BRIGHT SPOTS

METRO VANCOUVER UA TAKE:
THIRD QUARTER 2019
The first half of 2019 was characterized by limited buyer demand and correspondingly lower new multi-family home sales, few launches of comprehensive new projects (particularly in urban sub-markets), and modestly lower sale values. These conditions compounded the prevailing uncertainty in the market among both buyers and developers at the end of the 2018 and the start of 2019. As has been extensively documented, much of the uncertainty was caused by local government policies designed to cool market conditions, and by foreign government policies designed restrict the transfer of capital out of the country.

As was suggested would occur in an early-2019 UA Take, the market began to experience more positive buyer sentiment in the third quarter of the year as year-over-year MLS statistics released by local real estate boards appeared to indicate the market had bottomed out. More prospective buyers attempting to time a home purchase with the market bottom appeared to be satisfied conditions were unlikely to worsen significantly and became more active in the third quarter of the year. This more positive buyer sentiment was also apparent in the new multi-family home market, as evidenced by the nine percent increase in Q3 sales compared to the second quarter.

While it’s clear the market began to recover from the uncertainty of late 2018 and the first half of 2019, the slow and steady recovery has been different from those seen in past cycles. That is, where past market rebounds have historically started in sub-markets closest to the urban core and spread outward to the outer sub-markets, so far, this current recovery appears to be geographically reversed. That is, the increased demand and sales experienced in Q3-2019 was primarily focussed in the outer sub-markets south of the Fraser River, and was driven by end user buyers. Investors remain tentative as they assess whether to re-enter the market given there is little indication of potential for any substantial short-term future value gains.

The emerging trend of more activity in the suburban sub-markets is also a function of the type of product available and being released in these areas. There was just one new concrete condominium development launched in south of the Fraser River sub-markets during the third quarter. The rest of the new product launched in these areas was more affordable wood frame condominium and townhome product, most of which targets end-user buyers, though some sales representatives indicated there was renewed interest from local investors in the more affordable wood frame condominium product located in or near an existing or future transit-oriented location. The representatives indicated these investors were considering both the future value appreciation and the rental potential of the product and locations.

The very limited number of new concrete condominium launches in north of Fraser River sub-markets make it difficult to determine the actual level of demand for this product form in the region’s urban sub-markets. It’s clear from the relatively meagre number of sales at projects seeking higher sale values in
the Downtown and Vancouver West sub-markets, that there continues to be considerable uncertainty among prospective buyers and developers of this product. Given the relatively short window developers have to attain their respective presale targets to allow them to obtain construction financing and a building permit (as dictated by the Real Estate Development Market Act, or REDMA), most developers of comprehensive concrete condominium projects in north of Fraser River sub-markets were reluctant to launch a project without more certainty of buyer demand.

The other challenge for developers contemplating the launch of a new project is that achievable sale values have softened or fallen in most areas of the region. UA estimates achievable sale values for concrete condominium product has dropped by up to 15 percent from the market peak of late 2017/early 2018. Without a corresponding drop in costs (which has not materialized to date), some projects are simply not financially viable if the land for the projects was purchased at or near the market peak. Unfortunately, most municipal governments appear to have chosen to ignore the shift in market conditions, or are simply ignorant to them, and are continuing to demand higher fees and development costs from builders, further rendering many projects financially unviable. The result of this will be fewer new projects coming to market and getting built in many sub-markets, which will inevitably lead to a severe supply shortage when buyer demand increases. While it’s unlikely the market will experience the same rapid increase in home prices as was experienced in recent years, the demand/supply imbalance will certainly lead to higher prices for consumers.

UA anticipates the fourth quarter of the year will look very similar to Q3 in that more buyers will return to the market and builders will continue to contemplate the opportunity to launch new projects. Builders with more comprehensive concrete condominium projects on land that was purchased at reasonable prices (i.e. prior to the run-up to the peak in land prices reached in late 2017/early 2018) will test the market with preview campaigns that will help determine the depth of demand and price-sensitivity prior to filing for a disclosure statement and commencing sales. End user-oriented sub-markets will remain active in the last quarter of 2019, particularly those targeting the more price-sensitive buyer groups. As such, UA anticipates 2019 will end on a more positive note than it started on.

UA Take – Q3-2019

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

Sales and Inventory Analysis
Sales of new multi-family homes across Metro Vancouver increased nine percent compared to the second quarter, and by three percent relative to the first three months of the year. A total of 1,855 new condominiums and townhomes were recorded as sold in Q3-2019, which is the highest number of quarterly sales so far this year, but a substantial 47 percent drop from the same quarter in 2018.
Not surprising given the higher sales activity experienced throughout the market for much of 2018, year-over-year Q3 sales were much lower in 2019 than in previous years; -47 percent compared to Q3-2018 and -57 percent relative to Q3-2017.

Combined with the first two quarters of the 2019, the 5,309 new condominium and townhome sales recorded year-to-date represent a 53 percent drop from the same period last year, and are 67 percent fewer than the number of sales recorded in the first three quarters of 2016; the most active year for sales during the past decade.

As noted, sales activity has been stronger in the South of Fraser sub-markets through the first three quarters of the year. Total year-to-date sales are just 28 percent lower than in 2018 in the South of Fraser sub-markets, compared to 64 percent lower in the more urban sub-markets north of the Fraser River.
The trend of fewer new project launches and units released continued in the third quarter. There were 54 percent fewer units released and nearly a quarter of the number of projects launched in the first three quarters of 2019 compared to the same period in 2018. While an increase in the number of project launches in the suburban markets during the third quarter helped generate increased sales activity, the limited number of large comprehensive project launches in the North of Fraser sub-markets contributed to the lower sales activity throughout the market.

YEAR-TO-DATE RELEASED PRODUCT AND UNIT SALES

Chart 3

The lower sales activity has been felt across all product sectors. The concrete condominium and wood frame condominium sectors experienced the most significant reduction in year-to-date sales (-59% and -48% respectively), though the townhome sector wasn’t far behind at 40 percent fewer sales in the first three quarters of 2019 compared to 2018.

YEAR-TO-DATE UNIT SALES COMPARISON

Chart 4
The impact of slower sales is clearly shown 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 6,986 more unsold units at the end of Q3-2019 than there were unit sales during the quarter. This represents a dramatic change from the same quarter in 2018 when there were 1,031 more unsold units than there were sales during the quarter. Another sign of improved market conditions is the fact the spread between these two metrics at the end of Q3-2019 represents a decrease of 39 units compared to the previous quarter. While this decrease may seem insignificant, consider that the spread between these two metrics had increased by nearly 1,000 units from Q1 to Q2-2019.

Chart 6 illustrates the number of sales and new supply in each of Metro Vancouver’s sub-markets during Q3-2019. There were 1,835 new multi-family units sold during the third quarter of the year, which exceeded the 1,564 new units released to the market. This is in stark contrast to the previous quarter when there were 24 percent more new units released to the market than were sold. This provides another indication of how market conditions appear to be stabilizing for some sectors of the market.
In most cases, sub-markets that experienced higher levels of new inventory also experienced higher sales activity. The limited number of sales recorded in Vancouver Downtown illustrates the continuing 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 continued to rise during the third quarter. The 8,821 unsold condominium and townhome units represents a 97 percent increase over the number of unsold units at the end of the same quarter in 2018. The wood frame condominium sector has experienced the biggest increase in the number of unsold units (+112%), which can be attributed to the several new projects launched during the third quarter in Surrey, Langley/Cloverdale, Abbotsford and Tri-Cities.
Yet another sign of stabilizing conditions in Metro Vancouver’s new multi-family home market is the fact over half of the 13 sub-markets monitored by UA recorded lower unsold inventory levels at the end of the third quarter than at the end of Q2-2019. The continued uncertainty among concrete condominium developers resulted in further delays in the launch of many projects in this sector that could have been launched had market conditions been more conducive to strong initial sales activity that would allow pre-sale targets to be met within REDMA’s prescribed nine month window. Overall, the total number of unsold units across the Metro Vancouver market rose by just 1.2 percent in Q3-2019 compared to the previous quarter.

In addition to the modest increase in total unsold inventory of completed and under-construction condominiums and townhomes, there was a 14 percent increase in the number of completed and move-in ready unsold units in the market. This represents just seven percent of all unsold new multi-family units across Metro Vancouver. The 581 completed and unsold units recorded at the end of Q3-2019 remains 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 where sales activity has 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.

**STANDING INVENTORY BY SUB-MARKET**

![Bar chart showing standing inventory by sub-market](chart10)

Chart 10

An important consideration when analyzing the amount of unsold inventory is the construction stage of that inventory. Chart 11 illustrates how the majority of unsold units in the market available for purchase are in the pre-construction stage. Construction has yet to commence on nearly 60 percent of all unsold condominium and townhome units available to purchase in Metro Vancouver. There is very little concern of a sudden increase in the amount of completed and unsold inventory of new multi-family homes in the region.

**INVENTORY BY PRODUCT TYPE & CONSTRUCTION STATUS**

![Bar chart showing inventory by product type and construction status](chart11)

Chart 11
There continues to be little concern about a potential oversupply of concrete condominium product in the Metro Vancouver market for the foreseeable future. As Chart 12 illustrates that of the total number of unsold units in all concrete condominium projects completing from Q3-2019 to the third quarter of 2022, nearly 89 percent of all units scheduled to complete over the next three years are already sold. Further, approximately 96 percent of all concrete condominium units scheduled to complete by the end of 2020 are sold.

**Price Trends**

While the new multi-family home market in Metro Vancouver displayed some signs of improvement during the third quarter of the year, buyers remained price sensitive. Projects priced to reflect the shift in market conditions over the past 18 months achieved higher absorptions than those still attempting to push the upper limits of achievable pricing. Buyers continued to take advantage of increased competition among wood frame condominium and townhome projects throughout the market and shopped around for the best value. This increased competition also led to developers offering more price-reducing incentives, which also drove overall net achievable sale values moderately lower. UA estimates overall achievable sale values have fallen by approximately 15% since the peak of late 2017/early 2018. Many developers contemplating the launch of new projects, particularly in the concrete condominium sector, continue to be challenged by factors such as stubbornly high construction costs and municipal fees, community amenity contributions (CAC’s) 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. Some recognition on the part of municipal representatives in charge of negotiating the value of density bonus fees and CAC’s of the fact the market has shifted and achievable sale values have fallen would help improve the financial viability of some projects. A continued trickle of new supply, particularly in the concrete condominium sector, combined with any significant increase in
demand could result in another spike in sale values, which would put the market in the same unaffordable and unsustainable state it was in leading up to the most recent market peak.

**Time to rethink REDMA?**
This is worth repeating from the previous UA Take. 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 invest 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 window 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 continued to increase in most sub-markets 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 at lower average list values, and as supply levels in the resale sector drop in response to stronger demand, particularly for product in the more affordable price ranges.

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** – This continues to be the most challenging market to determine a realistic achievable sale value that would generate sufficient sales to meet pre-sale requirements. The only new project to launch Downtown recently failed to generate any sales momentum at an average sale value of approximately $1,900 per square foot and has since been pulled from the market. UA suggests typical condominium product (i.e. non-ultra luxury product) should seek to achieve average sale values of approximately $1,700 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 $1,200 to $1,300 per square foot. Luxury wood frame condominium projects are expected to seek average values of in the range of $1,000 to $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 between $950 and $1,000 per square foot are achieving the highest absorptions.

- **Burnaby** – Concrete condominium projects in the Brentwood neighbourhood seeking average net sale values 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 are 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. Incentives are still 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**

There was little change in buyer behaviour in the new multi-family home market in Q3-2019. A general lack of urgency prevailed among many buyer groups, though an increase in urgency levels was experienced at some recently launched and appropriately priced projects in appealing transit-oriented locations. Most investors, particularly those in the more urban sub-markets remained on the sidelines. End user buyers in the suburban sub-markets continued to be the most active and rewarded developers who positioned their projects according to current market conditions and offered attractive incentives.

It appears to be too early to determine the impact of the Federal Government’s First-Time Home Buyer Incentive program. UA analysts indicate there has been only limited reported interest from buyers across the market but will continue to monitor new home purchaser response to this program moving forward. UA also welcomes the re-elected Liberal government’s declared intention to review the application of B20 Stress Test and hopes some modifications will be made to assist more price-sensitive buyers enter the housing market.

Looking to the final quarter of the year, projects targeting end user buyers will continue to experience steady but modest absorptions in last three months of 2019. Projects more inclined towards investor buyers will need to demonstrate a notable drop in sale values from the recent market peak 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 quarter of the year and the first part of 2020. 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 is likely to continue as developers wait for construction costs to fall or sale values to rise sufficiently to make their projects viable, and luxury condominium and investor purchasers wait for a more certainty that prices have bottomed out and market conditions are improving. After very few new concrete condominium launches in urban sub-markets during the first nine 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 or increased. As such, they’ll be able to offer product at list values more appropriate for current market conditions.

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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