

THE UA TAKE – FIRST QUARTER 2017:

LOW SUPPLY ... HIGH DEMAND ... HIGHER PRICES – THE CYCLE CONTINUES

A drop in new home sales from one quarter to another or year over year can usually be attributed to lower demand from purchasers. This was not the case in Metro Vancouver in the first quarter of 2017 as a dearth of new multi-family project launches resulted in an 11 percent drop in unit sales compared to the previous quarter and 38 percent fewer sales relative to Q1-2016. In spite of the sustained demand, few new projects were approved and released across Metro Vancouver during the first three months of the year. The widening gap between demand and supply has increased pressure on all three sectors of the new multi-family home market.

The following statistics highlight the limited amount of new product releases in Metro Vancouver in Q1-2017:

- 3,884 new multi-family home sales in Q1-2017;
- Just 2,580 new units released to the market during this same period;
- Six fewer new multi-family home projects released than in Q1-2016;
- 1,354 fewer new multi-family home units released than in Q1-2016;
- Not a single new condominium or townhome project launched in Burnaby.
- Not a single new high rise project launched in Burnaby or New Westminster.
- After 280 new condominium and townhome units were sold in Vancouver East in Q1-2017, there are just 10 projects marketing with a combined total of 49 unsold units;
- Not one new townhome project launched in Langley, where there is seemingly endless demand for this product from local end-user families.
- Just two new townhome projects with a total of 76 units launched in Surrey and White Rock.
- Only 15 completed and unsold new condominiums and 16 completed and unsold townhome units across Metro Vancouver at the end of Q1-2017

Recent government policies directed at cooling housing demand have had almost no impact on the new multi-family home sector of the market. There needs to be some recognition of the considerable internal and external demand for housing in this region which, barring a significant economic shock or world event, will continue. Meanwhile, all levels of government continue to ignore and/or deny the impact the lack of supply is having on the market. Until there is some acknowledgement of this issue, and action on speeding up the approval and release of new supply, the erosion of housing affordability of all housing forms across the region will continue.

The following charts and analysis are provided to help illustrate and explain activity in the new multi-family home sector of the market in the first quarter of 2017.

Sales and Inventory Analysis

The drop in new multi-family home sales in Q1-2017 relative to the previous quarter and the same quarter in 2016 was felt across all three product forms.

QUARTERLY UNIT SALES COMPARISON

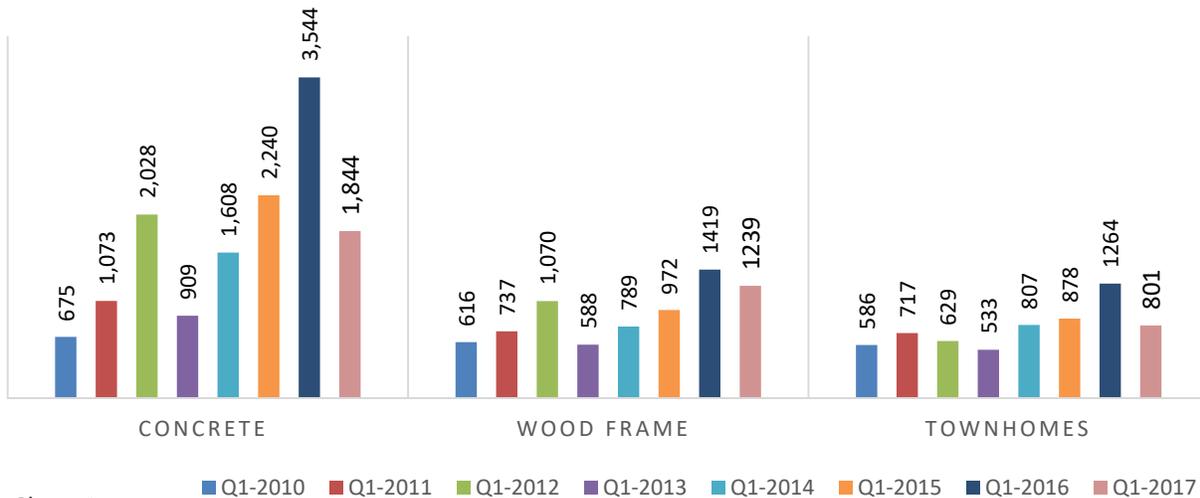


Chart 1

The concrete condominium sector experienced 43 percent and 41 percent fewer sales than in Q4-2016 and Q1-2016 respectively. This drop can be largely attributed to the lack of new supply being added to the Burnaby sub-market, which saw much more new product introduced throughout 2016. With not a single high-rise project launched in Burnaby and only four new towers released in sub-markets outside the city of Vancouver in the first quarter, buyers were left to purchase what little inventory remained in these sub-markets, or pay the ever-increasing luxury condominium prices being sought for new projects in Downtown Vancouver and Vancouver West.

Considerable pent-up demand absorbed much of the new wood frame condominium product released to the market during the first quarter.

- Just seven of the 2017 new units released at three new projects in North Vancouver remained unsold at the end of Q1-2017;
- All 135 units at the only project released in Richmond in the first quarter are sold;
- All 136 units at the only project released in Langley/Cloverdale in the first quarter are sold;
- 87 percent of all new wood frame condominium units released in Q1-2017 were sold.

Demand remained just as strong in the townhome sector where nearly 75 percent of the 272 new townhome units added to the market in the first quarter were sold.

Sales of all product forms throughout Metro Vancouver would have been higher had more product been released. Limited new project launches impacted sales in all sub-markets in the first quarter, including the South of Fraser area, where increased demand for new low and mid-rise condominium and townhome product was felt.

QUARTERLY NEW MULTI-FAMILY HOME SALES

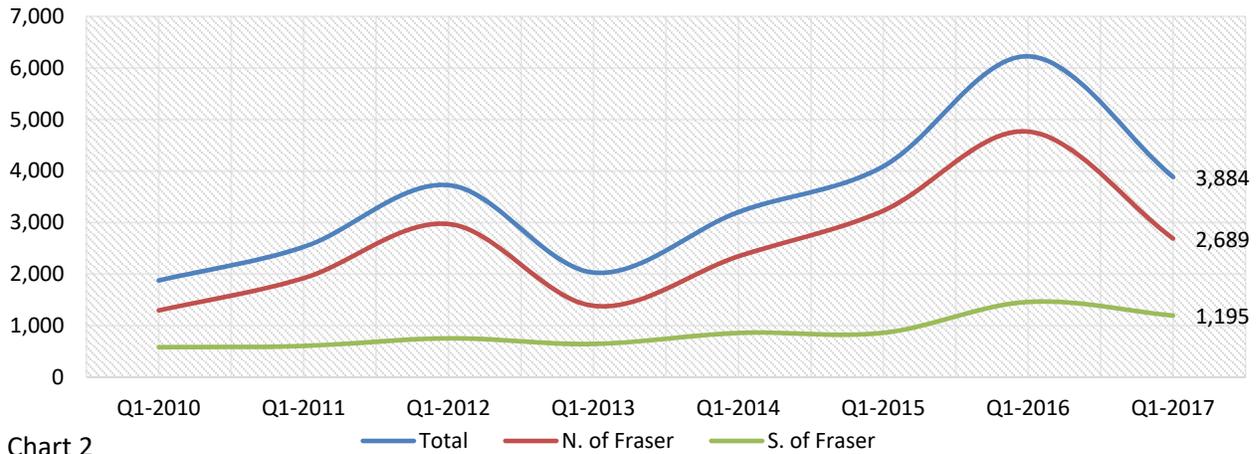


Chart 2

After narrowing in the second half of 2016, the spread in the number of new multi-family homes sold in a quarter and the number of unsold units at the end of that quarter widened again in the first quarter of 2017.

QUARTERLY SALES VS. UNSOLD INVENTORY

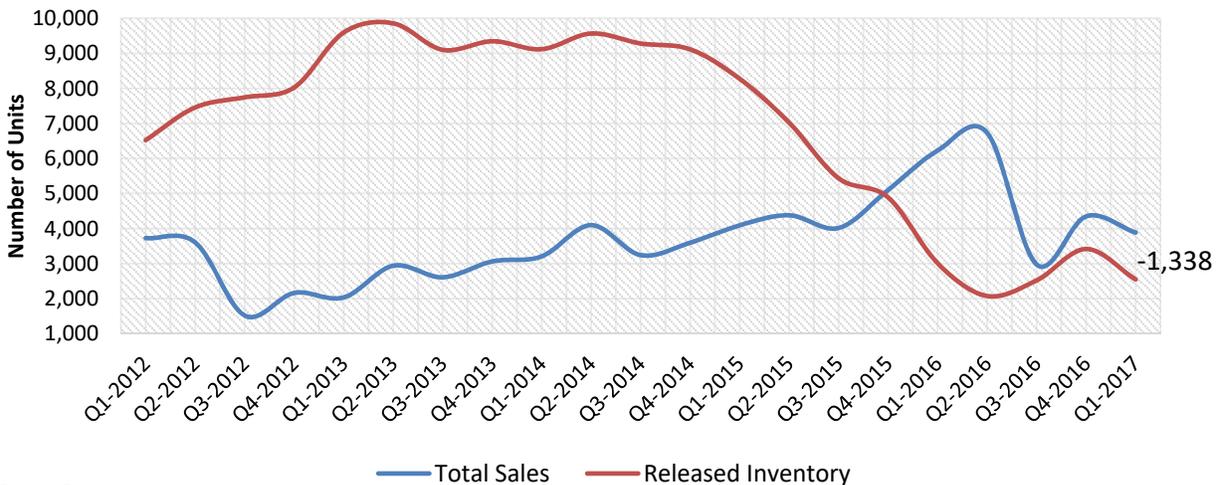


Chart 3

Based on the pace of sales over the past 12 months and the number of unsold units at the end of Q1-2017 there continues to be fewer than two months of inventory of new multi-family homes in Metro Vancouver.

Chart 4 provides further visual evidence of how the number of sales is exceeding the pace at which new supply is being released in all but two Metro Vancouver sub-markets. There were 43 percent more units sold in the first quarter of 2017 than units released to market.

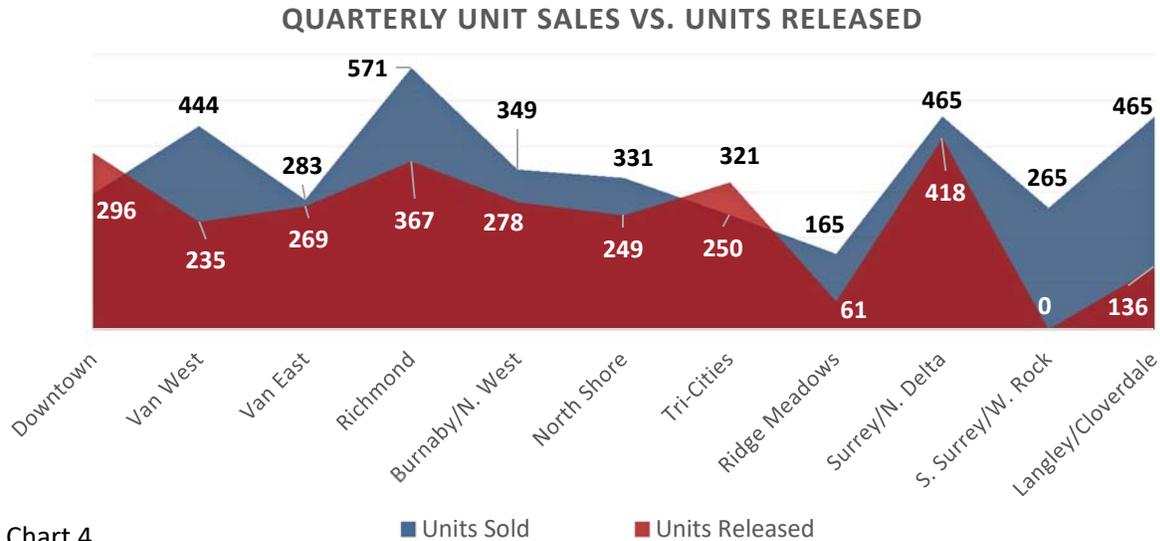


Chart 4

Not surprising given how sales continue exceed new supply being released to the market in Q1-2017, the amount of unsold condominium inventory was 30 percent lower at the end of Q1-2017 compared to the end of the same quarter in 2016. The number of unsold concrete condominium units dropped by 29 percent year-over-year, while wood frame condominium inventory fell by 34 percent. The 169 percent increase in the number unsold townhome units represents just 383 more units of inventory in this sector at the end of 2016 compared to the same point in 2015. When the 801 first quarter townhome sales are considered, this increased inventory is still not sufficient to meet current demand for this product form.

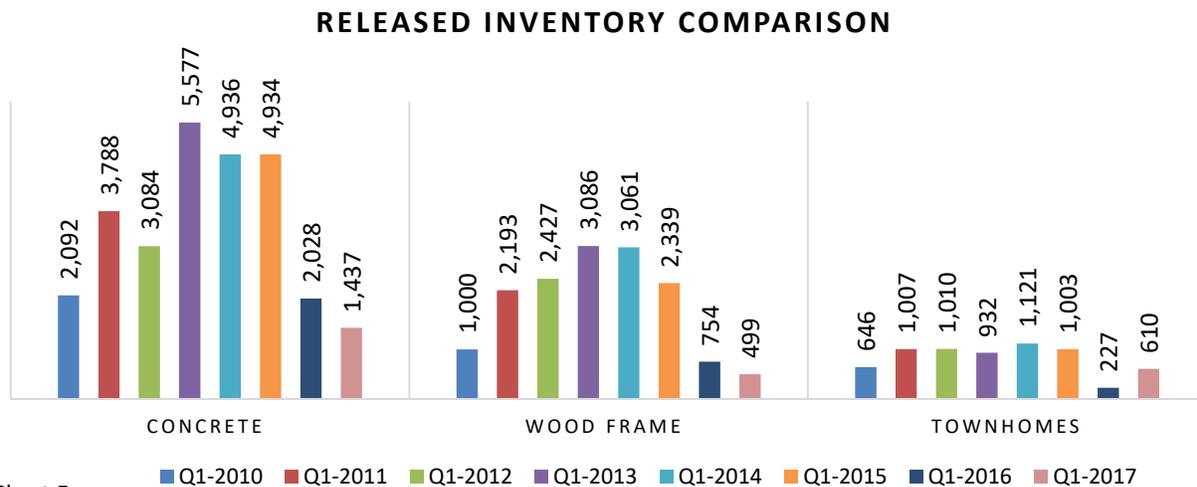


Chart 5

Unsold inventory was lower at the end of Q1-2017 relative to the end of the previous quarter in just two sub-markets; Vancouver Downtown and Tri-Cities. There were three new concrete condominium project launches in Vancouver Downtown seeking average sale values ranging from \$1,500 to \$2,500 per square foot. Five new project launches occurred in the Tri-Cities market, including three wood frame condominium projects in Port Coquitlam in the last month of the quarter. The fact not a single new concrete condominium project was released in Burnaby or New Westminster resulted in that sub-market experiencing the most significant drop in unsold inventory (38 percent).

RELEASED INVENTORY COMPARISON

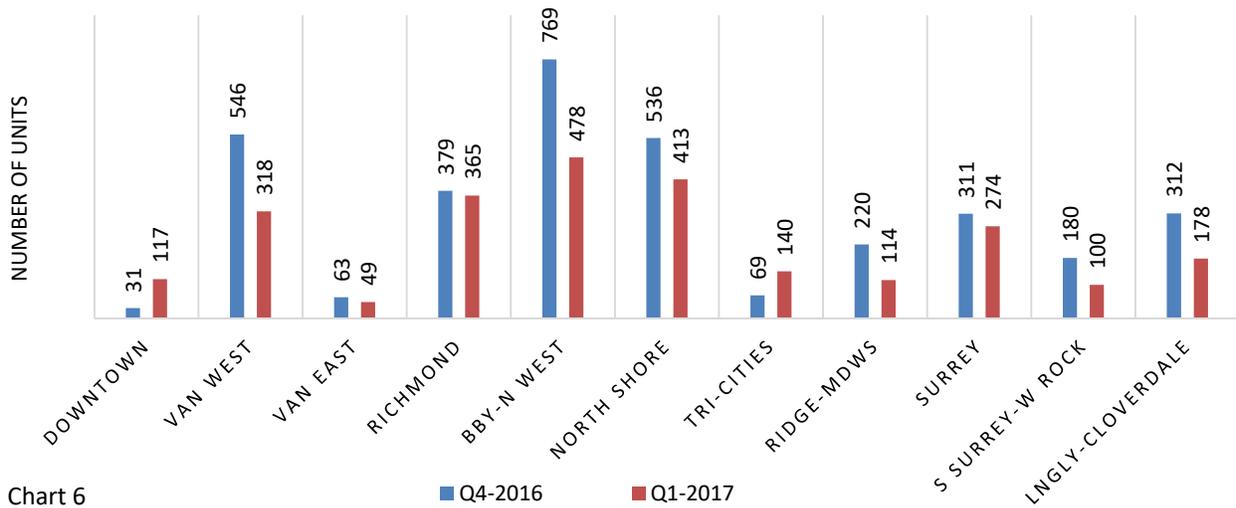


Chart 6

Standing inventory continued to drop in Q1-2017. A prospective purchaser seeking to buy a completed new home has only 15 completed and unsold new condominium units and 16 completed and unsold new townhome units to choose from across the region.

STANDING INVENTORY TREND

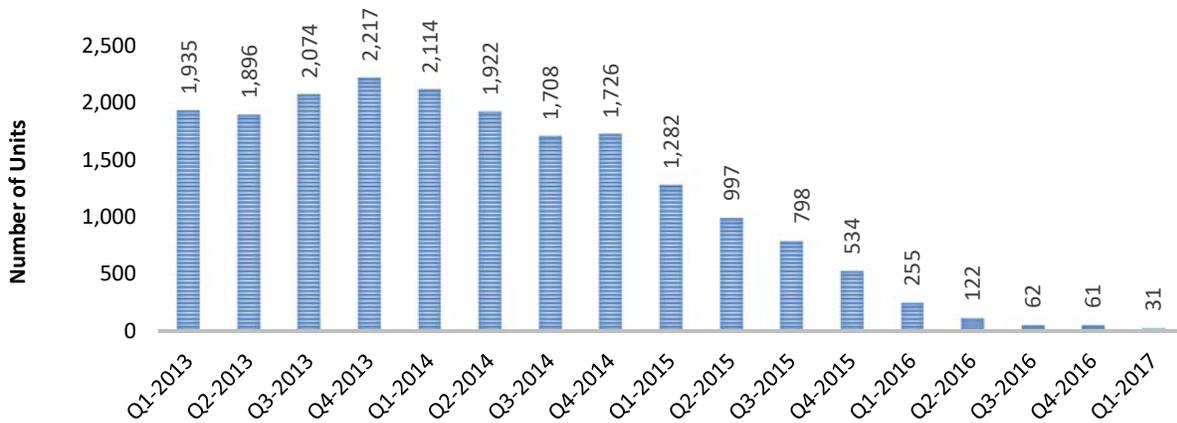


Chart 7

Chart 8 illustrates the number of completed and unsold units in the various Metro Vancouver sub-markets. Not a single sub-market had more than 10 units of standing inventory at the end of Q1-2017. The majority of product currently being marketed and constructed is being absorbed well ahead of completion.

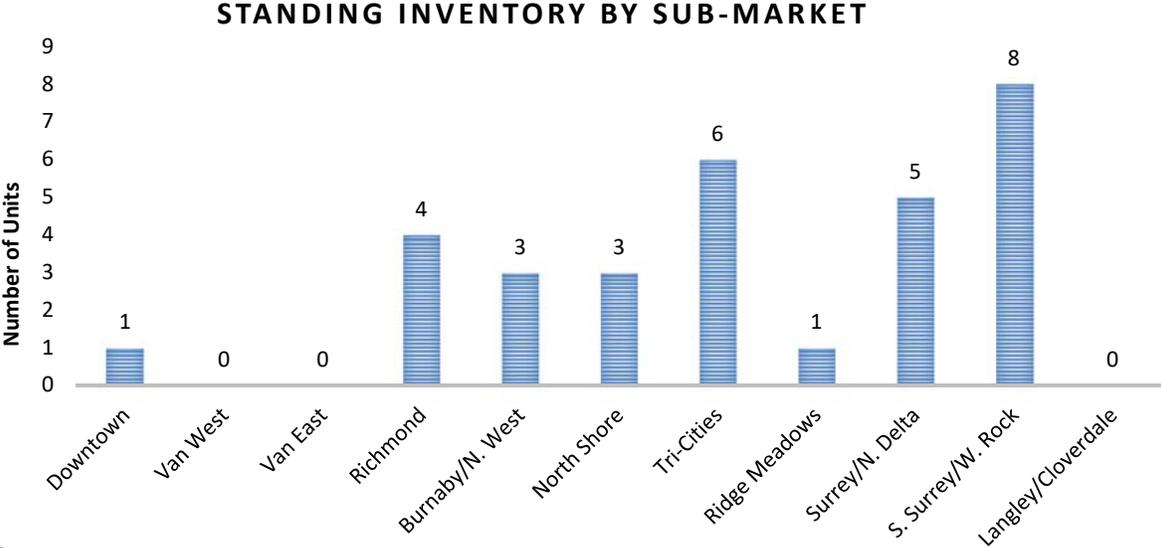


Chart 8

Further evidence of little concern about an oversupply of new multi-family product is illustrated in Chart 9. With so little ‘standing’ and ‘under construction’ inventory to choose from, buyers continue to be increasingly comfortable purchasing new multi-family homes in the pre-construction phase as evidenced by the 31 percent drop in the number of unsold units at the pre-construction stage.

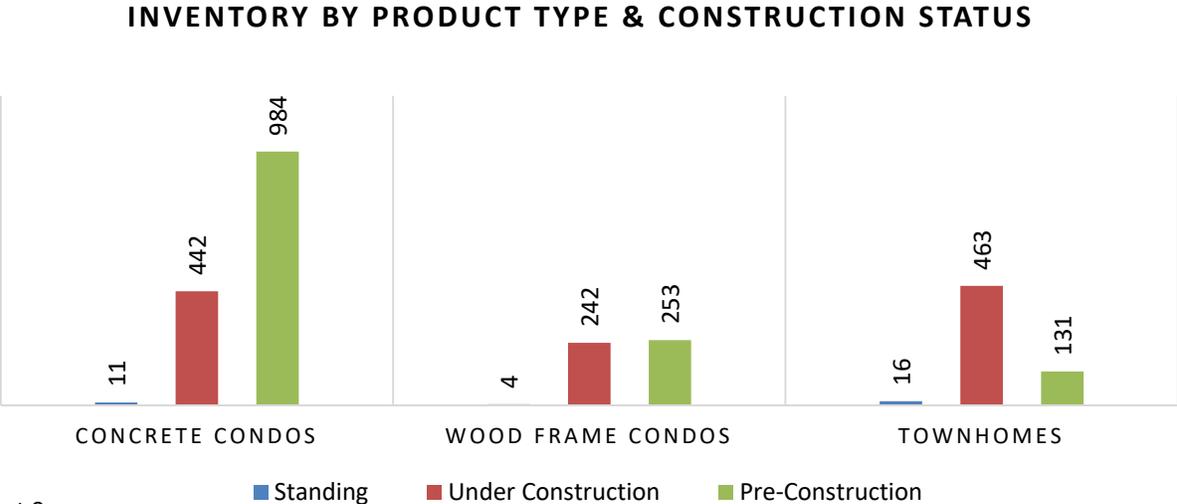


Chart 9

Price Trends

After slowing moderately in the second half of 2016, the rate of price escalation in the new multi-family home sector of the Metro Vancouver market increased in the first quarter of 2017. With the lack of new project launches in some sub-markets in the first three months, price increases in the second quarter of the year will undoubtedly be even more substantial. Limited supply and competition remains the primary challenge in limiting the rate and scale of price increases. It's difficult to maintain current price levels when not a single concrete condominium project is released in the most active sub-market in 2016 (Burnaby/New Westminster) for nearly six months. This scenario is being experienced throughout the market; too few projects with too little supply being released to ease the level of pent-up demand and buyer urgency. The insufficient number of new project launches in recent quarters helps explain the line-ups being seen for new townhome launches in South of Fraser sub-markets, instant sellouts of wood frame condominium projects in North Vancouver and Richmond and the near immediate absorption of any new concrete condominium projects launched. It's also why new product continues to get absorbed in spite of rapidly escalating sale values being sought.

The following summarizes the approximate average sale values being sought and presumably attained for various housing forms in different sub-markets of Metro Vancouver:

- *Downtown Vancouver* – Three new projects were launched in Vancouver Downtown in Q1-2017 ranging in price from \$1,500 to \$2,500 per square foot.
- *Vancouver West* – New concrete condominium projects launched in Q1-2017 achieved averages exceeding \$1,200 per square foot, with one view-oriented project in the Dunbar neighbourhood achieving a reported average of \$1,870 per square foot.
- *Richmond* – New concrete condominium product launched in Q1-2017 sought average sale values exceeding \$800 per square foot. New wood frame condominium product launched achieved average sale values approaching \$600 per square foot.
- *Burnaby* – New concrete condominium product expected to launch in Metrotown in Q2-2017 will reportedly seek approximately \$1,025 per square foot, an increase of approximately \$50 per square foot since the last project launched here in fall 2016.
- *North Shore* – New wood frame condominium product launched in North Vancouver in the first quarter achieved values ranging from \$700 to \$725 per square foot. The second and final phase of the Ambleside project in West Vancouver is achieving sale values of nearly \$2,500 per square foot.
- *Tri-Cities* – New concrete condominium product released in the Coquitlam Centre neighbourhood achieved approximately \$640 per square foot. New projects expected to launch in Q2-2017 will reportedly seek in excess of \$750 per square foot. Wood frame condominium product launched in Port Coquitlam in Q1-2017 attained average sale values ranging from \$460 to \$560 per square foot. The most recent townhome project

launched in the Burke Mountain neighbourhood of Coquitlam is seeking average sale values of over \$480 per square foot.

- *Ridge-Meadows* – Recently launched townhome product in this sub-market is getting absorbed quickly at sale values of approximately \$385 per square foot.
- *Fraser Valley* – Wood frame condominiums in Surrey City Centre are now achieving between \$400 and \$410 per square foot; similar to values attained for this same product form in Langley. The fact not a single new townhome project was launched in Langley/Cloverdale in Q1-2017 will result in the absorption of much of the existing supply and resume upwards pressure on pricing until more new projects are launched. The first new concrete condominium project launched in White Rock in several years is expected to seek average sale values well in excess of \$800 per square foot.

Buyer Trends

The profile of buyers remains largely unchanged in most Metro Vancouver sub-markets. The most significant trend noted during UA's Q1-2017 project tours was a greater willingness by buyers currently in the more urban sub-markets of the region to consider product in suburban locations; in both the North and South of Fraser areas. This trend was prevalent for both end user and investor purchasers. According to project sales representatives, the increasingly transient nature of buyers is due to a combination of the rapid escalation in home prices and the increasingly limited supply/selection of new multi-family home product in those sub-markets.

The ethnic make-up of buyers was also similar to previous quarters. Some representatives at projects in South of Fraser sub-markets indicated there was notable increase in interest from Korean and Chinese buyers, particularly in areas where there is an existing community of these groups.

The rate of price escalation in many sub-markets is likely to increase interest from speculative investor purchasers who see an opportunity to realize a substantial lift in values during the construction period. This additional speculative demand will put further upward pressure on sale values, particularly in the concrete condominium sector of the market.

The combination of limited new multi-family home product supply and rapid price escalation will increase the 'fear of missing out' factor in the market and attract more demand from buyers seeking to 'just get in' before they get priced out of an area and/or product form they desire. This demand is spread across a range of buyer profiles, including end users, parents purchasing for their kids and investors.

Looking Ahead

As this analysis indicates, there were not nearly as many new projects launched in the first quarter of the year as had been anticipated. It is hoped there will be a greater number of new projects launched in the second and third quarters of the year.

Some of the more noteworthy projects UA expects to launch over the next two quarters and will be monitoring closely include:

- *Mirabel – Vancouver Downtown*
- *Landmark on Robson – Vancouver Downtown*
- *Terrace House – Vancouver Downtown*
- *The Stanton – Vancouver West*
- *Cambie 62 – Vancouver West*
- *Currents – Vancouver East*
- *Parc Riviera Mews – Richmond*
- *Trafalgar Square – Richmond*
- *Sun Towers – Burnaby*
- *Sussex – Burnaby*
- *Lumina – Burnaby*
- *Vittorio – Burnaby*
- *Southgate City - Burnaby*
- *BrookLynn – North Vancouver*
- *567 Clarke+Como - Coquitlam*
- *Mantyla - Coquitlam*
- *Platform – Port Moody*
- *Kanaka Hill – Ridge-Meadows*
- *Park Boulevard - Surrey*
- *La Voda – Surrey*
- *Miramar – White Rock*
- *Quinn – South Surrey*
- *Southridge Club – South Surrey*
- *Wexley – Langley/Cloverdale*
- *The Terraces – Langley/Cloverdale*
- *Union Park – Langley/Cloverdale*



As always, UA looks forward to monitoring the sales progress of these and all other actively selling new home projects, and updating the data as it is collected on nhslive.ca, the web-based platform of the *New Home Source*.

In addition to the *New Home Source* at *nhslive.ca*, UA provides a variety of advisory and consulting services tailored to meet your firm's specific needs. Please call to discuss how we can assist you in the design and or positioning of your new multi-family home community.

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