

THE UA TAKE: FOURTH QUARTER 2017:

DEVELOPERS ADAPT AND BUYERS RESPOND

After a summer slumber, Calgary’s new multi-family home market experienced a positive increase in sales in the fourth quarter of the year. The increase in sales can be largely attributed to the 17 new project launches that occurred during the quarter. Several new project launches in the past quarter helped renew buyer interest in some areas after relatively flat activity during the summer months. Developers and home builders adapted to current market conditions by launching adjusting the product mix in new projects being launched to meet the needs of today’s buyers. The majority of the project launches occurred in the outer sub-markets and attracted younger price-sensitive buyers and investors. In addition to the new project launches, home builders and developers increased the value of incentives being offered, which resulted in higher sales volume. Developers’ willingness to adapt to changing demand trends combined with resulting positive response from buyers to recently launched projects allows for optimism for the market as a whole as we look ahead to 2018.

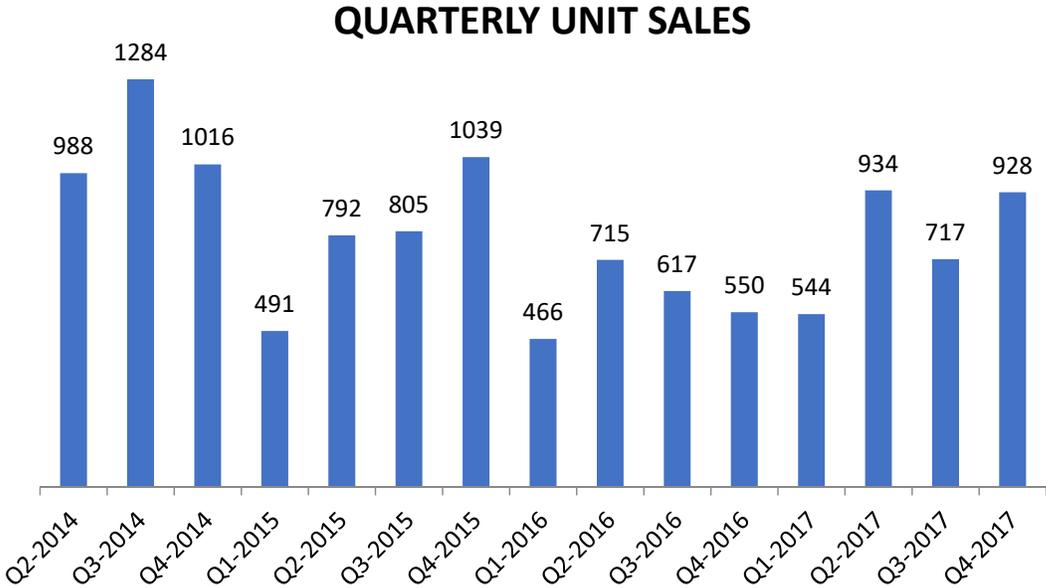


Chart 1

Total new multi-family home sales were 29 percent higher in the fourth quarter of 2017 compared to the third quarter of the year. The increase in sales can be attributed to 17 new project launches that occurred during the fall, and an increase in the value of buyer incentives offered, which attracted more new buyers to the market. The new mortgage rule changes set to occur in early 2018 also contributed to an increase in buyer urgency as some buyers sought to avoid being subject to the new ‘stress test’ rates the resulting loss in buying power.

YOY QUARTERLY SALES COMPARISON

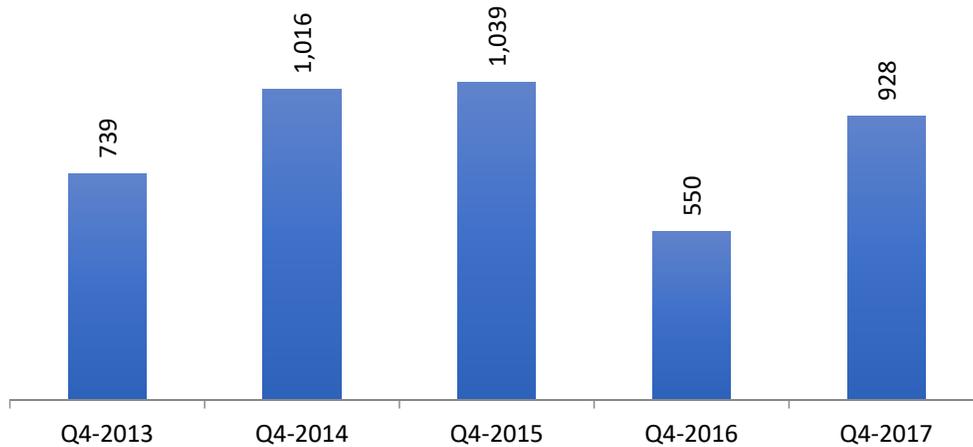


Chart 2

The total number of sales in Calgary’s new multi-family home market increased by 69 percent relative to Q4-2016. While still lower than the total sales in 2014 and 2015, the increase is an encouraging sign that purchasers are feeling more confident about the economy and secure about their own personal employment and financial situation.

QUARTERLY UNIT SALES COMPARISON

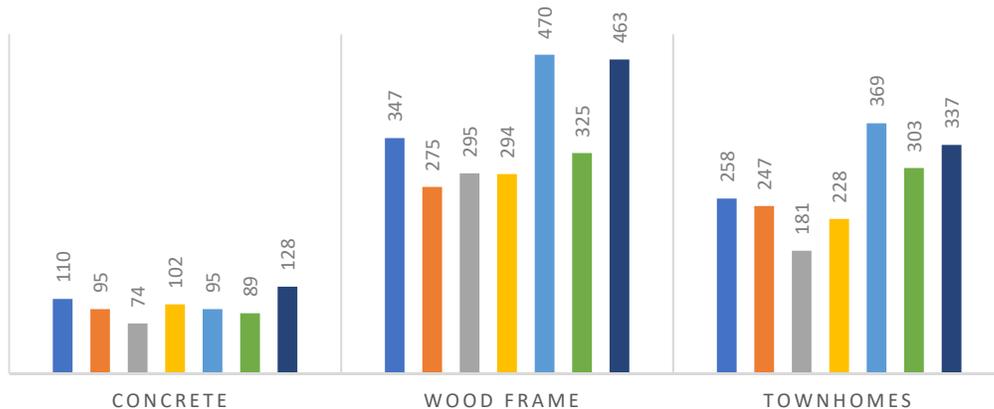


Chart 3

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

All three product forms experienced higher year-over-year sales volume in the fourth quarter. The townhome sector experienced the highest sales volume increase at 86 percent. The concrete condominium product sector experienced a 73 percent increase in sales, while the wood frame condominium sector experienced a 57 percent increase in sales year over year. The increases of

all three product forms can be attributed to higher consumer confidence and renewed interest in the new multi-family home market as a result of the launch of several new projects offering more affordable home options.

QUARTERLY SALES BY SUB-MARKET COMPARISON

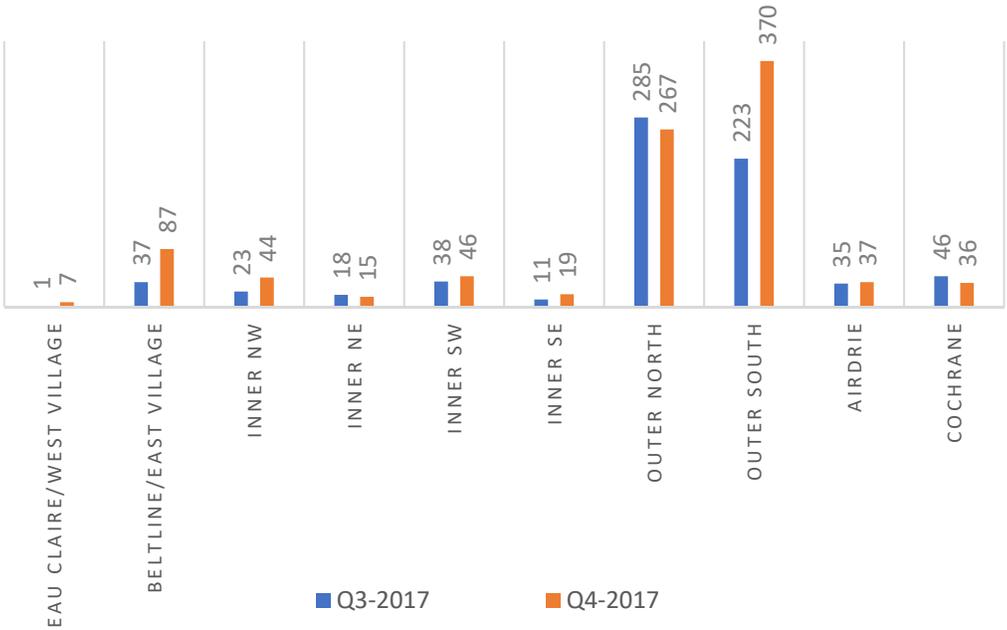


Chart 4

As was the case in the second and third quarters of 2017, the outer sub-markets continued to account for a significant proportion of all new home multi-family sales in the fourth quarter of 2017. The Outer North and Outer South sub-markets experienced the highest number of sales, which correlates to the highest number of actively selling projects in these two areas. Price-sensitive buyers continue to be attracted to new home product in these sub-markets due to the affordable price points being sought for recently launched townhome and wood frame condominium projects. The Outer South area achieved the highest number of sales in the fourth quarter; 66 percent higher than the third quarter of 2017. The Outer North experienced the second highest number of sales. Overall, seven of the ten sub-markets experienced an increase in sales volume over Q3-2017. Notably, the Beltline / East Village sub-market experienced a 135 percent increase in the sales volumes. Over half of the concrete condominium projects in the Beltline / East Village achieved between 10 and 20 sales in the fourth quarter of the year. The Outer North, Inner Northeast and Cochrane were the only sub-markets to experienced lower sales volume during the past three months.

The seven sub-markets in Calgary that experienced higher sales in Q4-2017 compared to the previous quarter are as follows:

- Eau Claire/ West Village: +600 percent
- Beltline / East Village: +135 percent

- Inner Northwest: +91 percent
- Inner Southwest: + 21 percent
- Inner Southeast: +73 percent
- Outer South: +66 percent
- Airdrie: +6 percent

The three sub-markets with lower sales volume in Q4-2017 relative to the previous quarter are:

- Outer North: -6 percent
- Inner Northeast: -17 percent
- Cochrane: -22 percent

The year-over-year percent change for each Calgary sub-market is as follows:

- Eau Claire/ West Village: -30 percent
- Beltline / East Village: +181 percent
- Inner Northwest: +83 percent
- Inner Northeast: -21 percent
- Inner Southwest: +53 percent
- Inner Southeast: No change
- Outer North: +29 percent
- Outer South: +76 percent

Chart 5 provides a breakdown of year-over-year sales. There was a 36 percent increase in sales in 2017 compared to 2016, and a two percent increase in sales compared to 2015. Sales in 2017 did not exceed sales in 2014, with 2014 sales outpacing sales in 2017 by 24 percent.

YOY SALES COMPARISON

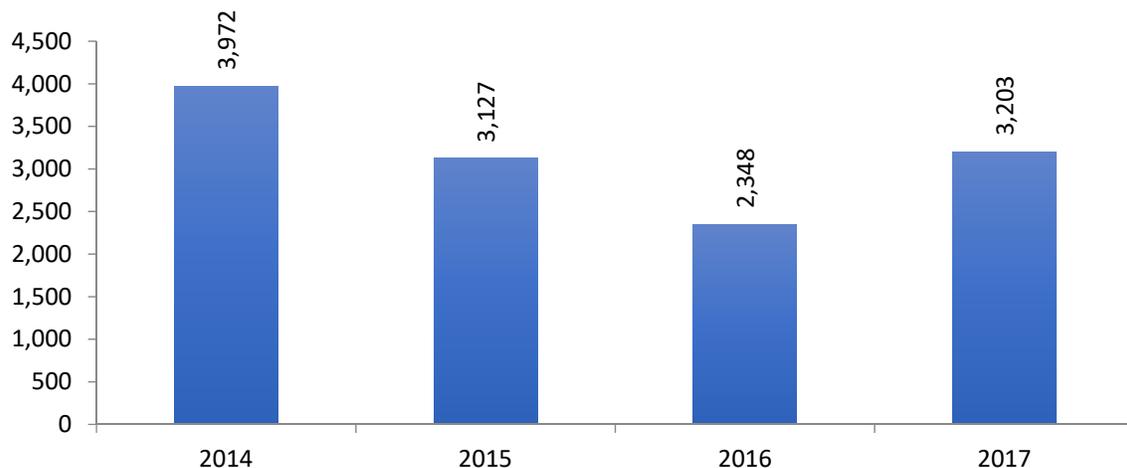


Chart 5

All three product forms experienced higher sales volume in 2017 compared to 2016. The largest increase occurred in the townhome sector, with sales increasing by 42 percent compared to the previous year. The increase in sales in this sector can be attributed to the increase in the number of new townhome project launches that occurred over the past 12 months, particularly in the outer sub-markets. Wood frame condominium sales increased by an impressive 38 percent in 2017 compared to 2016. Concrete condominium sales volume was also higher, but by a more modest 18 percent in 2017.

Particularly encouraging is the fact annual wood frame condominium and townhome sales volume was the highest in four years. While year-over-year sales volume in the concrete condominium sector was higher, it was still 76 percent lower than the recent annual unit sales high achieved in 2014. The second half of 2017 saw the first launch of a concrete condominium project in or near Downtown Calgary in 22 months. Chelsea Sky's *Citizen Tower* was launched in the summer of 2017 and has achieved modest pre-sale absorptions, largely due to a lower profile local marketing campaign and a somewhat unconventional unit mix. With much of the rest of the unsold inventory in this sector having been on the market for more than two years with very little downward movement in prices, there is little for prospective buyers to get excited about.

ANNUAL SALES BY PRODUCT TYPE

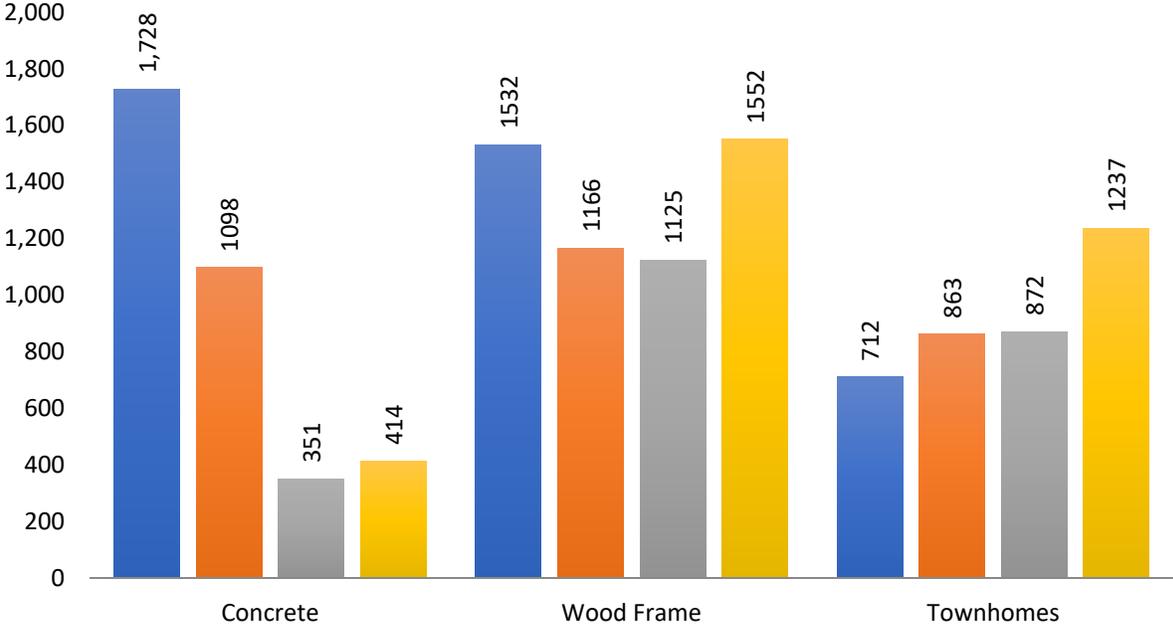


Chart 6

■ 2014 ■ 2015 ■ 2016 ■ 2017

Chart 7 illustrates the amount of released and unsold inventory by product type. On a year-over-year-basis, concrete condominiums experienced the greatest decrease in the amount of released and unsold units; a drop of 30 percent compared to 2016 and a 14 percent inventory decrease compared to the previous quarter. The decreasing inventory is largely attributed to the lack of new concrete product coming to the Calgary market and a recent trend of some developers converting completed and unsold units to rental apartment units. UA anticipates a further drop in concrete condominium inventory early in 2018 as additional standing inventory is potentially converted to rental apartments and the potential for the cancellation of at least one preselling project that has yet to start construction.

RELEASED INVENTORY COMPARISON BY PRODUCT TYPE

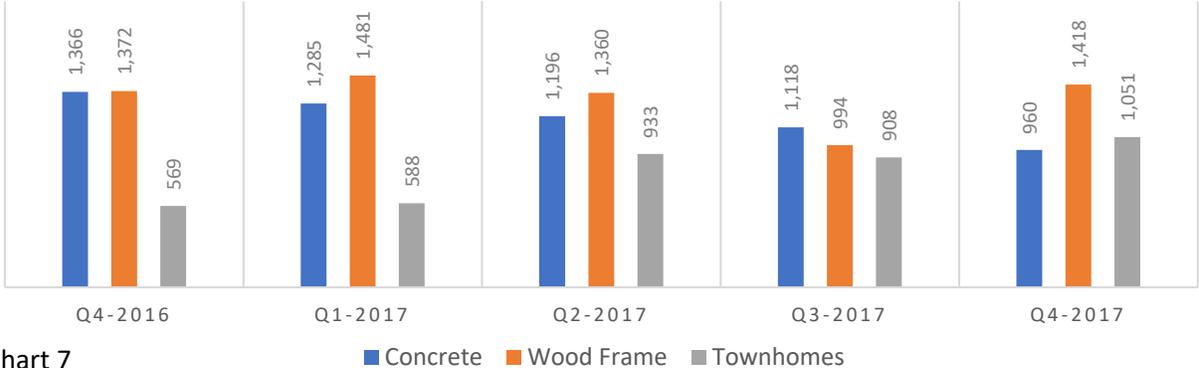


Chart 7

On a year-over-year basis, both the wood frame condominium and townhome sectors experienced an increase in the number of released and unsold units; three percent and 85 percent respectively. The large increase in townhome supply can be explained by the aforementioned significant number of new townhome project launches in 2017, and the addition of the Cochrane and Airdrie markets to the NHSLive database. These outer-markets comprise primarily of townhome projects. Newly launched townhome projects with a significant number of total units include; Rohit’s *Stile Seton* (165 units) and Brookfield Residential’s *Retreat in Riverstone* and *Octave* (187 and 139 units respectively).

Chart 8 compares the amount of released and unsold inventory by sub-market at the end of the third and fourth quarters. The largest amount of inventory is in the Beltline/East Village, Outer North and Outer South sub-markets. This is reflective of the fact these submarkets also feature the greatest number of actively selling projects in Calgary.

The fourth quarter of 2017 was particularly notable for the number of new project launches. The Inner Northwest, Inner Southwest, Outer North, Outer South and Cochrane all experienced higher inventory levels compared to the previous quarter. Lower inventory levels in Eau Claire/West Village, Beltline/East Village, the Inner Northeast, the Inner Southeast and Airdrie

can be attributed to a more limited number of project launches and the conversion of several completed and unsold units in the urban sub-markets to rental apartments.

RELEASED INVENTORY COMPARISON BY SUB-MARKET

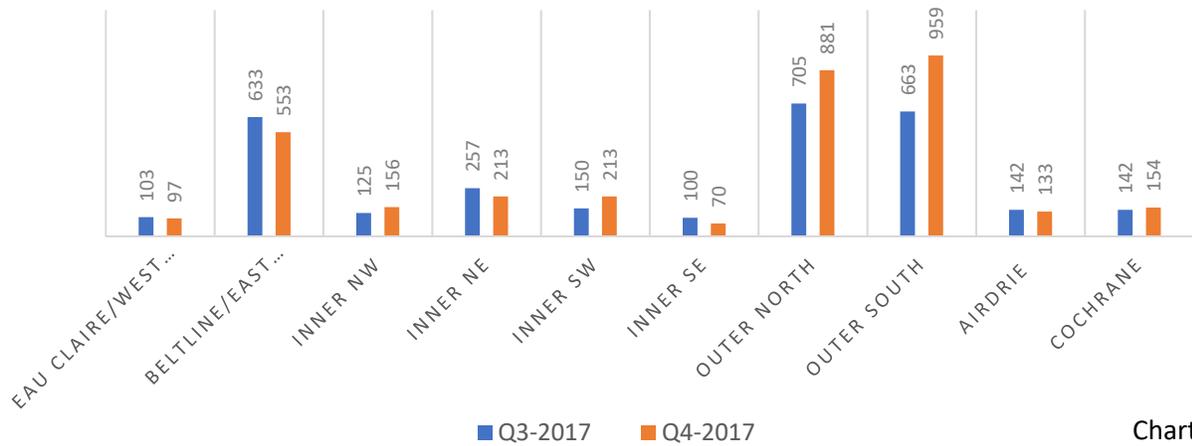


Chart 8

Chart 9 illustrates the spread between the number of unit sales in a given quarter and the number of unsold units at the end of that quarter. The increased number of project launches in Q4-2017 led to an eight percent spread between total quarterly sales and unsold inventory. However, this also represents an eight percent drop in the spread when compared to the end of Q4-2016.

QUARTERLY SALES VS. UNSOLD INVENTORY

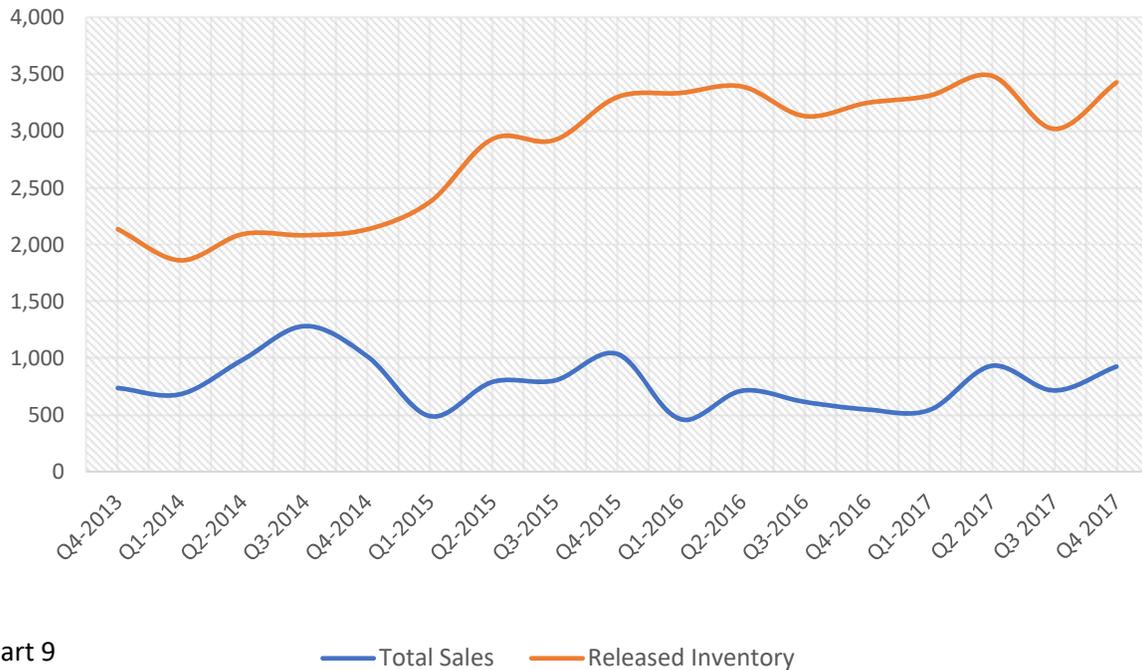


Chart 9

Another encouraging sign for the new multi-family home market in Calgary is that the number of completed and unsold (i.e. move-in ready) units dropped for the second consecutive quarter. Standing inventory levels were five percent lower at the end of Q4-2017 compared to the previous quarter. While there was a four percent increase in the number of completed and unsold units on a year-over-year basis, the decreasing trend of standing inventory over the past two quarters is promising and helps explain the positive buyer response to many of the recently launched new multi-family projects.

STANDING INVENTORY TREND

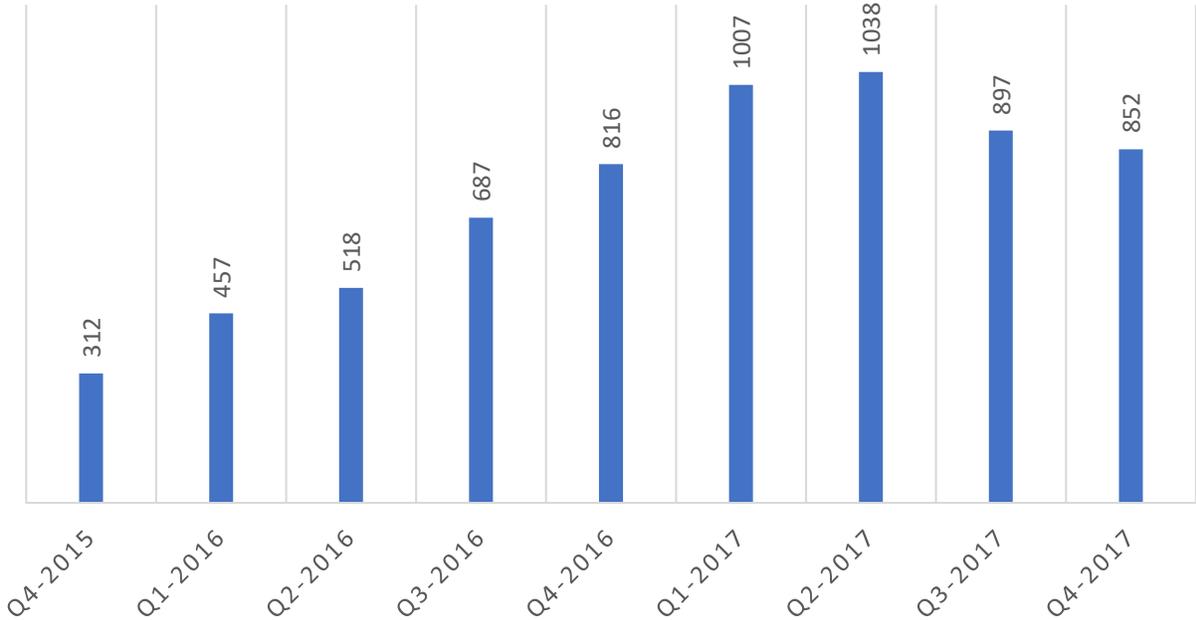


Chart 10

Chart 11 illustrates the number of completed and unsold units at the end of the fourth quarter by sub-market. The largest amount standing inventory can be found in the Outer North and Outer South sub-markets. This is largely attributable to these markets having the largest number of actively selling projects in Calgary. As previously noted, the drop in standing inventory in the urban sub-markets is partially attributed to developers converting completed and unsold inventory units to rental apartments. Projects with the highest number of unsold move-in ready units are Hon Towers’ *The Guardian II* (64 units) and Carlisle’s *Emerald Sky* (59 units).

STANDING INVENTORY BY SUB-MARKET

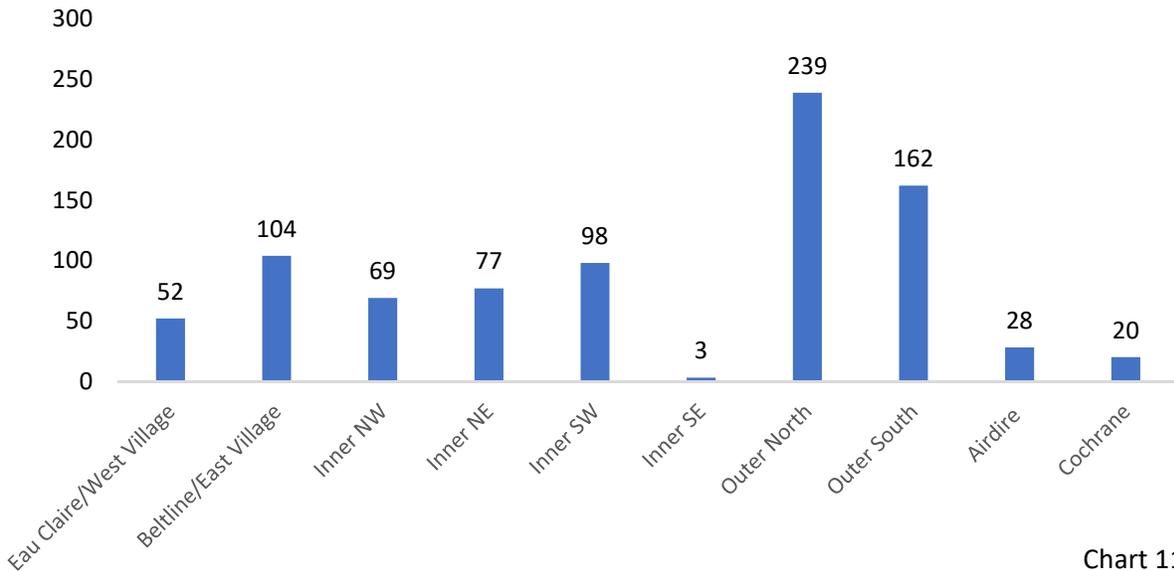


Chart 11

Chart 12 illustrates the construction status of unsold inventory by product type in Calgary’s new multi-family home market. The townhome sector features the highest number of unsold units under construction, which can be attributed to the several large phased townhome projects in the Outer North and Outer South sub-markets. The wood frame condominium sector offers the highest inventory of completed and unsold units. The concrete condominium sector offers the highest inventory of completed and unsold units. The concrete condominium sector features a similar number of completed, under construction and pre-construction inventory units.

UNSOLD INVENTORY BY PRODUCT TYPE AND CONSTRUCTION STATUS



Chart 12

Price Trends

While there were few price changes in the new multi-family home market in Calgary during the fourth quarter of the year, a number of developers increased the value of incentives offered in an attempt to increase sales volume. The following outlines some of the new incentives offered in the fourth quarter of 2017:

- *Guardian Towers*: \$20,000 off one bedrooms, and \$60,000 off two bedrooms on all remaining units.
- *Ezra on Riley Park*: Offering a 'Buy Now, Pay Later' incentive whereby if a purchaser is an investor and buying to rent and hold a unit, the developer will work to find them a tenant. If the unit is unoccupied, the developer will pay the purchaser \$1,600 a month for one bedroom floorplans, and \$1,800 a month for two bedroom floorplans to cover mortgage payments for up to one year.
- *N3*: Held a 'blow out' sale to sell the remaining inventory with incentives ranging from \$60,000 to \$100,000 off the purchase price.
- *Citizen Tower*: \$10,000 cash rebate (depending on unit) upon closing.
- *Verve*: \$5,000 off one beds, \$7,500 off two beds, and \$10,000 off sub-penthouse units.
- *Bridgeland Crossing*: \$21,000 to \$35,000 off select units.
- *Bridgeland Hill*: \$20,000 to \$50,000 off select units.
- *Regatta*: \$10,000 off the purchase price for units purchased before Christmas.
- *Maverick at Livingston*: \$3,000 off all first floor units, \$5,000 off all second floor units, \$8,000 off all third floor units, and \$12,000 off all fourth floor units.
 - Also offering a "pick your promo" incentive which allows purchasers to choose between six months of no condo fees, three months of paid mortgage payments, or free upgrades.
- *Zen Redstone* and *Zen Ravenswood*: "Live Free for 3 Months" or "Free Basement Development".
- *Verona Townhomes*: \$5,000 off purchase price.
- *Cornerstone Street Towns*: \$10,000 worth of upgrades.
- *Townes of Redstone*: \$10,000 off the purchase price or \$15,000 worth of free upgrades
- *Hunter House*: \$10,000 off bungalows and \$5,000 off towns.
- *Diseno*: 'Scratch and Win' incentive valued at \$5,000.

A few developers increased list prices of available inventory as follows:

- *Park Point*: Following a successful quarter with 20 sales, prices of all units were increased raising the project's overall average price per square foot value from \$613 to \$620.

Buyer Trends

Younger price-sensitive buyers continued to make up the majority of purchasers throughout 2017. As a result, actively selling projects in the outer sub-markets achieved the highest absorptions. Condominium and townhome product seeking a purchase price of less than \$350,000 in the outer sub-markets experienced the highest sales volume. The fact some lending institutions began applying the incoming new 'stress test' when qualifying prospective buyers effectively reduced their purchasing power and resulted in them seeking more price-sensitive product.

The second half of 2017 also saw the return of the investor purchaser, though in limited numbers relative to previous years. Many of the investors seeking condominium product in the inner sub-markets are from outside of Calgary; primarily from Vancouver. The community of *Seton* also attracted a high number of investor purchasers, particularly to the *Seton Park Place* project. Truman Homes' *Noble* in University District also saw some investor interest in recent months. *Noble* offers close proximity to both the University of Calgary, and the Foothills Hospital, while *Seton Park Place* offers close proximity to the new South Calgary hospital. These are features many active investors are seeking in projects they consider purchasing in.

Downsizer and empty nesters have been active in location-specific projects. Projects that have attracted a significant number this buyer group include Shane Homes' *Mark 101*, Cove Properties *Pinnacle at Kincora*, Streetside Developments' *Vivace*, Jayman's *Reflections*, and Telsec's *Sanderson Ridge*.

New launches

There were 17 new projects launched in Q4-2017.

- *Legends* by Truman Homes launched in Cornerstone in the Outer North. The project drew initial interest with a \$99,000 starting price point. There were seven units that sold at that price.
- *Octave* by Brookfield Residential consists of 139 townhome units that launched in the new community of Livingston.
- *Skyview Landing* by Carlisle Group had a successful launch selling 210 of the 224 total units.
- Brookfield Residential launched 178 townhome units at its *Retreat in Riverstone* project in Cranston.
- Cedarglen Living launched *Seton Park Place 2* in September and has sold 72 of the total 95 units.
- Highstreet launched the second building at *McCall Landing*, which has been built prior to its marketing launch.
- Shane Homes launched the second building at *Mark 101*.
- Avi Urban launched 38 townhomes at *Savanna Urban Terraces*, which is seeking an overall blended price per square foot of \$248.
- Avalon Master Builders launched the 70 unit stacked townhome project, *Zen at Urban District* in the Seton community and is seeking an overall blended price per square foot of \$270.

- RNDSQR launched *Grow* in the Bankview neighborhood. The 20 unit wood frame project features unique rooftop gardens with each unit.
- Torode Residential launched *Irvine*, a 60-unit project in the Inglewood neighbourhood.
- *Wentworth Pointe*, an 83-unit townhome project by Trico Homes launched in September.
- Graywood Developments' launched its second building at *Fish Creek Exchange* at an overall blended price per square foot of \$342.
- Rohit Communities launched *Stile Seton*, which comprises 84 wood frame condominium units and 165 townhomes.
- Cardel launched the fourth building of *Cranston Ridge* which is selling at a blended price per square foot of \$281.
- Logel Homes launched the second building of *Auburn Rise* at a blended price per square foot of \$316.
- Remington launched *Legacy Park* comprising 72 wood frame condominium units seeking a blended price per square foot of \$258.

The following is a list of projects UA expects will launch during the next two quarters and will be monitoring closely:

- *The Gateway*- Truman Homes'
- *Winston*- Avi Urban
- *Saragetta*- Shane Homes
- *Coco*- Sarina Homes
- *Seton Park Place II Bldg 2*- Cedarglen Living

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 and or positioning of your new multi-family home community.

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