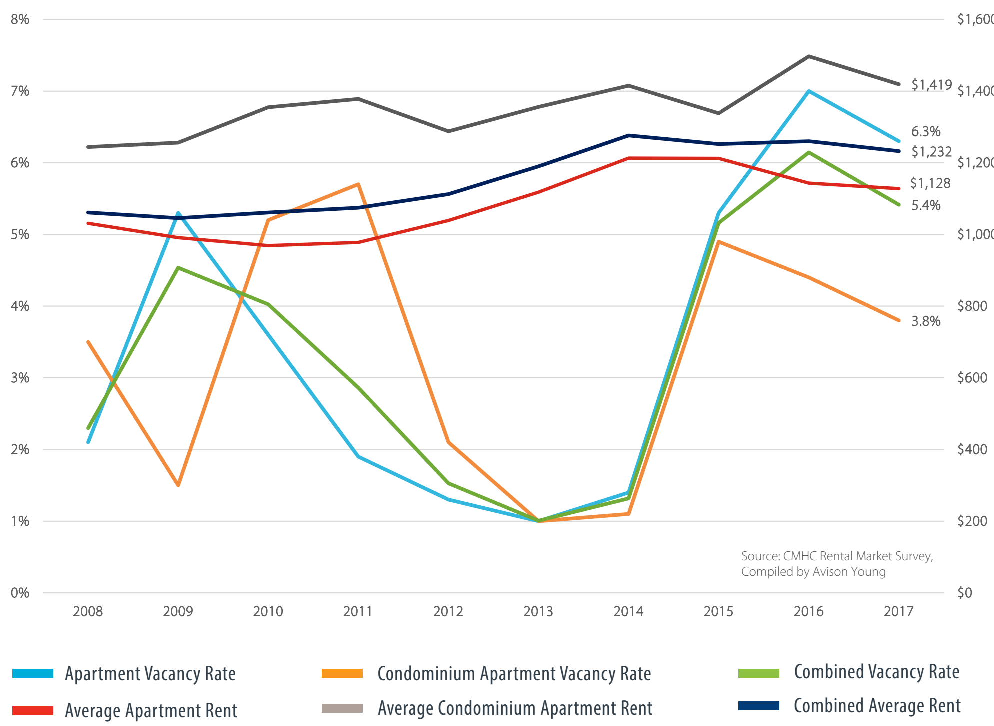
Aging multi-family assets continue to see increased competition from the secondary rental market (i.e. new condominiums) and new purpose-built rental product. Many of Canada's institutional apartment owners are undertaking large scale capital improvements to compete and help retain tenants who may be enticed by the affordability of privately-owned condominium rental options or newly constructed purpose-built rental. The inventory of this new product is continuing to grow, averaging 6% annual growth in the number of new units per year over the last five years.

Canada Mortgage and Housing Corporation (CMHC) releases their Rental Market Report annually in December. As such, the numbers currently available are lagging the market by six months. Growing sentiment among multi-family owners is that rental rates have begun to show signs of gradual increase, however uncertainty still remains as to how long

Vacancy

According to the Canada Mortgage and Housing Corporation (CMHC), the primary apartment rental market (which only includes rental units in privately initiated apartment structures containing at least three rental units) saw vacancy decrease from 7.0% in 2016 to 6.3% in 2017, but remains above the vacancy rate of 5.3% recorded in 2015. Improved rental demand in 2017 outpaced the amount of new supply being added to the market inventory, causing the vacancy rate to decline. This is the first decrease in vacancy the Calgary market has seen for the primary apartment rental market since 2013.

CALGARY COMBINED RENTAL MARKET VACANCY & RENTS



CANADA MORTGAGE AND HOUSING CORPORATION (CMHC)

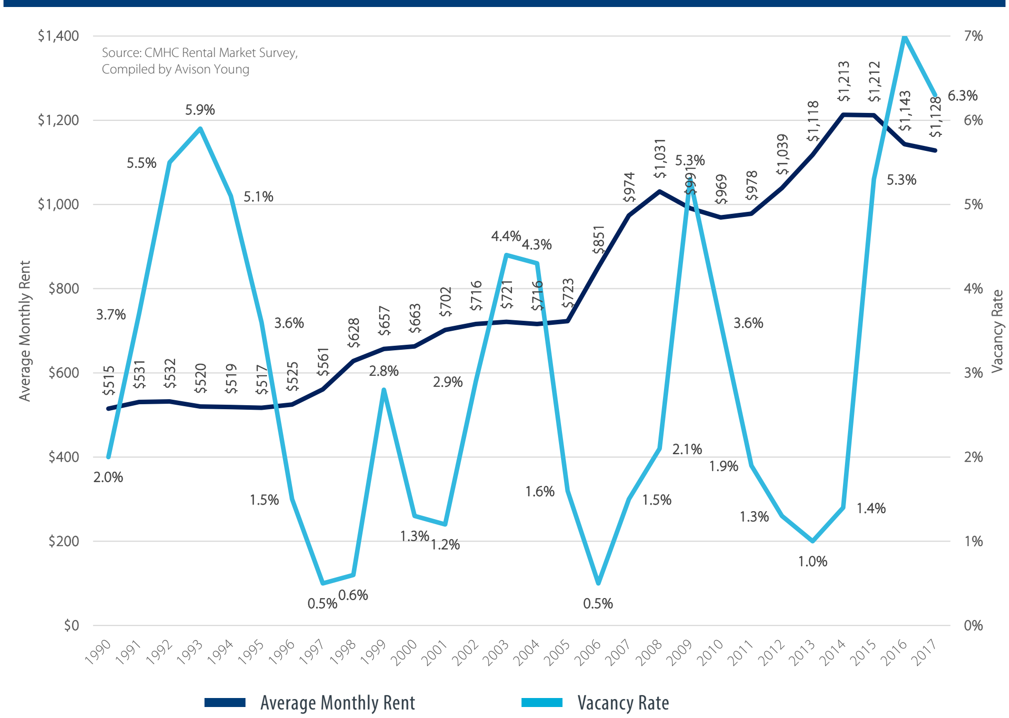
Rental Market Report Calgary CMA 2017

CLICK **HERE** to view

Housing Now Tables Calgary CMA

CLICK **HERE** to view

CALGARY APARTMENT HISTORICAL AVERAGE RENT AND VACANCY RATE



continued from page 3

The secondary apartment rental market (which covers rental dwellings that were not originally purpose-built for the rental market, including rental condominiums) saw vacancy decrease from 4.4% in 2016 to 3.8% in 2017. Demand for rental condominium apartments also outpaced the increase in supply, causing the vacancy rate to decline.

Combined, the resulting vacancy rate for the overall apartment rental market decreased from 6.1% in 2016 to 5.4% in 2017.

Rental Rates

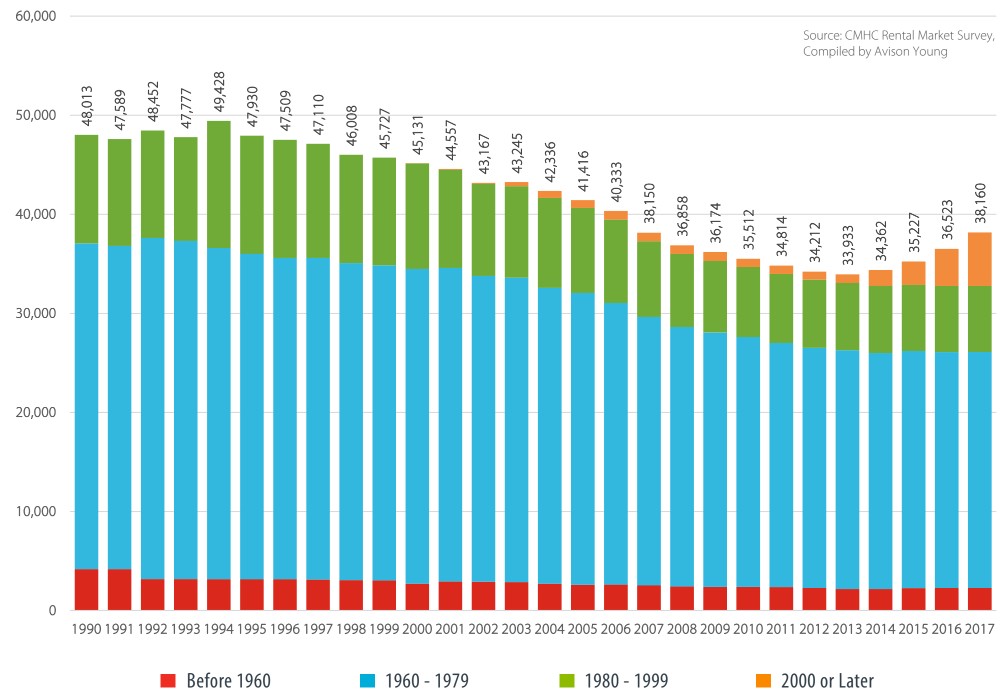
The primary apartment rental market saw rents decrease slightly in 2017 from the previous year. This marks the second consecutive year of rental rate decreases. Average rent for all unit types throughout all of Calgary was $1,128 per month in 2017, down 1.3% versus 2016, and down 6.9% since 2015. This continued decrease in rental rates resulted from increased competition among landlords who had to lower rent out of necessity in order to keep their occupancy levels stable. We are anticipating a slow cycle of rental rate growth as demand grows once again.

> "It should be noted that throughout the last 36 months, some landlords in Calgary have not faired as well as the CMHC rental data would indicate. Anecdotally speaking, through the Calgary Multi-Family Investment Group's numerous conversations with local landlords and investors, it was not uncommon to see some properties' rental rates decrease as much as 20-25% from their peak in 2014."

The secondary apartment rental market saw average rents decrease 5.2% from $1,497 per month for all unit sizes in 2016, to $1,419 per month in 2017. While condominium apartments tend to be newer units and include a larger number of amenities, rents are also typically higher. An increase in the supply of these units on the rental market helped to maintain downward pressure on the rental rates.

Combined, the overall average rental rate for all unit types across Calgary decreased 2.2% from $1,260 per month in 2016, to $1,232 per month in 2017.

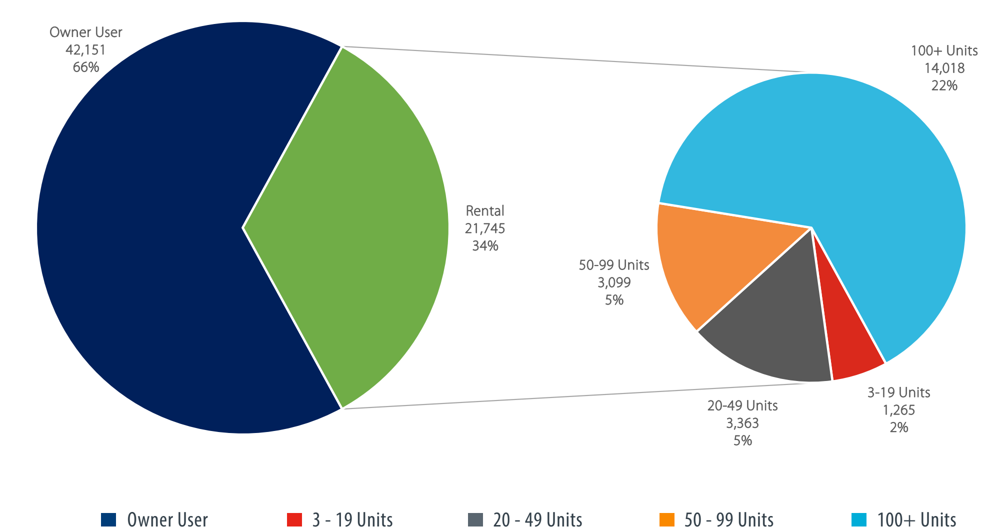
CALGARY APARTMENT UNIVERSE, BY YEAR OF CONSTRUCTION



Inventory

The primary apartment rental market in Calgary saw its inventory increase 4.5% to 38,160 units in 2017, from 36,253 units in 2016. This is the largest annual percentage increase in supply in over 25 years, and the largest increase in number of units (1,637 units) since 1994 when 1,651 units were added in a single year. This recent spike in primary rental inventory growth can be attributed to recent focus institutional

2017 CALGARY CONDOMINIUM APARTMENT UNIVERSE AND RENTAL UNIVERSE BY STRUCTURE SIZE



Source: CMHC Rental Market Survey, Compiled by Avison Young

continued from page 3

developers are putting on developing purpose built rental apartment buildings.

The secondary apartment rental market has seen overall inventory rise steadily since CMHC began tracking it in 2008. The overall inventory of condominium apartments in Calgary is 63,904 units as of 2017, nearly doubling during the 10-year period between 2008-2017, by adding 30,849 units (93.3%). The percentage of those units on the rental market has also increase over that time frame, from 18.0% in 2008, up to 34.0% in 2017.

Combined, the overall apartment rental market is 59,913 units as of 2017. This represents a 5,218 unit (9.5%) increase over 2016.

Starts & Completions

On the construction front, the primary apartment rental market in Calgary saw 944 units started and 1,414 units completed in 2017. This is a 790 unit (513%) increase over 2016 for starts, and a 1,023 unit (42%) decrease for completions versus 2016.

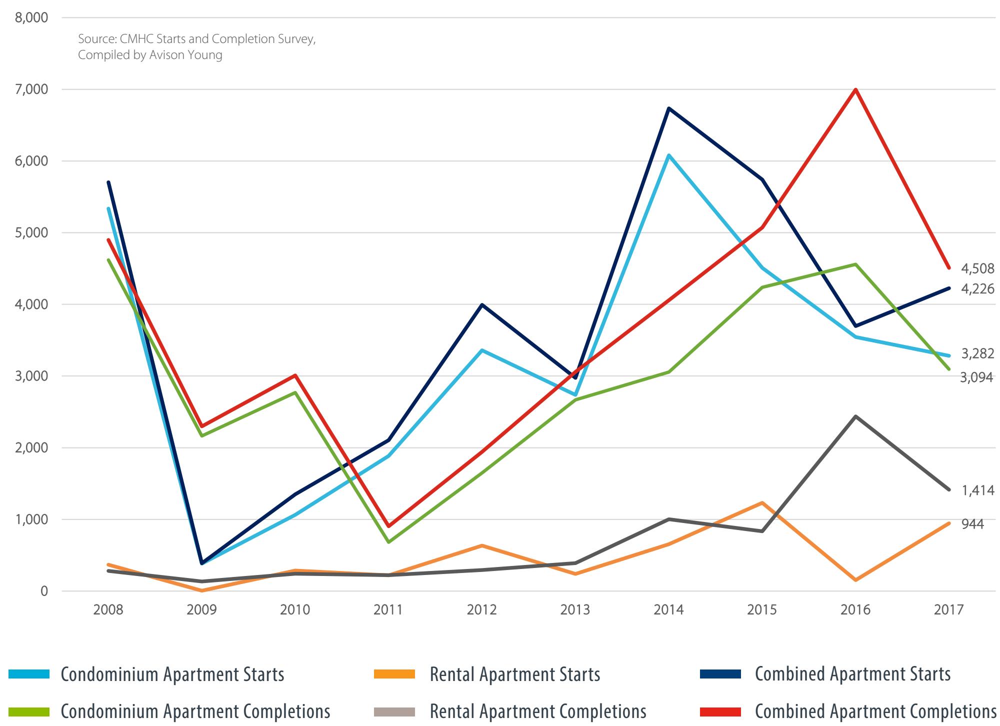
The condominium apartment market saw 3,282 units started and 3,094 units completed in 2017. This is a 261 unit (7.4%) decrease in starts, and a 1,465 unit (32.1%) decrease in completions versus 2016.

Combined, 4,226 units were started and 4,508 units were completed in the Calgary apartment market in 2017. This is a 529 unit (14.3%) increase in starts and a 2,488 unit (35.6%) decrease in completions versus 2016.

Investment Activity

Calgary's multi-family investment market saw the annual dollar volume of investment activity reach $314.4 million in 2017 for apartment buildings of 5 units or more. This dollar volume is up $86.8 million (38%) over the previous year, and is up $74.0 million (31%) over the transactions that were recorded ten years ago in 2008.

CALGARY CMA STARTS & COMPLETIONS

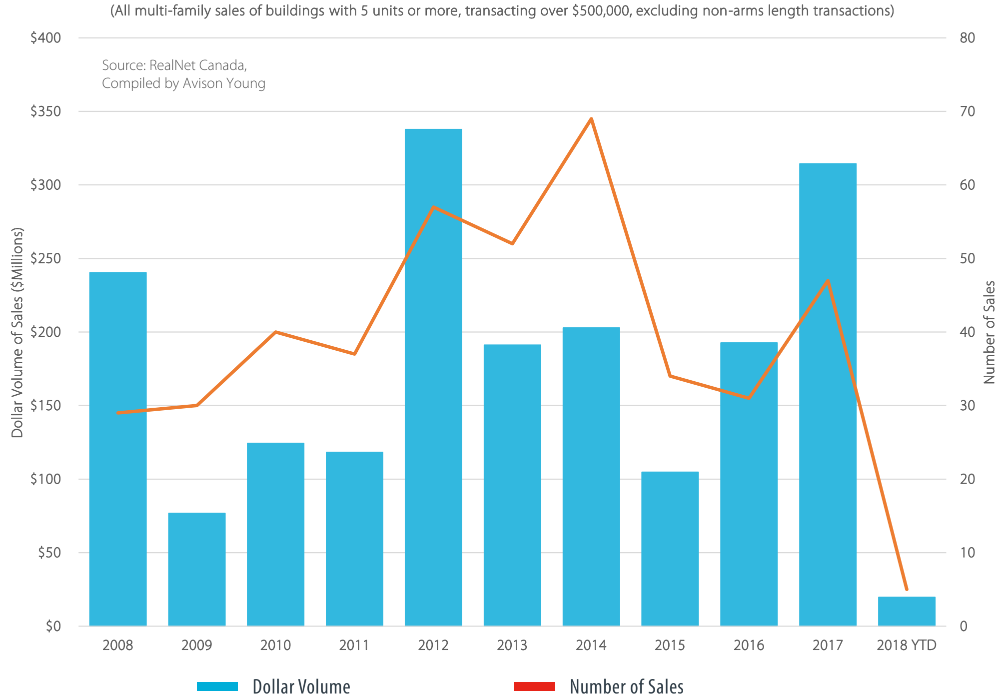


The number of multi-family sales taking place for the year in 2017 was 47. This is an increase of 15 sales (47%) over the annual total number of sales for the previous year (2016), and is up 18 sales (62%) for the year versus ten years ago (2008).

Calgary's multi-family investment market annual average price per door for 2017 was $190,157. This is a decrease of $18,528 (-9%) versus the annual average of $208,684 per door for the previous year (2016), a decrease of $40,031 (-17.4%) versus the annual average of $230,188 per door in 2015, but is an increase of $17,664 (10%) over the annual average of $172,493 per door ten years ago in 2008.

CITY OF CALGARY HISTORICAL MULTI-FAMILY SALES

(All multi-family sales of buildings with 5 units or more, transacting over $500,000, excluding non-arms length transactions)



CALGARY 2017 NOTABLE MULTI-FAMILY TRANSACTIONS

Property Name & Address	Purchaser	Total Units	Price per Door	Price	Date
Kingsland Gardens 742 Kingsmere Crescent SW	Timbercreek Communities	213	$216,000	$46,008,000	November 24, 2017
*Parkview Village Apartments 111 - 146th Avenue SE	Har-Par Investments	204	$175,000	$35,700,000	June 3, 2017
Copperstone Village 85 Railway Avenue SW, Airdrie	Strategic Group	146	$191,153	$27,908,371	January 14, 2017
Windsor Place 606 - 58th Avenue SW	Timbercreek Communities	124	$195,000	$24,180,000	November 30, 2017
Radisson Place Apartments 1710 Radisson Drive SE	Minto	130	$184,615	$24,000,000	April 4, 2017

* Indicates transactions Avison Young was involved in

Sales Source: RealNet Canada Inc.

PARKVIEW VILLAGE APARTMENTS
111 - 146TH AVENUE SE, CALGARY, AB

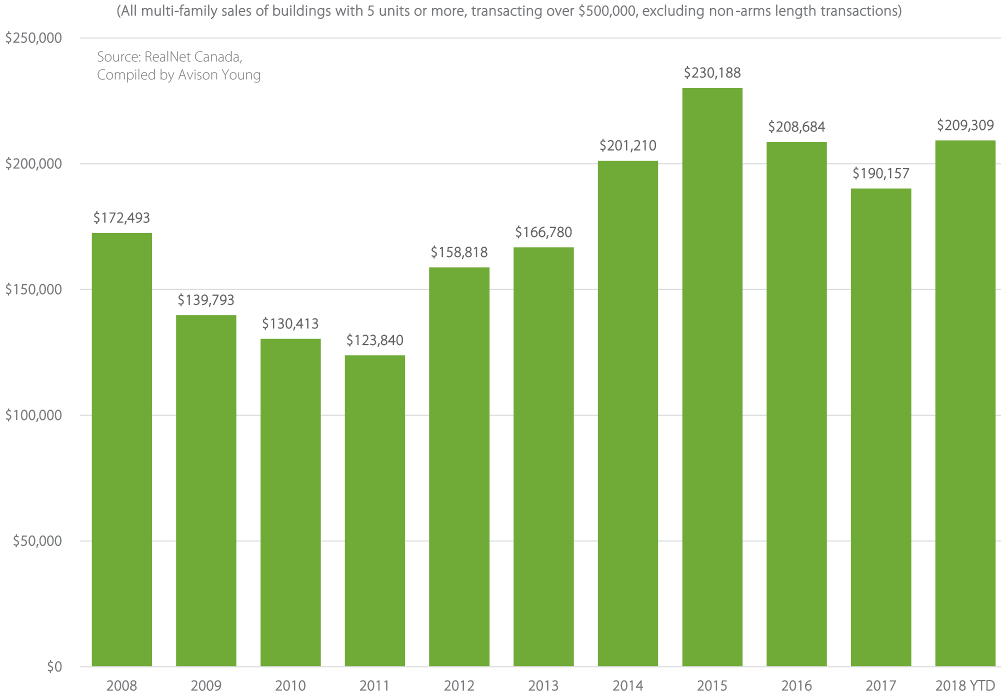
CHARTER HOUSE
1711 - 12 STREET SW, CALGARY, AB

VALEMONT APARTMENTS
1734 - 10 STREET SW, CALGARY, AB

INVESTMENT LAND
1505 & 1511 - 21 AVE SW, CALGARY, AB

CITY OF CALGARY HISTORICAL MULTI-FAMILY AVERAGE PRICE PER DOOR

(All multi-family sales of buildings with 5 units or more, transacting over $500,000, excluding non-arms length transactions)



Avison Young Calgary's Multi-Family Team

Dave Mackenzie
587.392.3374
dave.mackenzie@avisonyoung.com

Mason Thompson
403.232.4340
mason.thompson@avisonyoung.com

Research

Susan Thompson | 403.232.4344
susan.thompson@avisonyoung.com

AVISON YOUNG

BEST MANAGED COMPANIES CANADA
Platinum member

© 2018 Avison Young Real Estate Alberta Inc. All rights reserved.

E. & O.E.: The information contained herein was obtained from sources which we deem reliable and, while thought to be correct, is not guaranteed by Avison Young.