

THE UA TAKE – FOURTH QUARTER 2016:

'YEAR OF THE END USER'

Calgary's economic uncertainty continued to impact the new multi-family home market in Calgary during the fourth quarter of 2016 as it did through much of the year. This uncertainty caused most investors to remain on the sidelines, which resulted in significantly fewer sales in the concrete condominium sector of the market in the Inner sub-markets where most of this product form is located. The lack of investor activity in the market led many developers to delay launching new projects, which kept inventory levels in this sector from increasing more than it could have. However, the lower sales activity kept unsold inventory levels above recent averages and reduced buyer urgency levels.

End user purchasers remained active and drove steady sales activity in the wood frame condominium and townhome sectors of the outer sub-markets. Strong demand from younger price-sensitive buyers in particular allowed for the release of five new projects in the outer markets in the fourth quarter. This strong demand should help absorb much of the increased inventory levels resulting from the release of these new projects.

Sales and Inventory Analysis

Total new multi-family home sales dropped by 13 percent in the fourth quarter of 2016 in comparison to the previous quarter. Lower sales totals in all four quarters of the 2016 resulted in 27 percent fewer new multi-family home sales relative to 2015.

Aggregate Quarterly Unit Sales

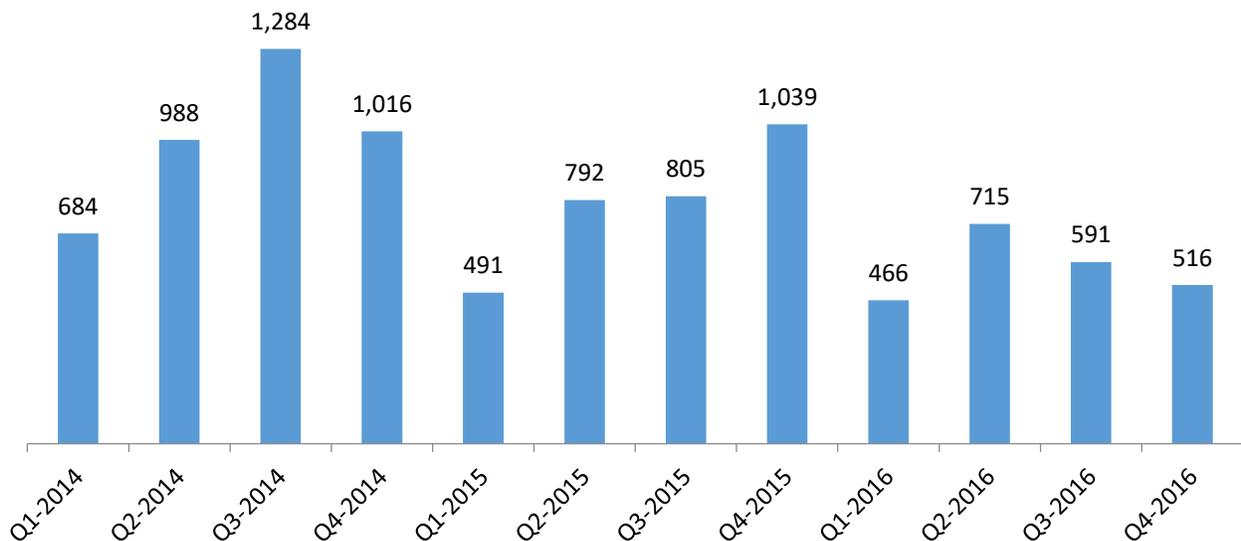


Chart 1

Concrete condominium sales experienced the most significant drop in sales in 2016; 68 percent fewer unit sales than in 2015. The launch of multiple comprehensive concrete condominium projects in the last quarter of 2015, when investor activity was still reasonably strong, resulted in particularly strong sales during the final few months of that year. With much of that investor demand having since

disappeared in the inner sub-markets of Eau Claire/West Village, and Beltline/East Village, developers were reluctant to launch new projects through much of the past year, which in turn limited sales volumes in this sector.

Slightly higher sales activity in the wood frame condominium sector of the market in the fourth quarter of 2015 was largely driven by the launch of several new projects in the outer sub-markets, including Trico Homes' *Viridian VI*, Jayman Modus' *Calligraphy*, Hopewell Residential's *Sandgate in Mahogany II* and Brookfield Residential's *Regatta*. The generally steady sales activity in this sector during 2016 resulted in a moderate nine percent drop in total annual unit sales compared to 2015.

The townhome sector bucked the trend of lower year-over-year sales activity and experienced a very modest one percent increase in annual sales in 2016 compared to 2015 in spite of a 27 percent drop in sales in the fourth quarter relative to the third quarter of the year. The total number of townhomes sold in 2016 also exceeded the number sold in 2014; by a more substantial 23 percent. This sector of the market was driven by young families seeking to take advantage of low interest rates and various incentive offerings and/or price reductions offered by some developers throughout the year.

The analysis of year-to-date sales volume shown in Chart 2 clearly illustrates how substantial the drop in sales of concrete condominiums was in 2016 relative to the previous two years.

Annual Unit Sales Comparison

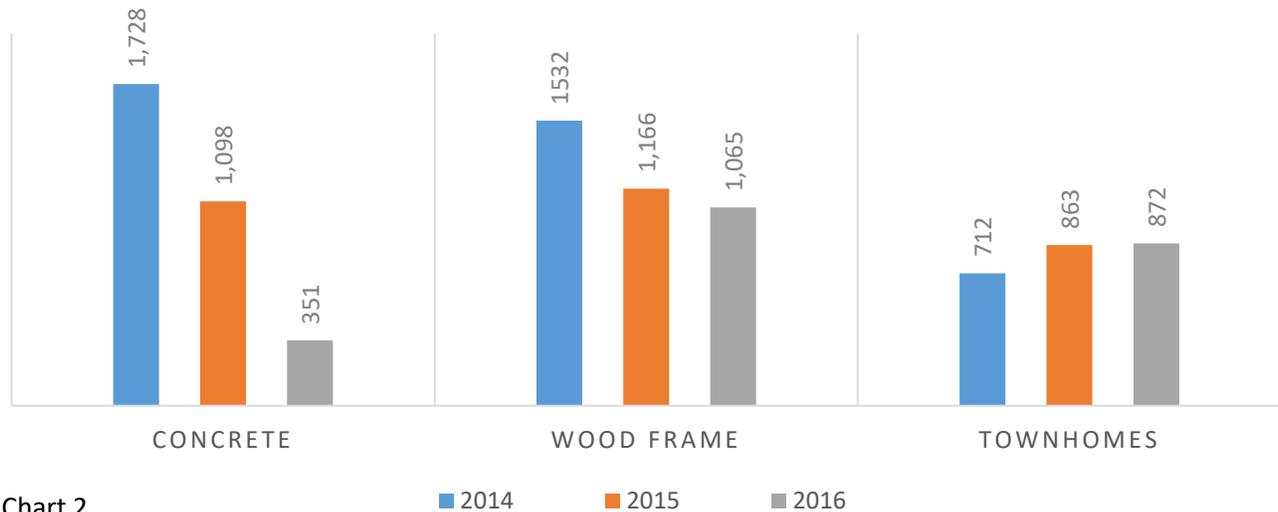


Chart 3 illustrates the trend in quarterly sales by product type over the past year. The 50 percent drop in sales in Q4-2016 compared to Q4-2015, can be largely attributed to the much more limited demand for new concrete condominiums in 2016.

Quarterly Unit Sales Comparison

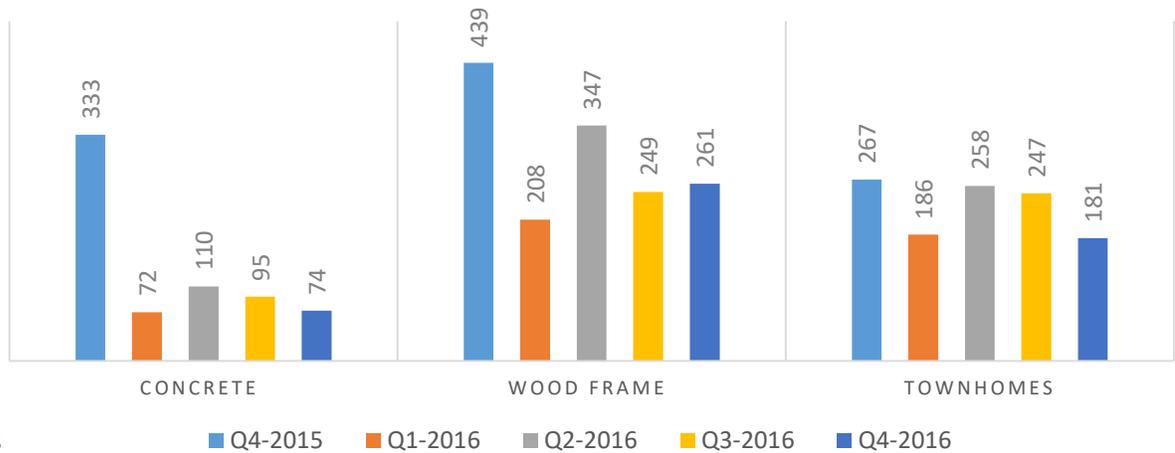


Chart 3

The outer sub-markets, where wood frame condominium and townhome product makes up the majority of the product mix, experienced steady demand from younger price sensitive buyers taking advantage of the more favourable purchasing conditions. While the Outer North and Outer South sub-markets experienced a modest nine percent drop in sales in 2016 compared to the previous year, townhome sales in these two sub-market dropped by just one percent. Chart 4 illustrates the dominance in sales activity in the Outer sub-markets, as well as the fact that aggregate 2016 sales exceeded 2015 absorptions in just two sub-markets.

Annual Sales By Sub-market Comparison

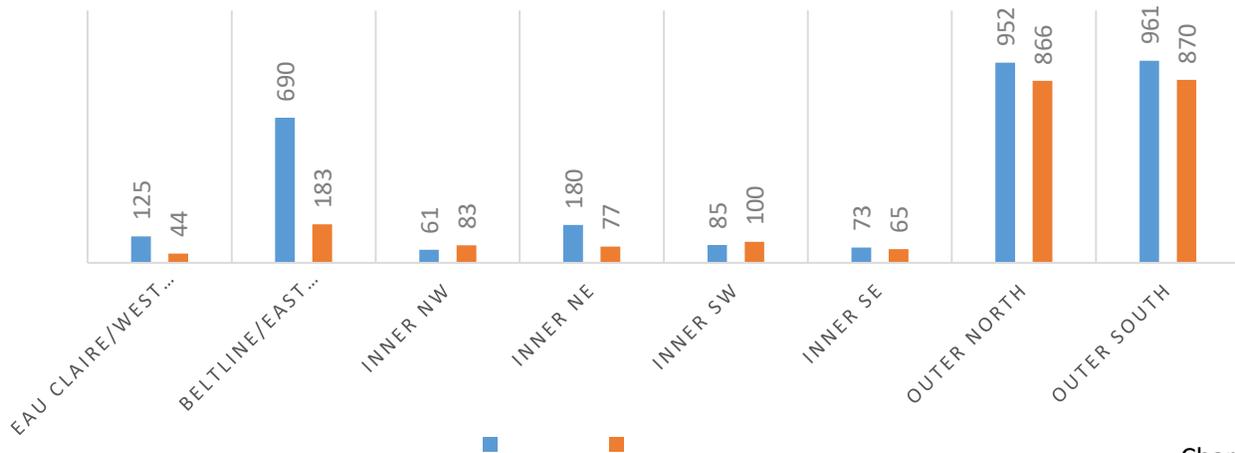


Chart 4

Higher sales volumes in the Inner sub-markets in 2015 can be partially attributed to more new supply being added to the market. There were nine new concrete condominium projects launched with a total of 1,325 new units compared to just two new projects with 245 units in 2016. While this isn't to suggest the market would have absorbed the same number of concrete condominium units in 2016 if the same amount of new product had been added, it's likely that the total number of sales would've been higher with more new project launches. The delay of new concrete condominium project

launches effectively limited any sense of urgency that's created around a comprehensive project's grand opening campaign.

The lack of new project launches has allowed for unsold inventory levels to remain relatively stable throughout 2016 in spite of the lower sales. Total inventory levels at the end of Q4-2016 increased by just 10 units in comparison to the fourth quarter of 2015. Chart 6 illustrates the trend in the amount of released and unsold inventory over the past year. The wood frame condominium sector experienced the greatest increase in inventory levels as Cardel Homes' *Walden Place 2*, Hopewell Residential's *Sandgate in Mahogany 2*, Jayman Modus' *Calligraphy* Brookfield Residential's *Regatta* and Trico Homes *Viridian IV* were added to the market, introducing an additional 359 units in this sector.

Released Inventory Comparison By Product Type

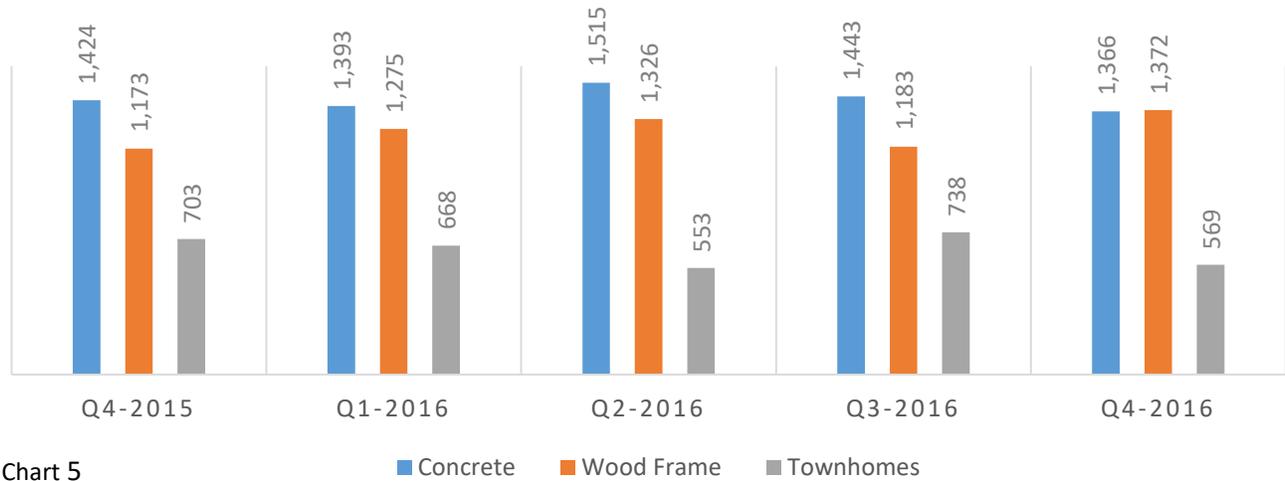


Chart 5

Chart 6 compares the amount of unsold inventory in each sub-market. It's interesting to note the Outer South sub-market, which enjoyed some of the highest absorption rates in 2016, experienced the largest increase in unsold inventory (22 percent) after the addition of four new wood frame condominium projects, as well as the launch of Avi Urban's *Buffalo* townhome project late in the year. The launch of Streetside Developments' townhome project *The Loop in Evanston*, Trico Homes' *Verona Townhomes* and *Viridian IV* led to an increase in the amount of unsold inventory in the Outer North, which also experienced some of the strongest demand levels in 2016.

Released Inventory Comparison By Sub-Market

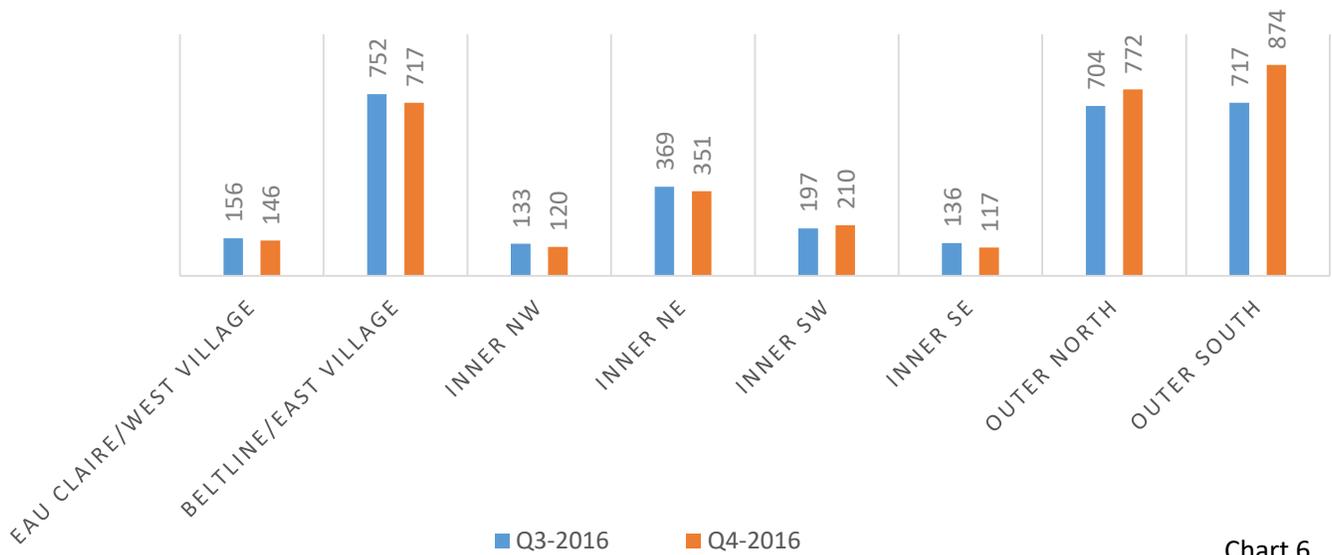


Chart 6

The weaker sales in the higher density Inner sub-markets combined with the additional new supply in the Outer sub-markets resulted in a widening in the spread between the number of sales in the fourth quarter and the amount of unsold inventory at the end of 2016. While this spread narrowed by three percent since the start of the year, it has increased by nearly 250 percent since the third quarter of 2014. The impact of the greater spread between these two metrics is that the new multi-family home sector of Calgary's real estate market will continue to favour buyers. Without any significant increase in sales during the first half of 2017, developers will be inclined to continue offering price-reducing incentives and or price reductions to sustain or increase current absorption levels.

Quarterly Sales vs. Unsold Inventory

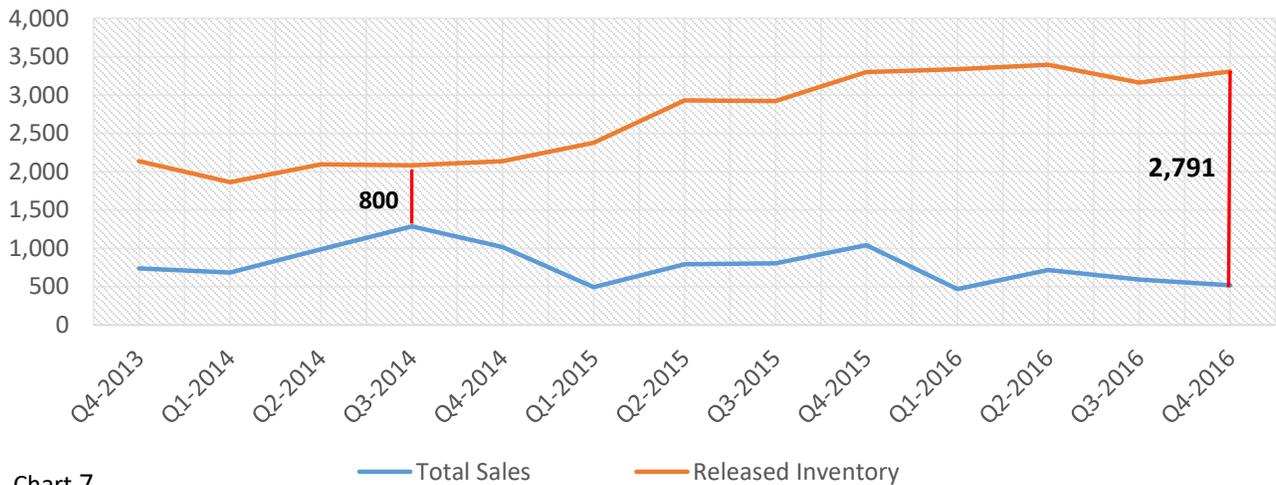


Chart 7

Another important metric to monitor in terms of the health and strength of the new multi-family home sector of the market is the amount of completed and unsold inventory. Chart 8 illustrates the increasing amount of standing inventory in this sector of the market. The fourth quarter of 2016 experienced a seven percent increase in move-in ready units; a 146 percent increase in standing inventory during the past year.

Standing Inventory Trend

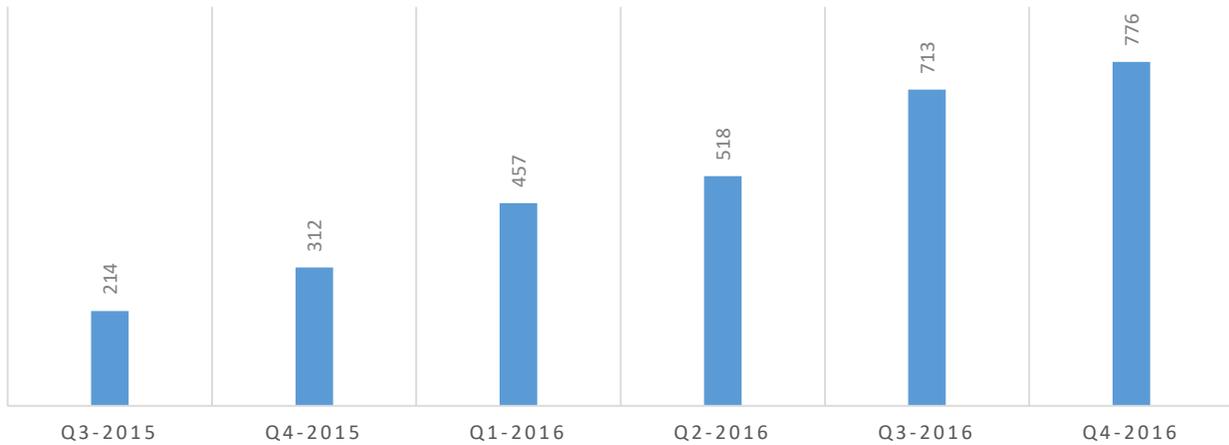


Chart 8

However, it’s also important to consider where the majority of this standing inventory exists. As Chart 9 shows, the overwhelming majority of these completed and unsold new multi-family units are located in the outer sub-markets of Calgary, where sales activity has been strongest in recent quarters. Further, new home demand in these outer sub-markets is being driven primarily by end-user buyers who tend to purchase product that is complete or nearing completion. As such, there is little reason for significant concern over the growth in standing inventory levels in the Calgary market. However, it will be important to continue to monitor this metric as concrete condominium projects currently under construction in the Inner sub-markets are completed.

Standing Inventory Trend By Sub-Market

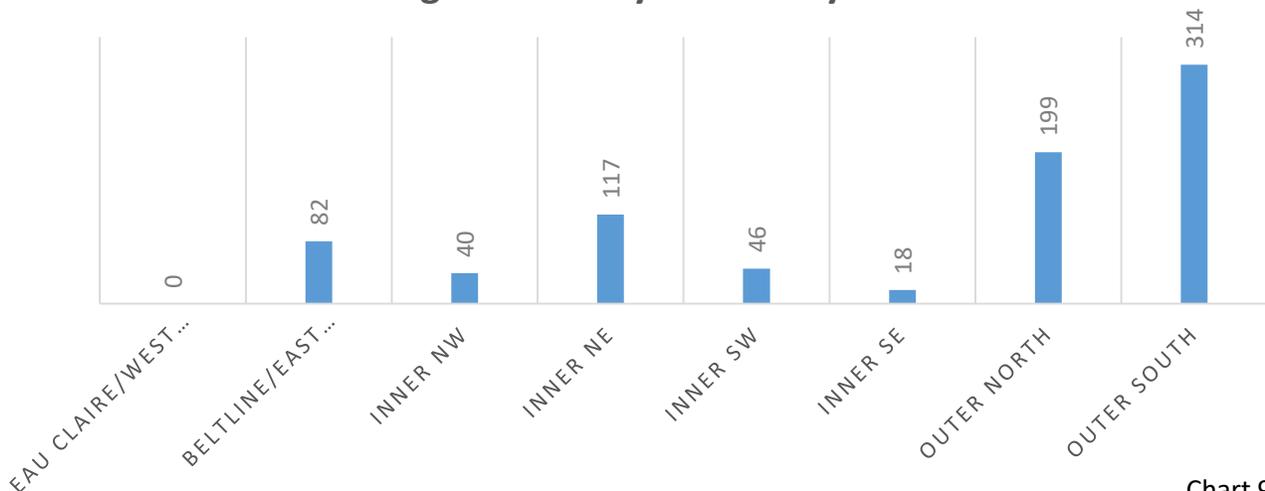


Chart 9

It is also important to consider that the 82 completed and unsold concrete condominium units account for just 10 percent of all standing inventory in the Calgary market. A large proportion of completed and unsold inventory of this product form would be more concerning due to the fact it tends to attract a greater number of investor buyers, who are largely absent from the Calgary market at this time.

Chart 10 illustrates the construction status of the unsold inventory in the Calgary market as of the end of 2016. While the limited number of completed and unsold concrete condominium units is encouraging, the inventory status will become more concerning should sales activity remain low and the considerable amount of product currently under construction remains unsold when it is completed. Developers with any significant amount of unsold inventory under construction and scheduled to complete in the next six months should consider implementing marketing programs designed to increase absorptions to avoid being left with considerable standing inventory.

Unsold Inventory by Product Type and Construction Status



Chart 10

Price Trends

The fourth quarter of 2016 saw little change in list prices throughout the market as many project representatives indicate their respective developers reached their limit of price reductions and/ or price-reducing incentives in previous quarters of the year.

The Downtown sub-markets experienced minimal price changes in the fourth quarter.

- Fram + Slokker’s *Verve* continues to offer an incentive of \$5,000 off one bedroom units, \$7,500 off two bedroom units and \$10,000 off sub-penthouse and penthouse units.

Pricing and incentives offered by projects in the inner sub-markets varied marginally during the third quarter.

- Bucci’s *Radius* has increased prices on remaining units by between \$5,000 and \$20,000, increasing the blended price per square foot from \$544 to \$566 before incentives. The

developer continues to offer an incentive of \$10,000 off one bedroom units, \$15,000 off two bedroom units and \$20,000 off three bedroom units.

- Apex increased the list prices of one bedroom units at its *Bridgeland Crossing II* project, and reduced the prices of two bedroom units by between \$5,000 and \$10,000.

The outer sub-markets had very few price changes in the fourth quarter of the year compared to previous quarters in 2016.

- Shane Homes increased the prices of remaining one bedroom units at *Mark 101* by \$5,000.
- Partners Group is offering \$10,000 off the purchase price of remaining units at *Arrive at Evanston*, plus one year of paid condo fees.
- Cardel Lifestyles is offering an incentive of one year paid condo fees at *Cranston Ridge*.

Buyer Trends

Entry level purchasers continue to make up the majority of active new multi-family home buyers in Calgary. The outer sub-markets have performed the strongest as a result, attracting price sensitive buyers seeking new condominiums and townhomes priced under \$350,000. The Downtown sub-markets continued to experience slow absorptions in recent months as a result of the limited number of active investor buyers in the market. Sales representatives at projects in the Inner sub-markets noted interest from young professional purchasers in the Kensington and Bridgeland neighbourhoods.

Projects in the inner sub-markets have also reported greater numbers of downsizers and empty nesters purchasing. Many of these buyers are snowbirds who are looking to downsize to a condominium located in Calgary and using the proceeds of the home they're selling to help fund the purchase of a second home in a warmer climate. Many of these purchasers are downsizing from the Aspen, Mount Royal, Scarboro, and other affluent neighbourhoods. They have been particularly active in Streetside Developments' *Vivace* and Jayman Homes' *Overture*.

Sales representatives at townhome projects in the Outer North sub-market have noted a significant increase in the number of Asian purchasers helping their children buy their first homes. This trend has caused several developers to reconsider at their marketing strategies to appeal to the 'feng shui' needs of buyer group, notably at townhome projects in the Evanston, Nolan Hill and Sage Hill communities.

UA predicted in the fall of 2016 that the new mortgage rules introduced by CMHC and the federal finance ministry in October would increase sales in the more affordable wood frame condominium and townhome sectors of the market that targeted entry level and move-up home buyers who would be priced out of the detached home market due to their reduced purchasing power. While a substantial shift in focus among this buyer group did not materialize, we suspect many of these buyers may be holding off on a buying decision to allow them to monitor market conditions. Steady

demand and absorptions in the wood frame condominium and townhome sectors of the market in the Outer sub-markets in particular throughout 2017 are anticipated.

Looking Ahead

Relatively few projects are scheduled to launch in the first quarter of 2017, as markets continue to respond to sluggish market conditions by delaying project launches.

Projects to launch during the first quarter of 2017 include:

- *Vibe* by Fram+Slokker- East Village
- *Noble* by Truman Homes – University District
- *Ivy* by Brookfield Residential – University District
- *The Pinnacle at Kincora Building 2* by Cove Properties- Nolan Hill



UA looks forward to monitoring the sales progress of these and all other actively selling new home projects, and adding them to nhslive.ca as soon as possible after their launch.

In addition to maintaining the most current new multi-family home project data on NHSLive.ca, UA provides advisory and consulting services that can be tailored to meet your firm's specific needs. Please contact us to discuss how we can assist you in the design and or positioning of your new multi-family home community.

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