Sales and Inventory Analysis

It appears as though the clouds are slowly lifting and brighter skies could be on the horizon for Calgary’s new multi-family home market. Following the typical seasonally slow start to the year, it appears some buyers have re-engaged in the market, indicating improved consumer confidence in the economy and the residential market. Following UA’s second quarter market tours, there was general consensus among sales staffs across the Calgary market of an increase in the diversity of potential buyers showing interest in new multi-family product. The primary buying consideration for many of these prospective buyers continues to be price point, which indicates that while demand has increased, much of it remains very price-sensitive and is not wide-spread across all product classes. Sales jumped by 16 percent relative to the previous quarter (729 vs. 628 units), almost half of which occurred in the Outer North sub-market. The change in governments that resulted from the recent provincial election also appears to have improved consumer confidence, though it would be premature to suggest this is having a meaningful impact on new home demand.

While new multi-family home sales are typically higher in the second quarter of the year relative to the more wintry first three months, the Q2-2019 increase was more moderate than in 2018 when sales were 28 percent higher than the first quarter. However, much of that greater increase can be attributed to the number of new project launches that occurred in Q2-2018; 34 new projects were launched across the Calgary market in the second quarter of last year compared to just 16 during the same period in 2019. This indicator highlights the general cautiousness among many multi-family home developers. A sustained increase in buyer demand and the steady reduction of existing supply will be required to give more developers sufficient comfort to launch new multi-family product in the market over the next few quarters.
Increase in Quarterly Unit Sales

There are other reassuring factors that indicate the rise in Q2 sales is more than a seasonal norm.

- Calgary’s unemployment rate has dropped by 2.4 percent since Q2-2017.
- Downtown office vacancy has decreased by 1.6 percent year-over-year, with the first half of the year experiencing higher absorption rates than throughout all of 2018, which could indicate improved corporate confidence in the economy.
- Much of the drop in the downtown office vacancy rate was due to the absorption of 142,000 square feet by New York City based co-working company WeWork. The fact such a prominent multi-national firm would show such confidence in the Calgary market could spark higher confidence among other firms in Calgary’s economy and market.

Looking forward UA anticipates a modest but steady rise in both developer and consumer confidence through the second half of 2019. The launch of CMHC’s First-Time Home Buyer Incentive program in September, combined with the recent 15 basis point drop in the Stress Test qualifying rate should help stimulate some additional activity among the more price-sensitive entry level and move-up buyer segments in the market. With the government essentially acting as a co-signer on both new and existing housing product, eligible first-time homebuyers, or those individuals earning an annual household salary of $120,000 or less, will realize an increase in purchasing power, thereby presumably spurring market activity.

QUARTERLY UNIT SALES COMPARISON

[Chart showing quarterly unit sales comparison from Q2-2015 to Q2-2019]

Chart 1
Year-over-year quarterly sales decreased by approximately 13 percent; from 811 to 729 sales. This was due to the 18 fewer new project launches during the first half of this year. This decrease in new launches is a response from developers to the increased price sensitivity and general lack of urgency among new multi-family home buyers, and the fact many have transitioned projects from market condominium to rental apartment. The fewer new project launches also explains the six percent drop in sales during the first half of the year in 2019 compared to the same period in 2018. Developers are aware of prevailing market conditions and are therefore more cautious and strategic in planning for and launching new condominium and townhome projects to ensure they are appropriately designed for their intended target market. As such, developers are increasingly inclined to conduct more in-depth research and analysis of the areas in which they’re planning to introduce new product to assist with the design of market-appropriate product.
**Increase in Quarterly Sales Across All Product Types**

Another encouraging sign to emerge from UA’s Q2-2019 market tours was higher sales in all three product sectors across all Calgary’s sub-markets. The largest increase occurred in the concrete condominium sector, which rose by 27 percent despite the higher prices sought for this product. Also interesting is the fact year-over-year concrete condominium sales increased by 51 percent. Upon further analysis, UA found some concrete condominium developers appear to be passing on some construction cost savings to consumers, resulting in modest price reductions for this product. According to the Canadian Industrial Product Price Index (IPPA) and Raw Materials Price Index (RMPI), concrete as a construction input for all asset classes has decreased by 3.4 percent year-over-year, allowing the price per square foot being sought by developers for all concrete builds to decrease by roughly 2.5 percentage points, or seven dollars per square foot. This has allowed concrete projects to remain competitive relative to the typically much more affordable wood frame product. By comparison, wood frame condominium construction costs have increased by approximately 10.3 percent, or 15 dollars per buildable square foot. This has resulted in a price per square foot increase of 2.5 percent, or 11 dollars, which developers have used to offset the increase in lumber and other key wood construction inputs that have risen by 4.7 percent year-over-year.

Despite these wood frame construction input cost increases and price per square foot fluctuations, the improved consumer confidence led higher second quarter sales in both wood frame product sectors; condominium sales rose by 18 percent while townhome sales were 13 percent higher than in Q1. The townhome sector dominated market demand in Q2, accounting for 52 percent of total sales volume. Wood frame condominium sales comprised 35 percent of total sales for the quarter. The only product sector to experience lower year-over-year sales was wood frame condominiums, which decreased by 38 percent compared to Q2-2018. This again can be attributed to the prevailing market conditions, changing consumer sentiment and increased construction costs associated with this product form.

<table>
<thead>
<tr>
<th>Quarterly Sales by Product Type (%) Δ</th>
<th>Concrete</th>
<th>Wood Frame</th>
<th>Townhomes</th>
<th>Total</th>
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<td>18%</td>
<td>13%</td>
<td>16%</td>
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</table>

Calgary UA Take Q2-2019
**Outer Sub-markets Lead the Sales Charge**

The outer sub-markets resumed the trend of dominating new multi-family home sales in the second quarter of 2019. The Outer North and Outer South sub-markets together accounted for approximately 66 percent of all new multi-family sales across the market in Q2-2019. The next most active submarket was the Inner Southwest which accounted for approximately nine percent of total sales. The Outer North accounted for 45 percent (326 unit sales), of the market’s total quarterly volume. Sales staffs in these areas reported a substantial increase in sales center traffic and attributed this to a combination of renewed consumer confidence in the economy following the provincial election, and the warmer spring and early summer weather. This re-engagement of prospective buyers in the outer sub-markets is particularly encouraging given the minimal price changes noted in these areas. The only product type to experience a price change in the Outer North were Townhomes, which decreased by one dollar per square foot. The wood frame condominium sector experienced the greatest increase in sales activity in the outer sub-markets in Q2-2019, indicating consumers are still drawn to the more affordable pricing of this product form. The Northeast submarket experienced 750 percent more sales in Q2 than in the first quarter, though this represents an increase of just 30 more unit sales; from 4 to 34 more units sold. The higher sales are almost entirely attributable to the launch of Minto Communities’ Era Condos in Bridgeland.

**NOTABLE QUARTERLY SALES CHANGES**

- **Inner Northeast** 750%
- **Beltline/East Village** 680%
- **Outer North** 74%
Of the 16 new projects that launched in the second quarter, six occurred in the Outer South; four wood frame condominium projects and two townhome projects, which collectively added 247 new units to the market. UA anticipates these sub-markets will continue to perform strongly as a more diverse profile of prospective buyers and investors re-enter the market. The following charts illustrate the most notable quarterly percentage and total unit sale increases by sub-market.
Inventory Levels Hold Steady
Chart 6 compares the amount of released and unsold inventory by product type as of the end of Q2-2019. Overall released and unsold inventory levels remained relatively unchanged, increasing by less than half a percentage point. The largest change in inventory occurred in concrete condominium sector, which increased by approximately nine percent during the quarter. An 11 percent drop in overall year-over-year released and unsold inventory levels can be attributed to the increased demand experienced during the second quarter and the fewer number of new project launches relative to the previous year. The fewer new project launches has been compounded by many developers postponing the release of additional phases of projects as they assess buyer sentiment and market conditions. Developers are simply seeking a level of comfort that their projects will achieve the desired absorptions and revenue targets prior to launching.

![RELEASED AND UNSOLD INVENTORY COMPARISON BY PRODUCT TYPE](chart6)

Five of ten submarkets experienced an increase in released and unsold inventory levels.

- Eau Claire/West Village: -37%
- Beltline/East Village: -26%
- Inner SW: -6%
- Inner NW: +2%
- Inner NE: +70%
- Inner SE: +19%
- Outer North: -13%
- Outer South: +28%
- Airdrie: -20%
- Cochrane: +20%

The Inner Northeast and Outer South sub-markets experienced the largest increase in released and unsold inventory in the second quarter; 70 percent and 28 percent, respectively. This is largely due to the recent launch of the Era Condo project in Bridgeland and the the launch of six new projects in the Outer South.

Calgary UA Take Q2-2019
Marginal Increase in Standing Inventory

Standing inventory increased by a modest eight percent compared to the previous quarter, which indicates a higher level of demand for pre-sale and under construction units compared to completed and move-in ready product. A more encouraging trend, and a reflection of how the new multi-family home market is firming up in Calgary is the fact the number of completed and unsold units rose by just two percent year-over-year and has dropped by 24 percent when compared to the same quarter in 2017.

Narrowing Quarterly Sales vs. Unsold Inventory Differential

As of the end of the second quarter, there were 3,879 total units of released an unsold new multi-family units on the market. With released inventory increasing by less than half a percentage point and total sales on a quarterly basis increasing by 16 percent, the differential in sales to unsold inventory narrowed by almost three percent compared to the previous quarter. The spread between the number of quarterly sales and the number of released and unsold units at the end of a quarter has narrowed by over 11 percent on a year-over-year basis. UA anticipates this spread to continue narrowing as demand levels continue increasing and the delayed project launches limit the amount of new inventory being released to the market.

Calgary UA Take Q2-2019
**Buyer Trends**

There has been much debate over the magnitude of the impact the B20 mortgage stress test and higher interest rates have had on consumer purchasing power. UA models consumer sensitivity based on three primary factors that helps gauge the amount of risk aversion a given demographic may have. The model focuses on consumer Incentivization, Perception, and Interpretation.

Alberta’s economic challenges over the past few years are well-documented, as are those of the City of Calgary due to the struggling energy industry, relatively high levels of unemployment, rising property taxes, higher interest rates, and the introduction of the mortgage stress test. The general tone of media coverage regarding the economy and the housing market has been justifiably negative, which has had a compounding effect on consumer confidence over time. The combination of reduced purchasing power and increased caution among consumers has led many would-be home buyers to remain on the sidelines as they wait for more certain signs of sustained improvement in economic conditions.

However, there are signs of increased optimism in the economy, which is translating to a slow and steady increase in demand for new homes. The recent Provincial election results seem to have injected further optimism about the economy, and with the upcoming launch of CMHC’s First-time Homebuyer Incentive program and the fast-approaching federal election, there could be further growth in optimism in both the economy and the housing market.

Chart 9 shows the average monthly debt payment obligations per capita, by credit type for Calgary residents. UA’s research indicates monthly debt obligations on Home Equity Lines of Credit have increased by almost 28 percent over the last 2 years, while mortgage debt obligations have increased by nearly 3.5 percent. The introduction of the equity sharing program through CMHC should help ease concerns over consumer debt-servicing ratios and help more consumers enter the housing market who may not have previously been able to through an increase in purchasing power the program is meant to provide.
**Price Trends**

The average blended price per square foot for new multi-family product in Calgary increased by 1.6 percent during the second quarter from $419 to $426 per square foot. As traffic at sales centres began improving near the end of the first quarter, some developers responded by implementing modest price increases on higher demand unit types. Average sale values being sought across all new multi-family home product types in the Outer North and Outer South sub-markets are approximately $121 and $126 per square foot below those sought in the Inner sub-markets. Chart 11 illustrates the relationship between quarterly sales and the average blended price per square foot for the Calgary market.

Product in the Eau Claire/West Village and Beltline/East Village sub-markets are seeking the highest average sale values in the market at $666 psf and $601 psf, respectively.
Charts 11 and 12 show the relationship between total mortgages in Alberta versus total sales and average blended price per square foot, respectively. While there is a notable correlation among these variables, there is a greater lag in a change in average price per square foot and a change in total mortgages due to the often unavoidable delays in developers’ response to changes in market demand. The relationship between total mortgages and total sales highlights the multitude of external variables acting on quarterly sales volume outside of a consumer’s ability to qualify for a mortgage. Total provincial mortgage data is currently only available up to the first quarter of 2019.
New Project Launches

There were eleven new project launches during the second quarter of 2019:

- Graywood Developments’ launched *Theodore* in Sunnyside. The project features 115 concrete condominium units and is seeking a blended price per square foot of $571. *Theodore* is located on the popular 10th Street corridor in Kensington, which allows it to market the close proximity to the LRT station, walkways, parks and shops.
- Minto launched *Era*, a 120-unit concrete condominium project in the Bridgeland neighbourhood. *Era* is targeting price-sensitive buyers with smaller, affordable units and is seeking an average blended price per square foot of $514.
- Groupe Denux launched *Mantra*, a 33-unit wood frame condominium project in Marda Loop that is seeking a blended average price per square foot of $509.
- Jayman Homes’ launched the third building in its *Calligraphy* project in Westman Village and is achieving a blended average price per square foot of $627.
- Graywood Developments also launched a wood frame project adjacent to its *Fish Creek Exchange* property. The latest project is a 60-unit wood frame condominium building seeking a blended average price per square foot of $391.
- Cardel launched the sixth building in its *Walden Place* development featuring 48 wood frame condominium units. The project is seeking a blended average price per square foot of $310.
- Rohit Communities launched the second building at its *Stile Seton* community, an 84-unit wood frame condominium project achieving a blended average price per square foot of $321.
- Vesta Properties launched a 149-unit townhome project in Copperfield; *Copperstone at Copperfield*. The project is seeking a blended average price per square foot of $215.
- Avi Urban launched a 42-unit townhome project in the community of Livingston. *Jasper* is seeking a blended average price per square foot of $249.
- Streetside Developments launched a 151-unit townhome project in Belmont. *Belwood Park* is seeking a blended average price per square foot of $251.
- Truman Homes launched a 36-unit townhome project in the community of Carrington. *Carrington Street Towns* are seeking a blended average price per square foot of $237.

The following is a list of projects that are expected to launch in the coming months that UA will be closely monitoring:

- Sarina Homes’ will be launching *Harrison*, a wood frame condominium project is in Marda Loop, which comprises one bedroom and junior two-bedroom units along with urban co-working spaces.
- Avalon Master Builders’ is launching a townhome project; *Sequel in Seton* in the fall.
- Rockford will be launching a townhome project in Tuscany branded as *Tuscan Rise*.
- Anthem United is expected to launch a five storey wood frame condominium building with 148 units and 36 townhomes in the community of Currie.
- Truman Homes’ will be launching *Mulberry* in West District. The project comprises one, two- and three-bedroom condominiums and skytowns.
UA looks forward to monitoring the sales progress of these and all other actively selling new home projects and inputting our findings into NHSLive.

We appreciate your feedback! Please contact us with any questions regarding this UA Take or any of our other periodic publications. In addition to maintaining the most current new multi-family home and rental apartment 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 or positioning of your new multi-family home community.

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