

“A Return to Fundamentals” - 2009



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Our Knowledge is your Property

Discussion Points







- 1) Boomtown (2005 – 2007) Market Drivers
- 2) The Rewards – Multi-Family Value Appreciation
- 3) What Happened in 2008?
- 4) The Fallout – Multi-Family Real Estate Values Reverse Course
- 5) The Market Today and Looking Forward
- 6) Concerns and Opportunities
- 7) Maximizing Value in a Slow Market

Market Drivers

- Demand for fixed income securities like commercial real estate
- Robust economy (commodity driven)
 - job creation, wage growth, in migration, low unemployment
- Historically low interest rates
- Abundance of mortgage financing
- Increasing construction costs
- Higher home values – surge in condominium conversions
- Decreasing vacancy / higher rental rates
- Decreasing cap rates

Overall Very Strong Real Estate Fundamentals

Multi-Family Value Appreciation

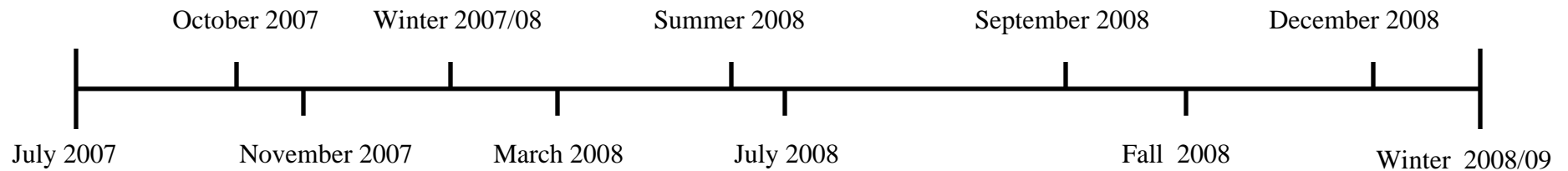
- Vacancy rate 
 - 4.3% (Oct '04) to 1.5% (Oct '07)
- Average rental rates 
 - \$716 (Oct '04) to \$974 (Oct '07)
- Average home prices  73%
 - \$257,824 (Dec '04) to \$444,769 (Dec '07)
- Average condominium price  78%
 - \$171,135 (Dec '04) to \$304,719 (Dec '07)
- Average Multi-Family cap rates  24%
 - ~7.0% (2004) to ~5.3% (2007)
- Average Multi-Family prices  90%
 - \$84,798 (2005) to \$161,175 (2008)

Multi-Family saw the highest appreciation of all real estate asset classes

Source: CMHC, CREB, Real Net

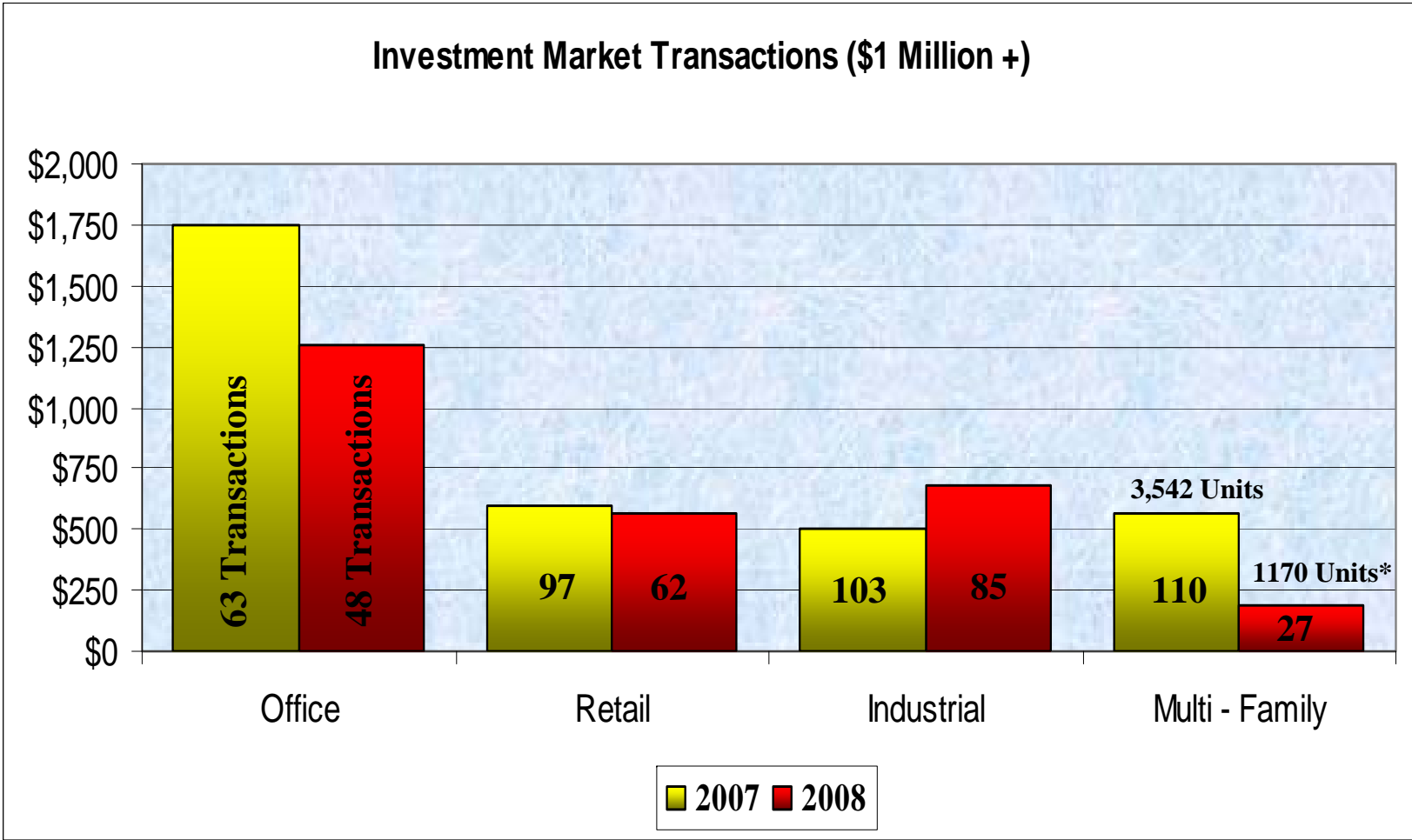
What Happened in 2008?

Timeline



- July 2007 - Single family average price peaked at \$505,920
- October 2007 – Condominium average price peaked at \$331,617
- November 2007 - CMBS market evaporates – 1/3 of all debt financing
- Winter 2007/08 - Credit deterioration continues
- March 2008 - Bear Stern fails
- Summer 2008 - Signs of weakening world economy/credit crises accelerates
- July 2008 - Oil Hits \$147 per barrel
- September 2008 - AIG in trouble
- September 2008 – Lehman Brothers bankruptcy
- Fall 2008 – North America, Canada enters economic recession
- December 2008 – Oil drops to \$33 per barrel (78% Drop from peak)
- Winter 2008/09 – Calgary facing most severe economic slowdown of any major CMA

In Summary – Multi-Family Most Affected









* Total Excludes Two Affordable Housing Transactions (The Montrez & Treo at Montreux)

Source: Real Net

What Happened in 2008?

Notable Transactions > \$5,000,000

 <p>SOLD BY COLLIERS</p>	<p>Pineridge Greene 5300 Rundlehome Drive NE</p> <p>Sold Date: January 2008 Purchaser: Cash Flow Price: \$32,000,000 Price/Unit: \$126,482 Number of units: 253 Average unit size: 707 sq. ft. Stabilized Cap Rate: 5.55%</p>		<p>Hillsboro Tower 1800 – 4th Street SW</p> <p>Sold Date: March 2008 Purchaser: Cash Flow Price: \$29,200,000 Price/Unit: \$199,789 Adj. Number of units: 95 Average unit size Unknown. Stabilized Cap Rate: 6.00% (Est.)</p>
	<p>Emerald Place 927 – 14th Avenue SW</p> <p>Sold Date: April 2008 Purchaser: Cash Flow Price: \$6,200,000 Price/Unit: \$193,750. Number of units: 32 Average unit size: 763 sq. ft. Stabilized Cap Rate: 5.80%</p>	 <p>SOLD BY COLLIERS</p>	<p>Varsity Square 4515 Varsity Drive NW</p> <p>Sold Date: June 2008 Purchaser: Cash Flow Price: \$48,750,000 Price/Unit: \$164,141 Number of units: 297 Average unit size: 810 sq. ft. Stabilized Cap Rate: 6.05%</p>
	<p>Falconridge Apartments 1446 Falconridge Drive NE</p> <p>Sold Date: August 2008 Purchaser: Cash Flow Price: \$19,000,000 Price/Unit: \$169,643 Number of units: 112 Average unit size: 1045 sq. ft. Stabilized Cap Rate: 6.30%</p>	 <p>SOLD BY COLLIERS</p>	<p>181 Unit Beltline Portfolio 3 Buildings - Beltline, Calgary</p> <p>Sold Date: October 2008 Purchaser: Cash Flow Price: \$28,641,120 Price/Unit: \$158,240 Number of units: 181 Average unit size: 774 sq. ft. Stabilized Cap Rate: 6.15%</p>

Source: Real Net , Colliers

Multi-Family Real Estate Values Reverse Course

- Alberta's GDP to take largest decline of any province in Canada
 - RBC predicts 2.9% decrease in 2009 economic activity for Alberta
 - Alberta's first contraction since 1986
- Oversupply of new residential product, especially condominiums
- Average residential prices fall, especially condominiums
- CMBS market collapse basically wiped out converters
 - Instantaneous 10% drop in Multi-Family values
- Significant decrease in transaction activity
- Vacancy creeps higher, rental rates peaking
- Cap rates moving higher

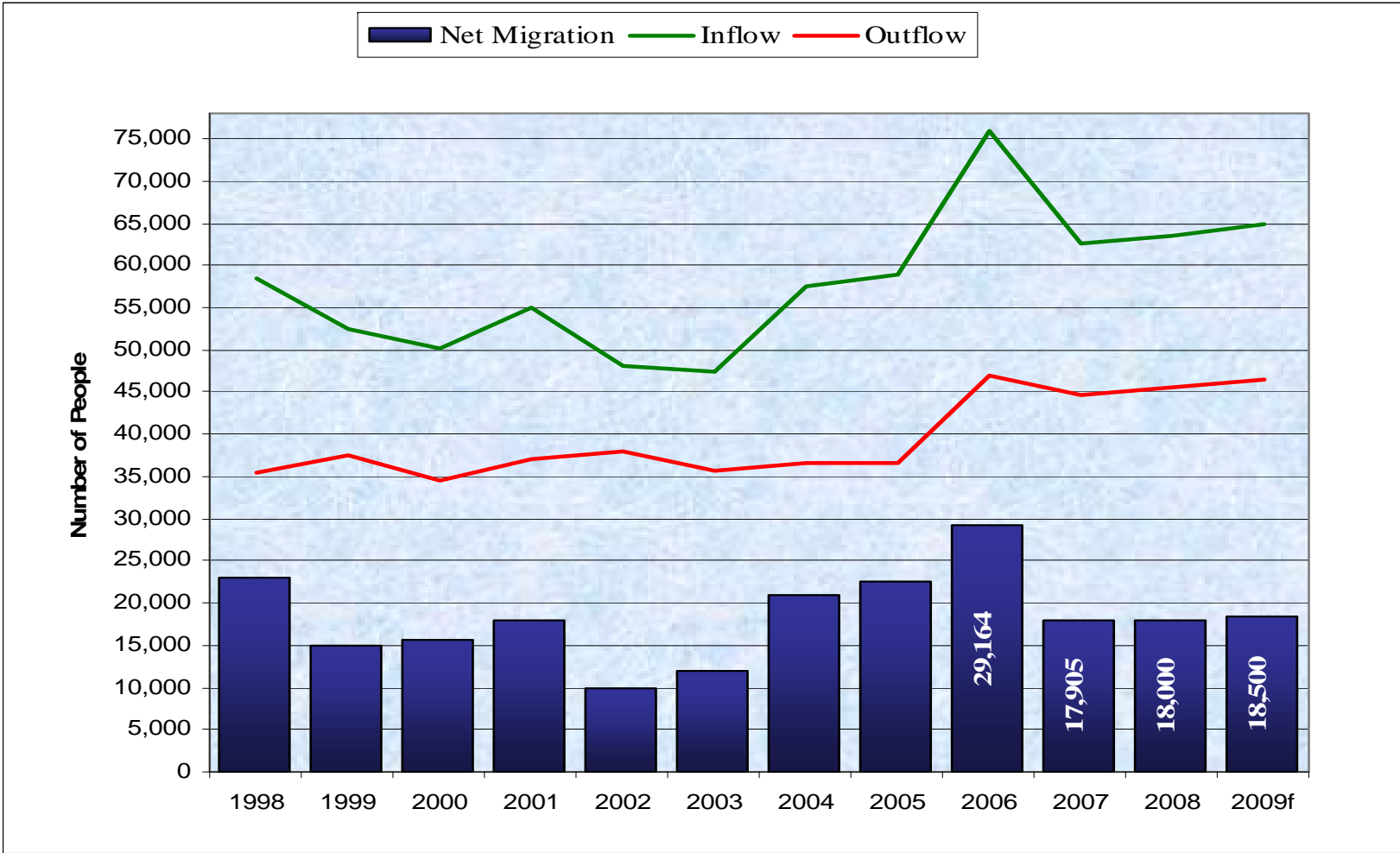
Where do we stand?

- October 2008 Vacancy (CMHC)
 - 2.10%
- October 2008 Rental Rates (CMHC)
 - Bachelor \$775, One-Bedroom \$951, Two-Bedroom \$1,148

FACTORS

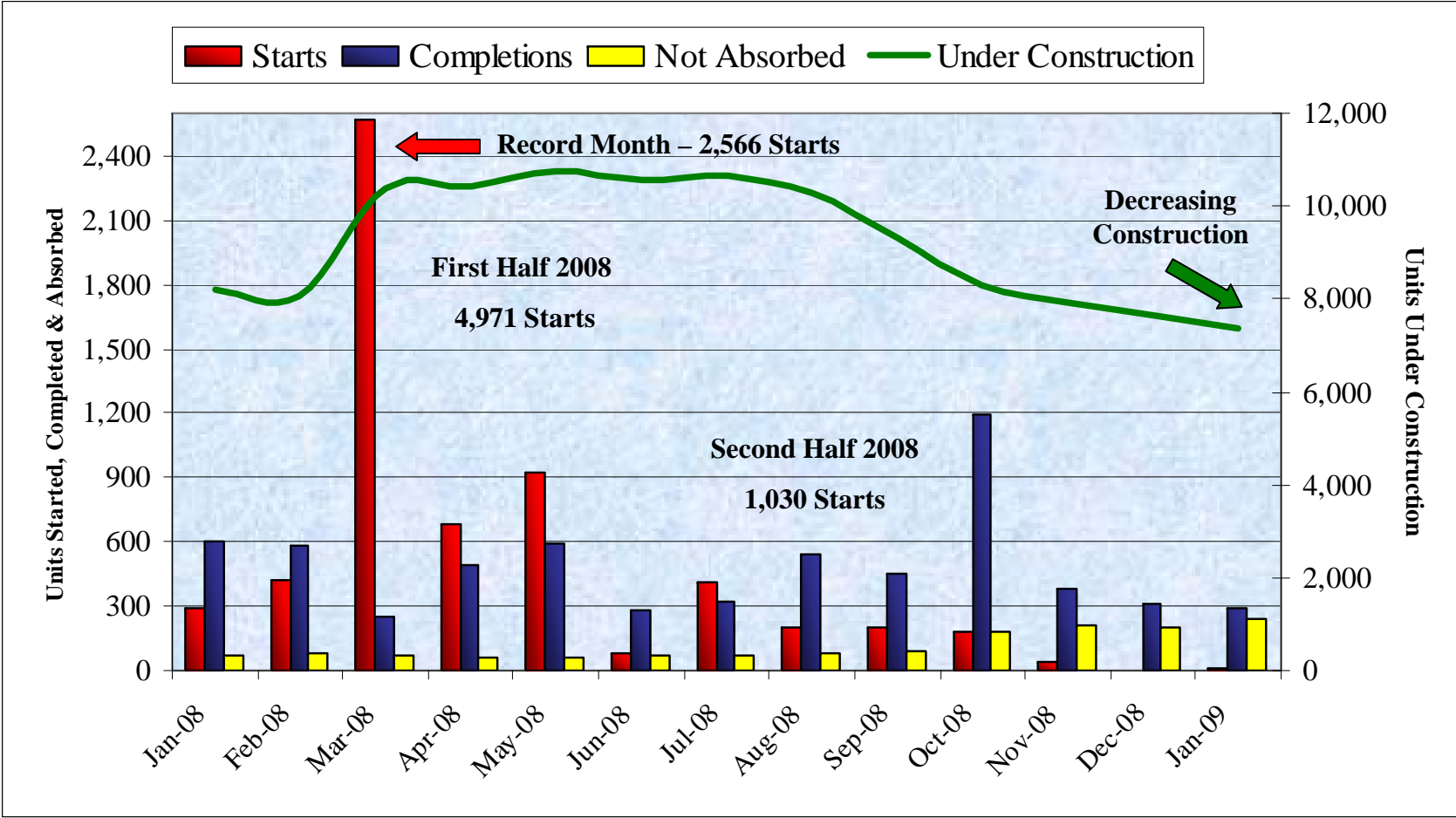
- Calgary Net migration
- Condominiums
- Affordability
 - Rent vs. Own alternatives

Calgary Net Migration



Source: CMHC, Colliers Forecast

Condominiums



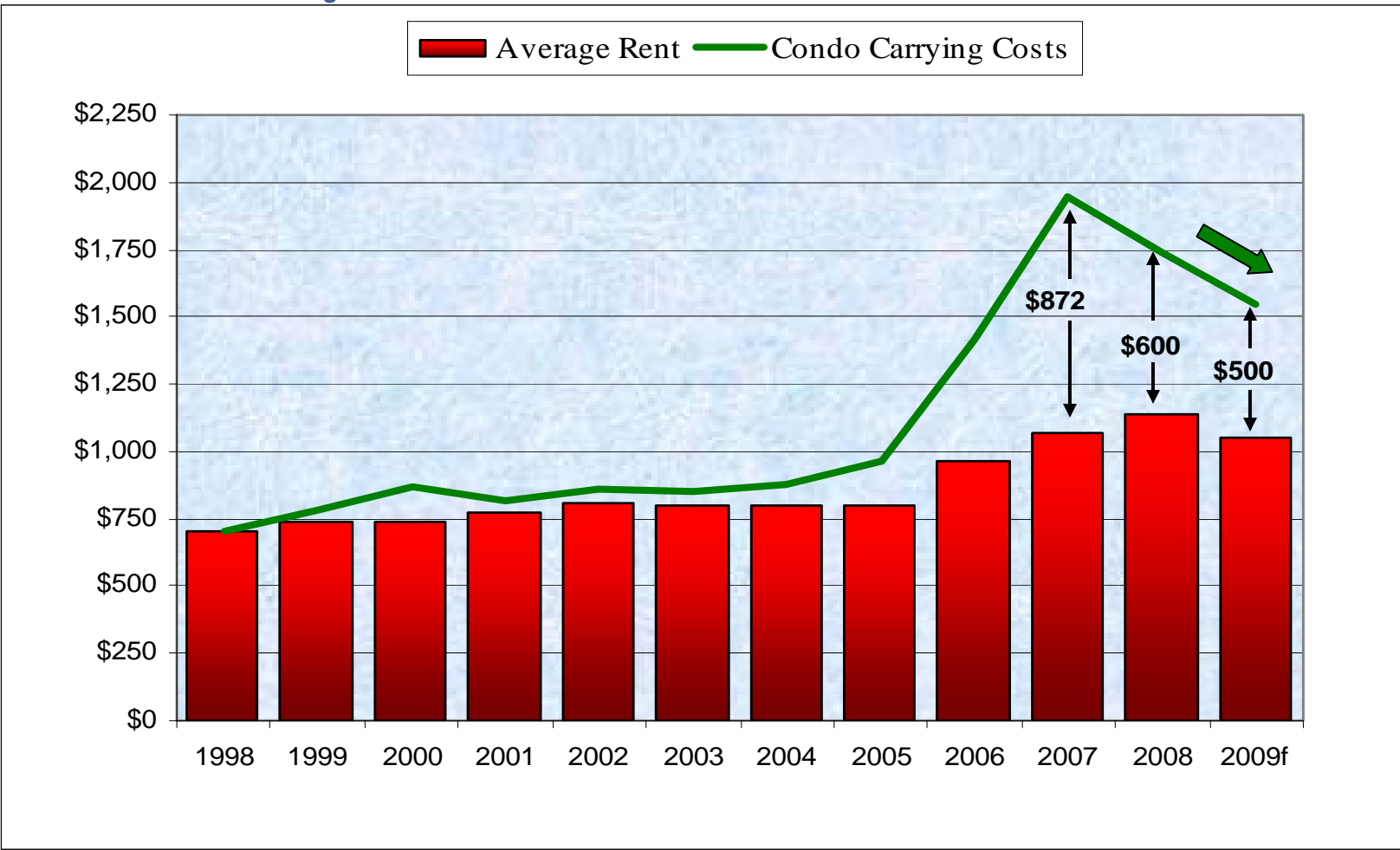
**2008
Totals**

- 6,001 Started
- 5,991 Completed
- **1,252** Not Absorbed vs. only **264** in 2007

Source: CMHC



Affordability

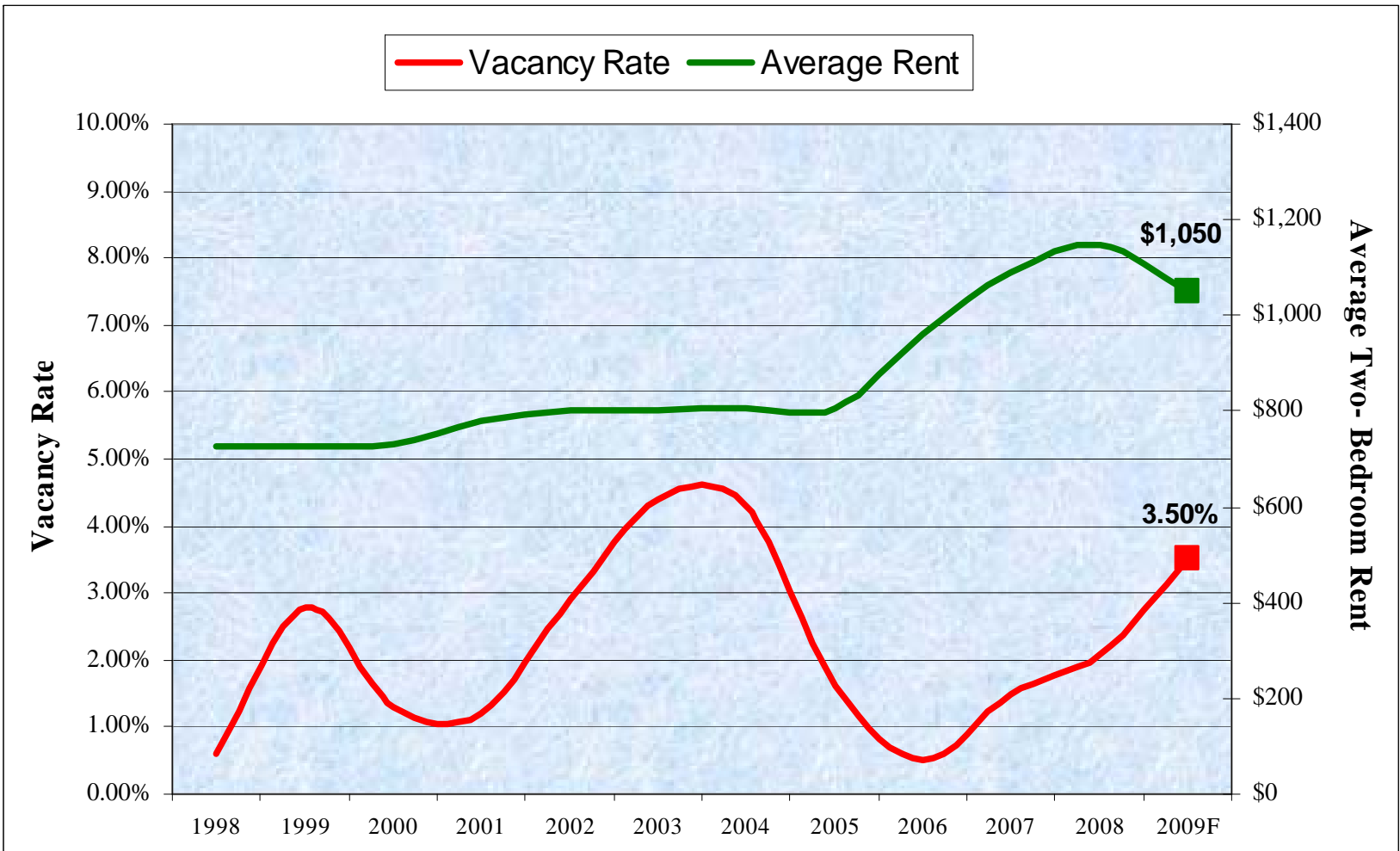


* Assumptions: 10% down payment, average 5-year fixed discount mortgage rates

Source: CMHC, Colliers Forecast



Vacancy and Rental Rate Forecast

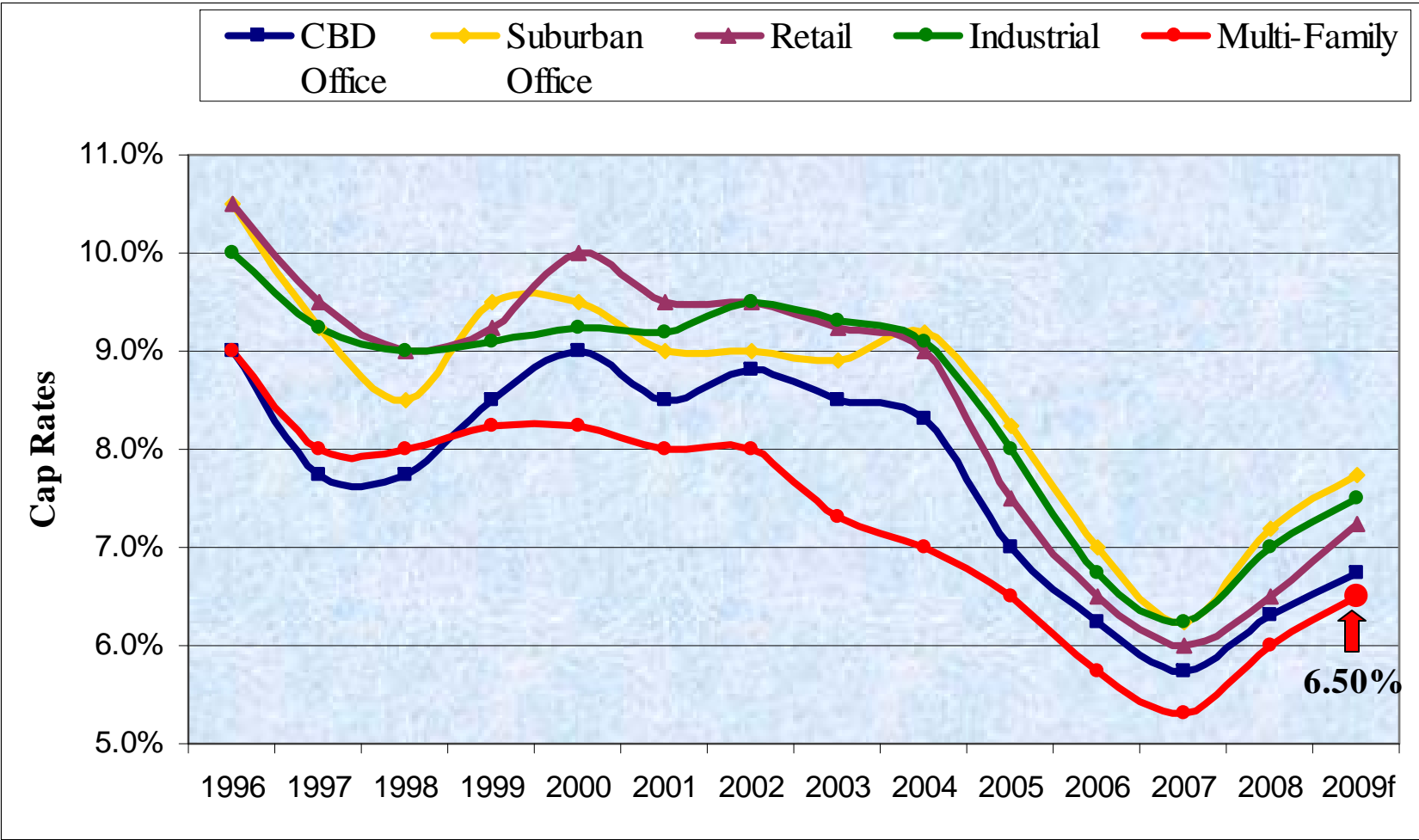


Source: CMHC, Colliers Forecast

Multi-Family Property Values

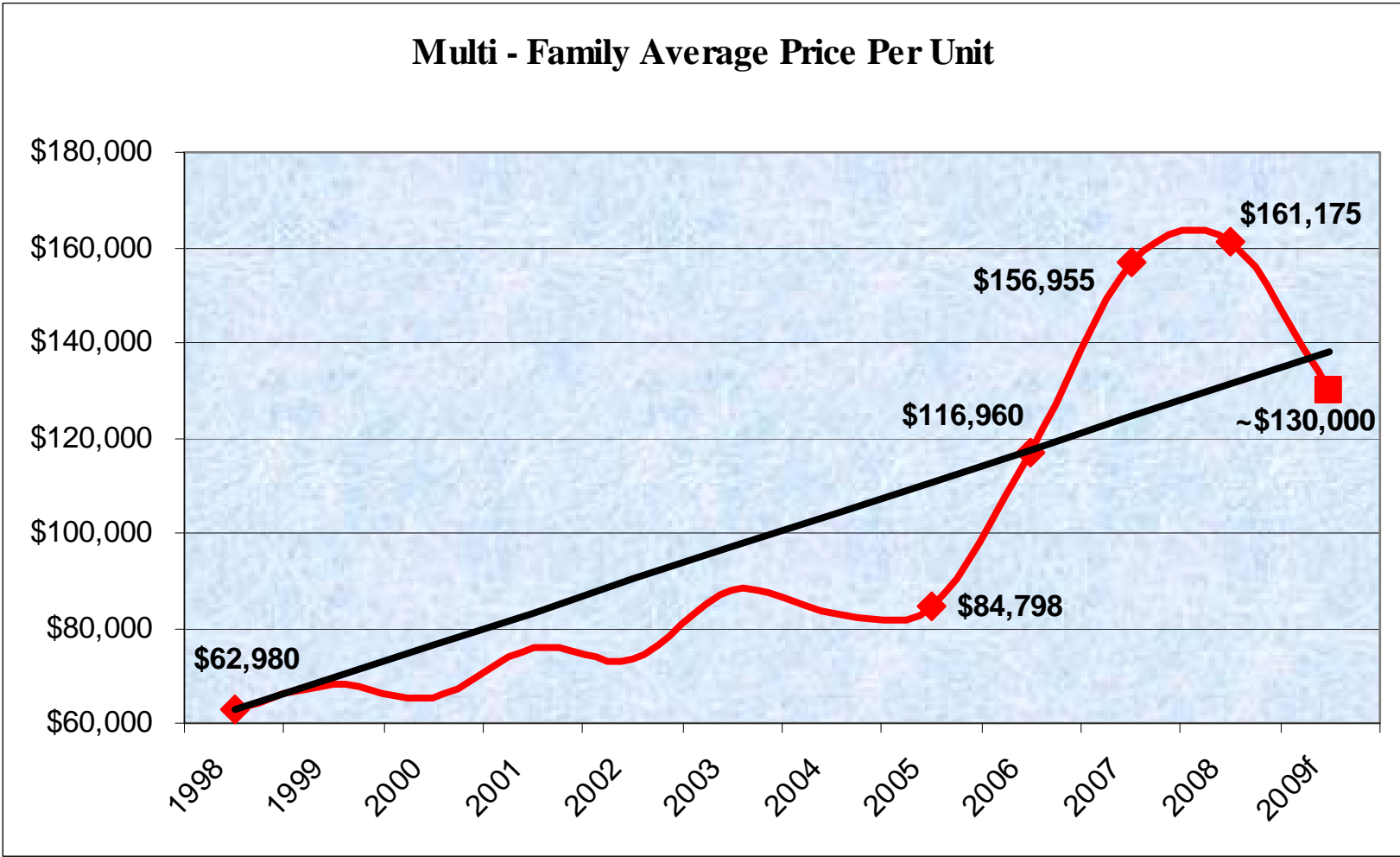
- Function of net operating income and capitalization rates
- Net operating income to be flat or trend lower – rental rate decline ~ 10%
- Capitalization rates rising 50 to 100 basis points
- Prices to move lower, estimated at 5% – 20% decline
 - No condominium converters to drive value
 - Low financing rates are mitigating price declines right now, may change next year?
 - Prices to remain depressed in 2010, 2011, need to wait for economic recovery in the next growth cycle

Capitalization Rates



Source: Colliers International

Where are Values Heading?



Source: Real Net, Colliers Forecast

Concerns

- Continued low commodity prices prolonging Calgary's slowdown
- Forecast for rising interest rates into 2010 and beyond
- New condo supply, act as overhang on rental and residential prices
- Equity market valuations becoming attractive relative to hard real estate

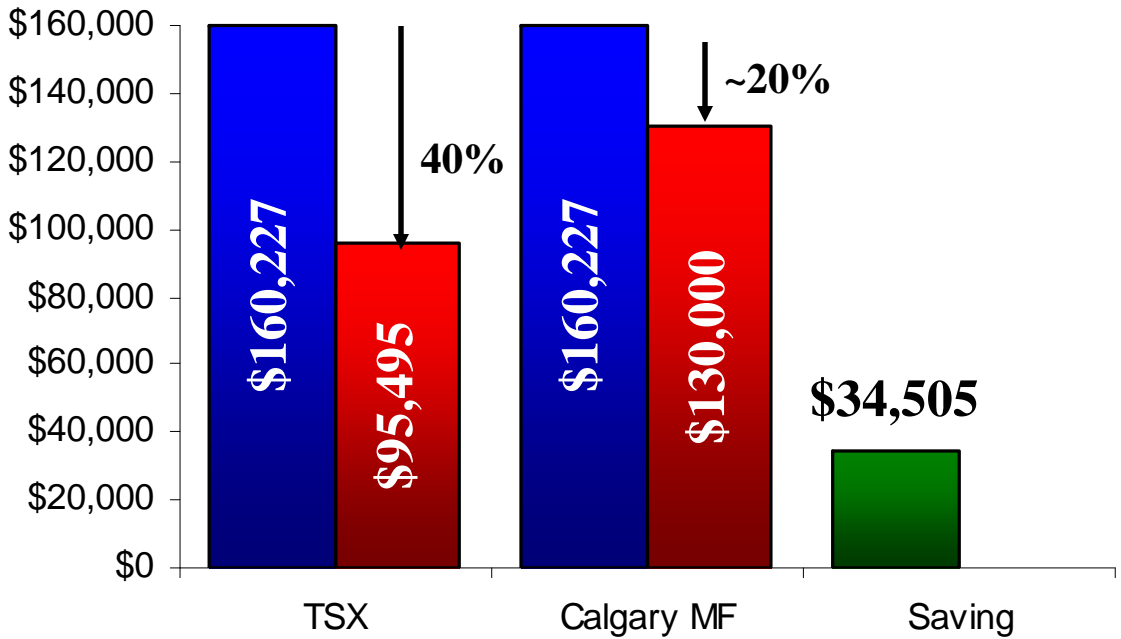
Opportunities

- Cheap MF debt available (CMHC insured) – advantage over other asset classes
- Vacancy can be controlled quickly through rental rate adjustments
- New condo starts way down, condo projects being halted
 - **Gateway Midtown** at 5th Street & 10th Avenue SW suspended (2 towers, 650 units)
 - **Skytower** at 10th Avenue & 1 Street SE cancelled (29 floor tower)
 - **Manchester Station** at 3rd Street and 55th Avenue SW on hold (99 units)
 - **Crossings at the Bridges** inner city development on hold (142 units)
 - **Arriva Towers** in Victoria Park cancelled 4th tower, 3rd tower to become a hotel instead
- No new purpose built rental product on horizon
- Calgary has strong long term economic outlook

Example (Multi-Family vs. Stock Market)

- Sold in Q4 2007 average market price of \$160,227 per door
- Invested Proceeds in S&P/TSX January 02, 2008 (13,926.76)
- Market Value of S&P/TSX on March 13, 2009 (8,303.39)

Would Have Performed Better Holding Real Estate



Source: Real Net, Yahoo Finance, Colliers Forecast

Strategies in a Slow Market

- Determine if you are a long term holder > 3 Years
- If you are a long term holder, you should refinance at current low CMHC rates
- If not, consider rotating out of Multi-Family while low interest rates continue stimulate value and demand - 2009
- If you like Multi-Family real estate in general, option to sell hard assets and buy securities ie. Boardwalk, Mainstreet, CAP REIT etc.
- Buy at a discount, more upside in securities and more liquidity
- eg. **Boardwalk**
 - Closed at \$25.00 (March 13, 2009)
 - Down 50% from high of \$50.50 (February 23, 2007)
 - Current 7.20% Yield on \$1.80 Dividend
 - Implied cap rate of 8.28% based on NAV

Source: Boardwalk Conference Call Q4, 2008, Yahoo Finance

Improve Product to ensure BEST in class!

Expense Side:

- Look to energy saving measures
 - appliances, windows, etc.
- Suite Improvement Programs
 - cheaper labour, materials
- Implement strong/dedicated Property Management
 - ensure accurate accounting
 - quality preventative program
 - overall attractive building presentation

Market Product to be MOST competitive!

Revenue Side:

- Consider incentive program to attract tenants
 - Cable/internet promotion
 - First month free rent
 - Free moving expenses
 - Gift certificates
- Be aware of your competitors and what they are doing to attract tenants
- Get creative with marketing to ensure highest exposure to quality tenants
 - Home Renters Guide
 - RentSpot
 - HomeRENT
 - Kijiji
 - Newspapers
 - Referral vouchers

We **accelerate** your success
by making our **knowledge** your property

Thank you

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