

## THE UA TAKE- FIRST QUARTER 2018: *LONG WINTER AND STRESS TEST BLUES*

### Sales and Inventory Analysis

Following a strong end to 2017, the first quarter of 2018 brought new challenges to the new multi-family home market in Calgary as cold temperatures and record-breaking snowfall kept buyers out of the market during the first several weeks of the year. New mortgage qualification rules implemented on January 1<sup>st</sup> caused some younger, price-sensitive buyer groups to delay their buying decision as they adjusted to the impact of these new regulations on their buying power. Despite these challenges, total new condominium and townhome sales in the first quarter of 2018 still exceeded the number of new homes sold in the same quarter of 2017. Developers continue to adapt to shifting market conditions, with the first 10 project launches of 2018 offering more sought-after unit mixes at appropriate price points. Most new projects launched in Q1-2018 are located in the outer sub-markets where demand for affordably priced new multi-family home product is greatest. Despite the more subdued sales activity during the opening quarter of 2018, Urban Analytics (UA) anticipates the spring thaw will bring more buyers into the market, which will lead to stronger Q2 sales.

### *Lower Quarterly Unit Sales*

While new multi-family home sales increased year-over-year, Q1-2018 sales dropped by 32 percent compared to the previous quarter. The drop in quarterly sales was somewhat expected given the exceptionally strong sales that occurred in the fourth quarter, much of which was driven by the launch of 17 projects, and the surge in buying activity by younger price-sensitive buyers who were purchasing prior to the implementation of new mortgage stress test rules at the start of 2018. As noted, these new stricter qualification rules combined with extraordinarily bad winter weather combined to dampen demand in the first quarter of this year.

### **QUARTERLY UNIT SALES COMPARISON**

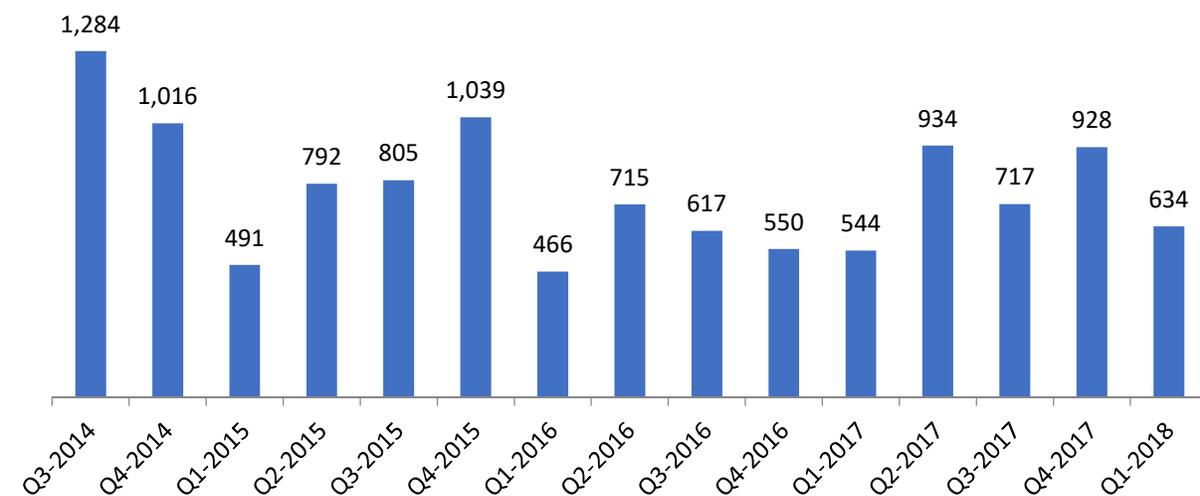


Chart 1

### Higher Year-Over-Year Sales

Another reason the lower quarterly unit sales are not surprising is that absorptions have historically been lowest in the first quarter of the year as colder winter weather tends to keep many prospective purchasers out of project presentation centres. However, it is encouraging to note a 17 percent year-over-year increase in new multi-family home sales throughout the Calgary market in the first quarter of 2018. UA sees this as a sign of increasing confidence among prospective buyers in residential real estate and in Calgary's economy in general.

## YEAR OVER YEAR QUARTERLY SALES COMPARISON

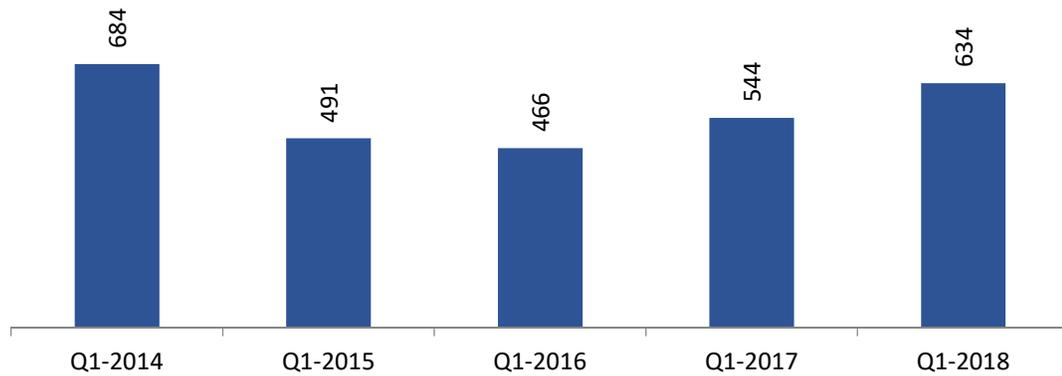


Chart 2

### Wood Frame Condominiums Sales Drop Most in Q1

While all three product forms experienced lower sales in the first quarter of the year compared to the fourth quarter of 2017, the wood frame condominium sector experienced the largest drop in sales compared to the previous quarter; 47 percent. The most substantial drop in absorptions occurred in the Outer South submarket where there were 52 percent fewer wood frame condominium sales in the first quarter of 2018. Sales of concrete condominiums dropped by 23 percent while townhome sales were 14 percent lower.

## QUARTERLY UNIT SALES COMPARISON

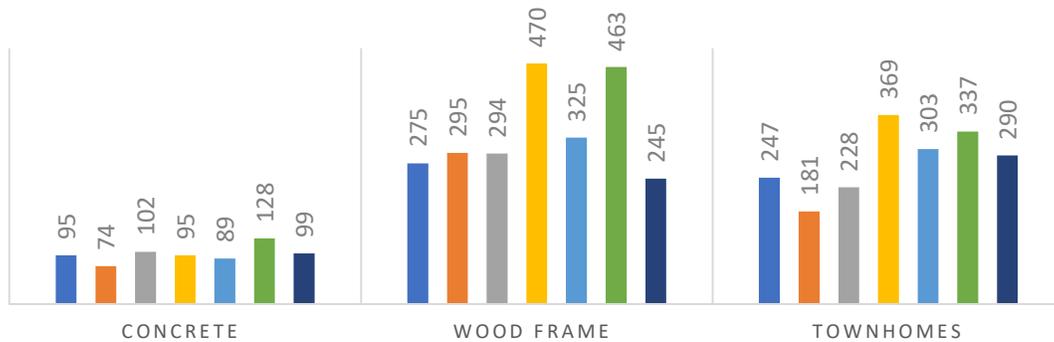


Chart 3

■ Q3-2016 ■ Q4-2016 ■ Q1-2017 ■ Q2-2017 ■ Q3-2017 ■ Q4-2017 ■ Q1-2018

On a year-over-year basis, concrete and wood frame condominium sales decreased by three and 17 percent respectively in Q1-2018. The lower sales in the concrete condominium product can be largely attributed to the limited amount of new product released to the market over the past year. The 27 percent increase in townhome sales is primarily due to the 19 new townhome projects launched during the past year.

*Sales Strongest in Outer Sub-Markets*

The outer sub-markets continue to account for the largest proportion of Calgary’s new multi-family home sales, which isn’t surprising given these areas also account for the largest number of actively selling new multi-family home projects in Calgary. Price-sensitive first time and newer immigrant buyers are drawn to the outer sub-markets as projects there offer more affordable price points than urban sub-markets. Downsizees already living in outer sub-market neighbourhoods are also active as they prefer to downsize to a home that’s in the general vicinity of the detached home they’re moving from.

The Outer North achieved the highest number of sales of any sub-market in Calgary in Q1-2018. The Inner Northeast experienced a 107 percent increase in sales, largely due to aggressive incentive offerings introduced in the Bridgeland area. Three notable projects in the Inner Northeast that increased the incentive offerings to attract buyers included Bucci’s *Radius*, Gablecraft Homes’ *Bridgeland Hill* and *Bridgeland Crossings II* projects. The Inner Southwest achieved a 20 percent increase in sales in the first quarter of 2018 compared to the previous quarter. Sarina Homes’ *Coco* and Truman Homes’ *The Gateway* launched in the first quarter of 2018 and accounted for the majority of sales in the Inner Southwest sub-market.

**QUARTERLY SALES BY SUB-MARKET COMPARISON**

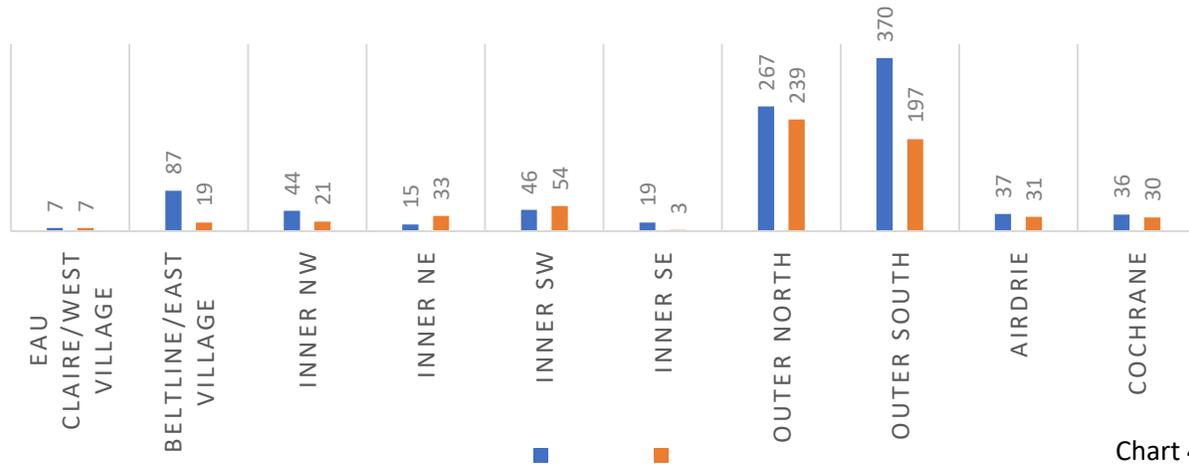


Chart 4

The following is a year over year sales comparison of Calgary’s submarkets:

- Eau Claire/West Village: -50%
- Beltline/East Village: -72%
- Inner Northwest: -69%
- Inner Northeast: +10%
- Inner Southwest: +93%

- Inner Southeast: -50%
- Outer North: +80%
- Outer South: -3%

*More Wood Frame Condominium Options for Buyers*

Chart 5 provides a comparison of the amount of released and unsold inventory by product type. The number of new wood frame condominium units available to purchase increased by 22 percent over the last quarter of 2017 and by 17 percent compared to Q1-2017. Townhome inventory was also higher on a year-over-year basis. The increase in the number of unsold wood frame condominium and townhome units can be attributed the greater number of new projects in these two sectors launched during the past year; most of which were launched in the latter half of 2017.

On a year-over-year basis, concrete condominiums experienced the biggest drop in unsold inventory. The 38 percent decrease in released and unsold inventory of concrete condominiums is largely attributed to the removal of Genco Developments' *Myriad* and Lamb Developments' *The Orchard* from NHSLive as active projects. The absence of any active marketing of either project for several months indicates the respective developers have put them on hold. Further, developers of some of the completed concrete condominium projects such as Lamb Developments' *6<sup>th</sup> & Tenth*, LaCaille's *Vogue*, and Grosvenor's *Smith* in the urban sub-markets have converted standing inventory to rental units, which effectively removes them from the inventory count.

**RELEASED INVENTORY BY PRODUCT TYPE**

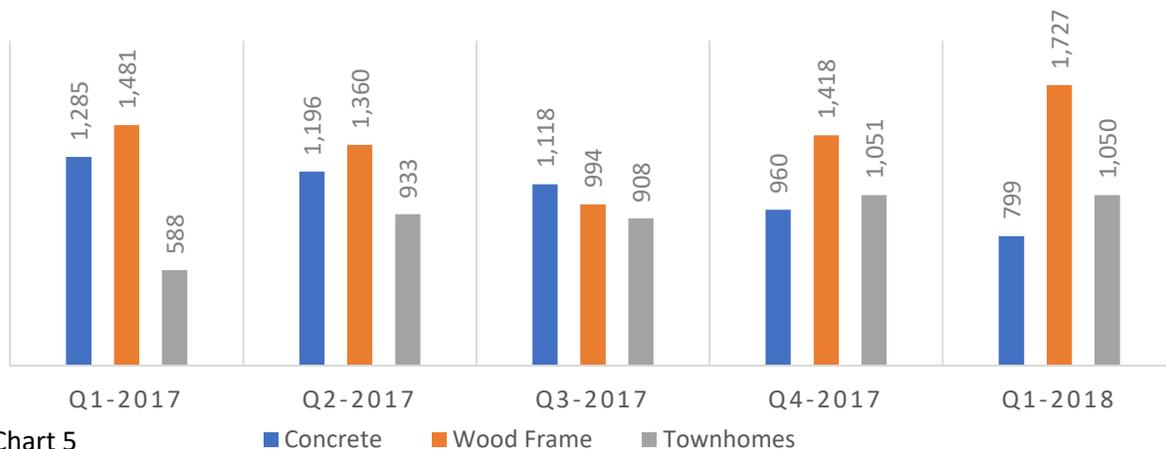


Chart 5

*More Projects = More Supply in Outer Sub-Markets, Beltline/East Village*

Chart 6 compares the amount of released inventory by sub-market in the first quarter of 2018 to Q4-2017. The Outer North, Outer South, and Beltline/ East Village sub-markets offer prospective buyers the greatest selection of units, which corresponds with the higher number of actively selling projects in these sub-markets.

The Inner Southwest sub-market experienced a 127 percent increase in released inventory in the first quarter of the year due to the launches of *The Gateway* and *COCO* projects. *The Gateway* is a 215 unit, eight storey concrete condominium project located in Truman Homes' new master planned community West District. *COCO* is a four storey, 74 unit wood frame condominium in Marda Loop.

### RELEASED INVENTORY COMPARISON BY SUB-MARKET

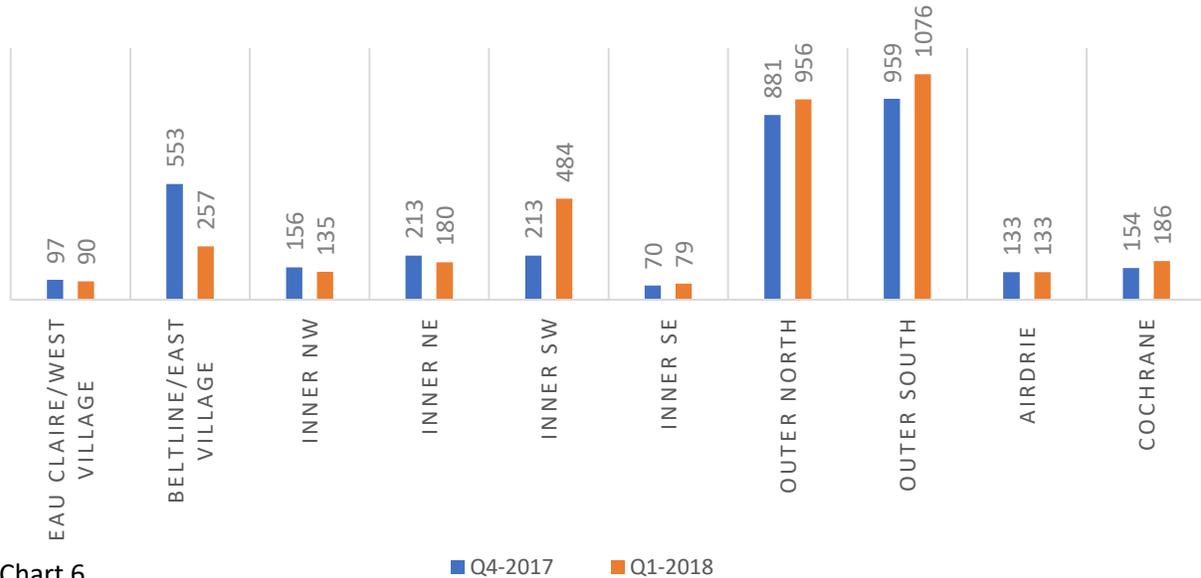


Chart 6

### Spread in Quarterly Sales and Unsold Inventory Widens in Q1-2018

Not surprising given the noted drop in quarterly sales and the rise in released and unsold inventory in some sub-markets, the spread between the number of units sold and the number available to purchase widened in the first quarter of the year. While this spread grew by 18 percent from the end of Q4-2017, it is only six percent greater than at the end of Q1-2017. UA does not consider the increased spread concerning as much of the increase in supply is attributable to the launch of several new projects in sub-markets where demand has been strong. Moreover, demand is expected to increase in the next few quarters as the spring selling season commences and buyers adjust to the new and stricter mortgage qualification regulations.

### QUARTERLY SALES VS. UNSOLD INVENTORY

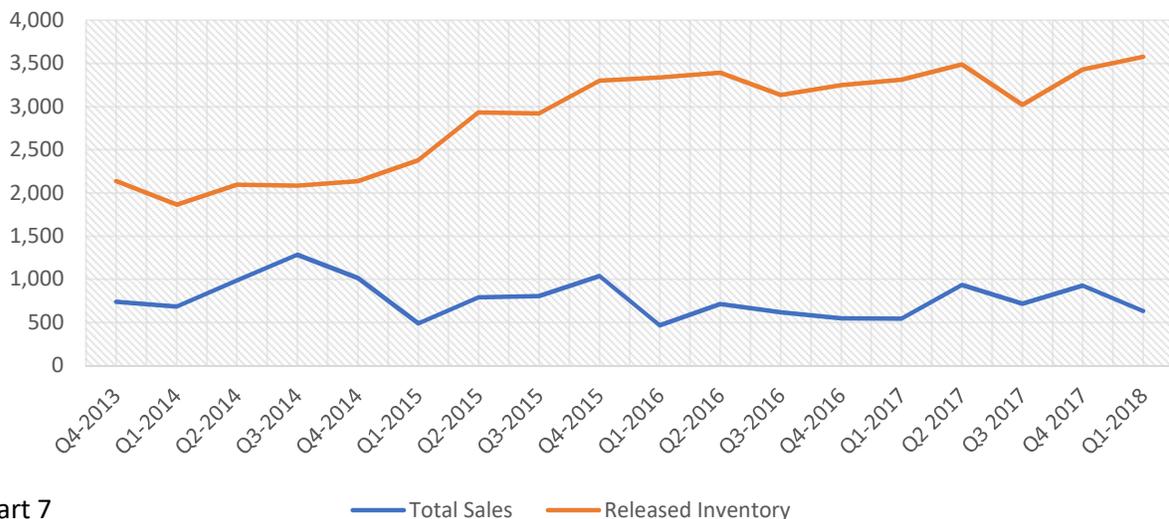


Chart 7

### *Third Consecutive Drop in Move-In Ready Units*

The ongoing trend of lower standing inventory levels is another encouraging sign of stronger demand in Calgary's new multi-family home market as more completed and unsold units are absorbed. The third consecutive quarterly drop in standing inventory reduced the total number of completed and unsold units to 758; an 11 percent drop from Q4-2017 and a 25 percent year-over-year reduction.

### **STANDING INVENTORY TREND**

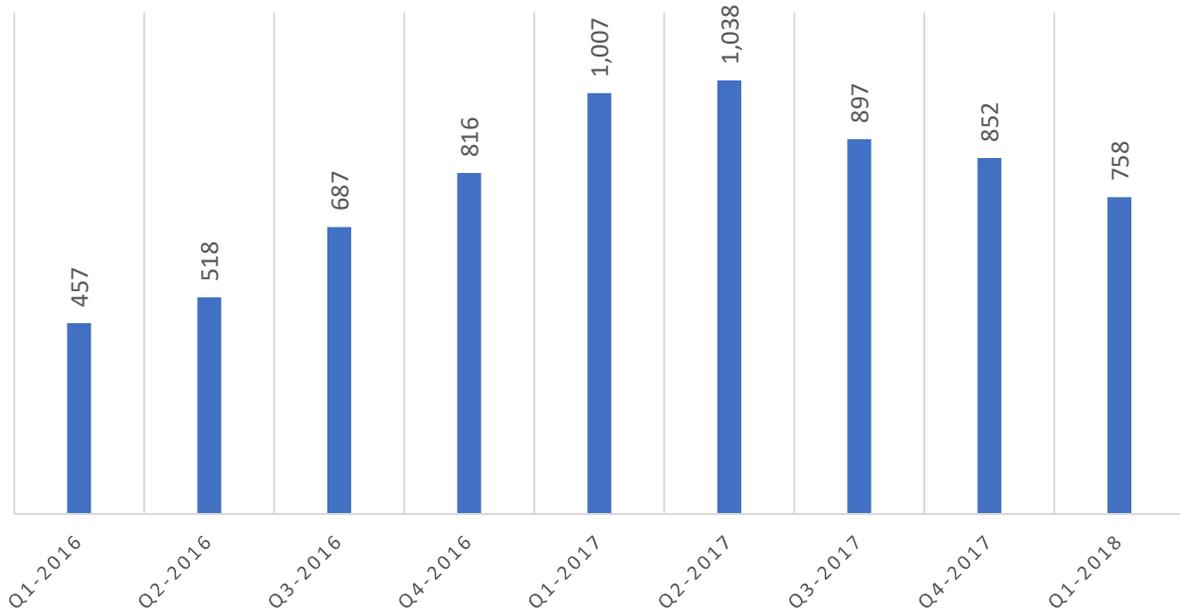


Chart 8

### *Move in Today in Outer Sub-Markets*

Chart 9 illustrates the number of completed and unsold units in each sub-market at the end of Q1-2018. The Outer North and Outer South sub-markets account for the largest number of standing inventory units, which is a function of the greater proportion of actively selling projects, particularly in the townhome sector where product is typically completed or nearly completed prior to being released for sale. The decision by a few developers in the outer sub-markets to build wood frame condominium projects ahead of a sales launch also contributes to the higher number of completed and unsold units. Despite these factors, there was an 11 percent drop in the amount of standing inventory in the Outer North sub-market due to steady absorptions.

### STANDING INVENTORY BY SUB-MARKET

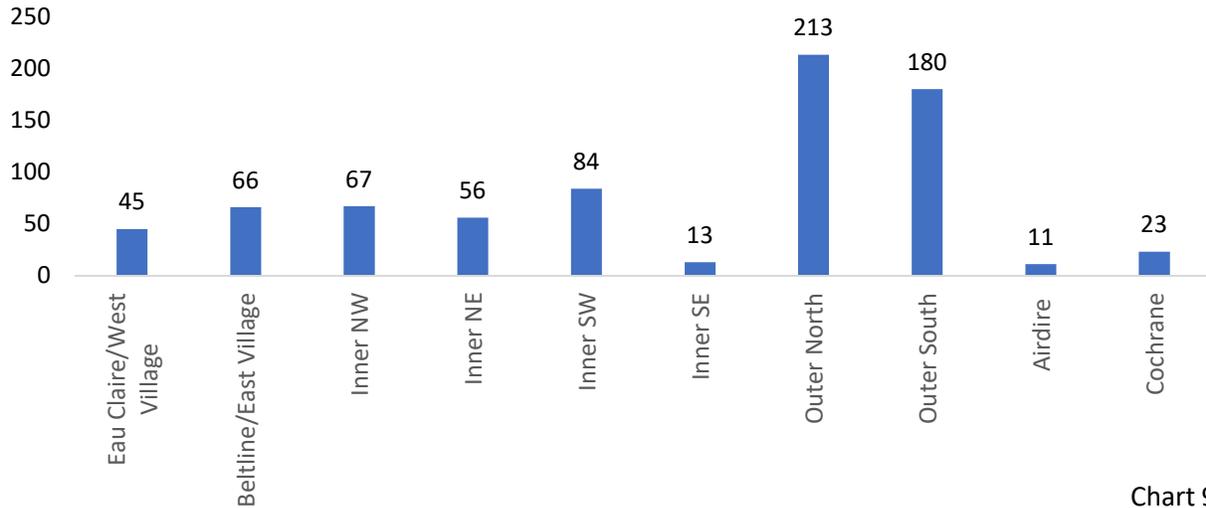


Chart 9

#### Where Are the Concrete Condo Project Launches?

As shown in Chart 10, the wood frame condominium sector comprises the highest number standing inventory units, as well as the highest number of units in the pre-construction stage. The extremely limited number of new concrete condominium units in the pre-construction stage is a direct result of the few new project launches in this sector over the past three years. Should this trend continue as the market absorbs many of the units in this sector currently under construction, the Calgary market could begin to experience a shortfall of this product type. The townhome sector has the largest number of units currently under construction, which is attributed to the many comprehensive phased townhome projects in the Outer sub-markets.

### UNSOLD INVENTORY BY PRODUCT TYPE AND CONSTRUCTION STATUS

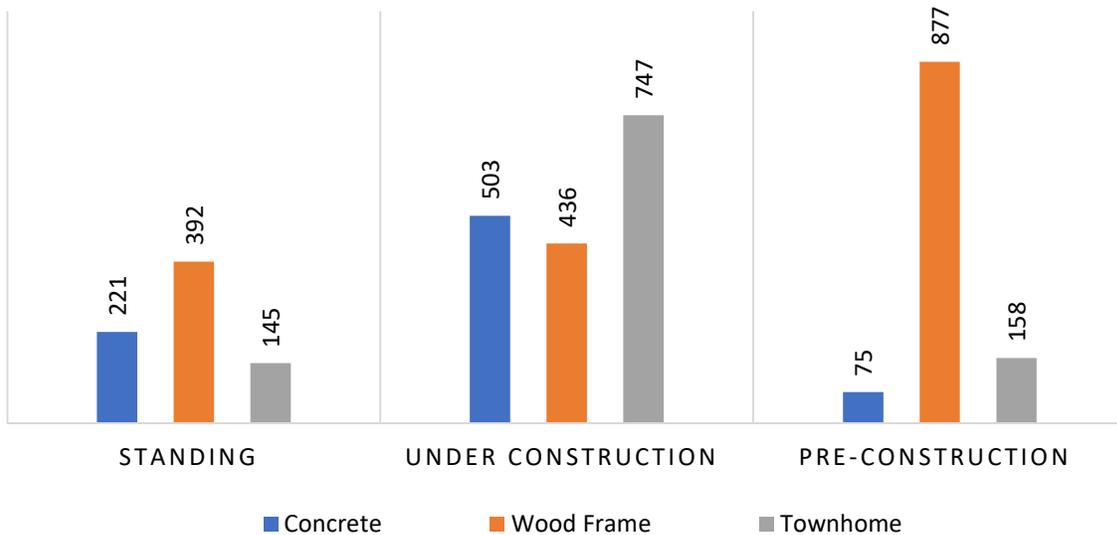


Chart 10

### Price Trends

Few price changes occurred across the new multi-family home market in Calgary during the first quarter of the year. However, several developers continued to offer price-reducing and value-add oriented incentives introduced in the latter stages of 2017 when some sub-markets became more competitive. The following outlines some of the incentives currently being offered:

- *Bridgeland Crossings II*: \$21,000 to \$35,000 off remaining standing inventory units.
- *Radius*: Held a re-launch after moving to an onsite presentation centre and offered incentives valued at up to \$50,000 for the unsold first and second floor units. While these incentives were only offered during the re-launch, sales staff indicate the developer is still willing to negotiate.
- *Victory and Venture*: Offering a spring incentive of \$15,000 to \$20,000 off the 'B' floorplans facing the courtyard.
- *COCO*: Offered an opening weekend launch incentive ranging in value from \$10,000 to \$20,000.
- *Tela*: Dropped prices on remaining units by \$5,000 to \$7,000.
- *Vivace*: Offering an incentive of \$10,000 off units in the North building.
- *Saratoga*: Offering an incentive of \$5,000 in free home furnishings plus a \$2,000 travel certificate until March 31<sup>st</sup>.
- *Mark 101*: Offering \$5,000 worth of furnishings incentive, 6 months of paid condo fees and a \$1,000 travel gift certificate.
- *Maverick at Livingston*: Offering \$3,000 off first floor units, \$5,000 off second floor units, \$8,000 off third floor, and \$12,000 off fourth floor units.
- *Avenue*: Price reductions of up to \$100,000 on select remaining standing inventory units.
- *Park Point*: Increased the realtor commission bonus to \$3,000 on one bedrooms and \$5,000 on two bedrooms on top of full commission.
- *Verve*: Continues to offer \$5,000 off one bedrooms, \$7,500 off two bedrooms, and \$10,000 off penthouses.
- *Cranston Ridge*: Offering an incentive of \$7,000 in upgrades.
- *Calligraphy*: Offering an incentive of \$8,000; the cost of an additional parking stall.
- *Sandgate in Mahogany*: Offering an incentive of \$5,000 off the purchase price.
- *Walden Place*: Offering an incentive of \$3,000 off the purchase price.
- *Seton Park Place*: Offering an incentive of \$10,000 off the purchase price, and an additional \$1,000 off to hospital employees.

### Buyer Trends

Younger price sensitive buyers who were particularly active in the fourth quarter of 2017 as they sought to purchase a home prior to the implementation of the stricter mortgage qualification rule on January 1<sup>st</sup>, 2018 were less active in the initial months of 2018 as they adjusted to the reduced buying power that resulted from the new rule changes. UA expects these buyers to begin re-entering the market in the coming months, and will be particularly interested in more affordably priced townhome and wood frame condominium product.

The extended period of cold wintry weather in Calgary resulted in many sales representatives at projects in the tempo marketing stages reporting lower traffic counts in the first quarter of the year. The exceptions to the lower traffic reports were new projects that launched in the first quarter. For instance, prospective buyers waited up to two hours at the launch of *COCO* in the Marda Loop neighbourhood. Truman Homes successfully attracted higher traffic numbers by hosting several weekend events at *The Gateway* and *Legends at Cornerstone* projects. Not surprising, sales representatives at the most aggressively and widely marketed projects reported the highest traffic counts.

The downtown market remained relatively quiet in terms of traffic and sales, which is to be expected given the limited amount of new product launched here in the 24+ months. *Citizen Tower* remains the only project launched in the downtown market in over two years, which has resulted in waning buyer interest and limited buyer urgency in concrete condominium projects in the Downtown sub-markets. An aggressively marketed launch for a concrete condominium project with an appropriate unit mix and affordable price points targeting price sensitive end user buyers and investors would generate greater urgency and excitement in this sector of the market.

### Looking Ahead

The following is a list of projects launched in the initial stages of Q1-2018, along with any scheduled to launch in the coming months that UA will monitor closely and add to NHSLive as the information becomes available:

- Avi Urban's *August* launched at the beginning of March in the University District. The 120-unit project features ground floor retail, and five storeys of condominiums above. The project is seeking a blended average sale price per square foot of \$534.
- Trico Homes launched *Unity in Seton* in March. The townhome project comprises 107 units, with a blended price per square foot of \$270.
- Excel Homes launched *Holland Park* in Walden, a 126-unit townhome project seeking a blended average sale price per square foot of \$253.
- Brad Remington is launching *Sage Park Place* on April 14<sup>th</sup>.
- Avi Urban's *Carrington Urban Terraces* is launching in April.
- Genesis recently launched *Laurels of Saddlestone*, a 54-unit townhome project.
- *Sandgate at Mahogany (Building Three)* by Hopewell Residential launched in the beginning of April.
- *Scarboro17* by Bow Developments is now taking registrations.
- Great Gulf's *Highcliffe*, located in Eau Claire, will be launching in the coming months.
- *Q Condominiums* by Morrison Homes is now taking registrations and will be launching in the coming months.

UA looks forward to monitoring the sales progress of these and all other actively selling new home projects and adding them to nhslive.ca as soon as possible after their launch.

**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.**

**Urban Analytics  
(403) 294-0135  
info-alberta@urbananalytics.ca**