There’s been much anxiety and hand-wringing about the state of the new multi-family home market in Metro Vancouver through the first six months of 2019. And halfway through the year there appear to be more questions than answers...

1. What happened to all those projects that were supposed to launch?
2. When and where will the next tower launch and for how much?
3. Who’s buying and what and where are they purchasing?
4. When will the investors return?
5. How long before market conditions improve?
6. Is this a good time to buy?

And perhaps the most difficult one to answer...

7. Will the District of North Vancouver council ever approve a new development again?
While there are many other questions being asked daily about market conditions, without a crystal ball, we’re left to consider the data the market is providing and analyze it together with various other factors and metrics to provide an educated guess. In the meantime, we’ll attempt to answer some of these questions here prior to delving into a review of market activity and the current status of Metro Vancouver’s new multi-family home market.

**Question 1 – What happened to all those projects that were supposed to launch?**

Contrary to what has been reported, projects that were scheduled to launch during the first half of the year but didn’t, have not been cancelled; the respective launches of these projects have been postponed. Given current market conditions and the nine-month window developers have to realize the required presales to obtain construction financing and a building permit is giving many developers of larger concrete condominium projects a cause for pause. UA recorded just nine new concrete condominium project launches in the first half of 2019, which is one-third of the number of similar projects launched during the first six months of last year. The drop in new project launches resulted in 3,241 fewer new concrete condominium units being released to the market. Meanwhile, 24 new wood frame condominium projects were launched in the first half of the year; the same number as were launched during the same period in 2019, though these projects were smaller in size as there were 35 percent fewer wood frame condominium units released.

**Question 2 – When and where will the next tower launch and for how much?**

While some developers are expected to test the market and launch projects during the second half of the year, many with projects in the higher priced and more urban locations are likely to wait for more certain signs of deeper market demand before releasing their project to the market. As such we are unlikely to see any significant increase in new project launches until the first half of 2020.

**Question 3 – Who’s buying and what and where are they purchasing**

The greater willingness of developers to release wood frame condominium projects over concrete projects reflects the lower perceived risk of these projects, which are smaller in scale and appeal more to end user purchasers who are attracted to the more affordable prices. As the analysis that follows will illustrate, sales activity in the wood frame condominium and townhome sector, both of which attract a higher proportion of end user buyers than concrete product, achieved much stronger absorptions than the concrete sector. The analysis will also show how much of the demand for new multi-family product in Metro Vancouver during the first half of 2019 was in the South of Fraser sub-markets. In fact, for the first time since UA resumed monitoring the new multi-family home market in 2010, there were more new home sales in South of the Fraser sub-markets in Q2-2019 than in the North of Fraser sub-markets. These sub-markets offer more affordable new home product that the more urban areas, which appeals to end-user buyers, who tend to be more price-conscious than investors.
Question 4 – When will the investors return?

Historically, investors who are purchasing primarily for value appreciation purposes have been reluctant to re-enter a market until they see definitive signs that it has reached the bottom of a cycle, and that prices are beginning to recover from their low. It’s clear from the limited investor participation in the marketing during the first half of this year that they don’t perceive the market as having reached the bottom of the cycle yet.

Question 5 – How long before market conditions improve?

During the past couple of market cycles, there were specific events that triggered a recovery in the market; the election of the pro-investment provincial Liberal party in 2001 and Onni Developments’ bulk condo sale in 2009 advertising up to 25 percent price reductions on its inventory of homes. It does not appear there are any similar imminent triggers for the market during this current downturn. As such, we will likely need to wait for some sector of the market to provide an indication that the bottom has been reached and is in fact in recover mode. While it’s extremely difficult, if not impossible, to predict when this could occur, UA suggests a number of consecutive months of MLS statistics that show similar or improved year-over-year sales and pricing data will help shift the perception of market conditions among an increasing number of investors. While this may seem overly simplified, buyer psychology and behaviour has historically shown it takes very little to turn buyer sentiment either positive or negative. UA doesn’t anticipate any marked improvement in market activity in the new multi-family home sector of the market until the first half of 2020. Having said that, there are already indications conditions in the resale sector of the market are improving with higher sales in both real estate board areas in Metro Vancouver in August.

Question 6 – Is this a good time to buy?

Absolutely! It wasn’t long ago that we were hearing laments from prospective buyers about the inability to secure a unit in a new condominium or townhome project. They would register for a project but never hear from the sales staff, only to find out the project was substantially sold within days of its release, which they never heard about. Times and market conditions have certainly changed. Not only do prospective buyers now have much more choice in projects to purchase a new home in, and the time to shop around to make a more informed and less-rushed decision, they’re able to take advantage of lower pricing and some increasingly lucrative price-reducing incentives. Sure, buyers can wait for the market to fall further, but there’s no guarantee it will, nor is there a guarantee they’ll have the same choice in new product.

And finally...
Question 7 – Will the District of North Vancouver ever approve a new development again?

We’d like to think once the current councillors who continue to reject new market and non-market multi-family home projects for a variety of reasons that demonstrate how misinformed and irresponsible they truly are, realize the severe negative impact on the District’s finances, it might have a change of heart on at least a few projects. However, to date there is nothing to indicate these councillors will recognize the connection between dwindling resources and the lack of new multi-family development fees, nor does it appear they appreciate the long term impacts their decisions to date will have on housing affordability in the District for years to come. As such, UA anticipates the status quo from this band of... well, we’d better leave it there.

UA Take – Q2-2019

The following is an analysis of sales activity in the first quarter of 2019 and a comparison to previous quarters and years, along with a review of the inventory trends through the first three months of the year.

Sales and Inventory Analysis

Metro Vancouver recorded the second lowest number of quarterly sales of new multi-family homes in the past 10 years during the second quarter of 2019. The 1,691 recorded sales of new concrete and wood frame condominiums and townhomes is the fewest since the third quarter of 2010 when just 1,644 new unit sales were recorded. The fewer sales continues a trend that began in the first quarter of the year when quarterly sales dropped by 56 percent compared to the previous quarter. The drop in sales was a much more modest five percent in Q2-2019 compared to the first quarter of the year.

![QUARTERLY NEW MULTI-FAMILY HOME SALES](chart1)

The fewer sales can be attributed to continued limited buyer urgency levels and few new comprehensive project launches, particularly in the high rise sector of the urban sub-markets north of the Fraser River, where developers are reluctant to launch new projects without more certainty they’ll be able to meet
presale tests at sale prices required to make projects viable. This is clearly reflected by the fact total new multi-family home sales in the south of the Fraser River sub-markets exceeded the number recorded in north of the Fraser River sub-markets.

Chart two further illustrates the dramatic drop in sales in the first half of 2019 compared to the same period in previous years. The 3,474 new multi-family home sales in the first six months of 2019 represents a 55 percent drop from the same period in 2018 and a 73 percent drop from 2016. This chart also reflects how the lower buyer demand has impacted the more urban sub-markets where first half sales were 67 percent lower than in 2018 compared to the more modest 27 percent drop in sales in the South of Fraser sub-markets.

![YTD NEW MULTI-FAMILY HOME SALES](chart)

The trend of fewer new project launches and units released continued in the second quarter. There were 54 percent fewer units released and just over half the number of projects launched in the first half of 2019 compared to the same period in 2018. The fewer number of units released and projects launched, particularly in the concrete condominium sector of the urban sub-markets has had a significant impact on the number of sales reported during the first half of the year.
The drop in sales activity has been felt across all product sectors. The concrete condominium and townhome sectors experienced the most significant reduction in year-to-date sales (-57%), though the wood frame condominium sector wasn’t far behind at 49 percent fewer sales in the first half of 2019 compared to 2018.

The impact of slower sales is shown most clearly in Chart 5, which illustrates the trend in quarterly sales compared to the trend in the number of released and unsold new multi-family home units at the end each quarter. There were 7,025 more unsold units at the end of Q2-2019 than there were unit sales
during the quarter. This represents a dramatic change from the same quarter in 2018 when there were 141 fewer unsold units than there were sales during the quarter. The spread between these two metrics at the end of Q2-2019 represents an increase of nearly 1,000 units compared to the previous quarter. The spread is also approaching the widest point reached during the past nine years; 7,565 in Q1-2013. It’s clear that while absorption rates are steady in many parts of the market, demand levels are not currently sufficient to absorb the amount of new product being released to the market in some sub-markets.

Chart 6 illustrates the number of sales and new supply in each of Metro Vancouver’s sub-markets during Q2-2019. There were nearly 1,700 new multi-family units sold during the second quarter of the year; just over 80 percent of the 2,109 new units released to the market. This is in stark contrast to the same quarter in 2018 when over 96 percent of the 3,374 new units released were sold. The contrast is similar when comparing the first half of 2018 with the same period this year; 90 percent of the 3,857 units released to date in 2019 have sold compared to the first six months of 2018 when there were more units sold than the 7,617 units released. The significant shift in market conditions is further reflected by the fact the number of new multi-family units released for sale in the first half of 2019 is half of the number released in 2018, and that the number new units sold to date this year is approximately 45 percent of the number sold during the first six months of last year.
With the exception of Surrey/North Delta, sub-markets that experienced the biggest ratio difference in units sold versus released were those that had the most new projects and product released during the quarter. The Tri-Cities and Abbotsford are the two most glaring examples of this. The fact the number of sales recorded in Surrey/North Delta exceeded the number of new units released illustrates where much of the demand in the market currently exists. The limited number of sales recorded in Vancouver Downtown illustrates the soft conditions for new condominium product in this sub-market.

It’s not surprising given the slower sales recorded to date this year that unsold inventory levels of new multi-family home product in Metro Vancouver has risen by 180 percent compared to the same quarter in 2018. The 8,716 unsold condominium and townhome units is the highest quarterly number recorded since the second quarter of 2013. Chart 7 also illustrates how the wood frame condominium sector has experienced the most dramatic increase in unsold inventory levels. This is mostly due to several new project launches in this sector in Abbotsford, Coquitlam and Surrey.
Just two of the 13 sub-markets monitored by UA experienced lower unsold inventory levels in the second quarter than in Q1-2019; Burnaby and the North Shore. The postponement of new concrete condominium project launches in Burnaby limited the amount of new inventory added to this sub-market. The lower inventory levels on the North Shore can be largely explained by the answer to Question 7 above. While new project launches are anticipated during the last half of 2019, the lack of new project approvals in the District of North Vancouver will limit the amount of inventory on the North Shore for the foreseeable future and will maintain pressure on new home pricing and thereby the prevailing affordability challenges in this sub-market. New wood frame condominium project launches in Vancouver West, Tri-Cities and Abbotsford resulted in a greater increase in unsold inventory levels than in other sub-markets.

It’s important to note that given the increase in unsold inventory that just six percent of all unsold new multi-family units in the market are completed and move-in ready. And while the number of completed and unsold units has been trending higher over the past 18 months, it is still well below the high of over 2,200 standing inventory units recorded at the end of 2013.
It’s also encouraging that the sub-markets with higher amounts of standing inventory are also those with where sales activity has been been strongest and where demand from end user buyers is highest; South of Fraser sub-markets. As such, UA anticipates the amount of move-in ready inventory to remain at very manageable levels for the foreseeable future.

An important consideration when analyzing the amount of unsold inventory is the construction stage of that inventory. Chart 11 illustrates how the majority of the unsold units in the market available for purchase are in the pre-construction stage. In fact, construction has yet to commence on over two-thirds of all unsold condominium and townhome units available to purchase in Metro Vancouver. The increased amount of unsold inventory in recent quarters would be a much bigger concern if more of this product was nearing completion or completed. Most of the unsold concrete condominium product will not be completed and move-in ready for three or four years. Presumably, market conditions will have improved.
by then, thereby preventing a concerning increase in move-in ready unsold units. Further, there is a possibility that some pre-selling concrete condominium projects do not meet their pre-sale test and could thus be pulled off the market, thereby substantially reducing the amount of unsold inventory.

A review of the sales status of actively selling and sold out concrete condominium projects illustrates how there should be little concern about a potential oversupply of this product form in the market for the foreseeable future. As Chart 12 illustrates the number of unsold units in all concrete condominium projects completing from Q2-2019 to the second quarter of 2022, over 90 percent of all units scheduled to complete over the next three years are already sold. Further, 98 percent of all concrete condominium units scheduled to complete by the end of 2020 are sold.
Price Trends

Most developers launching projects in Metro Vancouver during the first half of the year were cognizant of prevailing market conditions and positioned those projects accordingly. Those that didn’t quickly realize through a lack of sales that buyers are aware of the softer conditions and are purchasing at projects offering the better value. Many developers contemplating the launch of new projects, particularly in the concrete condominium sector, are challenged by several factors including high construction costs and municipal fees (community amenity contributions and density bonus fees in particular) that are negatively impacting the financial viability of many of these projects. Until such time that sale values increase or construction costs fall considerably, the market will continue to experience few comprehensive concrete condominium project launches.

Time to rethink REDMA?

Given the much softer market conditions and the prevailing lack of buyer urgency levels in the market, it is becoming much more challenging for developers to meet ‘presale tests’ within the nine months prescribed in the Real Estate Development Marketing Act (REDMA). Developers can reduce prices only so far before a project is no longer viable. As such, some projects will likely be cancelled after marketing for several months when presale tests are not met and developers are not willing or able to contribute more equity into a project to obtain financing. This will ultimately lead to more limited supply should market conditions suddenly improve and the majority of remaining inventory is absorbed. UA suggests the Superintendent of Real Estate should consider an amendment to this REDMA requirement and extend the nine month period to a more realistic period. This additional time to meet presale tests and obtain financing would also alleviate pressure on developers to achieve the required sales in such a short period of time, which typically encourages them to aggressively court so-called ‘whale’ realtors and their investor clients, thereby allowing greater access to these projects for end user buyers.

New vs. Resale Pricing

During periods of higher volume sales in both the new and resale sectors of the multi-family residential market, the spread between average resale prices and the prices sought for new product is generally quite narrow. However, when market conditions soften as they have in recent quarters, this spread tends to grow as the resale market can react much more quickly to lower demand levels than the new home market. Given the current softer market conditions, the spread between resale and new home prices has begun to increase as illustrated in Chart 12 below.
Generally, sub-markets experiencing stronger buyer demand and absorptions, or with lower unsold inventory levels show a smaller spread between pre-sale and resale pricing. The chart also illustrates a much wider spread between pre-sale and resale pricing in the higher priced sub-markets such as Vancouver Downtown, Vancouver West and West Vancouver. UA anticipates this spread will narrow as new projects are launched and lower average list values.

The following provides a summary of average sale values UA estimates are being attained in the more active Metro Vancouver sub-markets and neighbourhoods. The noted values are exclusive of buyer and realtor incentives:

- **Vancouver Downtown** – The most recent concrete condominium project launched in Downtown Vancouver in Q2-2019 is seeking average sale values of approximately $1,900 per square foot but has experienced very limited sales activity. UA suggests typical condominium product (i.e. non-ultra luxury product) should seek to achieve average sale values between $1,700 and $1,800 per square foot to attain higher average absorptions.

- **Vancouver West** – New concrete condominium product slated to commence marketing in the coming months along the Cambie Corridor should expect to seek sale values of approximately $1,300 per square foot. Luxury wood frame condominium projects are expected to seek average values of approximately $1,100 per square foot. Less luxurious product should expect to achieve closer to $1,000 per square foot.

- **Richmond** – Concrete condominium projects seeking average net sales values under $1,000 per square foot are achieving the highest absorptions.

- **Burnaby** – Concrete condominium projects in the Brentwood neighbourhood seeking average net sale values closer between $900 and $1,000 per square foot are experiencing reasonable absorption levels. Buyers are resisting concrete condominium product priced above $1,100 per square foot in Metrotown. Developers planning to launch concrete condominium product in the
Lougheed area should seek average sale values under $900 per square foot to experience reasonable absorptions.

- **New Westminster** – Concrete Condominium projects in New Westminster have adjusted pricing to reflect the shifting market conditions and are now seeking average net sale values under $850 per square foot.

- **North Shore** – Developers launching concrete condominium product here should seek average sale values of $900 to $1,100 (depending on location) to achieve reasonable absorptions. Buyers of wood frame condominium values are more resistant to average pricing over $850 per square foot.

- **Tri-Cities** – Developers contemplating concrete condominium product in this area should expect to seek average sale values between $800 and $850 per square foot to achieve desired absorption levels. Recently launched wood frame condominium product located along the Clarke Road corridor is achieving modest absorptions at average net sale values of $730 to $750 per square foot. Townhome developers continue to adjust prices accordingly to create and sustain sales activity.

- **Fraser Valley** – Concrete condominium product in Surrey City Centre seeking between $750 and $800 per square foot is achieving steady absorptions. Aggressive incentives are required to generate higher sales activity at concrete condominium projects in South Surrey/White Rock.
  - Recently launched wood frame condominium projects in Langley/Cloverdale continue to seek average sale values of $525 to $550 per square foot.
  - The most active recently launched townhome projects in Fraser Valley sub-markets are seeking the following average values:
    - **Surrey/North Delta** – $370 to $420 per square foot
    - **South Surrey/White Rock** – $380 to $420 per square foot
    - **Langley/Cloverdale** – $410 to $440 per square foot

- **Abbotsford** – Wood frame condominium projects seeking average sale values between $475 to $525 per square foot have experienced strong demand. Successful townhome projects are achieving average sale values of $350 to $380 per square foot.

**Buyer Trends**

The general lack of urgency among all buyer groups noted in the Q1-2019 UA Take continued during the second quarter of the year, particularly among investors and prospective buyers of luxury product in the higher price ranges. Astute end user buyers who recognize the more favourable buying conditions resulting from lower prices, higher-valued incentive offerings and greater selection of product have been the most active buyers in the market. This helps explain why sales volume was higher in the South of Fraser sub-markets than in the urban sub-markets North of the Fraser River.

The launch of the Federal Government’s First-Time Home Buyer Incentive program should theoretically assist entry level buyers to qualify for a mortgage, though this program will not come close to making up
for the lost buying power caused by the B-20 Stress Test rules introduced in 2018. And while this new program should help allow more first time buyers into the market, it does nothing to assist younger move-up buyers who were also greatly impacted by the Stress Test. There is hope the federal election later this fall could bring some relief for these buyers.

Meanwhile, both pure cash flow investors and speculators remain largely on the sidelines as they wait for signs of the market bottoming out. Investors who remain active are being very selective with what and where they buy and are not shy about grinding for a bargain. Speculative investors are likely out of the market for the foreseeable future given current pricing trends. However, longer-term hold investors are more likely to re-enter the market sooner as the combination of rising rents and lower purchase prices shrinks the gap between rents and debt servicing costs and make an investment for rental purposes more viable.

Looking to the final two quarters of the year, projects targeting end user buyers will continue to experience steady but modest absorptions in last half of 2019. Projects more inclined towards investor buyers will need to demonstrate exceptional value and/or differentiation in the marketplace to induce this buyer group to purchase. Developers and marketers of projects that require any significant proportion of investor or luxury buyer participation will require patience as they enter the market.

Looking Ahead

There are few, if any indications that market conditions in the new multi-family home sector of the market will vary significantly during the last two quarters of the year from what was experienced during the first half of 2019. End user oriented projects will continue to realize steady interest and absorptions, particularly in suburban sub-markets.

The virtual staring contest between concrete condominium developers and luxury and investor purchasers condominium projects is likely to continue as developers wait for construction costs to fall or for sale values to rise sufficiently to make their projects viable, and luxury condominium and investor purchasers wait for a sign that prices have bottomed out and market conditions are improving. After very few new concrete condominium launches in urban sub-markets during the first six months of the year, UA expects a few developers to test the market to determine demand levels. These will be select projects where the developers purchased the land at more favourable prices and were fortunate enough to obtain approvals prior to CAC’s being implemented. As such, they’ll be able to offer product at list values more appropriate for current market conditions.

The federal election expected this fall could cause further uncertainty in the market and may cause some prospective buyers to delay their purchasing decisions and developers to postpone project launches. UA will be carefully watching for any policy promises that could impact the housing market, such as adjustments to the B20 Stress Test. Further, while the Bank of Canada has been reluctant to adjust its key lending rate lower, as many other jurisdictions in the world have, it may be forced to lower its rate before the end of the year in response to potentially softening economic conditions. A drop in borrowing
rates combined with any changes to the Stress Test policy would increase the buying power of many purchaser groups and therefore increase demand.

UA will continue to monitor the sales progress of all new multi-family home projects launched along with those already actively selling and updating the data as it is collected on NHSLive.ca.

UA maintains the most current database of actively selling and contemplated new multi-family home projects in Metro Vancouver, Calgary and Edmonton on NHSLive.ca. UA analysts are constantly updating the data for the most active projects to ensure our subscribers are as current as possible. In addition to the *Multi-Family Home* platform on NHSLive.ca, UA also offers subscription access to new purpose-built rental data and land transaction data on NHSLive. Please call for a demonstration of both these products and to inquire about our advisory services to help you appropriately design and position your next project.

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