

STRESS TEST STRUGGLES

SALES AND INVENTORY ANALYSIS

The new multi-family home sector of Edmonton’s residential real estate market experienced marginally higher demand in the second quarter of 2018 than the first quarter of the year. The approximately 20 percent loss of buying power for many prospective purchasers due to the new stress test rules implemented on January 1st, 2018 was felt throughout the market. Would-be buyers struggled to qualify for mortgages on condominium and townhome units they were seeking to purchase. The new qualification requirements have caused a noticeable ripple effect as many buyers seeking product in the inner sub-markets were drawn to the more affordable outer markets, particularly the Southwest where there are more options for affordable product. The stress test has had the biggest impact on first time homebuyers who are struggling to qualify for a mortgage at their desired price point. Downsizers have also been impacted as many buyers who would have purchased their detached homes are no longer able to qualify for the mortgage required to execute the sale/purchase.

There were fewer than expected new project launches during the second quarter as developers focussed on selling their existing inventory and continued to adapt to the market changes caused by the stress test rules by offering incentives and adjusting price points. Urban Analytics (UA) anticipates sales activity will improve as the year proceeds and buyers and developers adapt their expectations for the new normal in Edmonton’s new multi-family home market.

Slight Increase in Quarterly Unit Sales

Sales in Edmonton’s new multi-family home market increased by one percent in the second quarter of 2018 compared to the first quarter.

QUARTERLY UNIT SALES

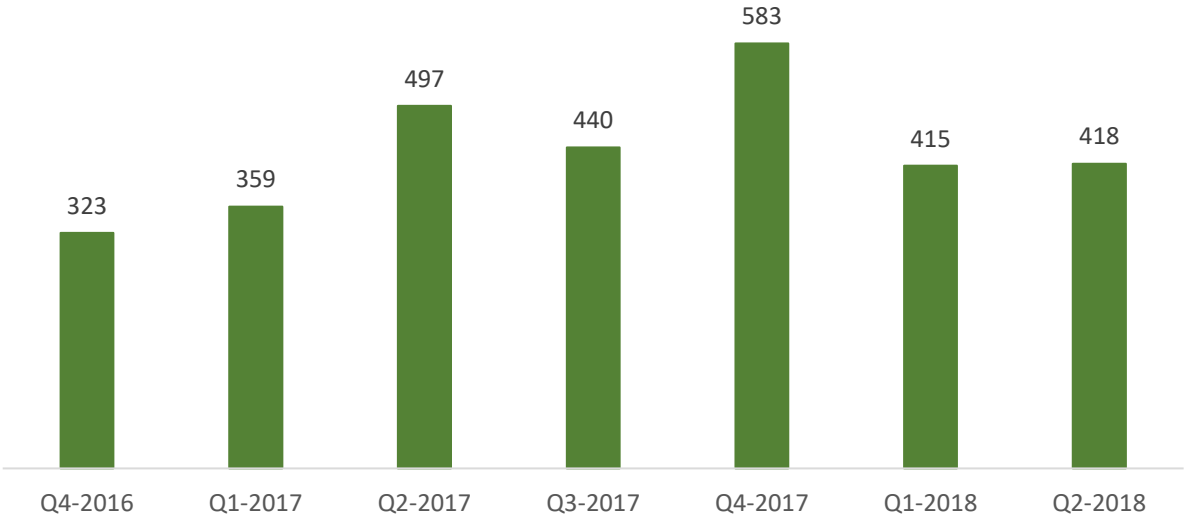
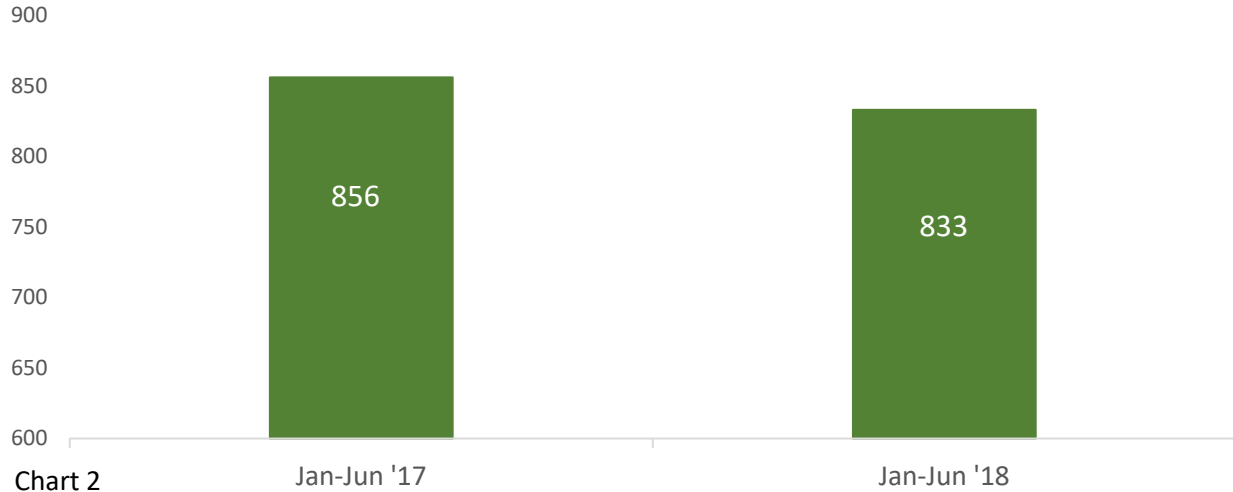


Chart 1

Moderately Lower First Half Sales

Sales in the first half of 2018 slowed by a modest three percent compared to the first six months of 2017. The generally flat sales pace in 2018 can be largely attributed to the implementation of the mortgage qualification stress test, which combined with the interest rate hikes has resulted in higher borrowing costs and a loss of buying power for prospective buyers. An abundance of competing supply has also suppressed any buyer urgency in the market; purchasers do not feel a need to rush into a buying decision.

FIRST HALF UNIT SALES COMPARISON



Demand for Affordable Product Grows

The loss of buying power resulting from the mortgage stress test has driven more buyers to more affordable product forms. As Chart 3 illustrates, the year-over-year Q2 drop in sales of wood frame condominiums (-19%) and townhomes (-6%) was much smaller than in the concrete condominium sector (-42%).

HISTORICAL Q2 SALES BY PRODUCT TYPE

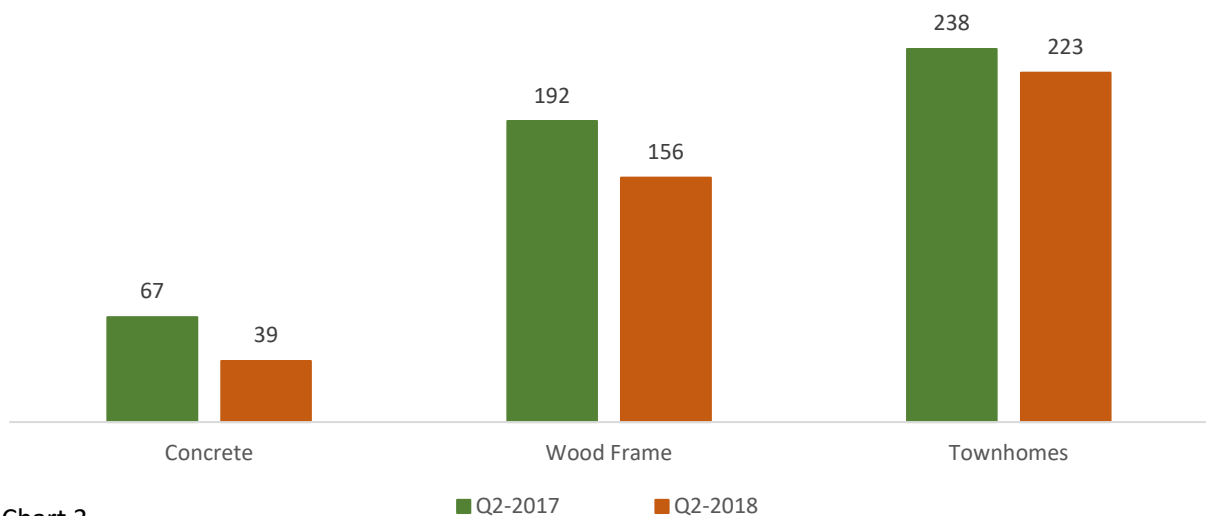
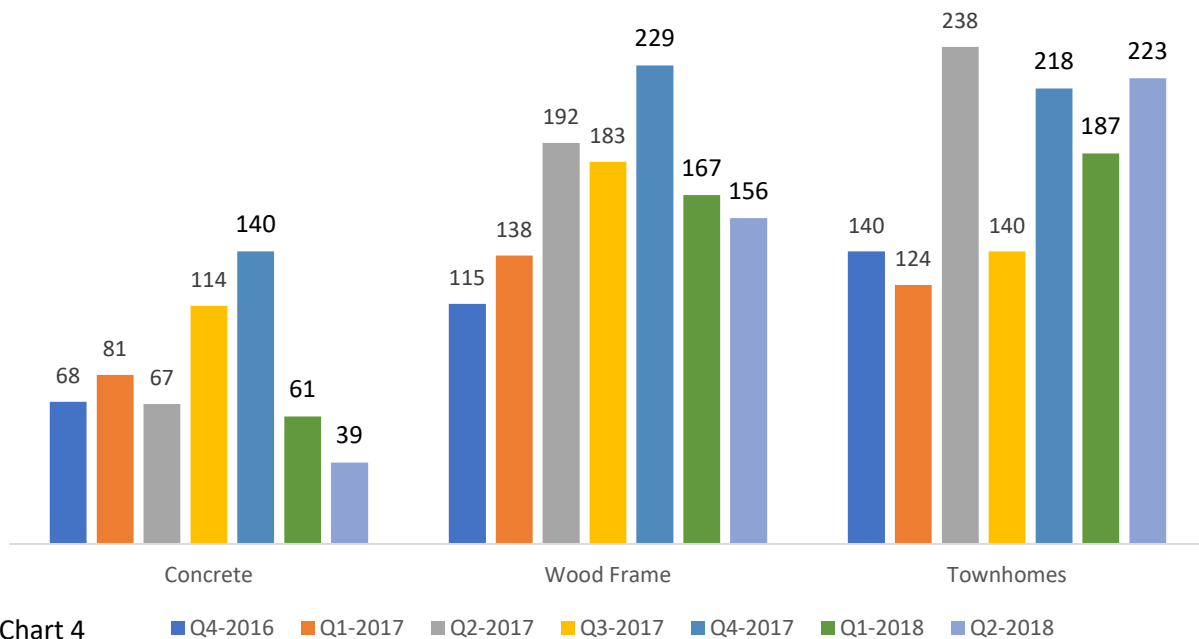


Chart 3

Townhome Demand Remains Strong

Townhomes were the strongest performing product form in Edmonton in Q2-2018. Townhome sales rose by 19 percent in the second quarter compared to Q1. This was also the only sector to experience an increase in sales in Q2 compared to first quarter. Many townhome buyers were described by project sales staffs as ‘Stress Test Refugees’; the loss in buying power resulting from the mortgage stress test caused some prospective detached home purchasers to settle for a new townhome. The majority of demand was for townhome product priced under \$350,000. While quarterly sales were higher, year-over-year Q2 sales were six percent lower. Second quarter sales of wood frame condominiums dropped by a modest seven percent compared to the previous quarter, but by a more significant 19 percent from Q2-2017. According to sales staff at several projects, typical buyers of this product form are encountering much more difficulty qualifying for a mortgage. Concrete condominium absorptions remained sluggish during the second quarter, decreasing by 36 percent from Q1-2018 and by 42 percent compared to the second quarter of last year. A lack of any significant project launches combined with a limited number of completed move-in ready units in the downtown core contributed to the significant drop in sales in Q2-2018.

QUARTERLY UNIT SALES COMPARISON BY PRODUCT TYPE



Outer Markets Continue to Perform

The Southwest sub-market continues to be the strongest performing sub-market in Edmonton’s new multi-family home market due to abundant variety of affordable product offerings. This sub-market accounts for 38 percent of the actively selling multi-family product that UA tracks.

Four of the seven sub-markets experienced an increase in sales in Q2-2018 compared to the previous quarter. The largest increase occurred in the Northwest with sales rising by 63 percent on a quarterly basis. Strong sales at *The Connaught* by Cassel Developments was the main factor in the increase in sales in the Northwest sub-market.

SALES BY SUB-MARKET COMPARISON

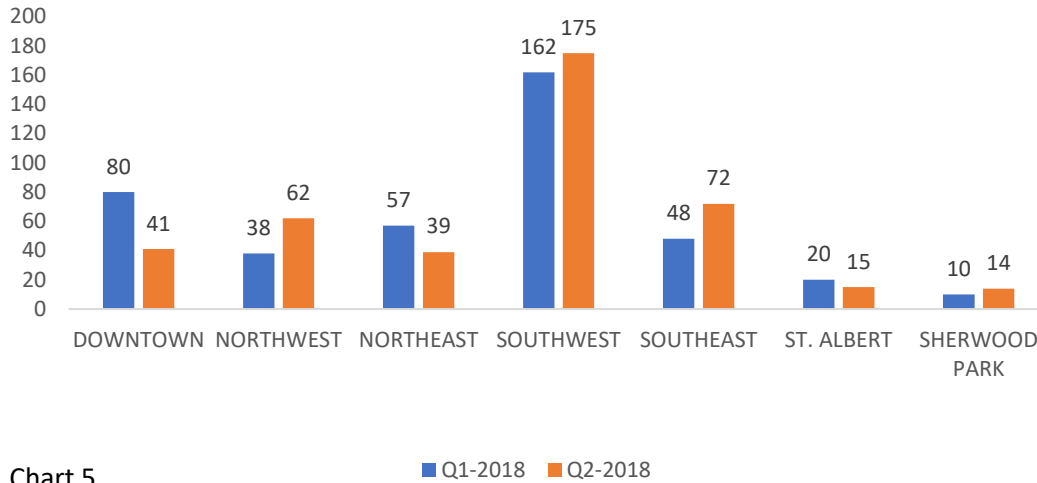


Chart 5

Chart 6 illustrates the comparison of sales in Q2-2018 to the first quarter of this year and the second quarter of 2017:

QUARTERLY VS. YOY CHANGE IN SALES

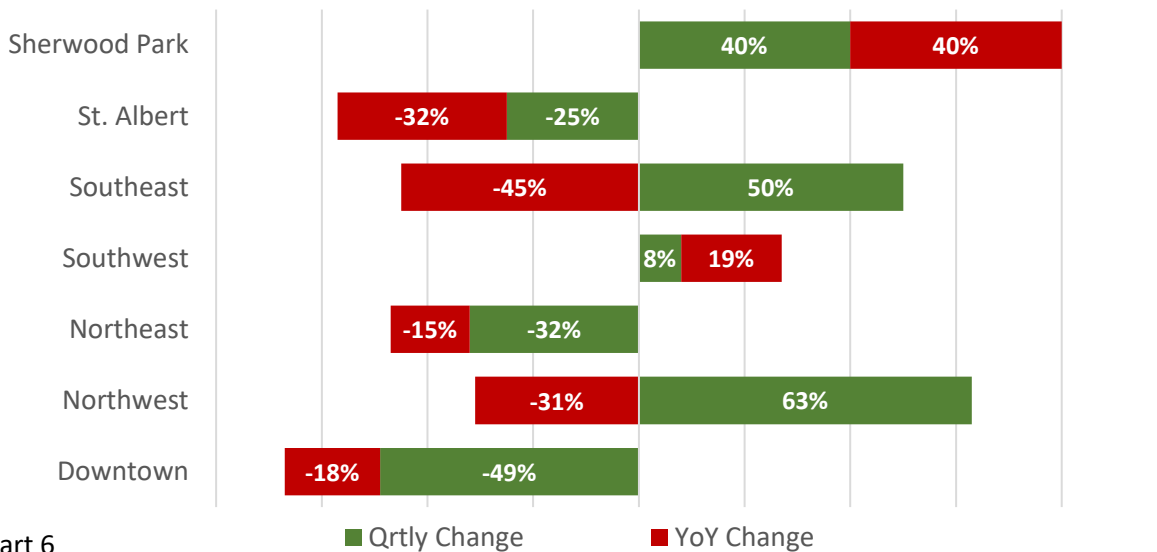


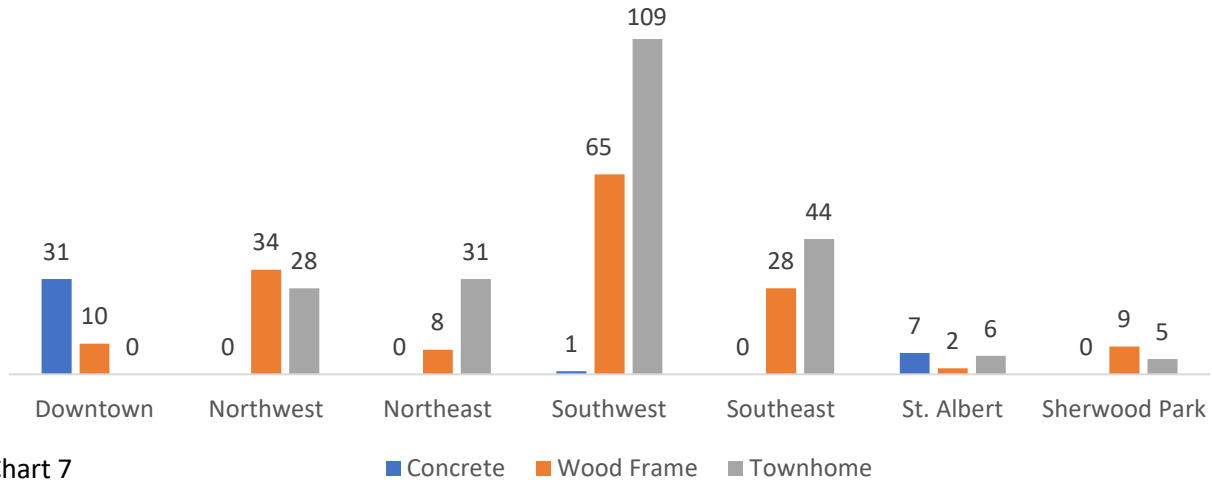
Chart 6

Townhome Sales Strong in Southwest

Townhome projects located in the Southwest sub-market experienced more demand than for any other product type in any of the other sub-markets. Part of the stronger townhome absorptions in the Southwest is due to there being over 25 actively selling townhome projects there; more than double the amount of any other sub-market. Townhomes are an appealing option for young family purchasers or downsizers seeking more living space than most condominiums offer.

Wood frame condominium sales are highest in the Southwest sub-market followed by the Northwest. Most concrete condominium sales are concentrated in the Downtown sub-market, which also offers the greatest selection of this product form.

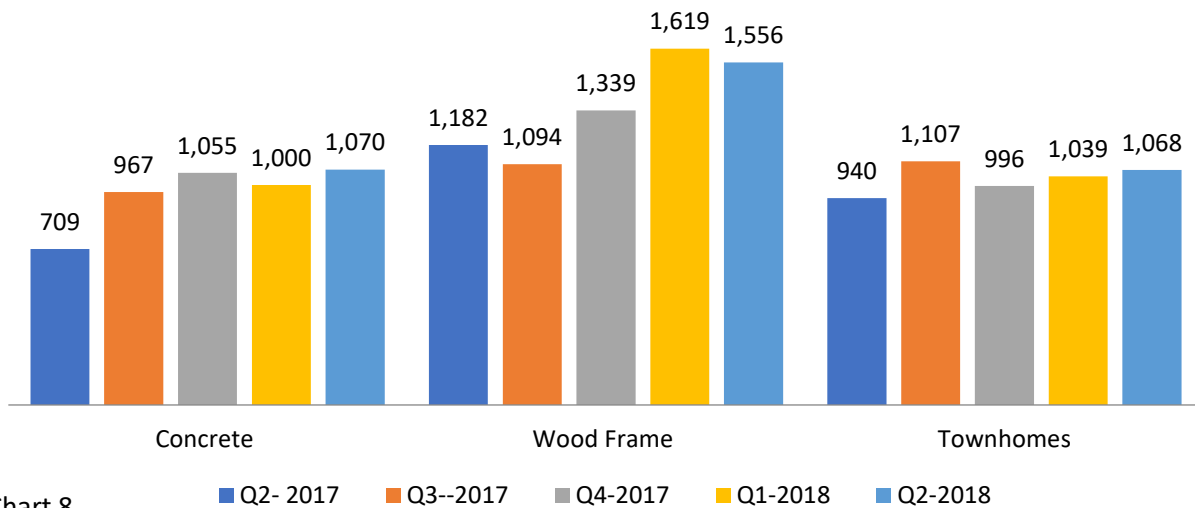
Q2-2018 SALES BY PRODUCT TYPE & SUBMARKET



Wood Frame Condominium Inventory Dips

After a significant increase in wood frame condominium inventory in the first quarter of 2018, the second quarter saw a large amount of the released and available wood frame inventory absorbed, decreasing the wood frame inventory by four percent. While there is still a 32 percent increase in wood frame inventory on a year-over-year basis, it is a positive sign that inventory is starting to decrease in Edmonton. Concrete condominium inventory increased by seven percent in Q2-2018, as *Sky Residences* released inventory that was previously held back by the developer. Townhome inventory increased slightly by three percent due to the launch of several new phases throughout the city and two new project launches over the quarter.

RELEASED INVENTORY COMPARISON



Slight Inventory Rise in Some Sub-Markets

Chart 9 compares the released inventory by sub-market. Four of the seven sub-markets experienced a modest rise in inventory levels over the quarter. The largest increase occurred in the Downtown sub-market, as *Sky Residences* released units that had previously been held back from the general public.

RELEASED INVENTORY COMPARISON BY SUB-MARKET

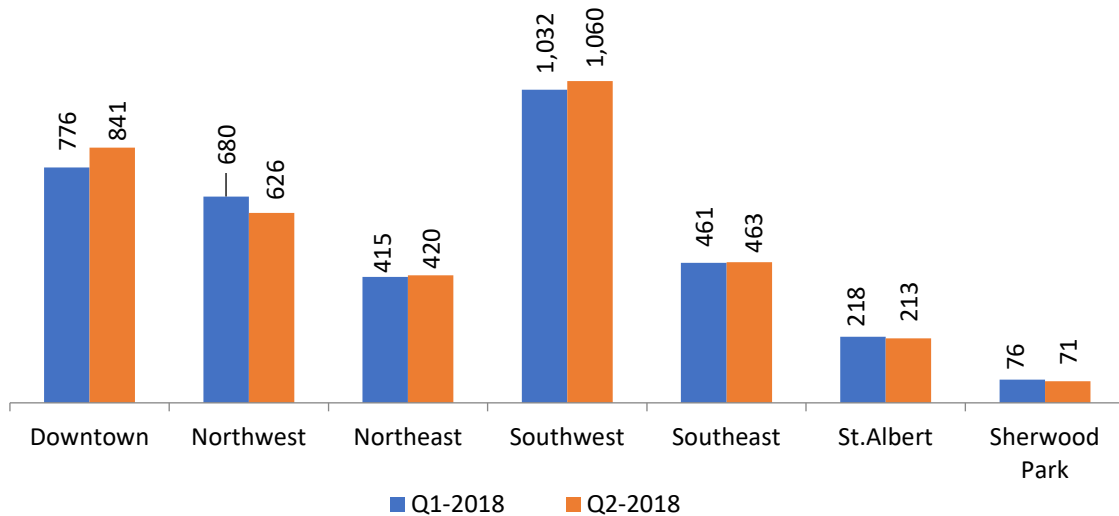


Chart 9

Spread in Quarterly Sales and Unsold Inventory Remains Firm in Q2-2018

The limited increase in both sales and inventory in Q2-2018 caused the spread between the number of units sold in the quarter and the number available to purchase at the end of Q2 to increase by a marginal one percent. As buyers and developers adapt to the current market conditions, UA expects the spread between quarterly sales and unsold inventory to narrow.

QUARTERLY SALES & RELEASED INVENTORY TREND

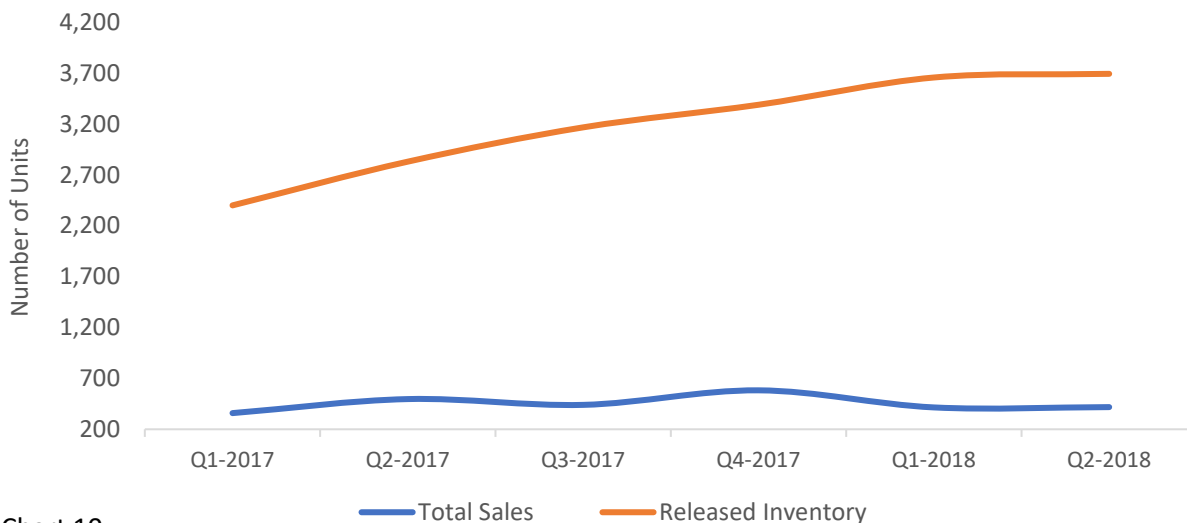


Chart 10

Standing Inventory Continues to Decline

Standing inventory levels decreased for the fourth consecutive quarter in Q2-2018. The number of completed move-in ready units dropped by five percent from the previous quarter and by 35 percent from the second quarter of 2017. This is a positive sign as completed units available for purchase continue to be absorbed, which should translate to greater demand for actively selling pre-sale and under construction product.

STANDING INVENTORY TREND

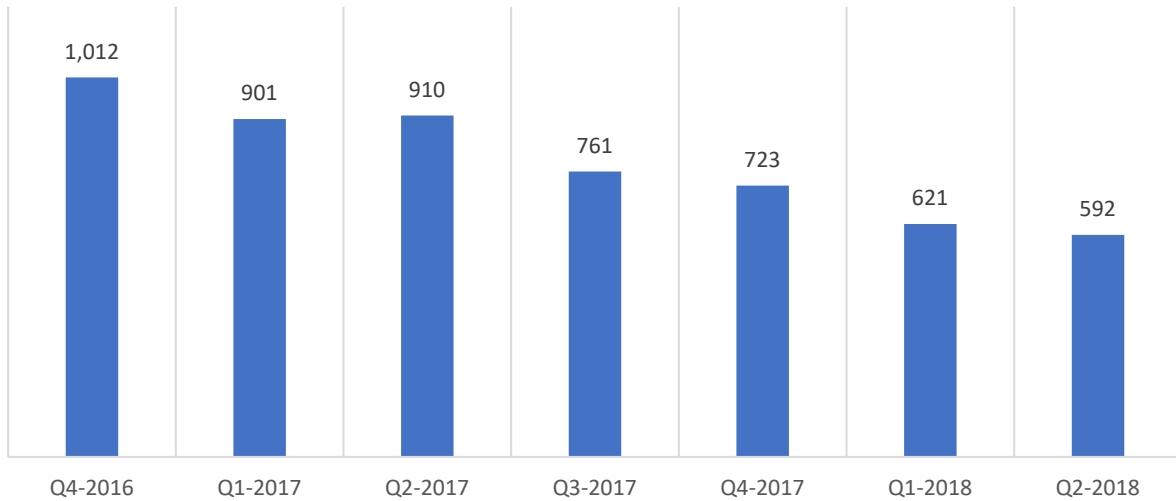


Chart 11

More Competition = More Standing Inventory

The Southwest sub-market continues to offer the highest amount of standing inventory in the Edmonton market, which isn't surprising given the fact it also features the highest number of competing projects. Buyers seeking move-in ready product would find the fewest options in Sherwood Park, which also features the fewest number of actively selling projects.

STANDING INVENTORY COMPARISON BY SUBMARKET

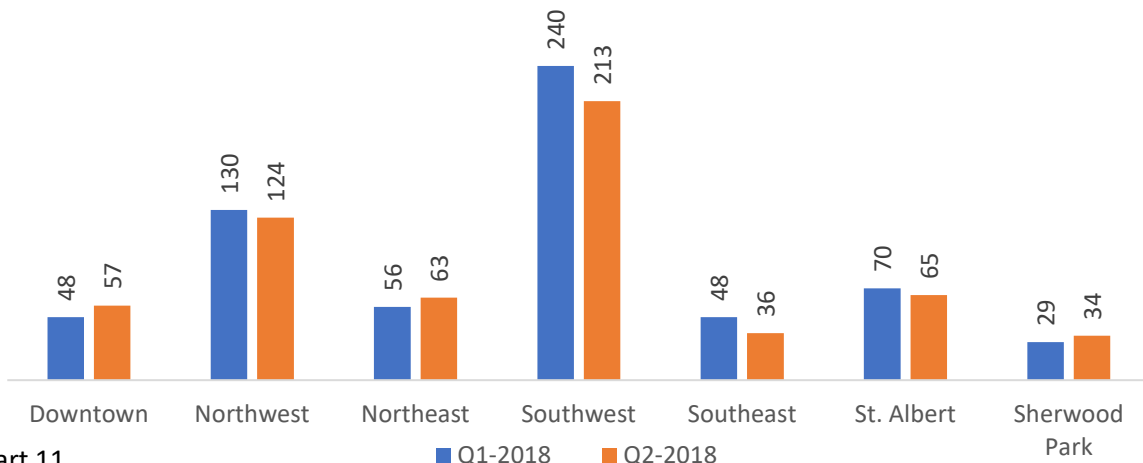


Chart 11

Surge in Wood Frame in Standing and Pre-Construction Product

Buyers have the greatest amount of choice of new multi-family home product in the wood frame condominium sector, which features the most number of unsold completed, under construction and pre-construction units. There are more than three times that amount of move-in ready wood frame condominium units as concrete condominium units. The higher number of townhome units currently under construction is not a significant concern given the recent absorption trend for this product form, and the fact it tends to get absorbed closer to completion.

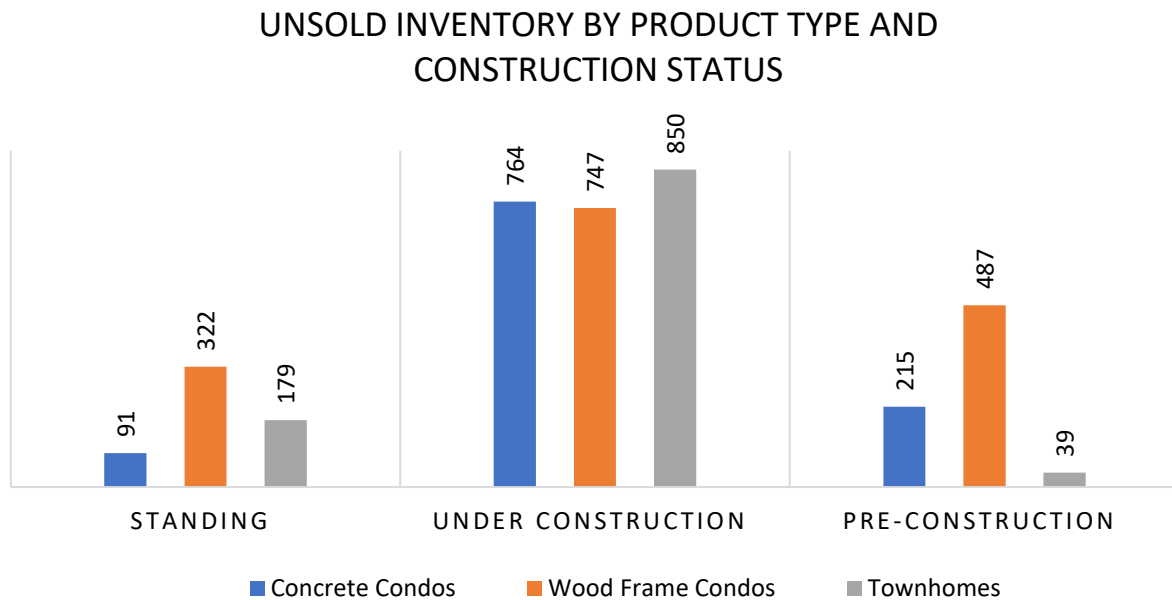


Chart 12

PRICE TRENDS

There was little change in list prices being sought for new multi-family home product in Edmonton in the second quarter of the year. Developers have continued the trend of offering a variety of incentives to attract buyers. These incentives include closing credits and valued-added upgrades. The following outlines some of the incentives currently being offered:

- *Skylark 87*: Upgrade options worth up to \$25,000
- *Secord Chalet*: Up to \$5,000 in upgrades or \$5,000 off the purchase price
- *Jade Condominiums*: Up to \$25,000 off select units
- *Sky Residences*: Rental Program with guaranteed rent of \$3.00 per square foot for two years
- *Oakmont Townhomes*: Free upgrade to quartz or granite counters and stainless-steel appliances
- *Neptune Townhomes*: Free quartz or granite counters
- *Trumpeter by Big Lake*: Free landscaping, \$2,500 gift card and free legal fees
- *Elan B2*: Design Credit valued at between \$3,000 and \$8,000
- *Valour*: Credit off the purchase price up to \$35,000
- *Solara at Skyview*: One year free condo fees
- *Altius Glenriding*: \$6,000 to \$12,000 off select units

- *Kirkness*: \$5,000 towards upgrades
- *Street Towns in Rosenthal*: \$5,000 off the purchase price
- *Laurel Landing Phase 2*: \$15,000 off the purchase price, free finished flex space, and a gift card for furniture
- *Sterling Uplands Townhomes*: \$15,000 off the purchase price
- *Stillwater*: \$10,000 in upgrades on Village Homes
- *Savida*: Up to \$44,000 off the remaining units
- *Escapes II*: Closing Credit of between \$25,000 and \$40,000
- *Village at Griesbach*: Basement development included
- *McConachie Crossing*: Four percent off the posted list price
- *Symphony Tower*: Four percent off the posted list price
- *Renew in Rosenthal*: \$5,000 off the posted list price
- *Riverview Townhomes*: \$5,000 off the posted list price
- *Essence Condos*: \$5,000 in upgrades
- *Averton One at Keswick*: \$4,000 off the first sale in every building

BUYER TRENDS

The new mortgage Stress Test qualification continued to impact many prospective buyers in Edmonton's new multi-family home sector during the second quarter, with first-time homebuyers struggling most to qualify to purchase a new condominium or townhome. Buyer interest remains high based on reports of visitor traffic to new multi-family home sales centres, but are finding the loss of buying power caused by the stress test rules and higher mortgage rates a significant obstacle to executing a new home purchase. Younger price-sensitive buyers are increasingly relying on assistance from parents to qualify for a mortgage and new home purchase. Many buyers are also being forced to adjust their home-buying expectations and considering another product form, which has delayed the purchase process.

Downsizers remain interested in larger multi-family home units, particularly homes with few or no stairs. Sales representatives at projects targeting this buyer group indicate there is limited urgency, with many prospective purchasers making multiple visits over a long period of time prior to making a buying decision. Downsizers are also finding it is taking longer to sell their existing home due to the dampening effect the stress test mortgage rules have had on the resale sector of the residential market. This further delays their purchase of a new multi-family home.

Sales representatives throughout Edmonton report there is interest from investors as they seek to take advantage of the increased value being offered for new multi-family product in Edmonton.

LOOKING AHEAD

The following is a list of projects that launched in the early stages of Q2-2018:

- Carlisle Group launched the second building at *The James*. The project features 148 units and is seeking at a blended average sale price per square foot of \$222.
- Carrington launched their second building at *Elan*. The project has 70 units and is seeking at a blended average sale price per square foot of \$281.

- Sterling Homes launched a 32 unit townhome project in the west neighbourhood of Uplands.
- Landmark Homes launched the second phase of *Laurel Landing*. This phase features 43 townhomes seeking at a blended average sale price per square foot of \$225.

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

- *Secord Landing*- Carlisle Group
- *Aloft Tamarack*- StreetSide Developments
- *Twin Brooks Townhomes*- Landmark Homes
- *121 West Condos*- Regency Developments
- *Essential Aurora*- Rohit

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

UA's NHSLive new home data platform is the most comprehensive source of current and detailed new multi-family home project information. With analysts and offices in each of the markets serviced, UA is able to make personal visits to each actively selling project to collect current status information and engage with sales representatives to obtain anecdotal information that enhances the data analysis and provides further insight into prevailing market conditions and trends.

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 and provide a demonstration of the data products on NHSLive.ca.

**URBAN ANALYTICS
(780) 951-0035
info-alberta@urbananalytics.ca**