

THE UA TAKE – FOURTH QUARTER 2018:

GETTING TO WORK



Despite many reports to the contrary (and perhaps somewhat surprising to some), several sectors of Metro Vancouver’s new multi-family home market proved resilient during the last quarter of 2018. The relatively steady sales activity led to more positive total annual new home sales than may have been anticipated given various factors at play in the marketplace that might have otherwise caused buyers to delay their purchasing decisions. Some of the factors the new home market was confronted with and in part overcame during the last quarter included a 25 basis point Bank of Canada rate hike, municipal election campaigns that had noticeable anti-development overtones in some communities, the proportional representation referendum, consecutive months of negative MLS sales data, and ongoing geopolitical uncertainties. As noted, not all sectors of the market completely overcame the headwinds these factors created and experienced slower sales activity due to reduced urgency among some certain groups.

In general, appropriately priced preselling concrete condominium projects with longer completion timelines that appealed to investor purchasers less concerned with current market conditions and more with where the market might be in a few years when construction completes experienced strong sales activity. Conversely, many low rise and townhome projects targeting end-user buyers, particularly those

with a home to sell that's been impacted by lower sale prices in resale market experienced slower absorptions. This is not to suggest there was a complete lack of interest or activity at these end user-oriented projects, only that buyers are being much more selective and taking longer to make their buying decisions. Developers and marketing firms across the market are being forced to carefully consider the positioning of their projects in the marketplace. This resulted in several recently launched developments adjusting their revenue expectations lower through the combination of relatively more affordable pricing and higher valued buyer and realtor incentives. The lower revenues are of course challenging for many developers given the absence of correspondingly lower construction costs and municipal fees. The combination of the sticky construction costs, municipal fees and land prices will lead some developers to postpone the launch of some projects, which will ultimately keep the supply of new product from reaching concerning levels.

With respect to inventory levels at the end of 2018, the steady sales experienced in the concrete sector of the new multi-family home market did not prevent the number of unsold units available for purchase from increasing to the highest levels in a few years. This is another factor contributing to lower buyer urgency levels, just as UA has suggested would occur if municipalities approved more projects more quickly in recent years.

Despite the generally positive underlying economic conditions Metro Vancouver and BC are experiencing, which will continue to drive demand for housing here, UA anticipates the softer market conditions experienced during the second half of 2018 will continue through much of 2019. One of the more significant challenges the market will face is a generally more negative buyer sentiment. That is, with so much of the housing market-related media reporting focused on the resale sector, which has been underperforming relative to recent years, prospective buyers are inclined wait and see whether prices will drop further throughout the market. While investors were more active than end users, they also demonstrated lower urgency levels due to the increased competitive supply throughout the market. Whereas investor-driven condominium projects were pre-selling 70 to 80 percent of total released inventories during initial launches prior to the middle of 2018, projects launched during the second half of 2018 were preselling 40 to 50 percent of released inventory before moving to a tempo marketing program.

Given this more tentative buyer sentiment, developers and marketing firms will be required to focus much more of their efforts on ensuring the projects brought to market meet the demands of the intended target buyers and that the product is positioned appropriately for market conditions. Stakeholders who remain disciplined will be rewarded with above market-average absorptions.

The following is an analysis of sales activity in the fourth quarter of 2018 and throughout the year in relation to previous quarters and years, as well as a review of the inventory status at the end of the 2018.

Sales and Inventory Analysis

The launch of several new concrete condominium projects during the last quarter of 2018 resulted in a significant 19 percent increase in total new multi-family home sales over the previous quarter. UA recorded a total of 4,097 sales of new condominiums and townhomes across Metro Vancouver in the fourth quarter compared to 3,452 in Q3-2018. However, the strong Q4-2018 results represented a nine percent drop from the same quarter in 2017. Higher sale volumes were recorded in both the North of Fraser and South of Fraser River sub-markets; 15 percent and 24 percent higher respectively. The launch of new concrete condominium projects throughout the market and of low-rise condominium product in the Fraser Valley sub-markets at slightly more affordable prices drove much of the increased demand, particularly among investor purchasers.

Chart 1 illustrates the year-over-year trend for Q4 sales. Despite the moderately lower sales totals in Q4-2018 relative to the last quarter of recent years, the results remained much higher than sales experienced during the same quarter in years prior to 2015.

QUARTERLY NEW MULTI-FAMILY HOME SALES

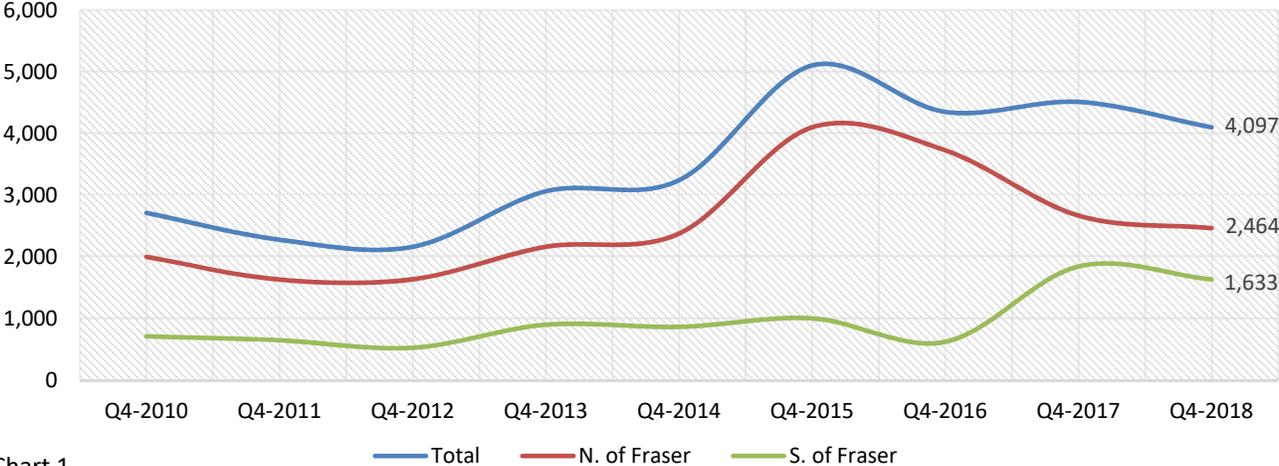


Chart 1

The same trend was evident when comparing total annual sales in 2018 to previous years. Not surprising given the shifting market conditions of the second half of the year, total annual new multi-family home sales were 13 percent lower than in 2017 and nearly 25 percent lower than in 2016, the strongest year for new condominium and townhome absorptions in recent years. The lower sale volumes were felt across the market with the urban sub-markets experiencing a 13 percent drop compared to 2017 and the South of Fraser sub-markets recording 12 percent fewer sales.

ANNUAL NEW MULTI-FAMILY HOME SALES

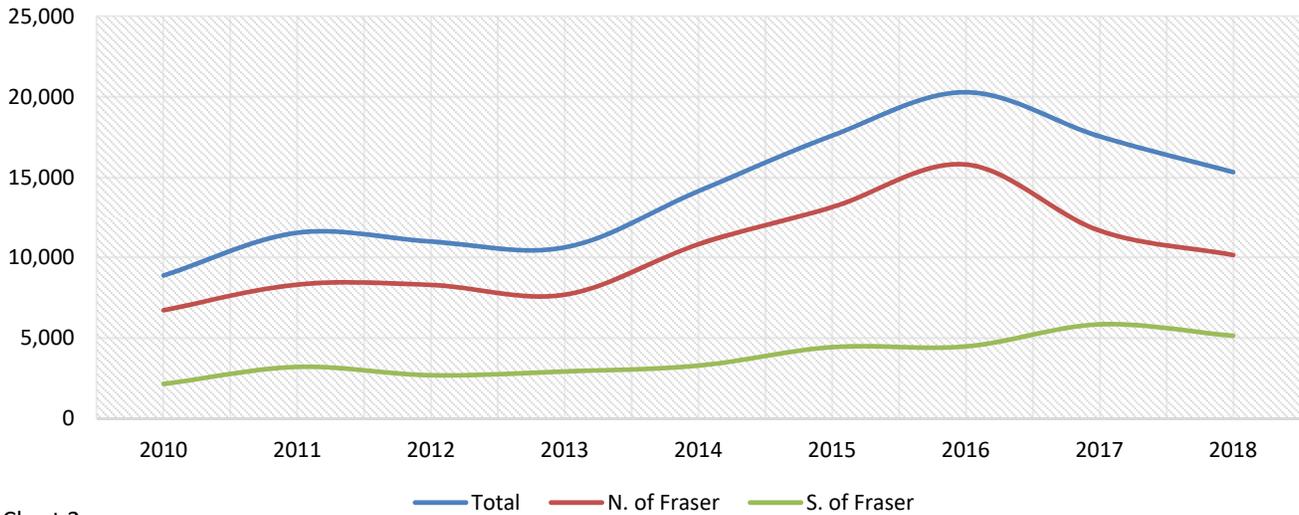


Chart 2

The lower annual sales in 2018 compared to the previous year were largely the result of fewer sales in the wood frame condominium and townhome sectors. The approval and subsequent launch of several new concrete condominium projects in a number of sub-markets drove sales of this product form two percent higher than in 2017. Q4-2018 sales of concrete condominiums were 21 percent higher than the same quarter in 2017. Meanwhile, total annual sales of wood frame condominiums and townhomes dropped by 26 and 33 percent respectively. The lower sale volumes in these sectors illustrates the lower urgency levels among end-user buyers. In particular, projects targeting more mature end-user buyers experienced lower demand due to lower resale values, which would impact this buyer group more. That is, if they see the value of their existing home has dropped, they have far less urgency to purchase a new home being marketed at a price that has not dropped by anywhere near the same amount. The stickiness of new home pricing relative to resale values has contributed to the lower urgency levels among these buyers. This is not to suggest demand from end-users have evaporated altogether, only that this demand has become far more selective with respect to price and value. Much more patience is required by developers and marketing firms with these purchasers as they take longer to make their buying decision.

ANNUAL UNIT SALES COMPARISON BY PRODUCT FORM

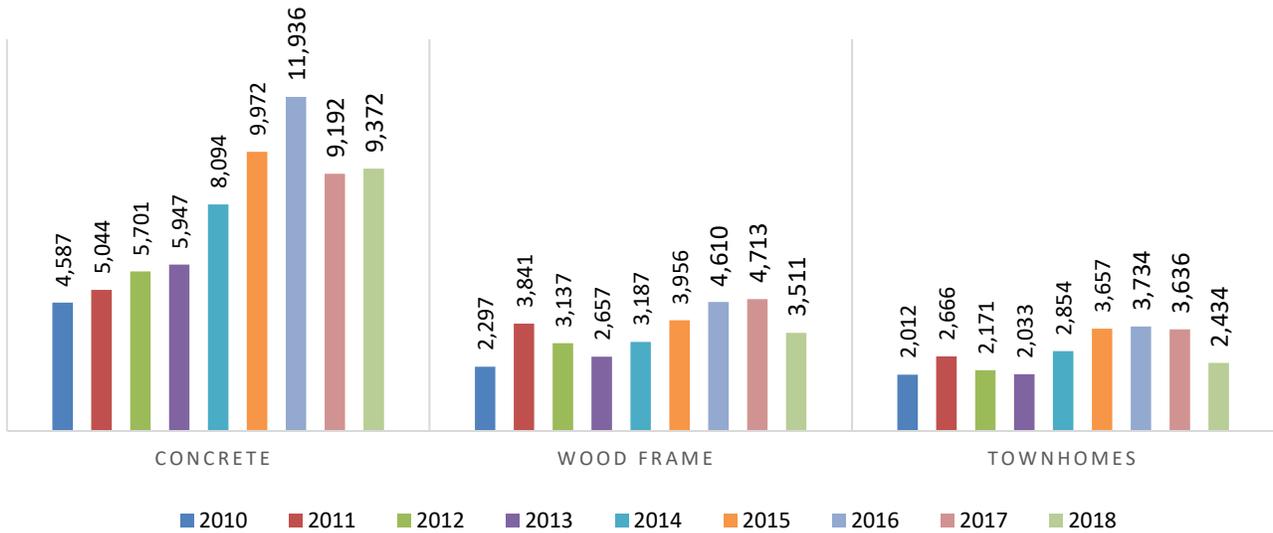


Chart 3

One of the indicators that illustrated the shift in market conditions more than others was the trend in quarterly sales relative to released and unsold units at the end of a given quarter. After nearly three years of quarterly sales exceeding the number of unsold units at the end of a quarter, we saw these two trends reverse in the second quarter of 2018 and widen considerably in last quarter of the year. The difference in the number of unsold units at the end of Q4-2018 and the number of new condominiums and townhomes sold in the quarter was *three times* greater than at the end of the third quarter.

QUARTERLY SALES VS UNSOLD INVENTORY TREND

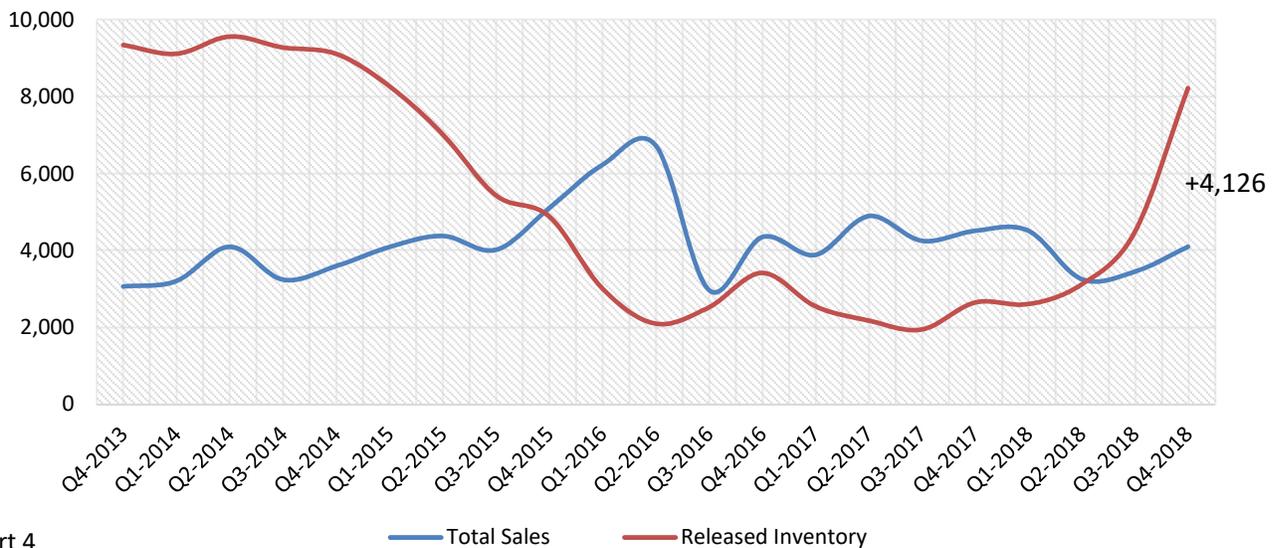


Chart 4

While it would seem reasonable to attribute the substantial increase in this spread to the softening market conditions, the primary contributor was the extraordinary number of new units released to the

market during the final three months of the year, particularly in the concrete condominium sector. Of the 6,536 new multi-family units released to the market in Q4-2018, 5,588 (85 percent) were in the concrete condominium sector. This is more than the combined total of all three product forms released in each of the previous four quarters. The rush of new projects approved in the final few months prior to the municipal elections in October likely facilitated this increase in new project launches. It's likely the spread in quarterly unit sales and unsold units would have increased without a softening in market conditions. Had the market experienced this level of new competitive supply during the peak of the market, we wouldn't have experienced the kind of pricing appreciation that occurred in 2016 and 2017.

Chart 5 illustrates the number of sales and new supply in each of Metro Vancouver's sub-markets during Q4-2018. There were 6,489 new multi-family units released to the market during the last quarter of the year, nearly 2,400 (58 percent) more units than were sold during this period. While this sudden increase in new competitive supply contributed to higher sale volumes, it also resulted in lower buyer urgency levels as buyers faced with more choice were slower to make their buying decisions, thereby leaving more unsold units than in previous quarters. Sub-markets that experienced the biggest increase in new supply also reported higher sale volumes.

QUARTERLY UNIT SALES VS. UNITS RELEASED

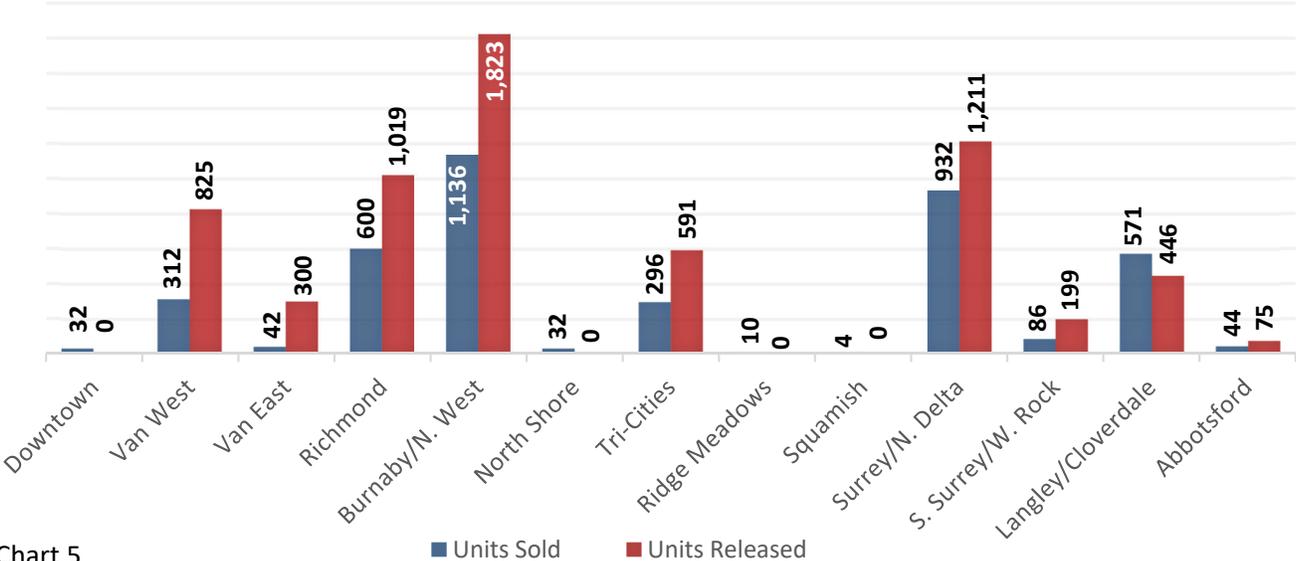


Chart 5

Chart 6 illustrates how the substantial number of new concrete condominium units released during the fourth quarter of 2018 impacted the total amount of unsold inventory in this sector. The nearly 6,000 unsold concrete condominium units is the most the Metro Vancouver market has seen over the past eight years. While this is a substantial increase in new supply, it is too soon to suggest any concern about an oversupply of new home product. Further successive quarters of similar amounts of new supply being released to the market will likely cause some developers to reconsider the timing of planned new project launches, particularly if buyer urgency levels remain tempered. As the market becomes more

competitive, it will be increasingly important for developers to ensure their projects are effectively differentiated from competing product.

YEAR-OVER-YEAR RELEASED INVENTORY COMPARISON

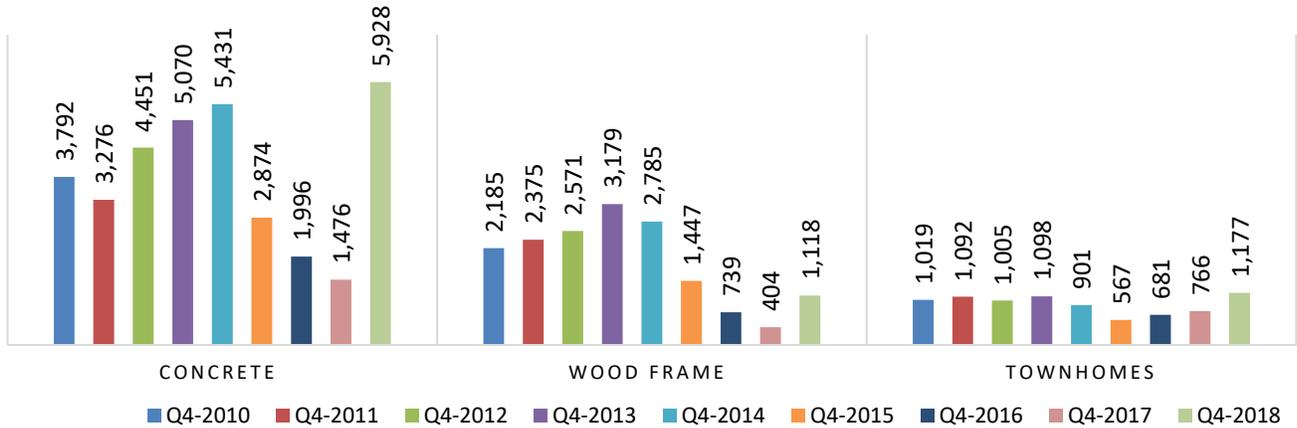


Chart 6

As Chart 7 illustrates, several sub-markets experienced a substantial increase in new supply, led by Burnaby (1,936 units), Surrey (1,057 units), Richmond (995 units) and Vancouver West (953 units). Most of this new supply was in the concrete condominium sector.

RELEASED INVENTORY COMPARISON

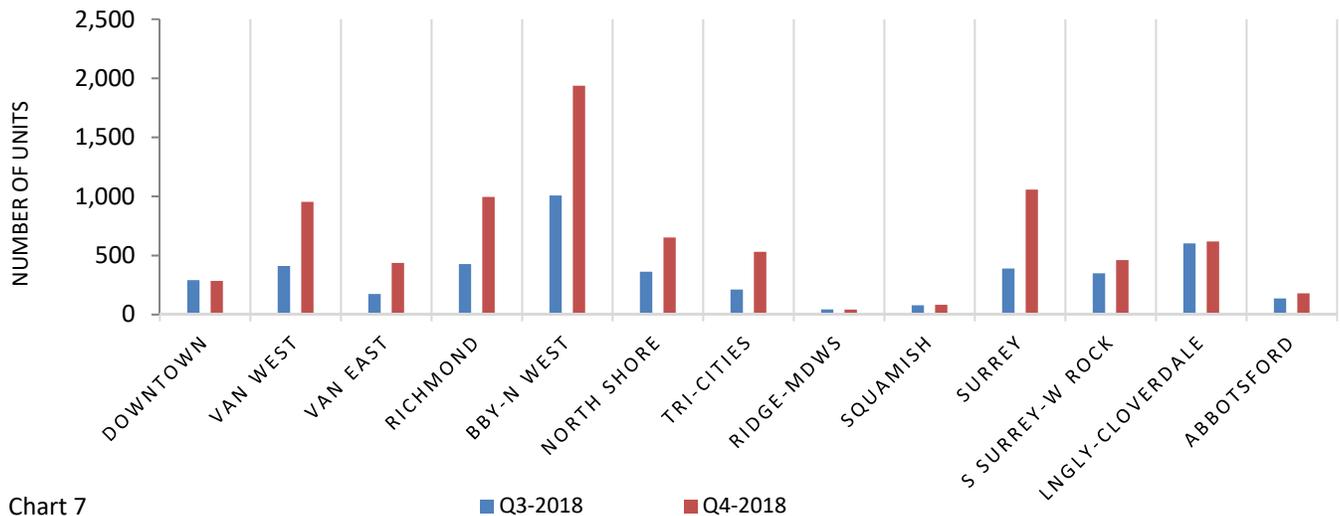


Chart 7

While the number of unsold units rose by nearly 84 percent, the amount of unsold move-in ready units increased by a much more moderate 22 percent and remains well below the levels experienced prior to 2016.

STANDING INVENTORY TREND

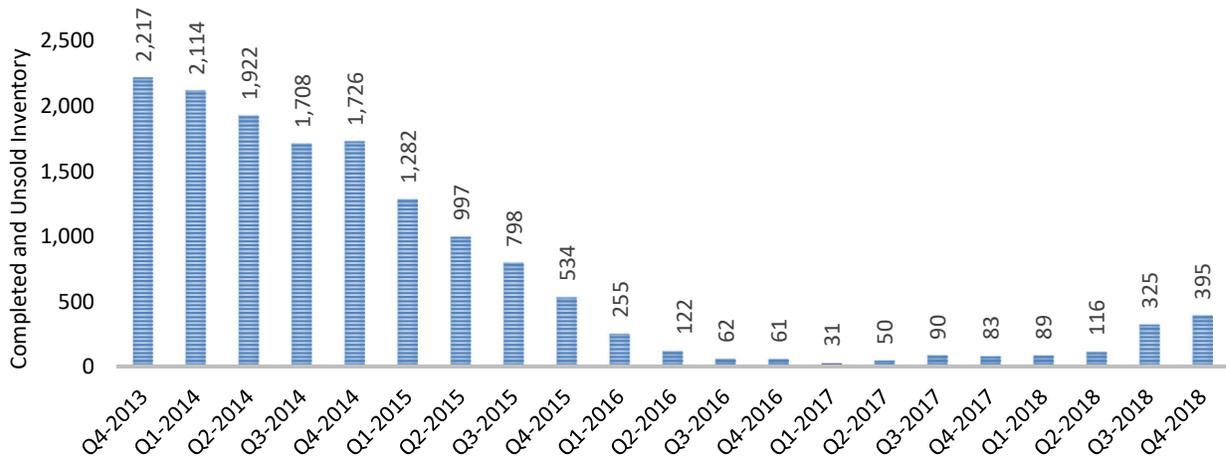


Chart 8

Despite the recent rising trend in standing inventory levels, the fact there are fewer than 50 completed and unsold units available to sell in all but two Metro Vancouver sub-markets mitigates any significant concern about the market becoming over-supplied. Most of the unsold move-in ready product in any given sub-market is concentrated in a limited number of projects and is typically the larger more expensive product that is more challenging to sell during the presale marketing campaign.

STANDING INVENTORY BY SUB-MARKET

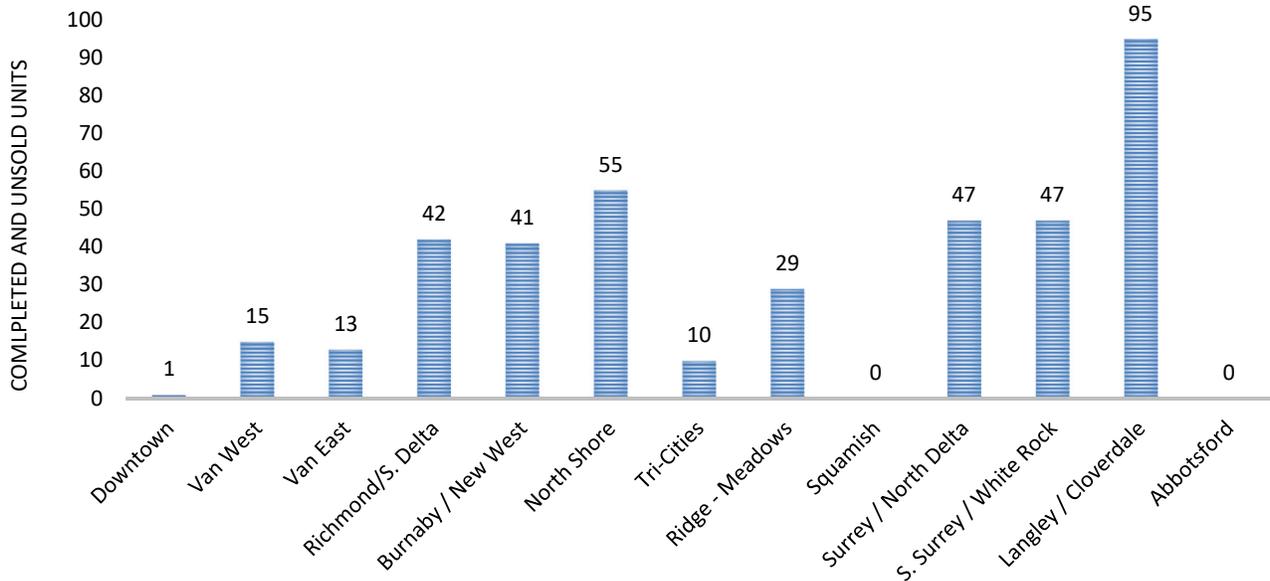


Chart 9

Price Trends

Carrying on the trend that began in earnest in Q3-2018, most projects launched in the last quarter of the year were positioned lower than projects launched prior to the second half of the year. In addition to lower launch pricing, developers attempting to establish strong sales momentum and attain their presale threshold targets offered increasingly lucrative buyer and realtor incentives. The lower pricing expectations for buyers has posed a challenge for some developers that purchased land more recently and therefore near the peak of the land market. This combined with the high construction costs and municipal fee demands has made the viability of some projects tenuous and will likely cause some developers to postpone planned project launches.

Given the noted increase in competitive supply in the market, UA anticipates further downward pressure on revenues that can be achieved during the first half of 2019 and perhaps beyond. UA advises stakeholders to carefully consider conditions in the general vicinity of a project when determining the appropriate positioning of a project.

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* – More traditional concrete condominium product scheduled to launch in Q1-2019 is expected to seek average sale values close to \$2,000 per square foot.
- *Vancouver West* – New concrete condominium product along the Cambie Corridor are seeking average sale values of approximately \$1,500 per square foot. Projects at UBC are seeking averages of approximately \$1,250 per square foot.
- *Richmond* – Concrete condominium product positioned between \$1,000 and \$1,100 per square foot is achieving the highest absorptions. Wood frame condominium product priced close to or just under \$800 is achieving higher absorptions. Recently launched townhome projects seeking higher absorptions should be priced close to \$700 per square foot.
- *Burnaby* – Concrete condominium projects in Brentwood are achieving average sale values of \$1,000 to \$1,100 per square foot. Competing Metrotown product is seeking \$1,150 per square foot. Developers planning to launch concrete condominium product in the Lougheed area should seek average sale values between \$900 and \$950 per square foot to experience reasonable absorptions. Wood frame condominium product is achieving between \$850 and \$900 per square foot.
- *New Westminster* – Concrete Condominium projects in New Westminister continue to seek average sale values between \$850 and \$900 per square foot.
- *North Shore* – The two most recently launched concrete condominium projects (*Hunter and Park West*) are currently evaluating pricing and are expected to reduce prices by 5 to 10 percent.

- *Tri-Cities* – Recently launched concrete condominium product in the Coquitlam Centre area is seeking average sale values of approximately \$860 per square foot. Given the significant number of new condominium projects expected to launch in the Burquitlam neighbourhood over the next several months, more downward pressure on pricing for this product is anticipated. Projects needing to establish strong early sales momentum will likely need to be priced under \$900 per square foot. Townhome developers in this sub-market have been adjusting prices accordingly to create and sustain sales activity.
- *Fraser Valley* – While concrete condominium product in Surrey City Centre launched in the latter half of 2018 achieved reasonably strong absorptions at average values between \$810 and \$820 per square foot, increased competition in this and nearby sub-markets will place downward pressure on achievable pricing for this product. Limited buyer urgency levels continue to make it challenging for concrete condominium projects in South Surrey/White Rock seeking average sale values above \$900 per square foot.
 - 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 in 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 \$510 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 were a number of shifts in the sentiment of prospective new multi-family home buyers in Metro Vancouver in 2018. The implementation of the new B20 Stress Test mortgage qualification rules at the start of the year had a significant impact throughout the market, particularly when combined with the multiple interest rate hikes throughout the year. The impact was felt across numerous buyer groups; first time and move-up buyers experienced a sudden 20 percent loss in their buying power, which then affected downsizer buyers who needed to sell an existing home to facilitate the purchase of a new condominium or townhome.

The various new taxes and increased foreign buyers tax introduced by the NDP in its February 2018 budget created a negative pall over the market as prospective buyers perceived these policies as an attempt to cool market conditions. As such many decided to postpone buying decisions while they waited to see if the market would in fact slow and bring prices down.

While demand remained reasonably strong by historic standards, there was a clear drop in urgency levels among buyers, and purchasers who were active were much more selective with respect to where they

purchased and the developers they bought from; there was a clear flight to developer and brand during the latter half of 2018 in particular.

The absorptions achieved by many of the concrete condominium projects launched during the third and fourth quarters of 2018 indicate investor purchasers remained active in the marketplace. However, this buyer group was also more selective and drawn to brand and value. Projects positioned to reflect the shifting market conditions achieved the strongest absorptions.

Looking Ahead

Developers and marketing firms will be challenged throughout 2019 to design and price product that meets the needs and wants of the appropriate buyer groups. As more projects are launched and competitive supply increases, buyer urgency levels are likely to drop resulting in the need for more diligence and discipline in identifying how to effectively target various buyer groups.

The increased focus on developer brand, quality and value is expected to continue throughout 2019. As such, appropriately positioned projects offered by developers that can demonstrate a legitimate history of successfully executed projects will enjoy a greater opportunity for success.

Some of the more noteworthy projects UA expects to launch over the next two quarters and will be monitoring closely include:

- *The Harwood – Downtown Vancouver*
- *Nicola + Davie – Downtown Vancouver*
- *Profile – Vancouver West*
- *Cedar Walk – Vancouver West*
- *Mode – Vancouver East*
- *Atmosphere – Richmond*
- *One Park – Richmond*
- *Richmond Centre - Richmond*
- *Glitz - Richmond*
- *Riva (Ph. 4) - Richmond*
- *Camden Walk – Richmond*
- *Beaufort Landing (Ph. 3) South Delta*
- *Sun Tower 2 – Burnaby*
- *Slate – Burnaby*
- *Eclipse at Lumina – Burnaby*
- *Amira – New Westminster*
- *Apex at Seylynn Village – North Vancouver*
- *Red Maple Residences – North Vancouver*
- *Founders Block – North Vancouver*
- *The Sentinal – West Vancouver*



- *Redbridge – Squamish*
- *The Heights on Austin – Coquitlam*
- *Sydney – Coquitlam*
- *The Oaks – Coquitlam*
- *Kira – Coquitlam*
- *Hadleigh on the Park – Coquitlam*
- *Skagen - Coquitlam*
- *Montrose Square – Port Coquitlam*
- *Quarry – Ridge-Meadows*
- *University District – Surrey*
- *Centra – Surrey*
- *The Holland – Surrey*
- *Townsend at Panorama Village - Surrey*
- *Orchard Park – South Surrey/White Rock*
- *Nest – Langley/Cloverdale*
- *Central – Langley/Cloverdale*
- *Natura at Forest’s Edge – Abbotsford*

As always, UA looks forward to monitoring the sales progress of these and all other actively selling new home projects 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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