

THE UA TAKE- FIRST QUARTER 2018: 'WINTER WEATHER BLUES'

Sales and Inventory Analysis

After impressively strong sales in the final quarter of 2017, the first quarter of the year saw sales slump as the record-breaking cold winter kept buyers indoors and away from sales centers. Further, the new mortgage 'stress test' rules implemented on January 1st that effectively reduced the purchasing power of younger price-sensitive buyers caused many to stay on the sidelines during the first quarter. Developers reacted to the sluggish demand by launching new projects in the more affordable outer markets. Despite the winter blues, sales in the first quarter of 2018 exceeded Q1-2017 absorptions. Urban Analytics (UA) anticipates the warmer spring temperatures will bring more buyers back into the market, which will lead to stronger Q2 sales.

Lower Quarterly Unit Sales

Historically, sales of new multi-family homes are lower in the first three months of the year as many prospective buyers avoid visiting new home presentation centres during the coldest winter months. The first quarter of 2018 proved no different as new multi-family home sales in Edmonton fell by 29 percent compared to the previous quarter. The drop in quarterly sales was expected after the successful launch of SKY Residences in the fourth quarter of 2017 and the limited number of significant new project launches in Downtown Edmonton. If the Q4 sales at SKY Residences were not factored, the drop in quarterly sales would be just 19 percent.

QUARTERLY UNIT SALES

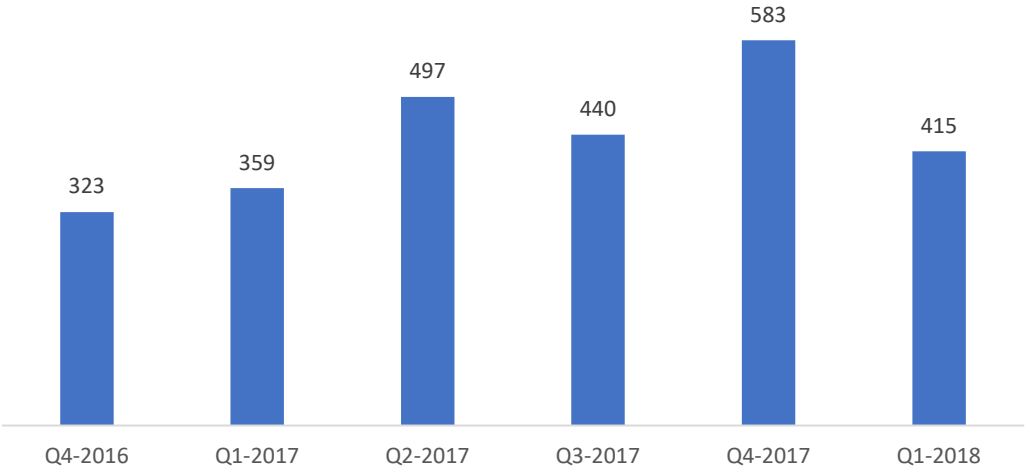
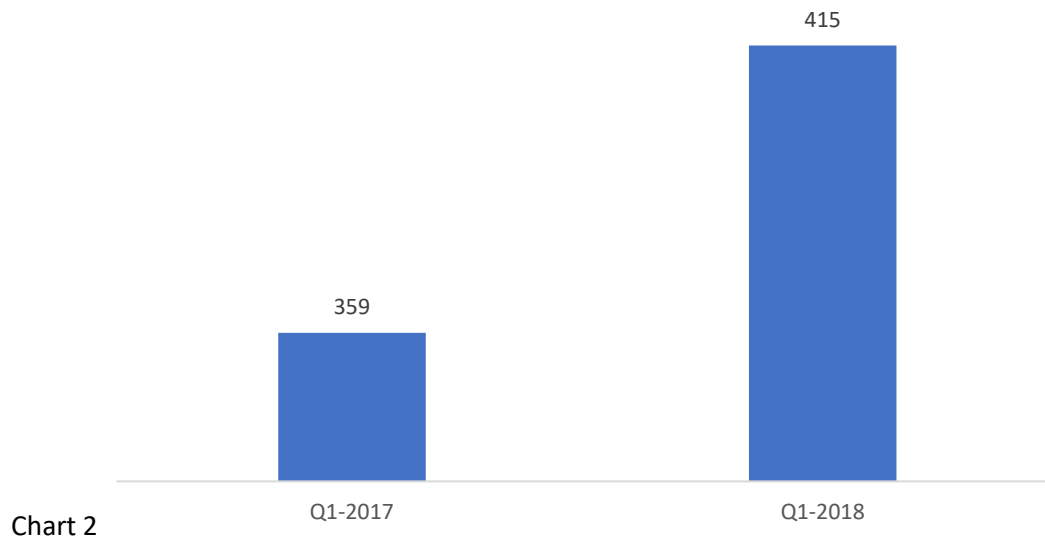


Chart 1

Higher Year-Over-Year Sales

While quarterly sales were lower in Q1-2018, year-over-year absorptions of new multi-family homes increased by 16 percent compared to the same quarter in 2017, which reflects steadily growing confidence in the housing market and Edmonton's economy among prospective new home buyers.

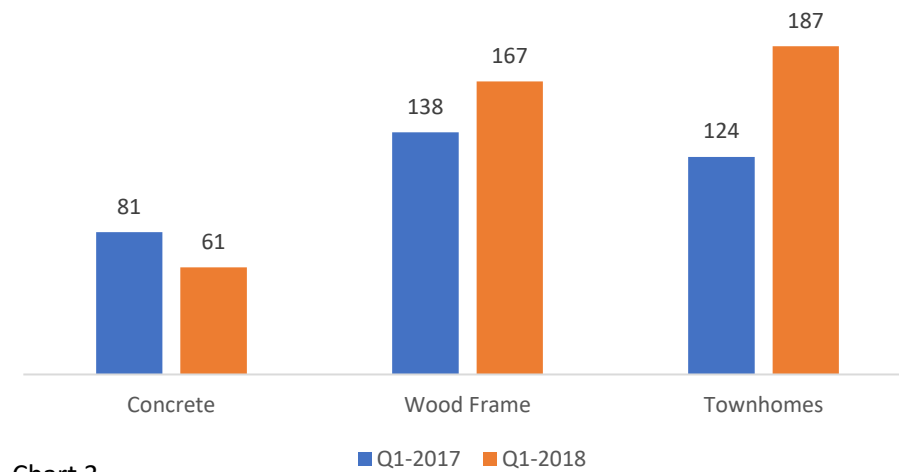
YEAR-OVER YEAR UNIT SALES COMPARISON



Demand for Affordable Homes

Price-sensitive buyers were most active in the first quarter of the year, as reflected by the higher year-over-year sales in the condominium and townhome sectors of the market. The wood frame condominium sector saw a 21 percent increase and townhomes a 51 percent rise over Q1-2017. The lack of any significant new concrete condominium projects in the first quarter resulted in a 25 percent decrease in sales compared to the same quarter a year earlier.

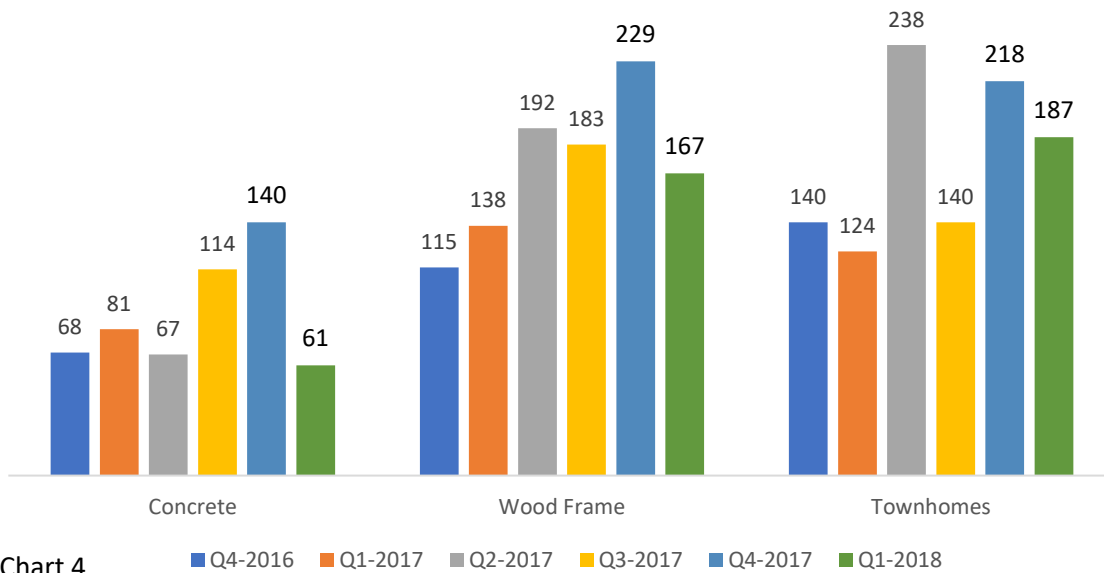
HISTORICAL Q1 SALES BY PRODUCT TYPE



All Sectors Experience Lower Quarterly Sales

All three product forms experienced lower sales in Q1-2018 compared to the previous quarter. Concrete condominiums saw the largest decrease at 56 percent. As noted, the successful launch of SKY Residences in Downtown Edmonton in the last quarter of 2017, combined with a lack of any significant new projects in Q1-2018 led to the larger than normal percentage drop in quarterly sales. Areas such as Oliver and Strathcona performed stronger than the Downtown core in concrete condominium sales in the first quarter of 2018. Wood frame condominiums experienced a 27 percent drop while townhome sales decreased by 14 percent from Q4-2017. The lower quarterly sales in these two sectors can be attributed to the particularly strong absorptions observed in the previous quarter and the exceptionally cold winter weather experienced in the first quarter of the year.

QUARTERLY UNIT SALES COMPARISON BY PRODUCT TYPE



Sales Strongest in Southwest

The Southwest submarket continues to account for the largest proportion of sales among the various submarkets in Edmonton. This is not surprising given the large number of actively selling projects in this submarket. Price sensitive buyers are drawn to the wide range of product forms at relatively affordable prices available in the Southwest.

All but two submarkets in Edmonton experienced lower sales in Q1-2018 compared to the previous quarter. The Sherwood Park and Northeast submarkets were the only two submarkets to see an increase in sales in Q1-2018. Strong buyer response to Mattamy's *Allentown* boosted sales in the Northeast submarket. *Allentown* is a 144 unit townhome project seeking the lowest blended price per square foot for townhome product in the Edmonton market.

SALES BY SUB-MARKET COMPARISON

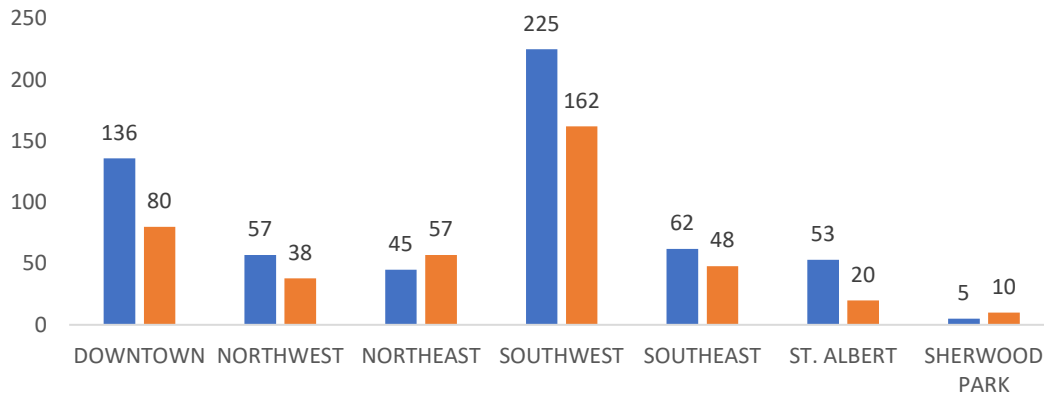


Chart 5

■ Q4-2017 ■ Q1-2018

The following is a Q1-2018 to Q4-2017 comparison of unit sales in Edmonton's submarkets:

- Downtown: -41%
- Northwest: -33%
- Northeast: +27%
- Southwest: -28%
- Southeast: -23%
- St. Albert: -62%
- Sherwood Park: +100%

The following is a year over year comparison of unit sales in Edmonton's submarkets:

- Downtown: +23%
- Northwest: +90%
- Northeast: 0%
- Southwest: +57%
- Southeast: +17%
- St. Albert: -65%
- Sherwood Park: +900%

Townhomes Strongest Selling Product Form

The townhome sector experienced the strongest absorptions in Q1-2018. Townhomes comprised 45 percent of the total number of new multi-family home sales in the first quarter. The Southwest submarket accounted for the largest number of townhome sales in the first quarter of the year. Wood frame condominiums made up 40 percent of all new multi-family home sales in Edmonton. Sales of this product form are more evenly distributed throughout the various Edmonton submarkets, with the largest proportion occurring in the Southwest.

Q1-2018 SALES BY PRODUCT TYPE & SUBMARKET

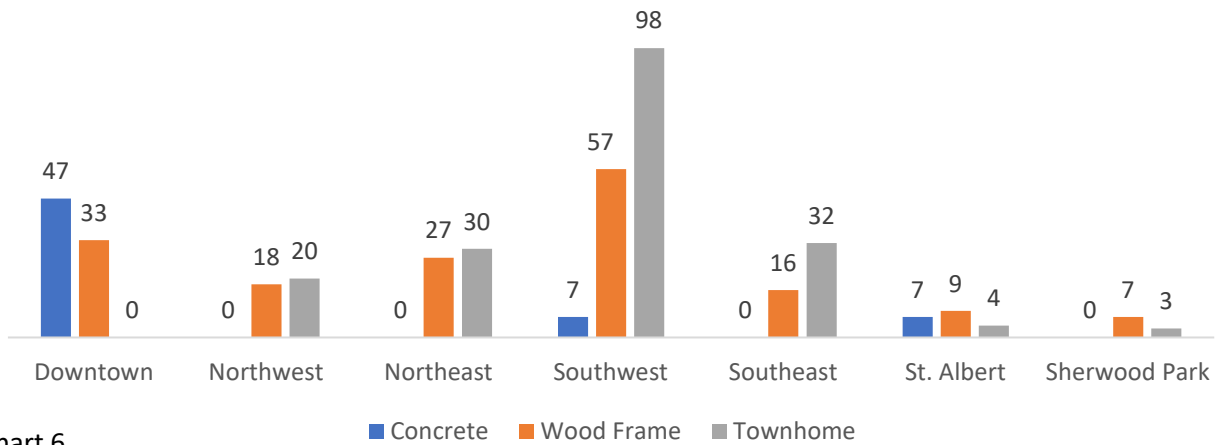


Chart 6

Rising Wood Frame Condominium Inventory

Chart 7 compares the amount of unsold inventory by product type. The wood frame condominium sector experienced the largest increase in inventory at 21 percent compared to Q4-2017 and by 47 percent on a year-over-year basis. The rise in wood frame condominium inventory can be contributed to substantial number of project launches in 2017 and in the first quarter of this year. New townhome inventories rose by four percent over the previous quarter.

Concrete condominiums were the only sector to end the first quarter of the year with lower inventory than the previous quarter. The number of unsold units in this sector dropped by five percent in Q1-2018; primarily due to the lack of significant new project launches during the first few months of the year. The Q4-2017 launch of SKY Residences contributed to a year-over-year increase in concrete condominium inventory.

RELEASED INVENTORY COMPARISON

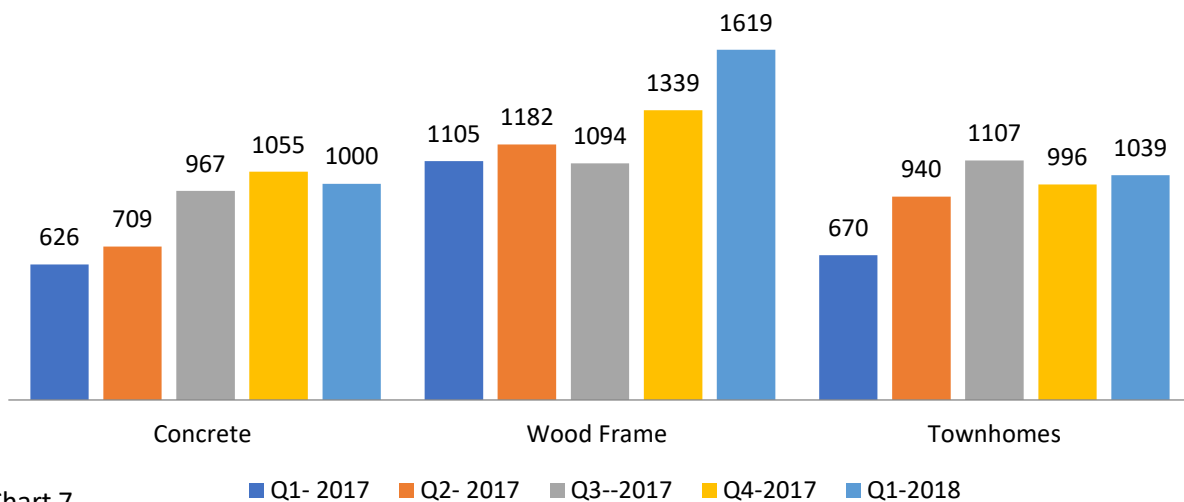


Chart 7

Southwest Offers Most Choice

The Southwest submarket continued to offer the greatest amount of inventory in Edmonton. This area also offers the prospective buyers with the most choice in terms of the number of projects being actively marketed.

Unsold inventory levels rose in four of the seven submarkets in Edmonton in Q1-2018 compared to the previous quarter. The Northwest, Northeast, Southwest and Southeast all saw increases in inventory. The biggest increase occurred in the Southwest where six new projects were launched in the first quarter of the year.

RELEASED INVENTORY COMPARISON BY SUBMARKET

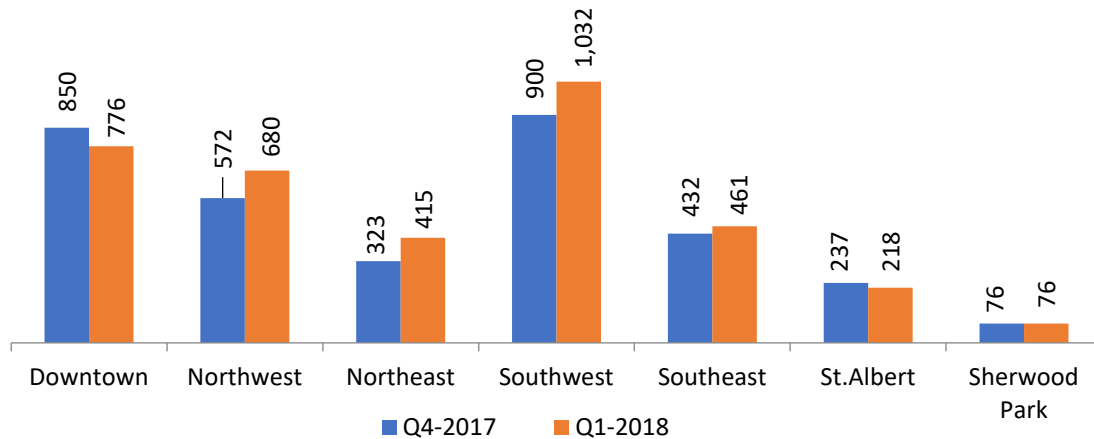


Chart 8

Spread in Quarterly Sales and Unsold Inventory Widens in Q1-2018

The sluggish winter sales in the first quarter of the year led to a widening in the gap between the number of units sold in Q1-2018 and the number unsold units at the end of the quarter. The spread between these two metrics increased by 16 percent on a quarterly basis and by 59 percent year-over-year. Over 40 new projects were launched during the 12 months between the first quarters of 2017 and 2018 respectively, adding over 3,000 additional units to the Edmonton market. Slower Q1-2018 sales curbed the momentum established during the last quarter of 2017, thereby leading to higher inventories as new projects were released. UA anticipates the spread between quarterly sales and unsold inventory to normalize over the balance of 2018 as prospective buyers adjust to the 'stress test' mortgage rules and as warmer spring temperatures bring buyers out of their winter hibernation.

QUARTERLY SALES & RELEASED INVENTORY TREND

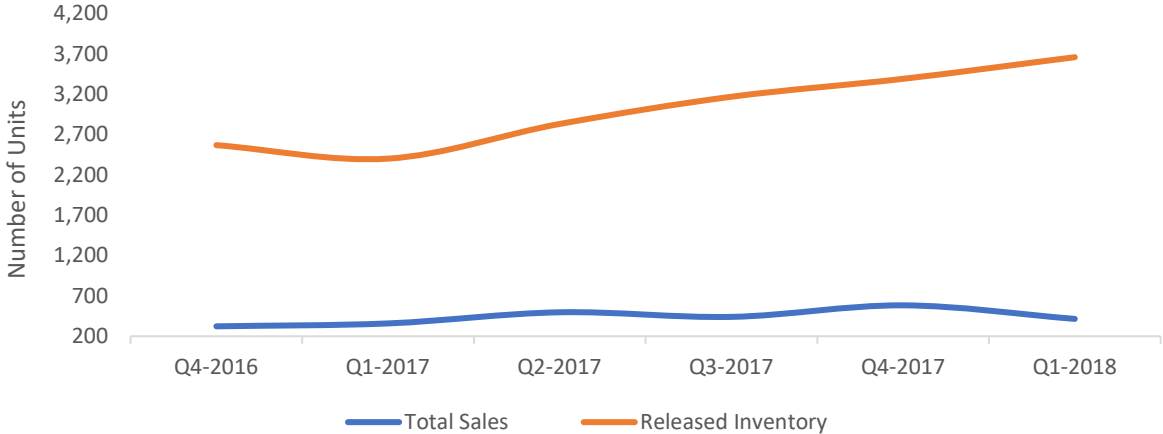


Chart 9

Standing Inventory Levels Continue Steady Decline

While total unsold inventory levels have risen, the number of move-in ready units has continued to decrease over the past several quarters, which indicates purchasers are absorbing more units as they approach completion. The number of completed and unsold units at the end of Q1-2018 is 14 percent lower than the previous quarter and has dropped by 39 percent since the last quarter of 2016.

STANDING INVENTORY TREND

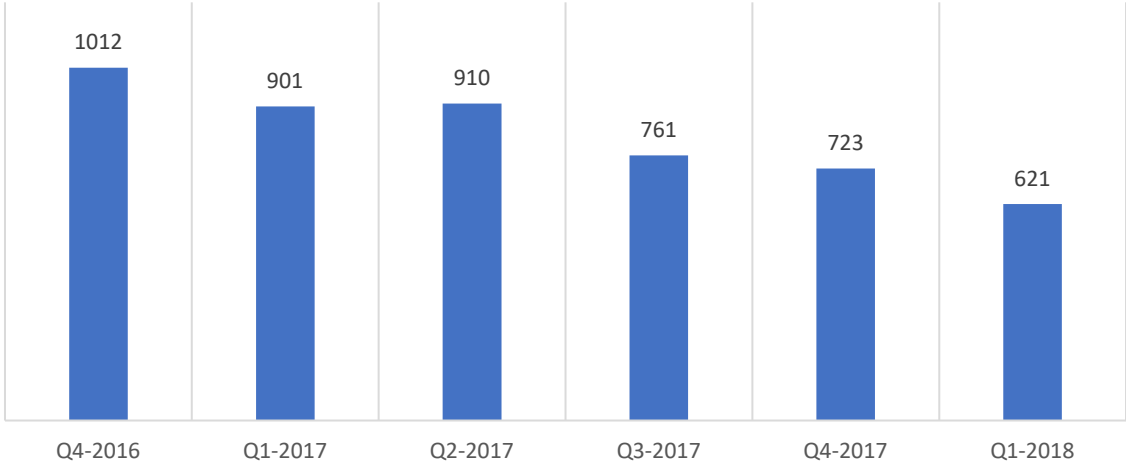


Chart 10

Move-in ready in the Southwest

Chart 11 illustrates the number of move-in ready units in each submarket at the end of Q1-2018. It's not surprising given the significant amount of new multi-family product being marketed in the Southwest submarket that this area also affords buyers the greatest selection of move-in ready units. The large proportion of townhome projects, which are typically built and substantially complete prior to being released for sale also contributes to the higher number of standing inventory units.

The number of completed and unsold units increased in just one submarket in Q1-2018; Sherwood Park, where there was just one more move-in ready unit than in the previous quarter. The most significant drop occurred in the Downtown submarket (-37%) and the Northeast (-32%).

STANDING INVENTORY BY SUBMARKET QUARTERLY COMPARISON

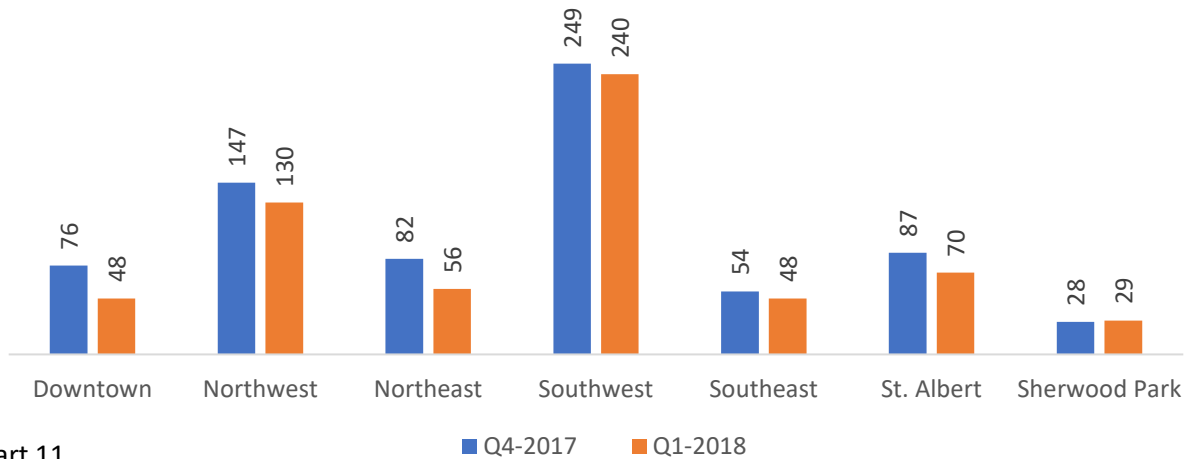


Chart 11

Edmonton Dominated by Wood Frame Condominiums

As Chart 12 illustrates, the wood frame condominium sector comprises the highest number of standing and pre-construction units in Edmonton. There are twice as many move-in ready wood frame condominium units than either concrete condominiums and townhomes. Buyers are being offered increasingly appealing value in the wood frame condominium sector as developers offer higher-valued discounts and incentives on standing inventory product. The townhome sector offers the highest number of under construction units due in large part to the phased nature of development of this product form.

UNSOLD INVENTORY BY PRODUCT TYPE AND CONSTRUCTION STATUS



Chart 12

Price Trends

There was little change in absolute list prices of new multi-family home product in Edmonton in the first quarter of the year. However, developers continue to offer attractive incentives including closing credits, waiving condo fees and value-added upgrades. The following summarizes some of price changes and incentives offered in Q1-2018:

- *Windsor Terrace* – Prices increased by five percent on the remaining units. This increased the blended price per square foot by \$9 to \$771.
- *Arbor at Avenue 83* – Project reduced prices by \$7,000 on select units. The developer is offering to waive condo fees for one year.
- *West Ritchie 80th Ave* – Offering \$10,000 off the price of each of the first 15 sales.
- *Valour* – Offering a credit off the purchase price of up to \$35,000.
- *Aloft Skyview* – \$5,000 off the purchase price.
- *Solara at Skyview* – Offering an extra parking stall or \$10,000 off the purchase price. Also offering to waive condo fees for a year.
- *Jade II* – Incentive of up to \$25,000 off select units.
- *Neptune Townhomes* – Offering free quartz or granite counters.
- *Altius Skyview* – Offering \$7,500 off the purchase price.
- *Secord Chalet* – Offering up to \$16,000 off select units, \$3,000 in free upgrades and free granite or quartz counters.
- *Street Towns in Rosenthal* – Offering quartz counters in the bathrooms, electric fireplace and a \$1,500 Visa Gift card with the sale of units in the most recently launched phase of the project.
- *Skylark 87* – Reduced prices on all models, which decreased the blended price per square foot by \$7 to \$231.

- *Starling* – Offering a \$5,000 rebate to parents who assist with the purchase of a unit for a dependent.
- *Starling Landing* – Builder has reduced prices on select models by \$10,000.
- *Trumpeter by Big Lake* – Offering \$20,000 off completed and nearly completed units.
- *Northshore at Schonsee II* – Offering \$12,500 in upgrades.
- *Topaz* – Prices have been reduced by \$10,000.
- *Crossroads at Rutherford* – Offering \$5,000 off the purchase price.
- *Creekwood Landing* – Prices reduced by \$10,000.
- *Elements at Windermere V* – Prices of remaining units have been reduced by \$19,000 to \$26,500.
- *Blue Quill* – Offering \$10,000 off the purchase price.
- *Uplands Townhomes* – Offering \$7,000 off the purchase price.
- *Allard Townhomes* – Developer has reduced prices by \$8,000.
- *Ara Bldg 1* – Up to \$35,000 in a closing credit.
- *Aspen Meadows II* – Offering an incentive of \$10,000 that can be used for upgrades, be put towards condo fees or to reduce the purchase price.
- *Sora Condos Bldg A* – Offering an incentive of \$12,500 in upgrades.
- *Southern Springs* – Condo fees waived for one year.
- *Erin Ridge Gate* – Prices increased by \$6,000.
- *Aspen Park Condos* – Offering a free parking stall with the sale of select units.
- *Eton Park Estates* – Offering an incentive of \$20,000 off smaller two bedroom models and \$35,000 off larger two bedroom models.
- *Savona* – Condo fees are waived for one year for non-penthouse units and for two years for penthouse units.
- *Aspen Trails Townhomes* – \$10,000 incentive that can be put towards upgrades or taken off the purchase price.

Buyer Trends

The fourth quarter of 2017 saw younger price sensitive buyers being active as they sought to purchase a home prior to the implementation of the new 'stress test' mortgage rules. Not unexpectedly, these same younger price-sensitive buyers were less active in the first quarter of the year as they adjusted to their reduced buying power. UA expects these buyers to return to the market in the spring months and be attracted to more affordable wood frame condominium and townhome product, particularly those who were contemplating a detached home purchase but can no longer qualify.

The cold winter weather many buyers indoors and out of new project sales centres for much of Q1-2018. Sales representatives throughout Edmonton reported slower traffic and noted the long, cold winter as the primary cause. There was however some encouraging buyer activity at new project launches during the quarter as value-seeking purchasers braved the cold temperatures to take advantage of attractive launch incentives and pricing.

Edmonton's Downtown market was quieter in the first quarter of 2018 than in the previous quarter as SKY Residences' sales and marketing campaign transitioned to tempo mode after its successful Q4-2017 launch. UA anticipates Downtown condo sales to remain moderate until the next significant project launch.

Looking Ahead

The following is a list of projects launched in the initial stages of Q1-2018:

- *Veritas* by Carrington launched in late February. This 94 unit Wood frame condominium is located in the Griesbach area.
- Carrington launched the 2nd Buildings at *Northshore at Schonsee* and *Elements @ Manning*.
- The fourth building at *Elements @ Windermere* launched after previously being placed on hold.
- Carlisle Group launched the second building at *The James*.
- Mattamy Homes launched their first master planned community in Edmonton called *Stillwater*. The community features single family and townhomes. The townhomes are selling at an average blended price per square foot of \$201.
- Rohit launched another First Place townhome project called *Bulyea Heights Landing*.
- Landmark Homes launched a 121 unit townhome project in Glenridding.
- *Caspia Townhomes*, a 45 unit townhome project by City Homes Master Builder, launched in early January 2018.

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

- *Laurel Landing Phase 2* – Landmark Group
- *Elan Phase 2* – Carrington Communities
- *Secord Landing* – Carlisle Group
- *Aloft Laurel* – Streetside Developments
- *121 West Condos* – Regency Developments
- *Essential Aurora* – Rohit

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

In addition to maintaining the most current new multi-family home and rental apartment project data on NHSLive.ca, UA provides advisory and consulting services that can be tailored to meet your firm's specific needs. Please contact us to discuss how we can assist you in the design and or positioning of your new multi-family home community.

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