

THE UA TAKE – FIRST QUARTER 2019:

*CAUTIOUS OPTIMISM*



Sales and Inventory Analysis:

Edmonton's new multi-family home market experienced a sluggish start to the year with the typical seasonally slower first quarter sales. The effects of the Federal Government's 'stress test' and the Bank of Canada's aggressive monetary policy stance through 2018 continues to be felt due to the usual two to three quarter lag associated with the interest rate hikes that occurred in the wake of the former's implementation at the start of 2018. Add to this the lingering low commodity prices and continued uncertainty in the employment market and it's not surprising many would-be home buyers remained on the sidelines in the first quarter of 2019. Prospective purchasers continue to adjust their home-buying expectations and seek more affordable product in the Outer sub-markets as evidenced by the fact 40 percent of the total new multi-family home sales occurred in the Southwest of Edmonton.

Despite the modest pace of absorptions recorded during the first three months of the year, there are some reasons for optimism in various sectors of the market. First, the recent provincial election victory by Jason Kenney's United Conservative Party (UCP) is expected to result in a more positive investment climate, and in turn improved job growth. At a more granular level, the launch of Langham Development's *Falcon One* high-rise project in Edmonton's Downtown sub-market provides an opportunity for young and established professionals and investors to purchase in an extremely central location.

### *A Decrease in Quarterly Unit Sales*

The 308 new multi-family home sales recorded in Edmonton during the first quarter of 2019 represents a 28 percent decline from Q4-2018. While the launch of the 296-unit *Falcon One* tower by Langham Developments in Edmonton’s Downtown sub-market was encouraging with 12 first quarter sales reported, most other projects indicated limited urgency among the prospective buyers visiting presentation centres, resulting in lower sales in most major sub-markets. The Northwest and Northeast sub-markets were the only two areas of the city to experience higher sales in Q1-2019 compared the previous quarter, increasing by 93 percent and 22 percent respectively. The Northwest and Northeast sub-markets combined for 97 total sales in the first quarter of the year. The typically active Southwest sub-market saw a 23 percent decline in sales on a year-over-year basis but is still up 20 percent compared to the same quarter of 2017.

### QUARTERLY UNIT SALES COMPARISON

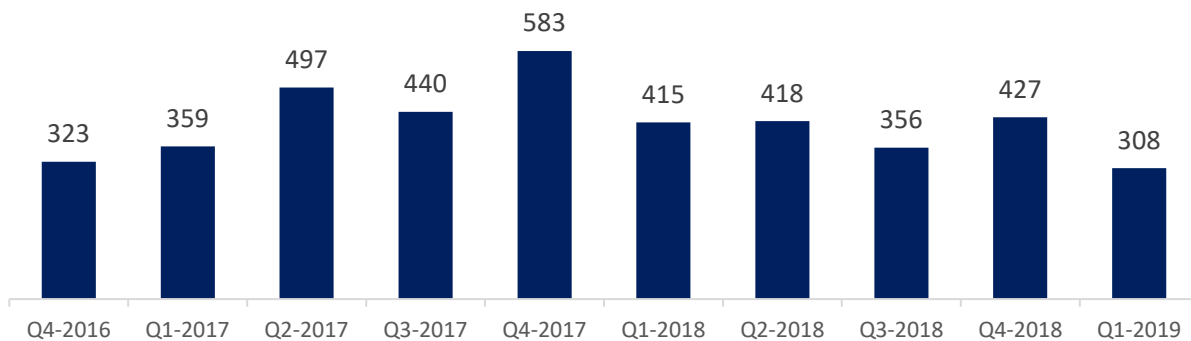


Chart 1

### *Sales Trend Lower*

While combination of ongoing effects of mortgage stress test qualification rules and an extended period of frigid winter temperatures compounded the traditionally modest first quarter sales pace, the actual difference in sales between the fourth and first quarters was comparable to previous years. If trends from previous years are to be repeated, UA expects the market will regain momentum over the next few quarters as fears of additional interest rate hikes subside and investment optimism increases with the election of the more business-friendly UCP. Despite the overall drop in new multi-family home sales, the wood frame condominium sector experienced a nine percent increase in sales during the first three months of the year. Chart 2 illustrates the gradual decline in year-over-year quarterly sales, which mirrors the trend in Alberta’s economic activity during this time.

## YOY Quarterly Sales Comparison

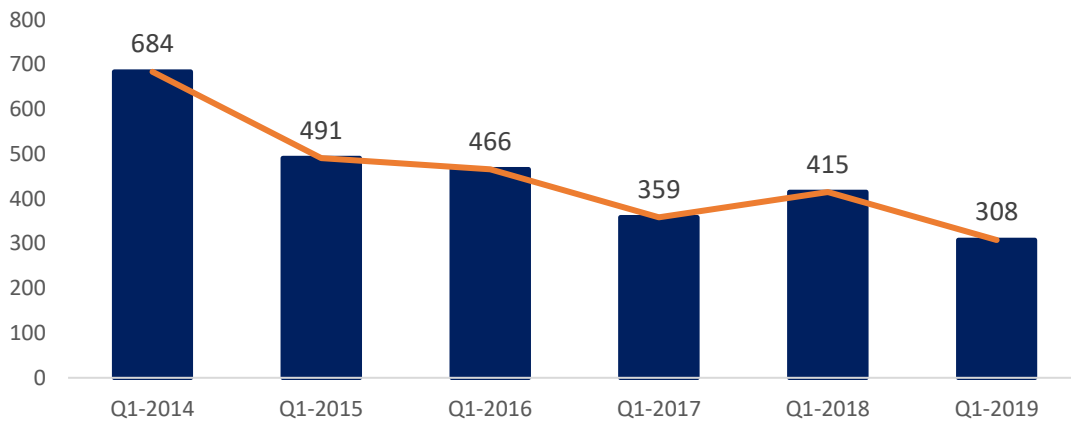


Chart 2

### *No Asset Class Immune*

Chart 3 outlines the year-over-year quarterly sales for the various product forms during the past three year. Limited demand from investors has impacted demand in the concrete condominium sector. Despite the higher Q1-2019 sales of wood frame condominiums, this sector experienced the largest drop in year-over-year sales (-47%). The townhome sector has continued to prove resilient with a modest four percent drop in sales compared to the same quarter in 2018. This reflects the prevailing demand for new home product by young and move-up family purchasers.

## HISTORICAL Q1 SALES BY PRODUCT TYPE

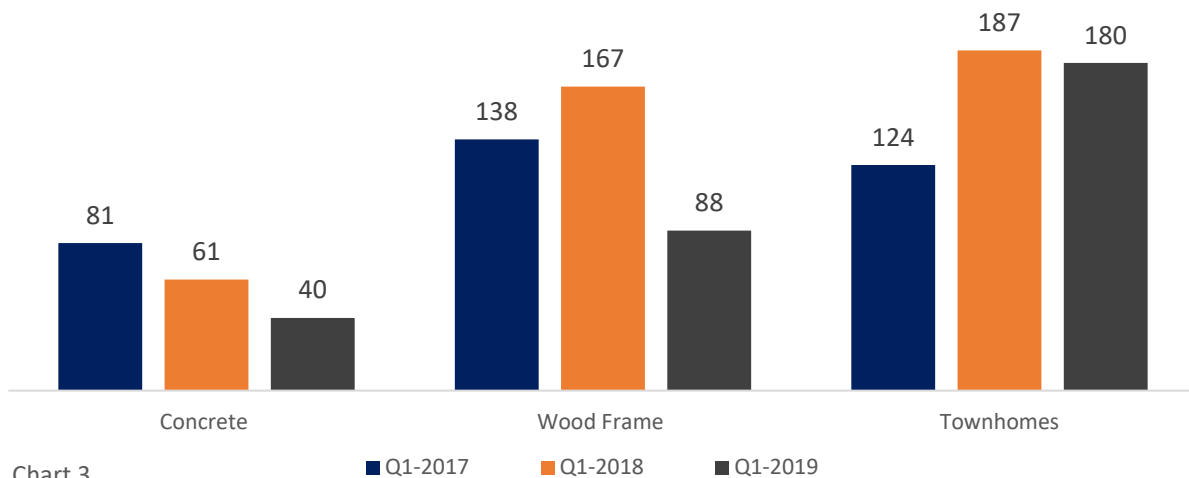
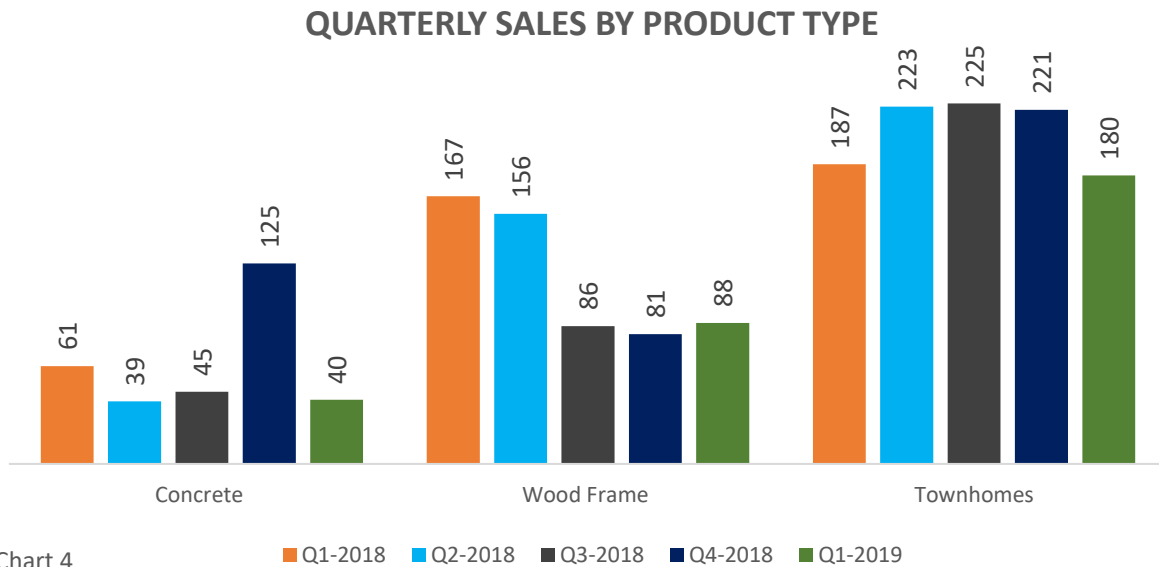


Chart 3

### Expected Increase in Concrete Sales

With the recent launch of *Falcon One*, UA anticipates an increase in concrete condominium absorptions in the Downtown sub-market during the spring and summer months, when demand levels are typically higher. While demand in the wood frame sector will depend on the ability of price-sensitive entry level buyers to be qualified for a home purchase, the townhome sector will continue to experience steady absorptions with projects in the outer sub-markets achieving the highest sales activity.



### Downtown Slides as the North Thrives

The Downtown sub-market experienced a 78 percent decrease in sales volumes compared to the previous quarter, which largely due to the successful launch of Westrich Pacific's *The View at Grandin City* in the fourth quarter of 2018. The project achieved 59 sales during its grand opening campaign, but slowed considerably in the first quarter of this year as marketing shifted to tempo mode. One Properties' *SKY Residences* also experienced a slower start to the year compared to Q4-2019, which also contributed to the more substantial overall drop in quarterly concrete condominium sales in the Downtown sub-market. Sales in the St. Albert and Southwest sub-markets slid by 70 percent and 22 percent respectively. However, the Southwest sub-market continued its long-standing trend of being the most active area for new home buyers, comprising just over 40 percent of all new multi-family home sales across the Edmonton market in the first quarter of 2019. Helping the Southwest sub-market achieve such strong absorptions is the fact there are 46 actively selling projects in this area, 30 of which are townhome developments.

## QUARTERLY SALES BY SUB-MARKET COMPARISON

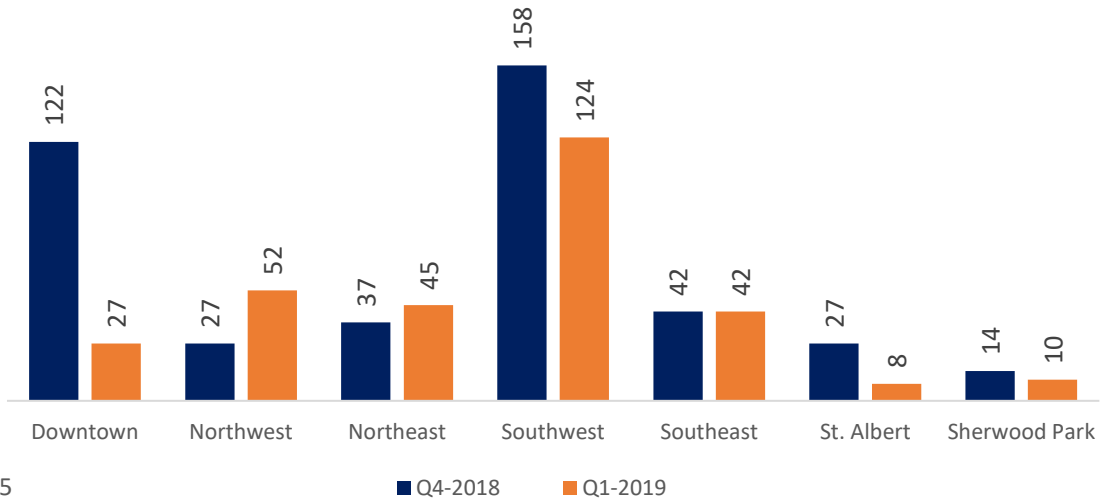


Chart 5

### *Greater Demand in North Sub-Markets*

Both the Northwest and Northeast sub-markets experienced higher sales volume in Q1-2019 relative to the previous quarter and were the only two submarkets to record increased absorptions in the first quarter of the year. The Northwest was also the only sub-market to experience a year-over-year increase in sales, jumping by 37 percent relative to the same quarter in 2018. Sales of new wood frame condominiums and townhomes trended higher in the Southwest sub-market, due primarily to the high proportion of actively selling townhome projects. Note that sub-markets showing zero sales in Chart 6 the absence of those product types.

## Q1-2019 SALES BY PRODUCT TYPE & SUBMARKET

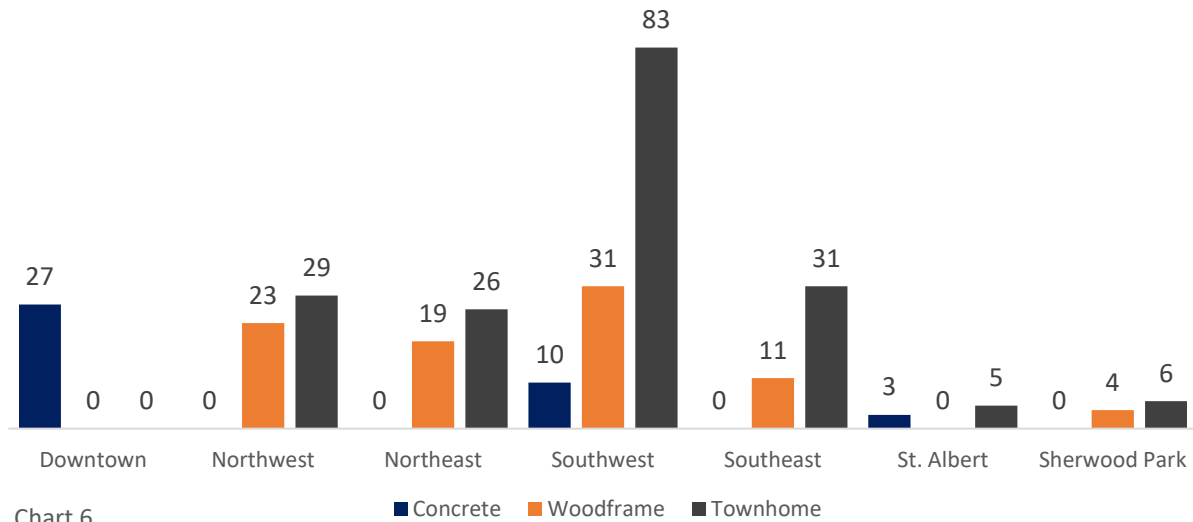
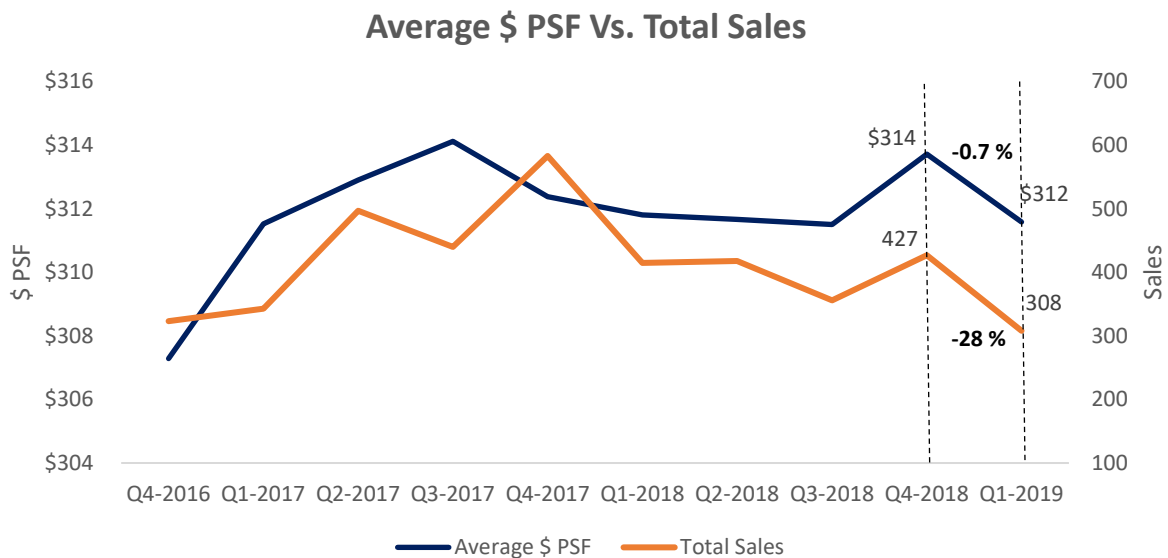


Chart 6

### Positive Pricing Versus Sales Correlation

Chart 7 illustrates the correlation between quarterly pricing changes on a per square foot basis and total sales volume. The first quarter of 2019 saw a decrease in pricing by 0.7 percent to \$338 per square foot which corresponds with the slide in total sales experienced by the market as a whole. Assuming price would be the leading indicator, and all other factors being equal, lower average price per square foot values would be expected to result in higher total sales volume due to the gain in consumer purchasing power. However, sales data indicates the opposite occurred during the first quarter of 2019; there was a decline in total sales volumes and the average price per square foot being sought throughout the market. It is evident from this that other factors (beyond the reduction in the average price per square foot) had substantial influence on new home sales during the first quarter of the year. As previously noted, the uncertainty created by the recent provincial election was undoubtedly one of these factors. Sluggish economic performance also contributed to this inversion of what would otherwise be a negative correlation between price and sales. Should the economy gain momentum as expected during the next few quarters, UA expects that the correlation between these two variables to return to the typical inverse relationship.



### Marginal Rise in Released Inventory

The limited amount of both new townhome and wood frame condominium project launches during the past 12 to 18 months in Edmonton resulted in slight increase in the amount of released inventory. The lack of recent new townhome project launches contributed to a moderation in the amount of released and unsold inventory available for purchase. There is little variance in the amount of unsold inventory among the three product types. The launch of *Falcon One* helped increase the number of released and unsold concrete condominiums by 15 percent from the previous quarter to a total of 1,069 total units, which represents 33 percent share of total amount of released inventory in the market. Despite the increase in concrete condominium inventory, there was only a modest two percent rise in the total number of unsold new multi-family units and an 11 percent drop year-over-year. This reflects a ratio of 0.1 unit sales for every one unit of released inventory of new multi-family homes during the quarter. Wood frame condominium inventory levels fell by 16 percent compared to the fourth quarter of 2019.

This drop was largely due to Carrington Communities' *Sora* converting to a purpose-built rental. *Sora* is a 90 unit condominium scheduled to complete and be move-in ready in Summer 2019.

### RELEASED INVENTORY COMPARISON BY PRODUCT TYPE

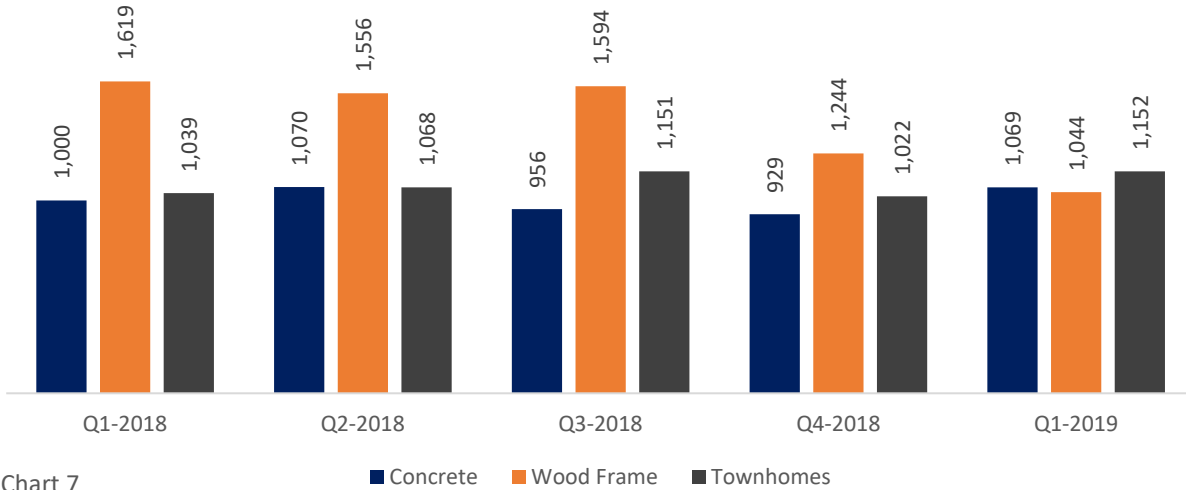
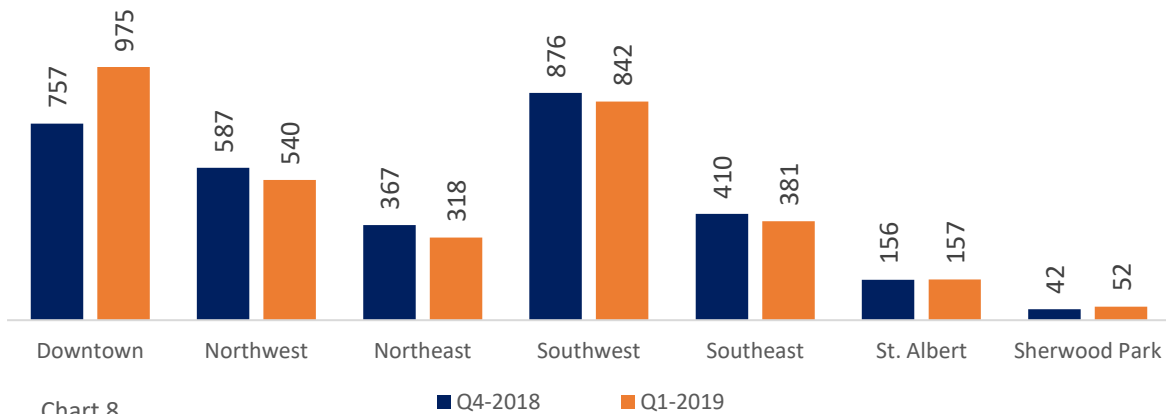


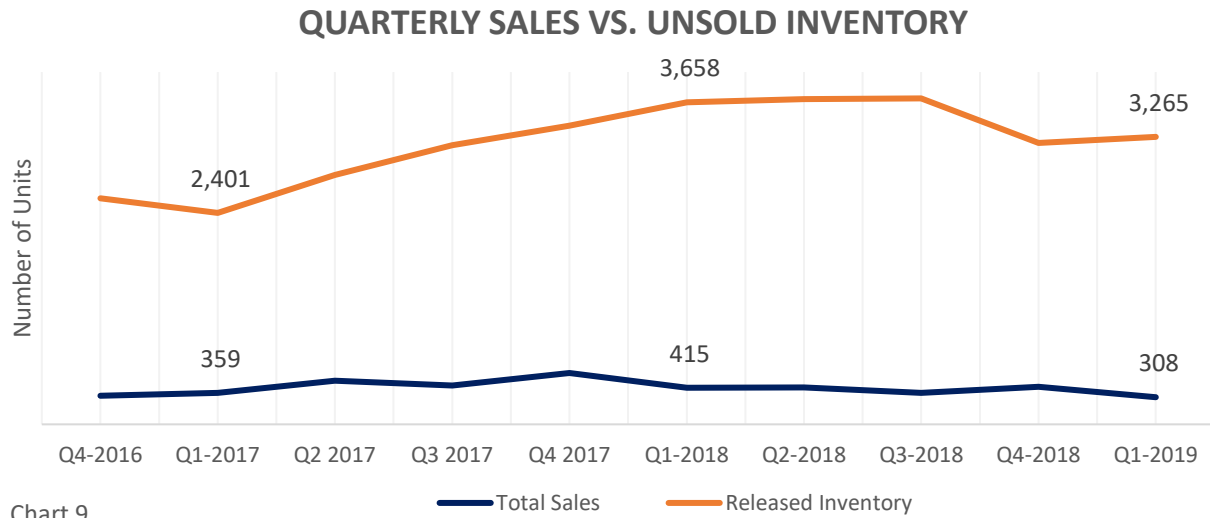
Chart 8 illustrates the amount of released inventory by sub-market in Edmonton. The Downtown submarket was the only area to experience higher inventory levels for the second quarter in a row due primarily to the launch of *The View at Grandin City* in the fourth quarter of 2018 and *Falcon One* in the first quarter of 2019. The Northeast sub-market experienced the most significant drop in released and unsold inventory, declining by 13 percent from the previous quarter and 23 percent year over year. This can be traced back to the fact that the Northeast experienced the second highest sales volume over the duration of the quarter and has the highest amount of sales to released inventory levels in the city at 0.24.

### RELEASED INVENTORY BY SUB-MARKET



### *Increased Spread Differential*

The spread between quarterly sales and released and unsold inventory widened by seven percent from the previous quarter but still represents a nine percent drop from the same quarter in the previous year. This differential grew by 189 units to 2,957 compared to 2,768 in the previous quarter. The lower sales volume during the first quarter was not offset by the slower rate of released inventory. UA expects the spread between quarterly sales and released and unsold inventory to flatten out or narrow during the second and third quarters and beyond as the economy, and therefore the market gains gradually improves.

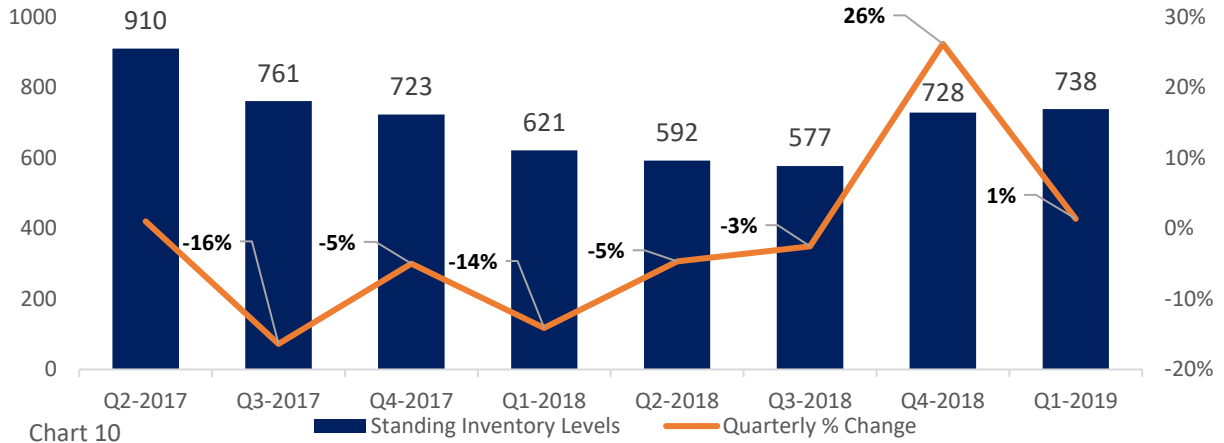


### *Standing Inventory Rises After a Steady Decline*

Chart 10 illustrates a marginal increase of one percent in standing inventory levels in the first quarter of 2019. A large proportion of the Q1-2019 sales were driven by buyers opting for move-in-ready product, which helped keep levels relatively flat compared to the previous quarter. On a year-over-year basis, standing inventory levels increased by 19 percent; from 621 move-in ready units to 738. It's particularly encouraging to note standing inventory levels across the market have dropped by 18 percent during the past two years.



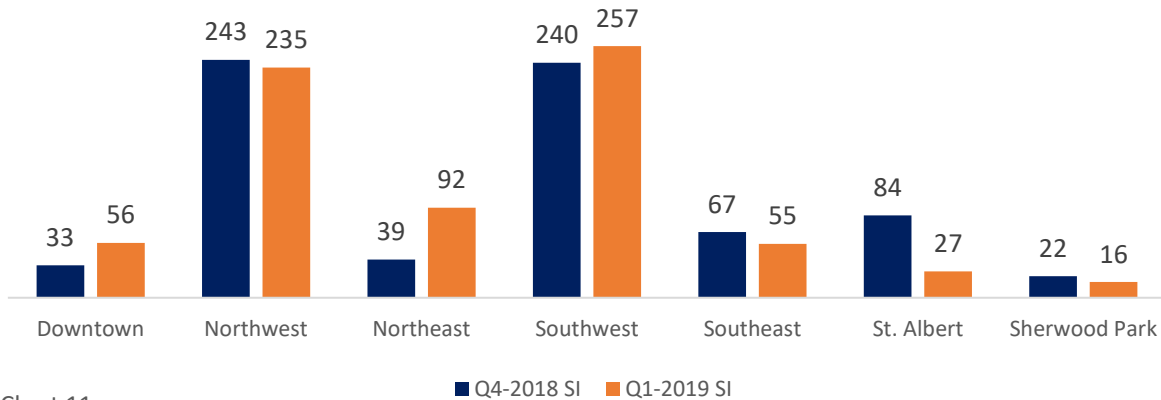
## STANDING INVENTORY TREND



### Northwest and Southwest Dominate Standing Inventory

Both the Northwest and Southwest sub-markets continue to offer the majority of the market's standing inventory; 33 and 35 percent of respectively. Just three of the seven submarkets report higher standing inventory levels compared to the previous quarter, with the Northeast boasting the largest quarterly increase of 136 percent; from 39 units in Q4-2018 to 92 units in the first quarter of 2019. This significant increase can be partially attributed to the recent completion of *Northshore at Schonsee II*, which brought 39 additional units of standing inventory to the market. The Southwest experienced a seven percent growth in the number of completed and unsold units; 257 units in total.

## STANDING INVENTORY BY SUB-MARKET



### Price Trends

Developers continued to offer incentives in Edmonton's new multi-family home market to attract buyers and increase sales activity. These incentives typically reduce the effective purchase price of this product by several thousand dollars. Some of the noteworthy price changes and incentives offered at actively selling projects across Edmonton are as follows:

- *Kirkness*: \$20,000 off three bedroom units and \$5,000 in free upgrades
- *The Connaught*: Upgraded appliances
- *Elan Building II*: \$3,000 to \$8,000 in design dollars or a match of the buyers deposit in design dollars, depending on the unit
- *Bellwether Park*: \$5,000 worth of upgrades
- *Canvas*: Free smart package and moving expenses
- *Creekwood Landing Phase I & II*: 16 percent off the price of unsold units
- *Vista Pointe in Chapelle Gardens*: \$5,000 furniture package, no condo fees for one year and moving expenses
- *McConachie Crossing*: Up to four percent off the purchase price
- *Street Towns in Rosenthal*: \$10,000 off unsold units
- *Edgemont Townhomes*: \$3,500 appliance allowance at Aspen Appliances
- *Renew II in Rosenthal*: \$5,000 off retail price or no condo fees for 1 year
- *Secord Heights Townhomes*: 2.19 percent buy down on all units
- *The Strand in Rosenthal*: \$15,000 off current unit prices
- *Trumpeter by Big Lake*: Flooring and counter upgrade or \$10,000 off the purchase price
- *Altius Glenriding*: \$10,000 off all quick possession units
- *Averton One at Keswick*: \$10,000 in available upgrades or \$7,500 off list price
- *Aspen Park Condos*: Up to \$30,000 off remaining units
- *Bulyea Heights*: 50% off window coverings and free installation from one of the vendors along with other items where applicable
- *Muse*: Discounts on some two and three bedroom units ranging from \$3,900 to \$16,500 depending on unit and location
- *Altius Laurel*: Up to \$20,000 off purchase price
- *Aloft Tamarack*: \$4,000 off purchase price or \$5,000 gift card to the Brick

### **Buyer Trends**

The combined impact of the multiple interest rate hikes in 2018 and the mortgage stress test rule changes continue to have an impact on consumers' purchasing power, which contributed to sluggish first quarter sales of new multi-family homes in Edmonton. An extended period of extremely cold winter weather through February and early March, along with uncertainty created by the provincial election also had a kept many prospective purchasers from making a buying decision. The lower demand and sales led many developers to offer incentives and/or lower prices to try and increase sales. Some developers also held off from releasing additional product to the market. Many continue to monitor prevailing economic conditions and buyer sentiment closely to determine a more optimum time to launch new projects and release new phases of construction. UA anticipates an improved sales activity and more new product releases during the second and third quarters of the year when buyer demand is typically higher.

## Looking Ahead

The following is a list of projects that launched in the early stages of Q1-2019:

- Langham Developments launched *Falcon One*, a 38 storey high rise project with 276 units. 12 firm sales were reported.
- Barry Homes launched *Landra Row Housing*, a single phase townhome development in Laurel featuring 68 units, all of which have been released to date at an average blended price per square foot of \$174.

The following are some of the projects UA anticipates will launch during the next two quarters and will be monitoring closely.

- *Altius Desrochers* – Streetside Developments
- *Summerwood Townhomes* – Pacesetter Homes
- *Station Pointe Village* by BCM Developments was previously a multi-family market condominium and will be switching to a purpose-built rental development in June 2019.

**UA's NHSLive new home data platform is the most comprehensive source of current and detailed new multi-family home project information. UA makes personal visits to each actively selling project to collect current status information and engage with sales representatives to obtain anecdotal information that enhances the data analysis and provides further insight into prevailing market conditions and trends.**

**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 and or positioning of your new multi-family home community and provide a demonstration of the data products on NHSLive.ca.**

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