WHERE DO WE GO FROM HERE?

THE EDMONTON UA TAKE:
THIRD QUARTER 2019
Sales and Inventory Analysis

Despite recording a 43 percent sales increase in the second quarter of 2019, the Edmonton multi-family home market experienced a 20 percent drop in total sales in the third quarter of the year. The loss of nearly half the gains recorded in the previous quarter points can be attributed to softer demand in sub-markets with stronger recent sales results such as Downtown, St. Albert and the Northeast. While Edmonton’s new multi-family home market was able to leverage the momentum gained from the then recent change in provincial leadership in the second quarter of 2019, it appears this positive change in consumer sentiment has been curbed as prospective buyers shift their attention to the outcome of the federal election, which is poised to dictate both private domestic and international investment and the direction of consumer sentiment. Developers and sales representatives across all sub-markets reported a noticeable decrease in sales centre traffic and have equated this to the uncertainty regarding the results of the federal election. Despite the slower traffic levels, there was no increase in the number or value of incentives offered to prospective buyers, or little indication of any significant incentive offerings. The ‘wait-and-see’ approach by both developers and purchasers have impacted total sales across all product types and sub-markets. While UA analysts collected third quarter sales data prior to the conclusion of the federal election, interpretation of this information took place in the days immediately following the election. This now leaves Edmonton residents with the uncertainty of what to expect moving forward. While the absence of any Liberal Members of Parliament in Alberta could be considered a disadvantage for receiving economic and other assistance from the new government, it will be difficult to ignore the growing sense of alienation across much of the Western provinces, which will hopefully initiate some positive movement on issues related to the energy sector and the economy.

Sales of new multi-family homes in Edmonton would require price reductions or price-reducing incentives to generate some excitement and differentiation in the more competitive sub-markets such as the Southwest and Northwest. Further, these pricing reductions and additional incentives would require effective marketing strategies to effectively communicate them to consumers. Increased absorptions that would help reduce existing inventory would justify the release of new condominium and townhome product into the market. Identifying the needs and wants of various active buyer groups in the market and introducing product that appeals to those buyers is also important in generating renewed interest in the new home market. Product differentiation will be important to help keep more buyers from migrating to the rental sector.
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QUARTERLY UNIT SALES COMPARISON

Chart 1
Flat Year-Over-Year Quarterly Sales

While year-over year quarterly sales declined by just one percent in Q3-2019, it continued a pattern of inconsistency in sales velocity from quarter to quarter. The more substantial 20 percent sales decrease from the same quarter in 2017 can be attributed to the more active market conditions that prevailed prior to the introduction of the B20 mortgage stress test. Since the implementation of this policy, the market has struggled to establish a steady pace of buyer demand and sales. There was little change in sales volumes compared to the same period in 2018, with exceptions to this occurring in the St. Albert, the Northwest and the Southwest sub-markets. There are currently 44 actively selling multi-family projects in the Southwest compared to 54 in the same quarter of last year. Carrington Communities’ Edge at Larch Park recorded the most sales in the Southwest sub-market during the third quarter with 20 two bedroom and 2 bedroom and den unit absorptions after its recent launch. Carrington has effectively tailored the marketing campaign, building amenities, and suite mix to their targeted downsizer demographic. The project places an emphasis on convenience, highlighting the project’s prominent location along Larch Sanctuary and the Anthony Henday.

YEAR OVER YEAR QUARTERLY SALES COMPARISON

<table>
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<th>Submarket</th>
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<td>Total</td>
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Chart 2
Wood Frame Condominium Sales Increase

Wood Frame condominium sales were the only product type to experience higher sales in the third quarter of 2019, recording 97 unit absorptions compared to 83 in the previous quarter. This also represents a 13 percent increase compared to the same quarter in the previous year. Concrete condominium sales recorded the largest decrease with 70 percent fewer unit sales compared to the previous quarter. This also represents a 36 percent year-over-year decrease. This substantial decline in concrete sales can be attributed to the lack of sales activity at One Properties’ SKY Residences project after recording 38 unit absorptions in Q2-2019. The strong sales activity experienced by SKY Residences in the second quarter accounted for nearly half of the 87 concrete condominium sales recorded in the Downtown sub-market. Sale prices being sought in the concrete condominium sector remained flat across all sub-markets. Townhome sales declined by 13 percent in the third quarter totaling 226 sales and accounted for 64 percent of total new multi-family home sales during the quarter. Average wood frame unit prices increased by 2.15% to $276,704 while townhome unit prices decreased by 0.48% to $322,369. These positive correlations between unit pricing changes and total sales by product type are counterintuitive to what would otherwise be expected and indicates that it is not the primary determining factor for consumers motivations to purchase new multi-family homes. Marketing strategies that would more effectively communicate the various incentives being offered would also help increase buyer interest and presumably absorptions.

QUARTERLY SALES BY PRODUCT TYPE
The Southwest sub-market accounted for 43 percent of total sales in the third quarter. Of the 152 total sales recorded in the Southwest, 73 percent of total sub-market sales came from townhome sector. Wood frame and concrete condominium sales comprised 25 percent and two percent of total Southwest sub-market sales, respectively. The Southwest continues to be the most competitive sub-market with 44 actively selling projects. For context, the Northwest is the second most competitive sub-market with 17 actively selling projects. Together the Southwest and Northwest sub-markets accounted for nearly 60 percent of total sales, 70 percent of which were townhome sales. The Southeast and Sherwood Park sub-markets together accounted for 21 percent of total sales for the quarter, 80 percent of which came from townhome product. It is evident there is considerable demand in Edmonton for townhome product located in the outer suburban communities.
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Released and Unsold Inventory Levels Rise

Chart 6 compares the amount of released and unsold inventory by product type as of the end of Q3-2019. Overall released and unsold inventory decreased by one percent, or 26 units to 3,210 units. Mattamy Homes Crescent Trails Townhomes in the Southeast sub-market and Carrington Communities wood frame condominium development Edge at Larch Park in the Southwest introduced 148 new multi-family units. Both townhome and wood frame product types experienced an increase in released and unsold inventory, rising by five percent and four percent, respectively. Concrete condominiums were the only product type to not experience an increase in released and unsold inventory levels this sector remained flat, accounting for 1,170 units, or 36 percent of total inventory levels. The decrease in released and unsold inventory can be partially attributed to the conversion of existing condominium stock to rental apartments, which in turn is the result of ongoing sluggish demand for this product type at the sale values currently being sought. [MF4]
Five of seven sub-markets recorded a decrease in released and unsold inventory which resulted in total number of unsold units to decrease by one percent. This coincided with additional released and unsold inventory increases in the Southwest and Southeast sub-markets, which together accounted for 191 units. The decrease in released and unsold inventory experienced in the Downtown, Northwest, Northeast, Sherwood Park and St. Albert sub-markets accounted for 127 units.

**Increase in Standing Inventory**

**STANDING INVENTORY TRENDS**
Standing inventory, (i.e. unsold move-in ready units), increased by 38 percent compared to the previous quarter and is up 41 percent year-over-year. This increase in standing inventory indicates a lack of urgency by prospective buyers to make a decision to purchase move-in ready units despite the incentives being offered. The reduction in standing inventory moving forward will be the leading indicator of a shift in consumer sentiment and confidence and will justify the introduction of new product to the market.

Narrowing Quarterly Sales vs. Unsold Inventory Differential

Chart 8 depicts the spread between quarterly sales and released and unsold inventory levels. The differential increased by six percent compared to the previous quarter. Developers continue to consider whether to release additional phases of inventory at their previously desired price points before selling more of their existing incentivized inventory.

Buyer Trends

The Alberta economy has faced a variety of economic headwinds in recent years; from the sharp decline in oil price to the introduction of the B20 mortgage stress test, which effectively reduced consumer purchasing power by approximately 18 percent. Although entry level home buyers have been most impacted by these factors, they’re affecting nearly all buyer groups to some extent. Many would-be home buyers remain on the sidelines, as evidenced by these third quarter sales statistics. As consumers await any new policies by the recently re-elected federal government designed to facilitate a home purchase, developers must continue to incentivize existing inventory in order to attract buyers to their projects.
**Pricing Trends**

The average unit price for new multi-family units tracked by Urban Analytics in Edmonton increased by $1,422, or 0.37 percent, to $385,336 in the third quarter of 2019. This increase in average unit price has not had an impact on the total average blended price per square foot which remained at $351. Concrete condominium prices remained consistent on a quarterly basis, averaging $556,936. Wood frame condominiums increased in average unit price by 2.15 percent, or $5,825 to $276,704. Townhome product was the only product type to experience a decrease in average unit price, which softened by 0.48 percent, or $1,559, to $322,369.

The Downtown sub-market continues to command the highest average unit price ($450,520 or $471 per square foot) due to the high number of concrete projects there. The Northeast sub-market currently averages the lowest unit price of all seven sub-markets at $268,088, which is nearly $89,000 lower than the current overall market average. Sherwood Park recorded the largest quarterly average unit pricing change, sliding by 8.93 percent, or $37,818. This pricing change was largely due to price reductions implemented for move in ready units at Aspen Park Condos by Abbey Lane Homes. The largest increase in average unit price was observed in the Northwest sub-market, which increased by 3.61 percent, or $10,980. The Northwest sub-market recorded a 63 percent increase in total sales while Sherwood Park observed a 425 percent increase in sales, which coincided with the sub-market’s average unit price decrease.

Chart 10 shows the relationship between the total average unit price and total sales across all sub-markets and product types for Edmonton. From this chart it might be inferred that price point is not the sole determining factor in consumers’ purchasing decisions as there is a negative pricing-to-sales correlation which is typically assumed.
Absorption Trends

All product types averaged 1.53 unit sales per month in the third quarter of 2019. Average monthly absorption rates increased 4.55 percent compared to the previous quarter but are 16.36 percent lower than the same quarter last year. Wood frame condominiums are currently achieving the second highest average absorption rate of 1.6 unit sales per month. Townhome product averaged 1.1 unit sales per month in the third quarter of 2019; down 15 percent year-over-year.
**Recent Project Launches**

The following is a list of projects that launched in the early stages of Q3-2019

- Carrington Communities launched *Edge at Larch Park* in the Southwest neighbourhood of Mactaggart. 111 of 164 units in this wood frame condominium project were released for sale. *Edge at Larch Park* had a successful launch recording 20 firm sales with the majority of interest coming from downsizers from surrounding neighbourhoods.
- Mattamy Homes launched *Crescent Trails Townhomes* in the Southeast community of Aurora. The townhome project released 37 units and achieved three firm sales and four conditional sales.

**Looking Ahead**

UA anticipates the following projects to launch in the fourth quarter of 2019;

- *Altitude Condominiums* – Developer name will be released when the project launches. The development is a joint venture with small syndicate investors.
- *Eve at Erin Ridge Townhomes* – Landrex Ventures
- *Artika in Oliver* by Cove Properties was previously a multi-family market condominium and is switching to a purpose-built rental development with construction currently underway.

**Incentive Trends**

There were substantially fewer incentives offered by developers in the third quarter of 2019 compared to previous quarters. However, some noteworthy incentives are still being offered in Edmonton’s new condominium and townhome market. These include:

- *Elan Building II*: 5% match on downpayment and $3,000 to $5,000 in design dollars
- *Peak 61*: Choose One - One year free condo fees, two months mortgage free, one year of free property taxes, additional $1,000 towards appliances and $1,500 towards blinds or vacation package for two to Las Vegas
- *William Off Whyte*: $2,000 off units for Alberta Health Services employees
- *Stonehaven*: $5,000 off the price of a home
- *Crossroads of Rutherford*: Two years of free condo fees
- *Canvas*: Free condo fees for one year, free window coverings and a free ‘Smart Home’ upgrade
- *Caspia Townhomes*: $10,000 to be used towards upgrades or to be put towards gift cards at select stores
- *Topaz*: $15,000 off unit price, plus an additional $5,000 off unit price if you live or work on the army base
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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