

THE UA TAKE – FOURTH QUARTER 2016:

METRO VANCOUVER'S NEW HOME MARKET IN 2016... 'WOW!'

It's difficult to know where to begin when analyzing the new multi-family home market in 2016. After starting the year off with over 6,200 first quarter new condominium and townhome sales, demand increased further in the second quarter as more than 6,700 unit sales were recorded. This unprecedented sales volume depleted much of the existing supply, which led to increased buyer urgency (i.e. the fear of missing out) and rapid price escalation for all product forms in all sub-markets of the region. Amidst growing public discontent and perception that foreign buyer demand was the primary culprit of the rising prices and diminished affordability, various levels of government did their part to slow the market; the BC Liberal government introduced a 15 percent tax on foreign buyers, the City of Vancouver announced an empty home tax, while the Federal Liberal government implemented stricter mortgage qualification regulations, which slashed the buying power of younger purchasers.

These policies combined to further slow market activity, which had already begun to show signs of slowing. However, it did little if anything to improve housing affordability, unless one considers a slowing in price escalation an improvement in housing affordability. After many developers took a pause from launching any comprehensive new developments in the third quarter as they assessed the impact of the government meddling, it was back to business in the fourth quarter as several new projects enjoyed successful launches while achieving similar average sale values as earlier in the year.

Meanwhile, very little was done to address the primary causes of diminished affordability in the region; lack of new supply and competition. Until these factors are addressed in a serious and aggressive manner, the Metro Vancouver housing market will continue its struggle with affordability.

The following charts and analysis are provided to help illustrate and explain the year that was 2016 in the Metro Vancouver new multi-family home market. They also show why, in the absence of some significant economic shock or world event beyond the control of local or provincial governments, we are likely to experience another year of strong demand for new multi-family homes, and why there is very limited risk of a collapse in market conditions and pricing for the foreseeable future.

Sales and Inventory Analysis

The new multi-family home market in 2016 can best be described as the tale of two markets. As was described in the UA Takes from the first half of the year, demand and sales were

unprecedented in the first six months of 2016. The nearly 13,000 first half new multi-family home sales represented a 53 percent increase over the same period in 2015. The demand for new condominiums and townhomes was strong throughout the region, including the outer suburbs, which experienced substantial depletion of its supply.

The mania of the first half of the year gave way to a return of sanity as the over 7,300 units sold in the second half of 2016 represented a 44 percent drop from the first six months. While the lower second half sales can be attributed in part to less demand, fewer significant new project launches in Q3-2016 also contributed to the lower sales volume. Regardless, the more than 20,000 new multi-family home sales in 2016 is the most achieved in a single year since UA began tracking the market 1994.

ANNUAL UNIT SALES COMPARISON

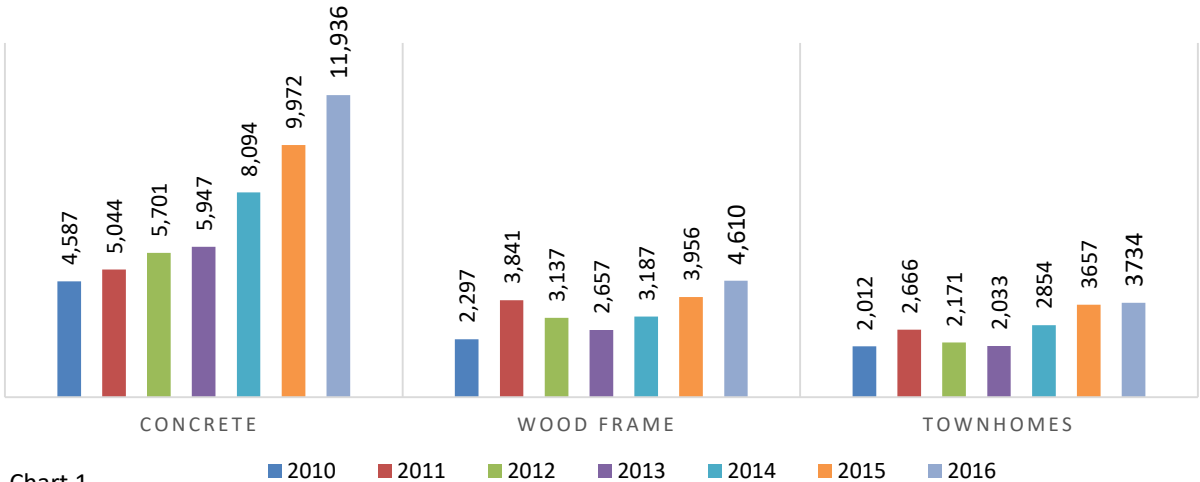


Chart 1

Nearly 78 percent of new multi-family home sales in 2016 occurred in the North of Fraser sub-markets. This isn't surprising given the larger scale of developments offered in the urban sub-markets of the region such as Burnaby, Vancouver, Richmond and Coquitlam. Fraser Valley sub-markets continue to be dominated primarily by ground-oriented townhome and wood frame condominium development.

Perhaps more noteworthy is that second half sales fell more drastically in the South of Fraser sub-markets (-61 percent) than in the urban areas (-38 percent). While difficult to quantify, UA presumes the more substantial drop in second half sales in the suburban sub-markets can be attributed to the stricter mortgage qualification rules introduced by the Federal government in the fall. The more affordable product offered in the Fraser Valley targets the price-sensitive buyer groups these stricter regulations were designed to target.

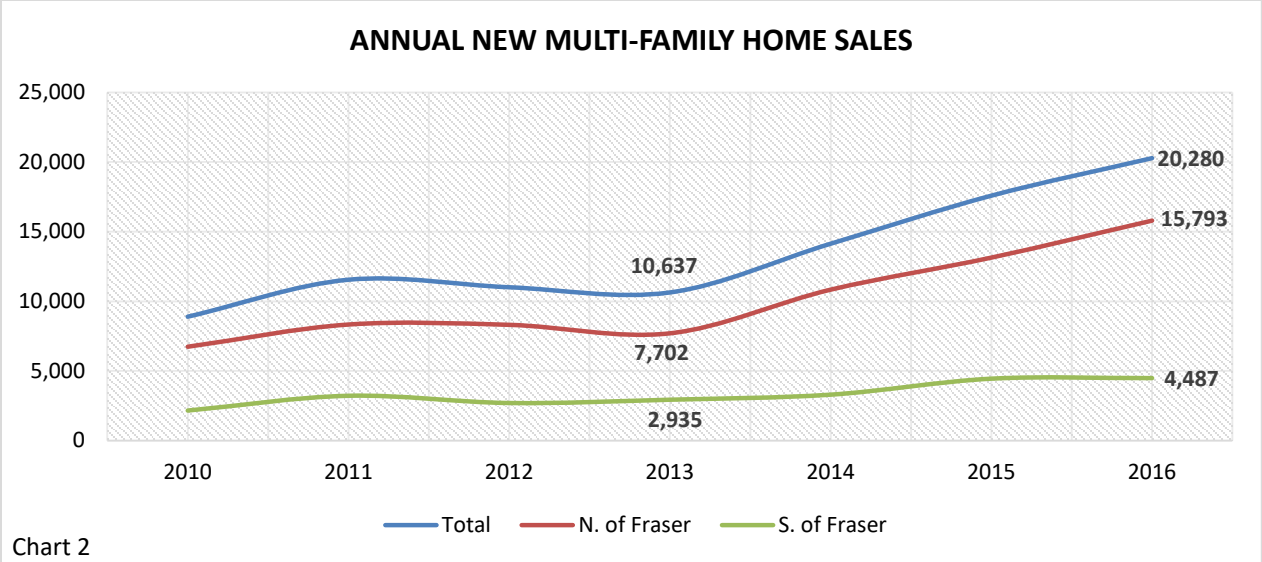
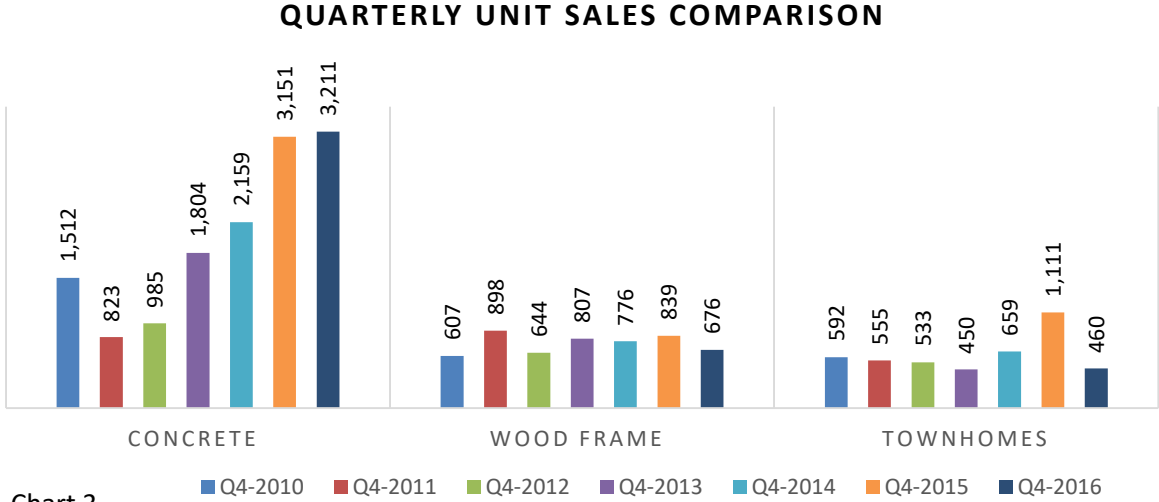
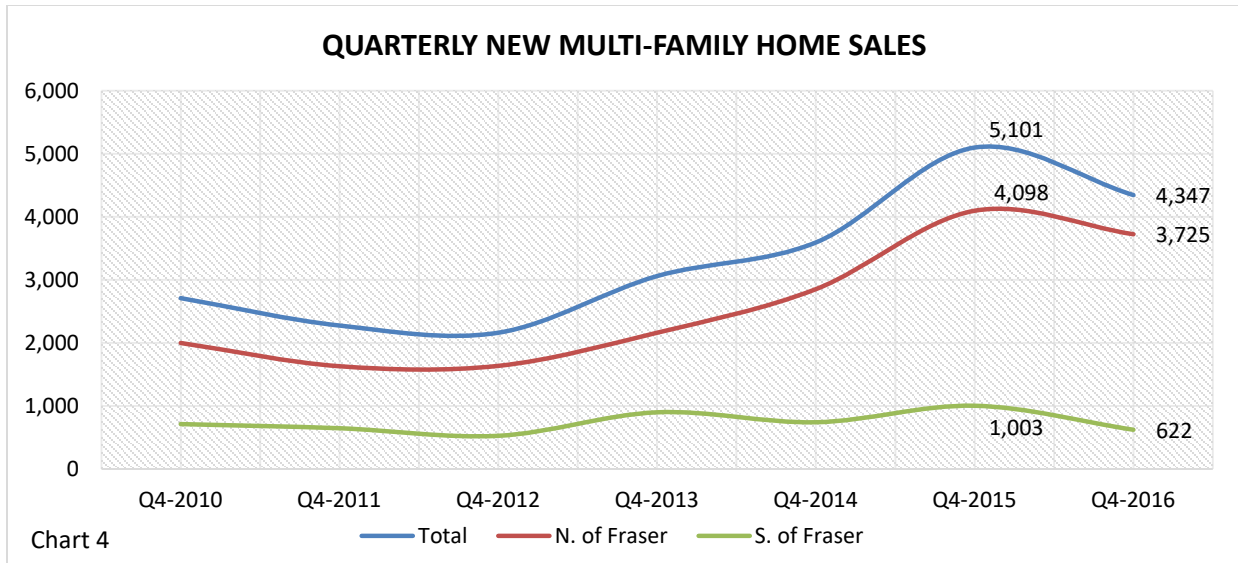


Chart 3 illustrates how concrete condominium product attracted much of the buyer demand in Q4-2016. Lower sales in the wood frame condominium and townhome sectors relative to 2015 can be attributed to a combination of lower demand in the South of Fraser sub-markets resulting from the stricter mortgage qualification rules and more limited supply in the urban sub-markets.



The greater drop in total year-over-year Q4 sales in the South of Fraser sub-markets is further highlighted in Chart 4. While total new multi-family home sales in the fourth quarter of 2016 fell by less than 10 percent relative to Q4-2015 in the North of Fraser sub-markets, the Fraser Valley sub-markets dropped by 38 percent.



In spite of the lower sales volume in the suburban sub-markets during the latter half of 2016, supply of new multi-family homes continues to lag behind demand. There have been more new multi-family homes sold than unsold units at the end of each quarter for five consecutive quarters. Based on the pace of sales throughout 2016, the 3,416 unsold condominium and townhome units in Metro Vancouver represents just over two months of supply.

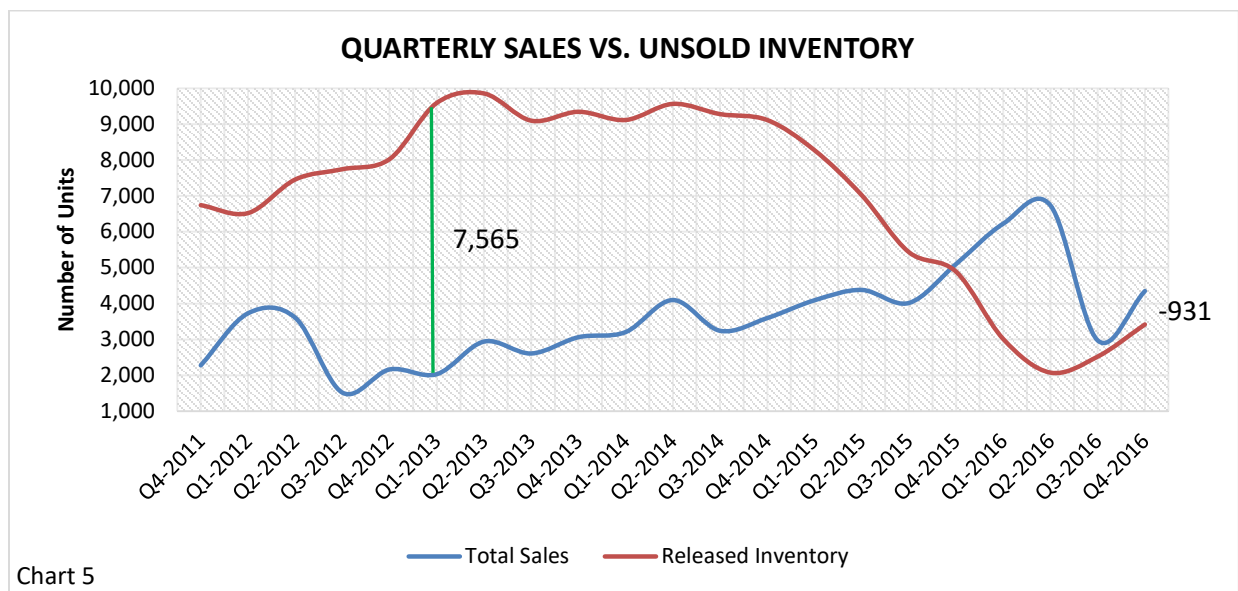
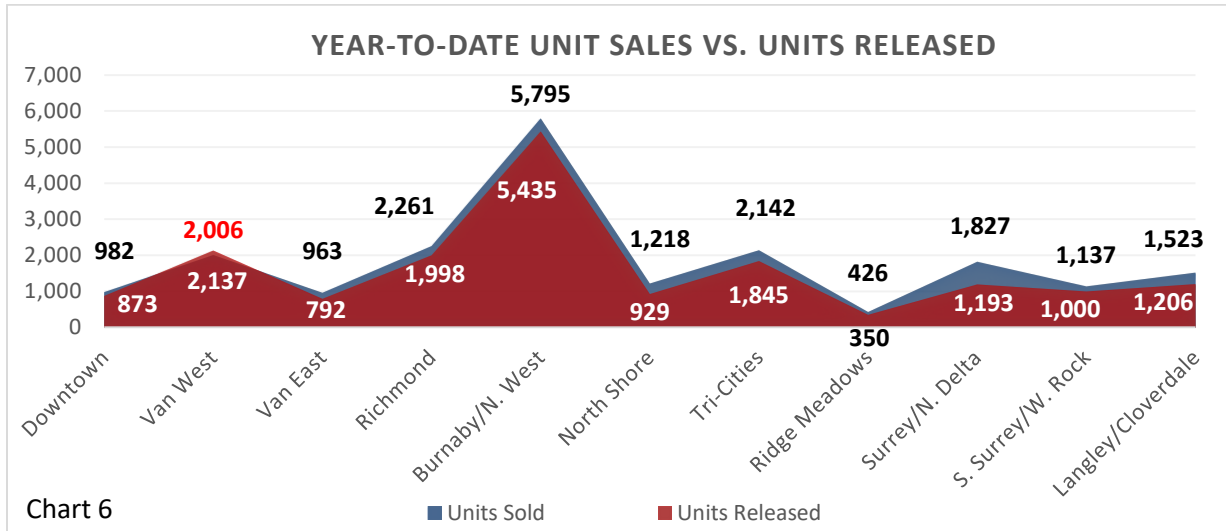


Chart 6 provides further visual evidence of how the number of sales is exceeding the pace at which new supply is being released in nearly every Metro Vancouver sub-market. There were 14 percent more units sold in 2016 than units released to market.



Not surprising given how sales exceeded new supply being released to the market throughout 2016, the amount of unsold condominium inventory was substantially lower at the end of Q4-2016 relative to the same period in 2015. The number of unsold concrete condominium units dropped by 31 percent year-over-year, while wood frame condominium inventory fell by 49 percent. The 20 percent increase in the number unsold townhome units represents just 114 more units of inventory in this sector at the end of 2016 compared to the same point in 2015.

RELEASED INVENTORY COMPARISON

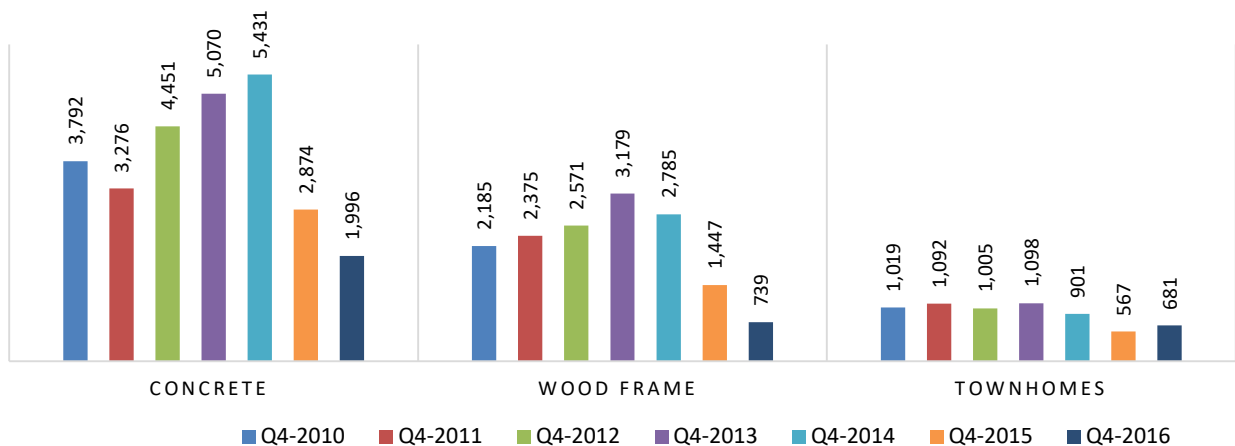


Chart 7

Year-over-year unsold inventory was lower in just three sub-markets; Vancouver Downtown, Richmond and South Surrey/White Rock. These sub-markets experienced the fewest new project launches, and therefore new units released in Q4-2016. Conversely, the sub-markets that saw more new project launches also experienced the biggest increases in released inventory levels. As much of this new inventory in urban sub-markets like Vancouver West and Burnaby/New Westminster was concentrated in just a few projects, and thus will not substantially increase the number of competing projects, nor is there much concern of an oversupply of product, or a softening in achievable sale values.

RELEASED INVENTORY COMPARISON

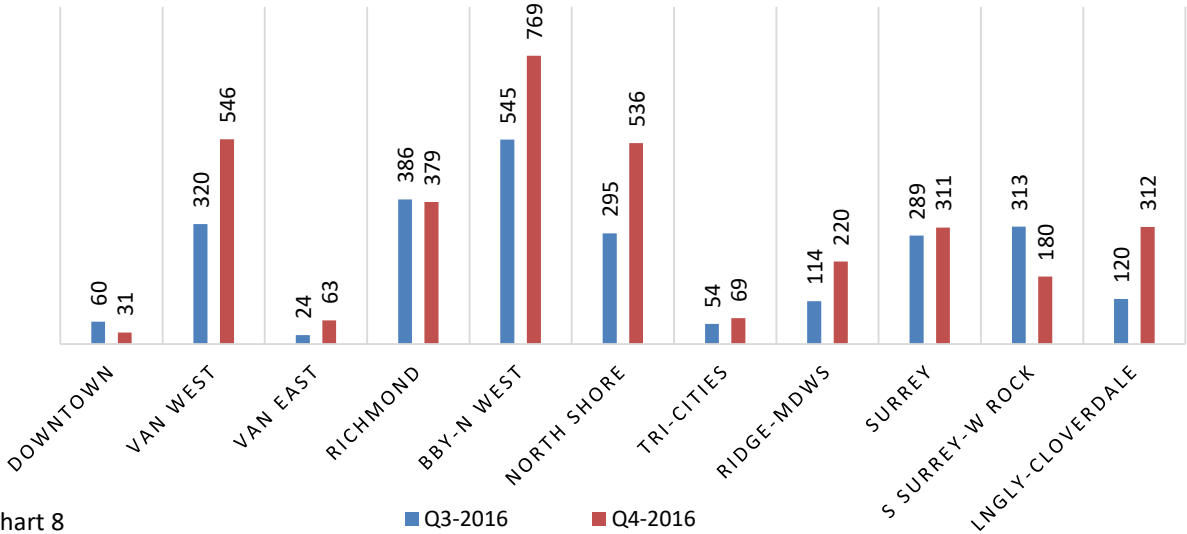


Chart 8

The 36 percent increase in the number of unsold units at the end of 2016 compared to the same point in 2015 has had little to no impact on the number of completed and unsold units in the region. Standing inventory continued to drop in Q4-2016 relative to the previous quarter, albeit by a single unit. Nevertheless, the fact a prospective purchaser seeking to buy a completed new home has only 61 units to choose from across the region is astounding.

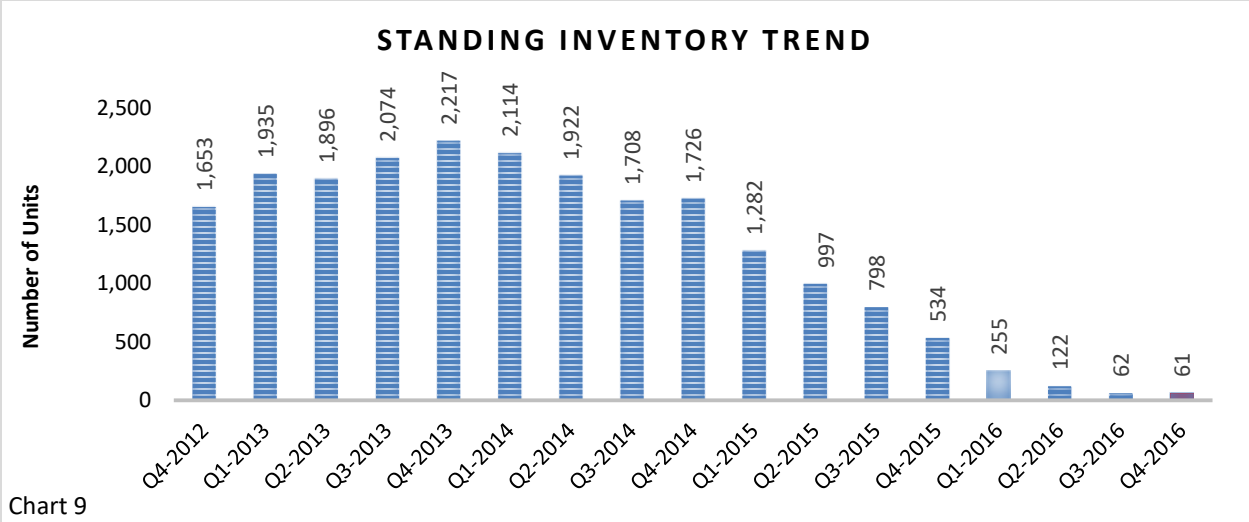
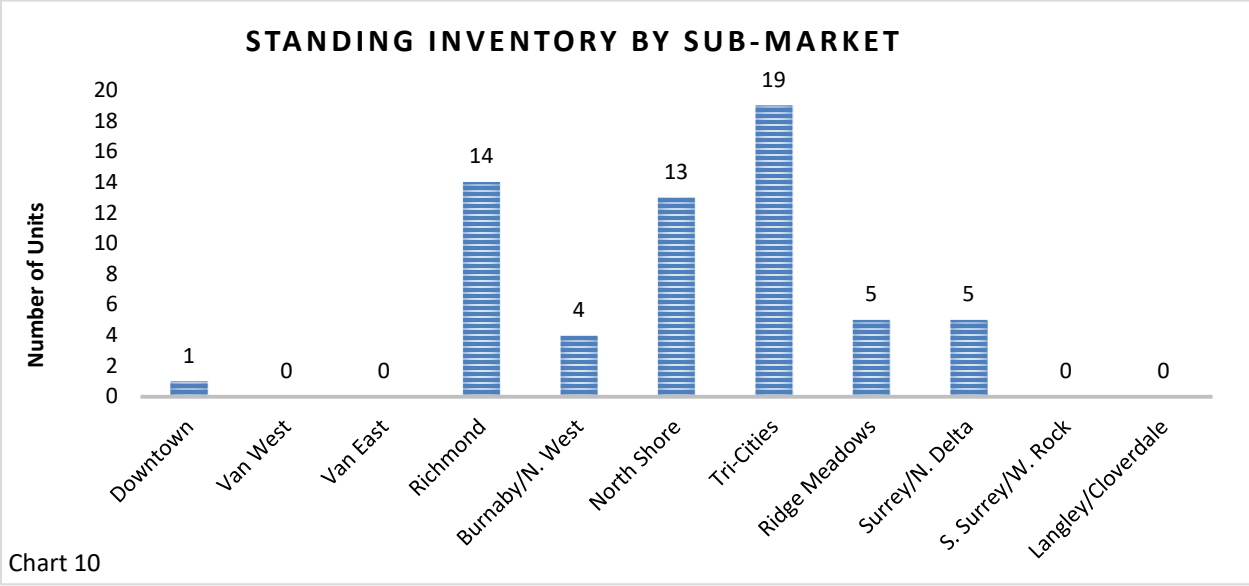


Chart 10 illustrates the number of completed and unsold units in the various Metro Vancouver sub-markets. Not a single sub-market had more than 20 units of standing inventory at the end of 2016. In spite of the increase in unsold inventory, it's clear the majority of product currently being marketed and constructed is being absorbed ahead of completion.



Further evidence of little short term concern about an oversupply of new multi-family product is illustrated in Chart 11. While the number of unsold concrete condominium units in the 'Pre-Construction' stage rose by 78 percent compared to Q3-2016, the inventory of concrete condominiums at the 'Under Construction' stage is 62 percent lower than at the end of 2015. There are half the number of unsold wood frame condominium units under construction as at the end of 2015.

INVENTORY BY PRODUCT TYPE & CONSTRUCTION STATUS

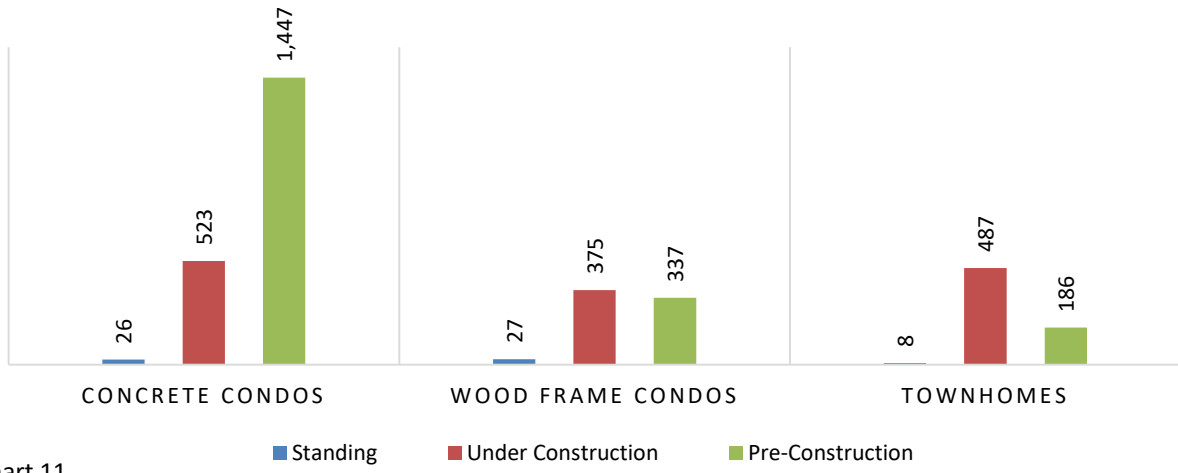


Chart 11

Price Trends

After moderating somewhat during the third quarter of the year, new multi-family home values began a slow creep up in some sectors and sub-markets of Metro Vancouver, while significant gains were recorded in others. Townhome values remained stable in most South of Fraser sub-markets. Wood frame condominium values increased throughout the region as purchasers who could no longer afford townhomes due to the Federal government's stricter mortgage qualification rules considered this more affordable product form instead. Achievable values for concrete condominium product in the North of Fraser sub-markets continue to increase at a more rapid pace as a number of new projects were launched in appealing locations and were quickly absorbed by the pent-up demand that was built during the third quarter when several developers delayed project launches while assessing market conditions.

Indications are that value trends from Q4-2016 will carry over into the first half of 2017 as developers with projects in undersupplied sub-markets and sectors will push pricing to provide a buffer against rising construction costs.

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* – There are at least four new projects scheduled to launch in Vancouver Downtown in the first half of 2017. None are expected to seek less than \$1,600 per square foot while two or three could seek in excess of \$2,000 per square foot.
- *Vancouver West* – It appears demand for luxury condominium product in Vancouver West neighbourhoods west of Oak Street began to rebound late in 2016. Projects in the Cambie Corridor continued to achieve strong absorptions, which will likely result in new projects launching in Q1-2017 to seek average values exceeding \$1,200 per square foot.
- *Richmond* – New concrete condominium product launched in Q4-2016 sought average sale values approaching \$700 per square foot. Limited supply of new wood frame condominium and townhome product will push pricing in these two sectors higher.
- *Burnaby* – Concrete condominium product launched in Metrotown achieved sale values ranging from \$850 to \$970 per square foot. This same product form is reportedly achieving average sale values approaching \$720 per square foot in the Lougheed neighbourhood. Recently released townhome product is seeking average sale values of over \$530 per square foot.
- *North Shore* – New wood frame condominium product launching in the Moodyville neighbourhood of North Vancouver is expected to seek average sale values exceeding

\$700 per square foot. Luxury concrete condominium product in West Vancouver is seeking over \$2,200 per square foot.

- *Coquitlam* – New concrete condominium product in the Burquitlam neighbourhood is achieving average sale values of approximately \$690 per square foot, while wood frame condominium product in the same neighbourhood is achieving \$560 per square foot; approximately \$60 more than similar product in Coquitlam Centre.
- *Ridge-Meadows* – Recently launched wood frame condominium product is struggling to achieve sustained absorptions at sale values over \$350 per square foot. The most recently launched townhome product in this sub-market is achieving strong absorptions at average sale values of approximately \$300 per square foot.
- *Fraser Valley* – Wood frame condominiums in Surrey City Centre are now achieving between \$360 and \$390 per square foot. This same product form is achieving over \$400 per square foot in Langley. Increased competition in the townhome sector has limited price increases in the Fraser Valley.

Buyer Trends

There was very little change in the profile of active buyers in the various sub-markets of Metro Vancouver in Q4-2016. Continued soft conditions in the higher end of the detached resale market kept many downsizer purchasers on the sidelines. Meanwhile, it appears investors have returned to the Richmond pre-sale market, likely attracted by the value offered by product there relative to other North of Fraser sub-markets like Burnaby, Vancouver West and East, which have experienced substantial price gains over the past year.

The South of Fraser sub-markets continue to attract primarily end-user buyers to wood frame condominium and townhome projects, albeit in lower numbers than were purchasing in the first half of 2016.

There is little to indicate any significant change in the buyer trends during the first half of 2017. In light of the political climate in the United States, UA analysts will be inquiring about any noticeable increase in prospective buyers from south of the border.

Looking Ahead

As is usually the case as we approach the first quarter of a year, there are several new project launches expected in Q1-2017. The response to these launches should provide an indication of the mood and level of confidence buyers have in the market and the local economy.

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

- *The Smithe – Vancouver Downtown*
- *1335 Howe St – Vancouver Downtown*
- *The Grey – Vancouver West*
- *Henry – Vancouver West*
- *Avalon Park at River District – Vancouver East*
- *Concord Gardens - Richmond*
- *Glitz – Richmond*
- *Hampton Cove – South Delta*
- *Sun Towers – Burnaby*
- *Sussex - Burnaby*
- *Lumina - Burnaby*
- *Southgate City - Burnaby*
- *Lynn Valley Residences – North Vancouver*
- *Juniper – North Vancouver*
- *Kindred – North Vancouver*
- *BrookLynn – North Vancouver*
- *567 Clarke+Como - Coquitlam*
- *Mantyla - Coquitlam*
- *Stanton House - Coquitlam*
- *Kanaka – Ridge-Meadows*
- *Rock Ridge – Ridge-Meadows*
- *Park Boulevard - Surrey*
- *La Voda – Surrey*
- *Evolve Townhomes – South Surrey*
- *Crescendo – South Surrey*
- *Walden – 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 *nhs*live.ca, the web-based platform of the *New Home Source*.

In addition to the *New Home Source* at *nhs*live.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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