THE UA TAKE – SECOND QUARTER 2017:

IT'S LIKE GROUND HOG DAY

The status of the new multi-family home sector of Metro Vancouver's residential real estate market during the second quarter remained generally unchanged from the end of Q1-2017. Insufficient new supply and project launches relative to demand resulted in a further drop in unsold inventory and continued escalation in new home pricing in many sub-markets of the region.

As has been noted repeatedly in previous UA Takes, the amount of new supply being added to the market has not kept pace with the increased demand the Metro Vancouver market has experienced for new multi-family homes in recent years. Chart 1 below illustrates the trend in the number of new units released to the market and projects launched during the first half of each year from 2012 to 2017. With the exception of the first half of 2016, which saw the launch of a few large tower developments in Burnaby, the number of units released to the market has ranged between 6,000 and 7,700 during the first six months of each of the past six years. It's particularly discouraging to see just over 6,000 new units released to the market in the first half of 2015 and 2017, far fewer than during the respective first six months of 2012 to 2014. The fact that fewer than 7,500 units have been released in the first half of all but one of the past six years also helps explain the price escalation the market has experienced during this period.

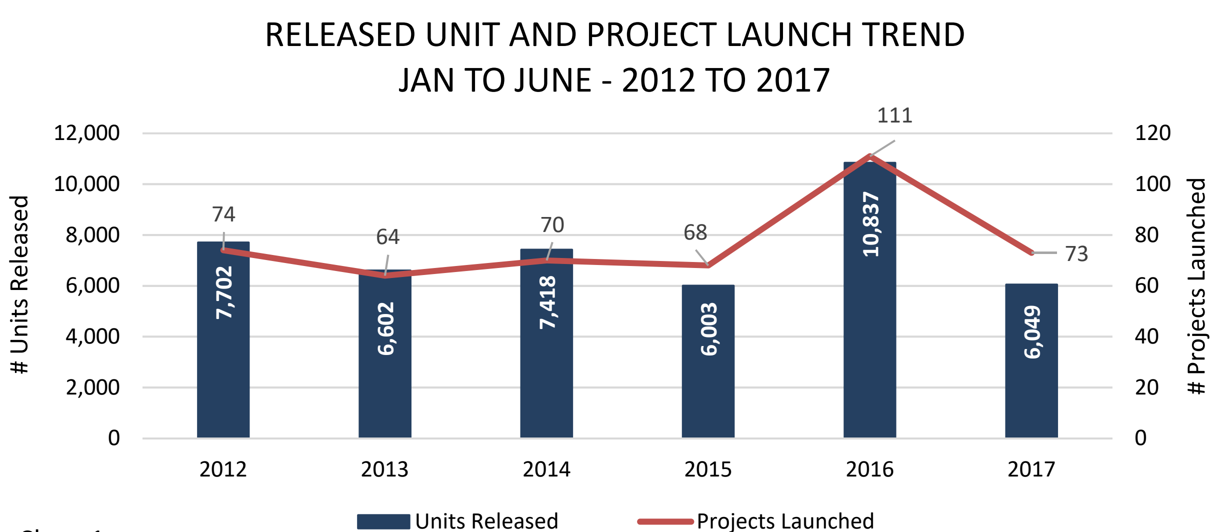

Chart 1

In addition to an insufficient amount of supply of new multi-family homes being approved and released to the market, there are not enough new projects being approved throughout the market to create the amount of competition required to allow buyer urgency levels and pressure on new home prices to ease.

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 second quarter of 2017.

Sales and Inventory Analysis

For the second consecutive quarter, the number of new multi-family home sales were lower than the same quarter in 2016. Sales volume was 30 percent lower in Q2-2017 than the same quarter in 2016. This represents a slight improvement over the 37 drop in sales volume from Q1-2016 to Q1-2017.

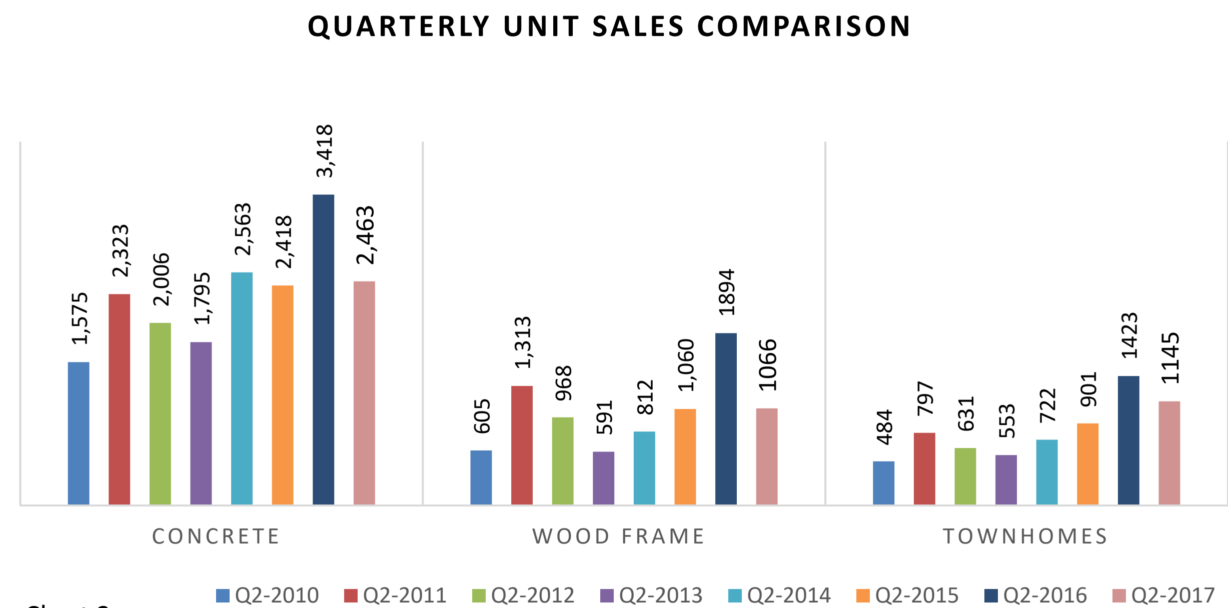

Chart 2

The wood frame condominium sector experienced the most significant drop in sales; 44 percent. This drop can be attributed in part to the fact 10 fewer new projects were launched and 865 fewer new units were released to the market in the second quarter of 2017 than in Q2-2016. The concrete condominium and townhome sectors experienced more modest drops in sales volume relative to the same quarter in 2017; 28 percent and 19 percent lower sales respectively.

Not surprising given the individual quarterly results of the first two quarters, the number of unit sales in the first half of this year are 34 percent lower than the same period in 2016 when substantially more inventory was released to the market. 2017 year-to-date sales were just one percent higher than in the first six months of 2016.

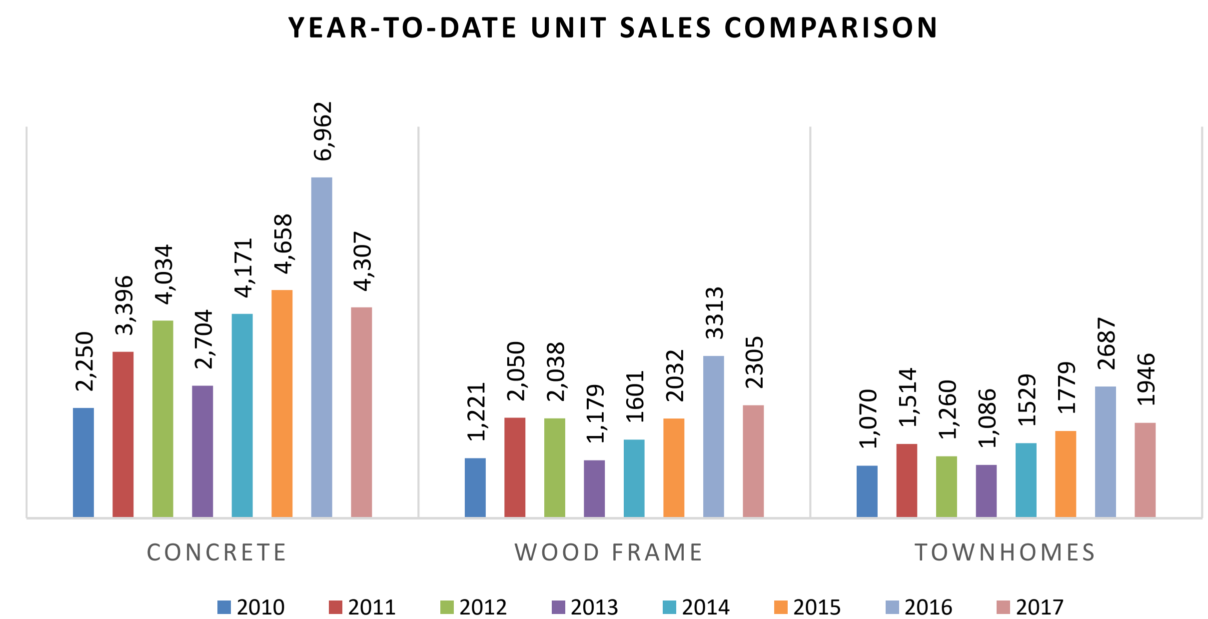

Chart 3

The concrete condominium sector experienced 38 percent fewer sales than in the first six months of 2016. There were 30 percent fewer wood frame condominium sales in the first half of this year relative to 2016, while the townhome sector experienced a 27 percent drop in year-to-date sales. The lower sales activity during the first half of the year is not in any way a reflection of any less demand for new multi-family product, as evidenced by the fact that over 87 percent of the 6,335 units released to the market to date in 2017 has been sold.

The fewer number of units released in the first half of this year relative to the same period in 2016 was reflected in the lower sales in all parts of Metro Vancouver to date.

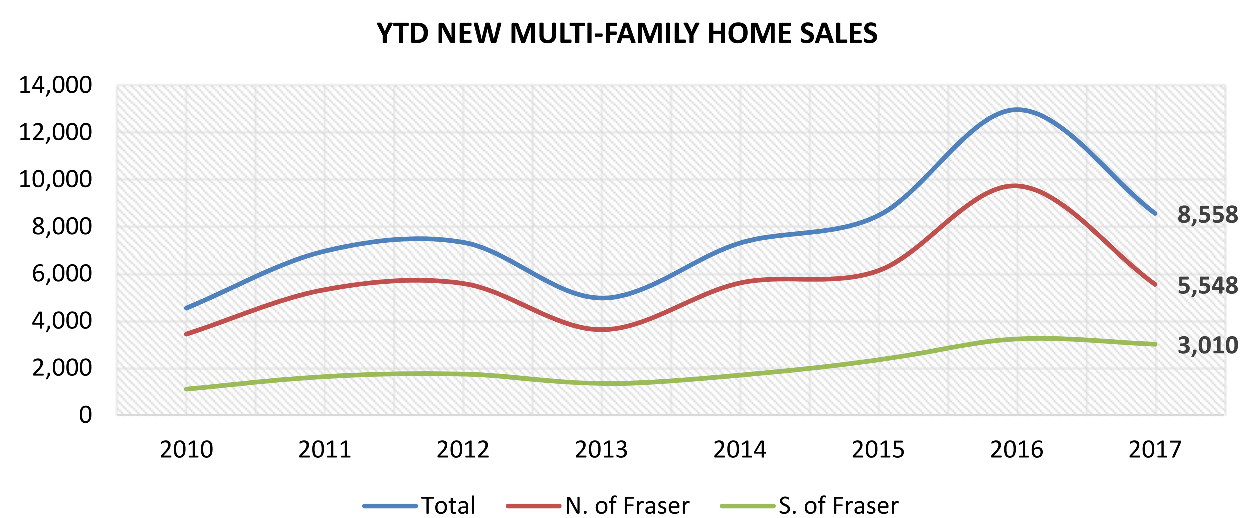

Chart 4

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 more than doubled in the second quarter of 2017.

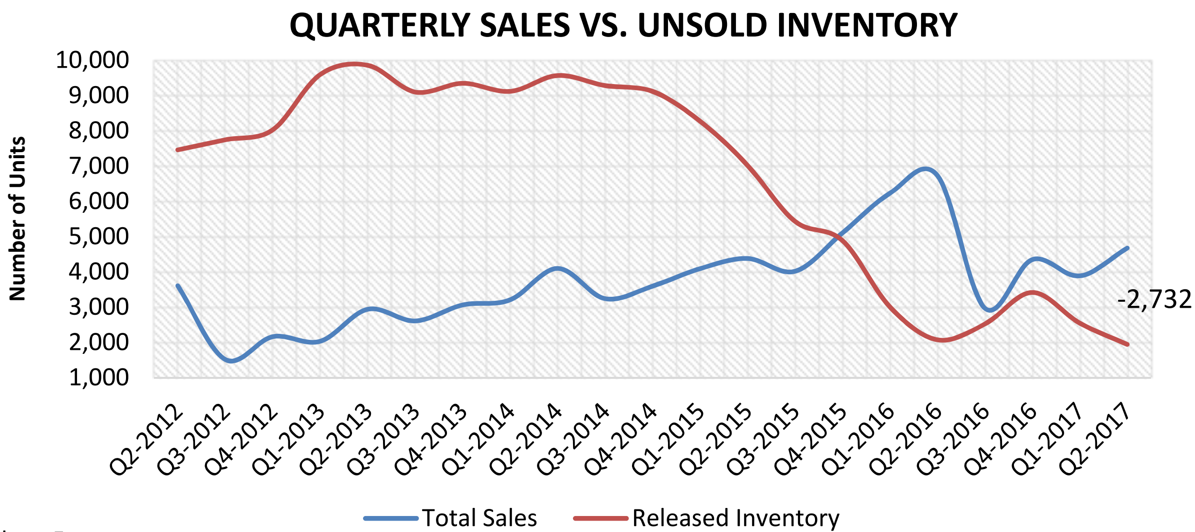

Chart 5

Based on the pace of sales over the past 12 months and the number of unsold units at the end of Q2-2017 there continues to be fewer than six weeks of inventory of new multi-family homes in Metro Vancouver.

Chart 6 provides further visual evidence of how the number of sales is exceeding the pace at which new supply is being released in all but one Metro Vancouver sub-market. There were 41 percent more units sold in the first quarter of 2017 than units released to market.

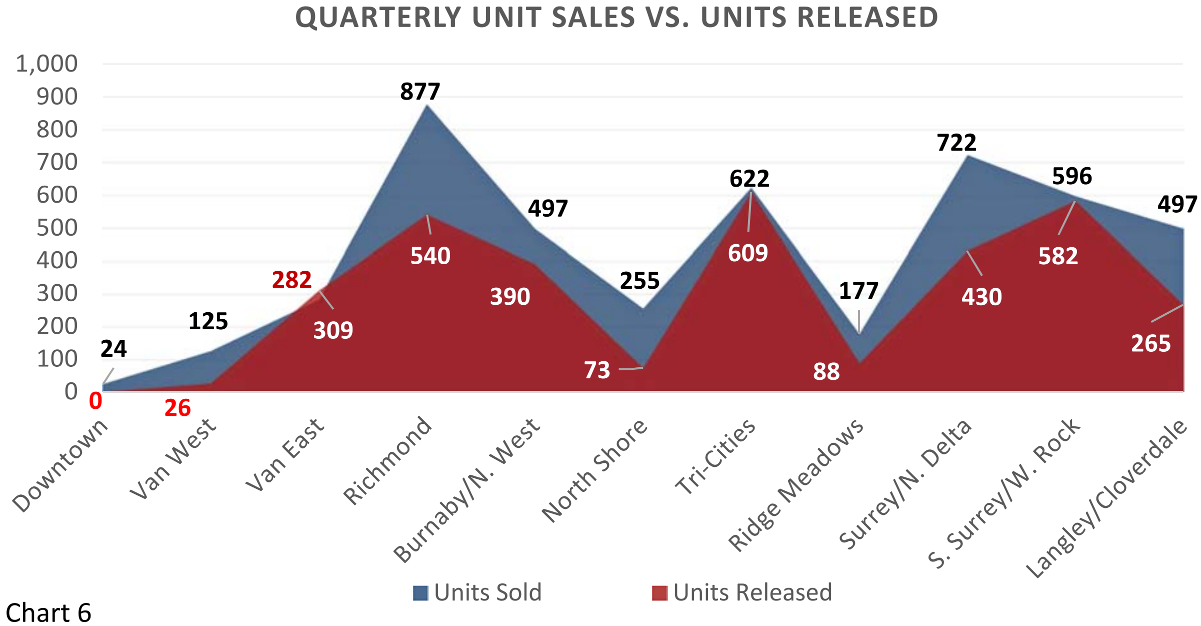

Chart 6

The fact demand continued to exceed supply resulted in a further reduction in the amount of unsold inventory during the second quarter. The total number of released and unsold new multi-family homes throughout the market dropped by 24 percent from the end of the first quarter, and by six percent from the end of Q2-2016. The number of unsold concrete condominium units dropped by five percent year-over-year, while wood frame condominium inventory fell by another drastic amount relative to the previous year; 38 percent. The 25 percent increase in the number unsold townhome units is the result of the launch of a number of new townhome projects in South Surrey/White Rock. Incidentally, this was the only sector and sub-market of the region that did not experience any significant escalation in pricing as the resulting competition from the new project launches alleviated buyer urgency. Further, the increased townhome inventory at the end of the second quarter still leaves fewer than 500 units available for sale across the region. Considering 1,145 townhome units were sold across Metro Vancouver in Q2-2017, the increased inventory doesn't come close to satisfying current demand. When the 801 first quarter townhome sales are considered, this increased inventory is still not sufficient to meet current demand for this product form.

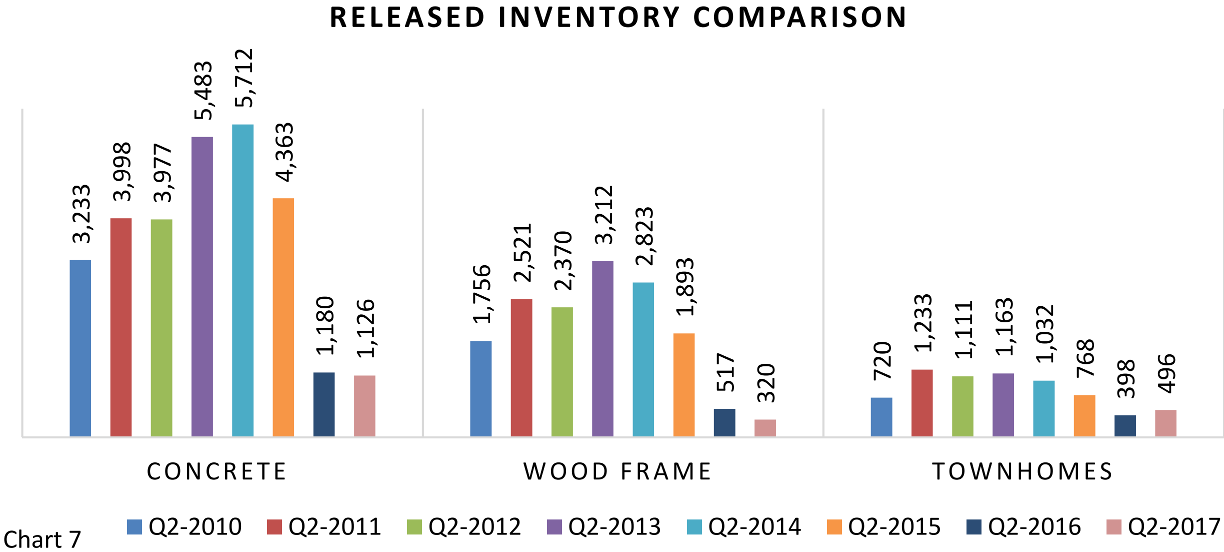

Chart 7

Unsold inventory was lower at the end of Q2-2017 relative to the end of the previous quarter in just two sub-markets; Vancouver East and South Surrey/White Rock. There was one new concrete condominium project launched in Vancouver East in Q2-2017, adding 256 units of new inventory to this sub-market. Were it not for the exorbitantly high average sale value of approximately $1,250 per square foot being sought by the developer, the Joyce project would have been sold out. Instead, nearly 60 units remained unsold at the end of the quarter.

The seven new townhome projects launched in South Surrey/White Rock during the second quarter alleviated some of the upward pressure on pricing in this sector of the sub-market as prospective buyers took more time to analyze the various options and make their buying decision. Nevertheless, 72 percent of the nearly 710 units released during the quarter are already sold.

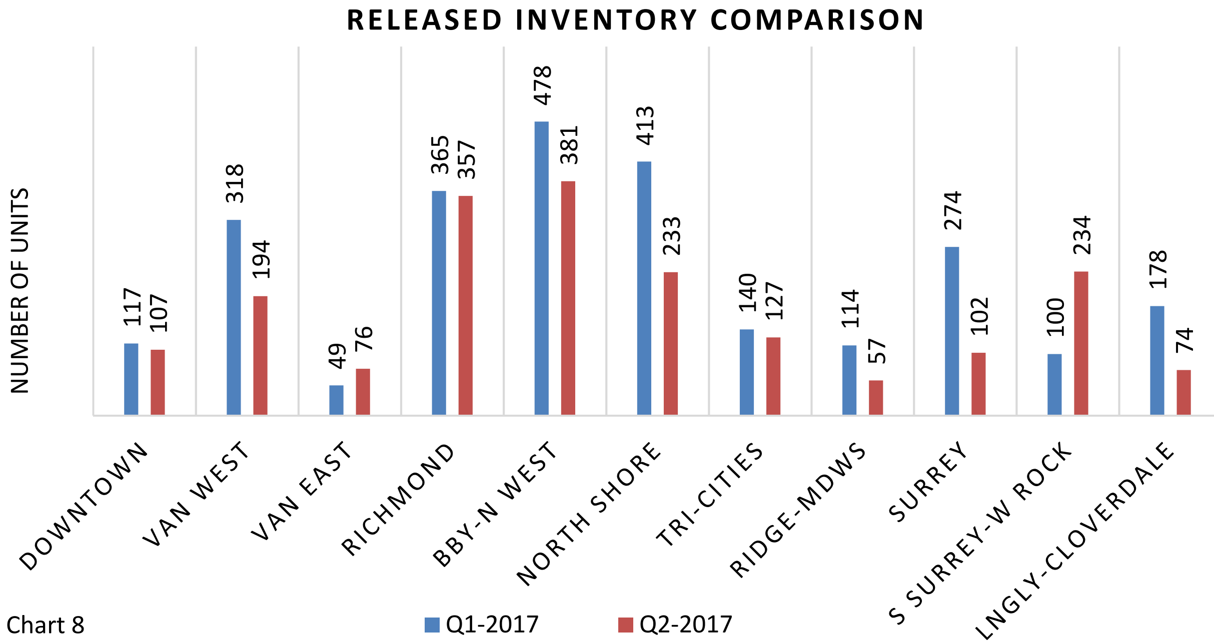

Chart 8

After nine consecutive quarters of lower standing inventory levels, there was a slight 19 unit increase in the number of completed and unsold units throughout Metro Vancouver at the end of the second quarter. This increase was entirely the result of the completion of a concrete condominium project in New Westminster, which accounts for nearly one-third of all standing inventory in the region at the end of Q2-2017.

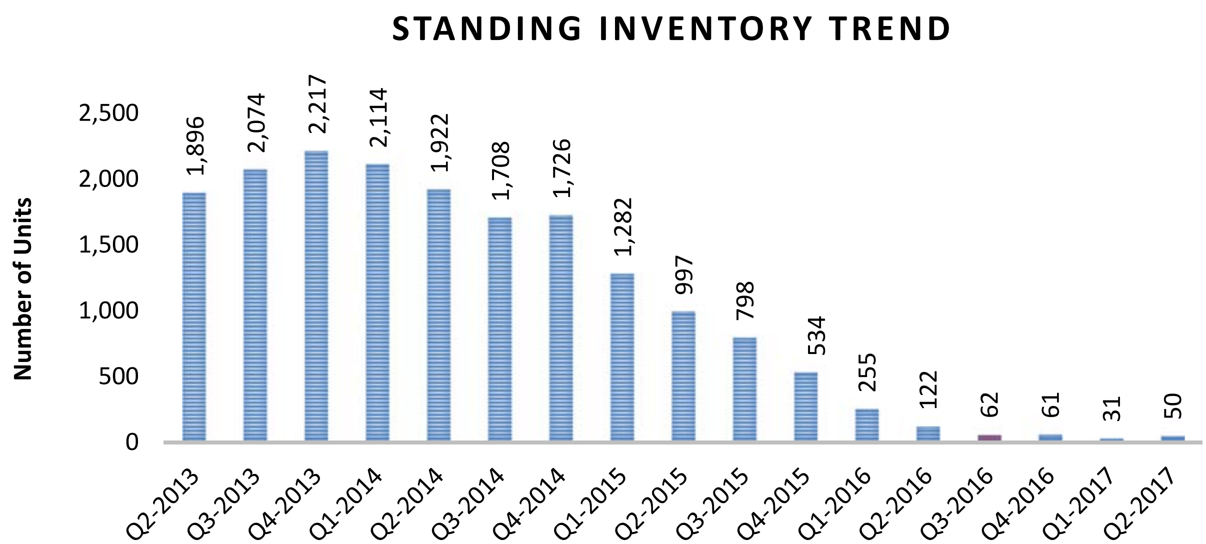

Chart 9

Chart 10 illustrates the number of completed and unsold units in the various Metro Vancouver sub-markets. All but one sub-market (Burnaby/New Westminster) had fewer than 10 units of standing inventory at the end of Q1-2017. There are just three completed and unsold units in the City of Vancouver, one unit in Coquitlam, Port Moody and Port Coquitlam and not a single unit available to move into in South Surrey/White Rock.

STANDING INVENTORY BY SUB-MARKET

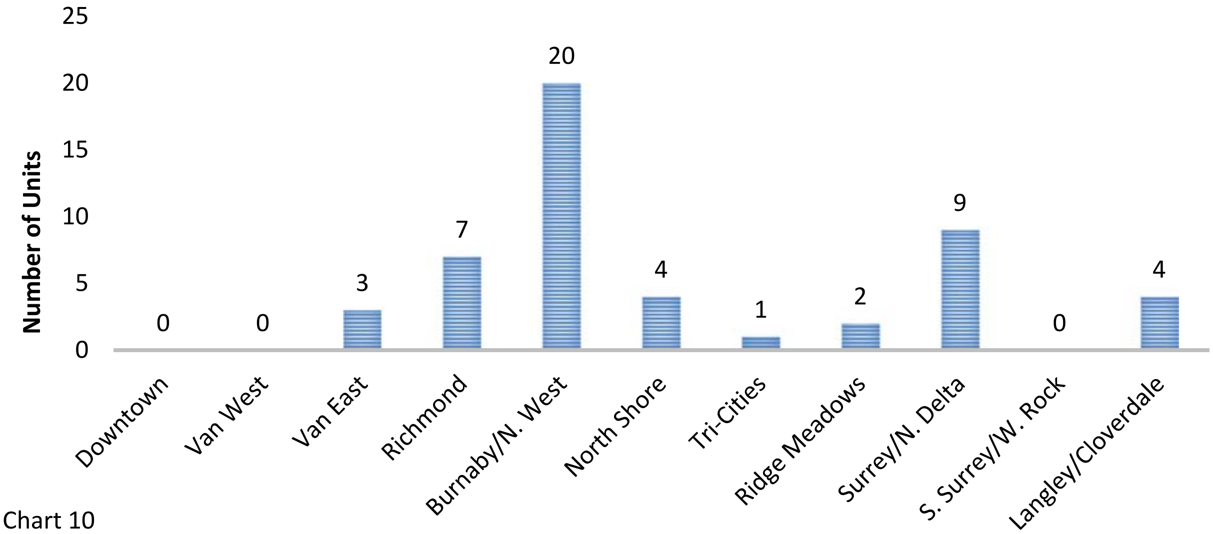

Chart 10

The lack of completed inventory is encouraging more buyers to purchase new multi-family homes in the pre-construction or under construction stages. The number of unsold units in the pre-construction stage fell by over 17 percent, which is on top of a 31 percent drop in pre-construction inventory during the first quarter of the year.

INVENTORY BY PRODUCT TYPE & CONSTRUCTION STATUS

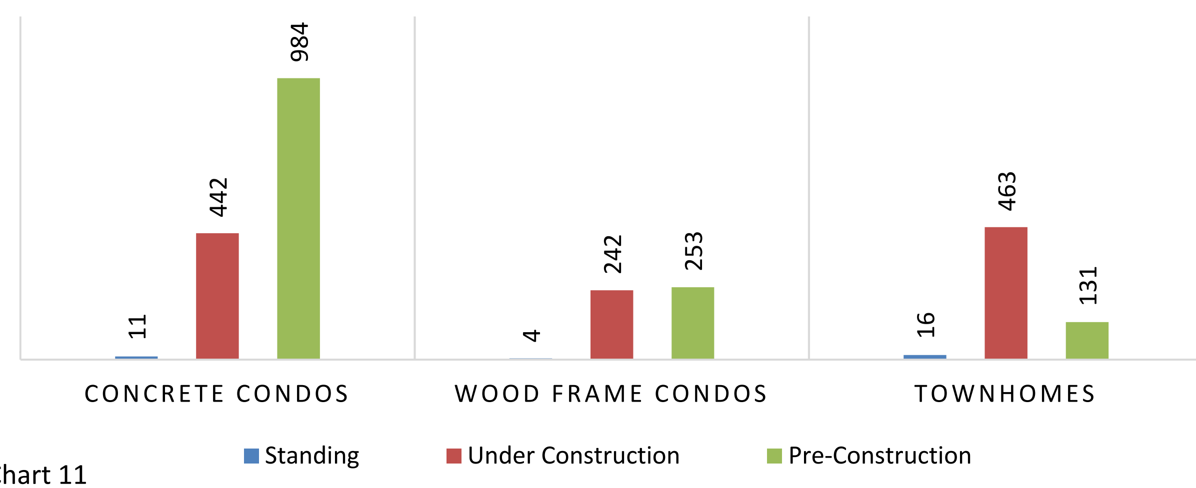

Chart 11

Price Trends

The slower pace of project approvals and launches in the second quarter of 2017 continued to drive the pace of price escalation in most sectors and sub-markets of Metro Vancouver's new multi-family home market. The government measures introduced in summer 2016 had only a temporary impact on this sector of the residential market during the second half of last year. As sales volume statistics highlighted in this and the Q1-2017 UA Take illustrates, demand has rebounded as strong as ever. However, supply has not kept pace with that demand, which has placed further upwards pressure on pricing. Some developers are taking full advantage of the supply/demand imbalance and are seeking to maximize the achievable sale values for their projects by far exceeding previous highs attained in some sub-markets. However, it is becoming increasingly challenging to rationalize the substantially higher prices being sought in a number of areas of the region, particularly for market-watchers who recall the end result of previous market cycles where rapid price escalation in short time spans were experienced. Certainly, various levels of government must take a significant amount of responsibility for the slow pace of approvals, which effectively limits supply and competition in the marketplace, thereby increasing pressure on prices. Limited supply and competition remains the primary obstacle in limiting the rate and scale of price increases. It's easy to explain the rapid price escalation when nearly 90 percent of all concrete condominium units, 92 percent of all wood frame condominium units and 76 percent of all townhome units released during the first half of 2017 are sold; less than 800 of the 6,335 new multi-family homes released since January 1, 2017 remained unsold as of the end of the second quarter.

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

- *Vancouver West* – Two new projects launched in Q2-2017 ranged in price from $1,660 to $1,790 per square foot.
- *Vancouver East* – One new concrete condominium project was launched in Q2-2017 next to the Joyce Skytrain Station and is seeking an estimated average sale value of $1,250 per square foot; a price that far exceeds any sale values ever achieved for any new multi-family home project in this sub-market. This average sale value in an arguably sub-prime location is the best example of the rapid (and some would suggest irrational) pace of price escalation in the Metro Vancouver market today.
- *Richmond* – New high rise condominium product launched in Q2-2017 sought average sale values ranging from $890 to $960 per square foot. New wood frame condominium product launched achieved average sale values of $725 per square foot. Average sale values sought for the three new townhome projects launched in Q2-2017 range from $675 to $790 per square foot.

- *Burnaby* – New concrete condominium product launched in Metrotown in Q2-2017 sought average sale values ranging from $1,025 to $1,100 per square foot.
- *New Westminster* – New wood frame condominium product launched here in the second quarter is achieving an average sale value approaching $680 per square foot.
- *North Shore* – New wood frame condominium product launched in North Vancouver in the first quarter achieved values of nearly $700 per square foot.
- *Tri-Cities* – New concrete condominium product released in the Burquitlam neighbourhood was sold at an average of over $820 per square foot. New wood frame condominium product launched in Q2-2017 achieved sale values ranging from $610 per square foot near Coquitlam Centre to more than $700 per square foot in Port Moody.
- *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* – Concrete condominium product launched in the second quarter in Surrey City Centre exceeded all expectations by attaining an average sale value of approximately $775 per square foot; another example of the irrational pace of price escalation in the market. Concrete condominium product in White Rock successfully sold for more than $900 per square foot. Wood frame condominiums in Langley Cloverdale sold out at an average of nearly $490 per square foot; just $20 per square foot less than the average sought for similar product in South Surrey. Average townhome values in the Fraser Valley now range from $370 per square foot in Langley/Cloverdale to just over $400 per square foot in Central Surrey and $420 per square foot in South Surrey/White Rock.

Buyer Trends

Not surprising, the recent rapid price escalation for new multi-family product in many of Metro Vancouver’s urban sub-markets is driving more prospective buyers to consider product in more suburban areas. The substantial price increases being experienced in some sectors and areas are also attracting a greater number of speculative investors whose primary motivation to purchase is short-term price appreciation. Should the prevalance of this buyer group continue to increase, the sustainability of current market conditions could become more tenuous.

The ethnic make-up of buyers was similar to previous quarters. Buyers of Chinese descent continue to make up the majority of the purchaser mix in urban locations north of the Fraser River. The mix of buyers becomes more diverse in the more suburban sub-markets.

The combination of limited new multi-family home product supply and rapid price escalation continues to 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

Barring the introduction of any new major government measures aimed at curbing demand, the Metro Vancouver market should experience more new project launches in the second six months 2017 than it did during the latter half of 2016. 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*
- *Cambie Sixty-Two – Vancouver West*
- *Currents – Vancouver East*
- *Jasmine – Richmond*
- *Sussex – Burnaby*
- *Lumina – Burnaby*
- *Vittorio – Burnaby*
- *Terraces at the Peak - Burnaby*
- *Crown & Mountain – North Vancouver*
- *Taluswood North – North Vancouver*
- *Platform – Port Moody*
- *Foster & Martin – White Rock*
- *Beachborough – White Rock*
- *Viridian – South Surrey*
- *Delta Gardens – North Delta*
- *Union Park – Langley/Cloverdale*
- *The Civic – Langley City*

Sussex **(Townline)**

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.

URBAN ANALYTICS INC.

(604) 569-3535

info@urbananalytics.ca