

Station Pointe Market Study

City of Edmonton

Independent Real Estate Intelligence

EXECUTIVE SUMMARY



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City of Edmonton

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1.1 INTRODUCTION

Altus Group was commissioned by the City of Edmonton in late 2018 to conduct a market study focusing primarily on the remaining Station Pointe Parcels – referred to as areas A, B, D and E. The objective of the market study was to determine the most productive and saleable development alternatives for these parcels and to inform future planning and sales processes.

The sub-sections that follow in this document serve as a summary of the findings of the market study.

1.2 SITE LOCATION AND CONTEXT

The subject lands consist of four parcels (A, B, D & E) that are located directly adjacent to Fort Road, east of 66 Street NW and south of 129 Avenue NW. On its eastern border the subject lands are bounded by both the CP railway line and the Edmonton Light Rail Transit (LRT) line.

The area surrounding the subject lands is characterised by industrial uses east and southeast of the site and by commercial uses along Fort Road north and northeast of the site – big-box retail stores with street fronting surface parking lots for the most part. Immediately across the road from the subject site is a variety of old low-quality street-fronting retail stores with limited parking that offer mainly food/personal services, health care products and financial services. West of the site are several established residential communities (Balwin, Belvedere and Delwood) that are single-family oriented for the most part and were largely developed pre-1980.

The subject lands are also characterised and impacted by the following locational factors:

1.2.1 Employment Uses

Proximity of employment is a key driver of multi-family housing demand – especially rental housing demand – however, in this particular case the proximity of employment uses has both positive and negative effects. The majority of local employment is concentrated in nearby industrial areas, which drives demand for nearby housing but also negatively impacts the desirability of the area and the associated potential for multi-residential development. In addition to the industrial uses nearby, the area is further characterised by the nature of the large-scale commercial uses along Fort Road – including for instance auto-body and repair workshops, auto parts

and service dealerships, glass installation and upholstery stores, payday lending stores, self-storage facilities and a casino.

1.2.2 Fort Road

The subject site is accessible exclusively via Fort Road, which is an arterial road that carries around 32,000 vehicles per day past the subject site. While this offers very good exposure to prospective on-site development, it also affects the development typologies that can be feasibly supported. Street oriented retail, for instance, is typically better suited to locations that front onto roads that carry slow-moving traffic through areas with high residential/commercial densities and large volumes of pedestrian traffic. The more typical retail format along urban arterials include community and regional shopping centres and big-box stores with easily accessible surface parking lots.

1.2.3 Belvedere LRT Station

The Belvedere LRT station offers the subject site distinction from both suburban multi-family development sites and from in-fill development sites in established areas throughout the inner-city. It means that the site connects well with locations along the line (and the wider LRT system) including Downtown, NAIT, University of Alberta, MacEwan University, etc.

It is worth pointing out that parcels A and B both have easy access to the LRT station while parcels D and E are roughly 750 metres away – a distance that is only just within the typical TOD range. This slightly longer distance might deter those prospective residents that place a high premium on proximity to transit.

1.2.4 Street-Front Retail Uses

The majority of uses directly across the road from the subject site are street-fronting retail uses that are for the most part vacant and/or dilapidated. This long-term vacancy and lack of re-investment into existing facilities have created an unappealing street-scape that is affecting the desirability of the area.

1.2.5 Railway Lines

The existing CN railway lines that border the site on its southern and eastern edges very likely have a negative effect on the prospect of the location as a

residential destination, from both a noise and sight pollution perspective. Equally importantly, the railway line affects movement patterns – especially in an east-west direction – and therefore restricts the potential of the subject site to capture retail spending from neighbourhoods and employment areas east of the line. This potential consumer market is much more likely to remain on the eastern side of the rail-line and to travel north on 50th Street NW toward Clareview Town Centre to conduct any retail purchases.

1.2.6 Zoning

The Direct Control District that currently governs development at the subject site makes specific distinction between the various parcels but overall aims to accommodate a large scale, comprehensive, transit-oriented high density residential mixed use development that creates a liveable “urban-village” environment and that introduces a diversity of housing types within walking distance to the Belvedere LRT Station. A number of key zoning considerations intended to guide the character of development for each parcel are as follows:

- **Parcel A (8,774.76sqm/0.877ha)**
 - Commercial uses will be developed on the ground floor,
 - The maximum Floor Area Ratio (FAR) shall be 4.9,
 - The maximum Density shall be 370 Dwellings/ha.
- **Parcel B (8,837.63sqm/0.884ha)**
 - Commercial uses will be developed on the ground floor,
 - The maximum Floor Area Ratio (FAR) shall be 3.2,
 - The maximum Density shall be 250 Dwellings/ha.
- **Parcel D (9,806.86sqm/0.981ha)**
 - The maximum Floor Area Ratio (FAR) shall be 2.5,
 - The maximum Density shall be 220 Dwellings/ha.
- **Parcel E (10,774.65sqm/1.077ha)**
 - Assumed to be similar to Parcel D (not specified in the Zoning Bylaw)

The figures on the following page illustrate the contextual location of the site relative to some of the main regional spatial attributes, while the figure thereafter illustrates some of the salient locational factors in the immediate surroundings.

Location and Context – Subject Site



Source: Google Earth, Altus Group Economic Consulting, 2018

In summary, the location of the subject lands as a residential destination can be concluded to be quite challenging. While it benefits from significant employment nodes close by and from easy access to the LRT, it is negatively impacted by the adjacent railway lines and industrial areas, dilapidated street-front retail across Fort Road, undesirable sidewalks and streetscapes, the nature of much of the commercial uses along Fort Road and by limited pedestrian activity.

The character of Fort Road as an urban arterial (carrying large volumes of traffic at relatively high speeds) also negatively impacts the potential for street-fronting retail at the site. This retail format typically requires substantial pedestrian traffic, slow-moving vehicle traffic with on-street parking and/or high on-site residential/office densities – none of which currently applies.

1.3 DEMOGRAPHIC ANALYSIS

The age profile of the local population (in established communities surrounding the subject site) is indicative of an area that has experienced very limited new housing construction recently and very little influx of first-time home buyers and starter families. This is evident in the under-representation of 30-40 year-olds and 0-14 year-olds. At the same time, a large share of the local population is in age brackets 50-60 and 70 and over, the bulk of whom likely moved into the area when these communities originally developed – largely during 1960-1980.

In fact, only 8.7% of existing dwellings in this area have been constructed post-2001. Across the CMA the share of housing product built post-2001 is considerably higher at 33.1%.

Another noticeable difference between the local population and the rest of Edmonton is that the local population consist of more rental households, more households in apartments and substantially fewer households in townhomes (3.3%) than the CMA (8.7%).

The local population also has a much larger share of its households (45%) earning incomes of under \$60,000 compared to the CMA overall (34%) – a level of income much more associated with retiree and renter households. At the same time the local population has a much smaller share (16%) compared to the CMA (21%) of its households earning incomes that is typical of first-time home buyers (\$70,000 - \$99,999).

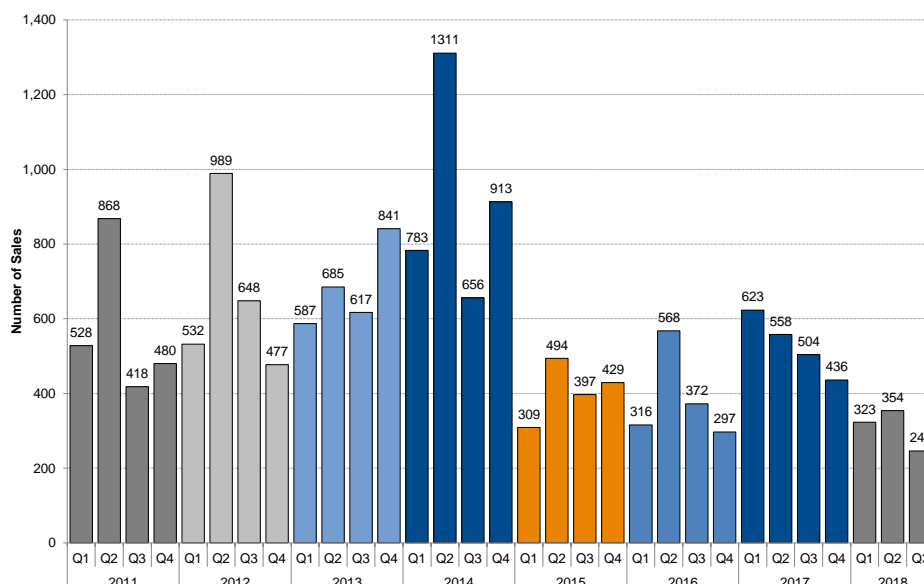
These metrics reaffirm the need for modern multi-family housing targeted primarily to renters and low-middle income buyers.

1.4 CURRENT MARKET CONDITIONS

The provincial economy has experienced a noticeable slowdown during 2018, in context of a relatively strong recovery during 2017. The muted economic conditions (and associated perceptions) have affected the housing market – especially the ownership market – where consumers tend to be more discerning about housing choices. New condominium sales across Edmonton have been noticeably slow during 2018 and are expected to remain under pressure during 2019. This has meant that overall average prices have decreased somewhat and that projects in fringe locations (or projects without distinguishing features) have particularly struggled.

The expanded stress test, which came into effect in January 2018, in addition to higher interest rates and slow employment and income growth will continue to affect market sentiment in the short term – likely causing buyers to rent instead and/or to postpone purchases to save for a larger down-payment (and therefore a smaller mortgage).

New Condo (Apartment and Townhome) Sales by Quarter, Edmonton

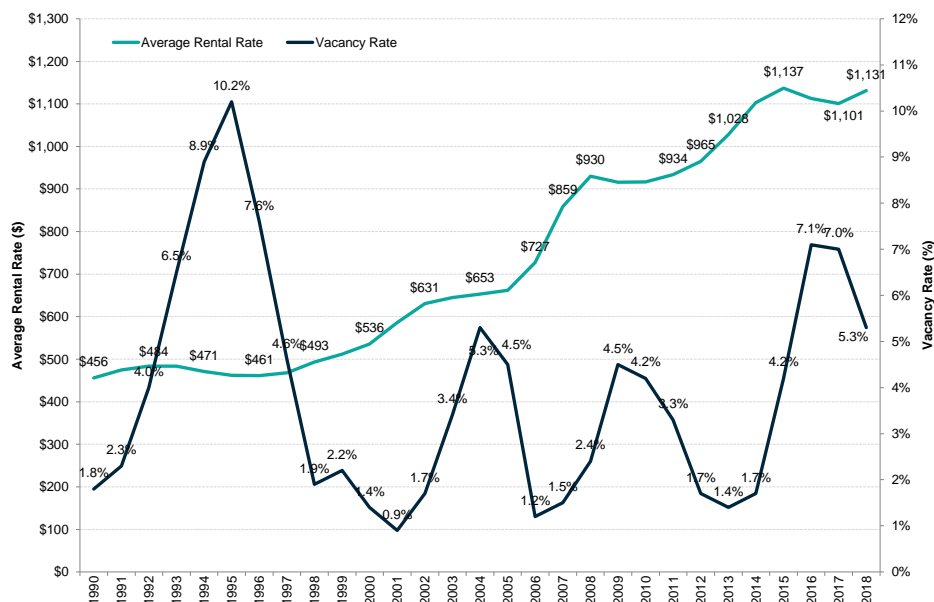


Source: RealNet, Altus Group Data Solutions, Altus Group Economic Consulting, 2018

The rental market on the other hand has performed relatively well into 2018 with the vacancy rate decreasing significantly (from 7.0% in 2017 to 5.3% in

2018) and the average rental rate increasing for the first time since 2015 – by 2.7% annually.

Purpose-Built Rental Apartment Trends, Edmonton CMA, 1990-2018



Source: CMHC, Altus Group Economic Consulting, 2018

Nonetheless, with substantial inventory in the development pipeline and an expectation of slower job growth throughout 2019 it is expected that rental vacancy rates will decrease at a moderate pace in the next few years and that rental rates will grow at a slower rate than the average over the past decade.

1.5 RESIDENTIAL FEASIBILITY

From our site-specific demand projection, it is expected that the subject lands have the potential to support a maximum absorption of around 80 multi-family units per year during 2020-2026 – assuming that both rental and ownership product are developed concurrently.

Annual Housing Demand, Subject Site

		2020	2021	2022	2023	2024	2025	2026	Total
Apartment	Ownership	25	26	26	26	26	26	26	183
Apartment	Rental	33	31	31	31	31	31	31	219
Townhouse	Ownership	15	14	14	14	14	14	14	98
Townhouse	Rental	9	6	6	6	6	6	6	47
Annual Total		82	78	78	78	78	78	78	548
Aggregate Total		82	160	237	315	392	470	548	

Source: Altus Group Economic Consulting, 2018

This means that large-scale projects (of approximately 150 units or more) will be very challenging to develop – especially for ownership (condominium) product which typically relies on bulk sales to start construction. It is also unlikely that development of rental and condominium product will occur concurrently throughout the entire 2020-2026 period – and hence, development timeframes to full build-out of the subject lands are likely to extend beyond 2026.

To mitigate these challenges and to achieve financial feasibility from a project cost and revenue perspective, the following strategic recommendations could be considered:

- **Plan for lower densities** – The higher-density goals of a typical transit-oriented development is harder to achieve in suboptimal locations with lower than average revenue potential. Hence it becomes necessary to allow built-forms that are more affordable (to build and sell/lease) despite the loss of densities associated when moving from mid-rise to low-rise, or mid-rise to townhouse product typologies.
- **A phased approach** – The most feasible type of multi-family development would be one that allows for phasing within individual parcels, likely across several smaller-scale buildings as opposed to one or a few large format buildings. In such a way each site could develop and add density over time without having to absorb too many units at once. This approach is achievable in 8-plex, 12-plex or 14-plex buildings typologies that offer apartment or townhouse (typically stacked townhouse) product or a combination of the two.
- **A product type that allows for financial feasibility** – Another key success factor would be to plan for project economic/ financial feasibility by recognising that the location is likely to support lower than average prices and rents and to subsequently provide the appropriate product for this market. This means that it would be necessary to plan for product types that are less costly to build – potentially considering the following aspects:
 - Allowing the option of surface parking and relaxing requirements on underground parking,
 - Relaxing (reducing) parking requirements in general,

- Limiting commercial requirements but allowing it as an option (unless additional parking – likely at surface - is ensured),
- Reducing architectural and design requirements (or simply being more flexible), and
- Reducing requirements for common areas or building amenities etc.

1.6 RESIDENTIAL PRODUCT RECOMMENDATION

1.6.1 Stacked Townhouse/Apartment

The product type that is best suited to the subject site from a market perspective is a stacked apartment¹ or townhouse format (6 to 16-plex buildings) that allows for multiple phases, multiple tenure types, low entry price points and flexibility in site layout and design. Surface parking is typically provided (as opposed to garage/underground) but can be integrated flexibly into various parts of the site to allow for a more visually appealing overall design as opposed to a single surface parking lot.

1.6.2 Low-Rise Apartment

The slightly limited extent of annual apartment demand makes this built form – which typically consist of four storey buildings of approximately 70-100 units - slightly more challenging to develop at the subject location than smaller-scale stacked product – especially for ownership product. This built-form would likely only be feasible with either surface parking or a maximum of one level of underground parking provided (going deeper underground becomes increasingly costly). Even in a scenario where underground parking is provided, surface parking might still be required if commercial spaces remain a zoning requirement.

Nonetheless, where surface parking (or one level of underground parking) could form part of the project design, this type of low-rise product could be brought to market at prices/rents that would allow for the necessary absorption to ensure feasibility.

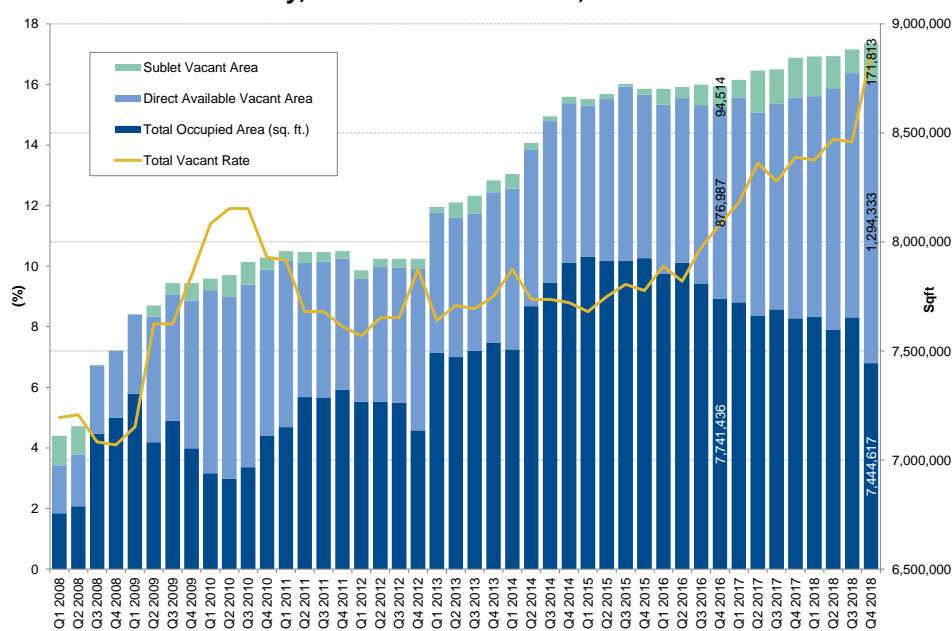
¹ Stacked product is often technically defined as townhouses, but its typical attributes makes it more similar to apartments.

1.7 COMMERCIAL MARKET FEASIBILITY

1.7.1 Office Market Feasibility

The suburban office market is currently experiencing substantial pressures from an availability and vacancy perspective. In fact, as of the end of 2018 availability is at an all-time high (1.6 million sqft) and vacancy rates have increased from 9.5% at mid-2016 to 17% currently.

Office Market Vacancy, Suburban Edmonton, 2018



Source: Altus Group Data Solutions, 2018

While the site benefits from several regional advantages (proximity to LRT, central inner-city location, few nearby competitors etc.) it is unlikely that office development will occur at the subject lands in the near-term. In fact, until availability and vacancy rates decrease significantly we expect non-niche suburban office feasibility to remain limited across the city.

1.7.2 Retail Market Feasibility

The subject site has the potential to support approximately 19,000sqft of retail Gross Leasable Area (GLA) by 2026 from the regular spending of the local population (within walking distance of the site and inclusive of the future on-site population). It would also support a substantial additional amount of retail GLA from a wider trade area via the transient vehicle traffic market if on-site parking is available.

The key challenge, however, for this location, is that the provision of underground parking on site will in most cases prove too costly for most developers to make mixed-use projects feasible (since the revenue potential of the subject site is lower than other inner-city locations). This challenge will apply in particular to condominium developers who typically require bulk sales before commencing with construction.

As a result, unless retail parking is provided on-site, the extent of retail GLA will remain limited. In fact, since approximately 45,000sqft of retail GLA exists across Fort Road, and another 22,000sqft of retail GLA is under construction on Parcel C, the retail market is likely to remain over supplied (too many facilities for all to be successful).