

THE UA TAKE – FOURTH QUARTER 2018:

SIGNS OF LIFE

Sales and Inventory Analysis:

Despite experiencing sluggish demand levels during the summer and early fall, Edmonton’s new multi-family home market experienced increased sales activity in the fourth quarter of 2018. The launch of a new project in Downtown Edmonton helped generate greater buyer interest and demonstrated demand exists for appropriately priced concrete condominium product in this sub-market. While there were several signs suggesting reasons for optimism in Edmonton’s new multi-family home market, some underlying challenges continue to exist due to the impact of the new stress test mortgage qualification rules and the higher interest rates that combined to make it increasingly difficult for many buyers to purchase a home. These factors continue to impact purchasing power and consumer confidence, resulting in generally flatter sales activity. In some areas and sectors of the new multi-family home market, buyers have adjusted expectations and continue to seek more affordable product in the outer sub-markets of the city; particularly in the Southwest sub-market. The abundance of affordably priced product in the Southwest area continues to attract a mix of entry level buyers, young families and downsizers.

An increase in Quarterly Unit Sales

Sales in Edmonton’s new multi-family home market increased by 20 percent in the fourth quarter of 2018 compared to the third quarter. The launch of Westrich Pacific’s *The View at Grandin City* contributed to higher sales volume in the concrete condominium sector during Q4-2018. Higher sales volume is typical for the fourth quarter of the year, which historically is one of the most active periods for new multi-family home sales and therefore one of the more favourable periods of the year to launch new product.

QUARTERLY UNIT SALES

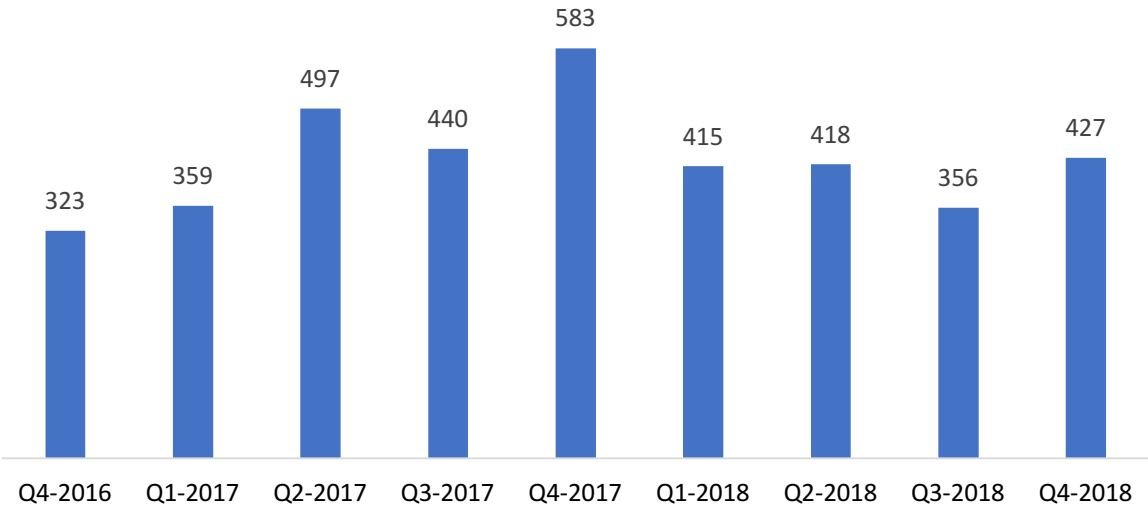
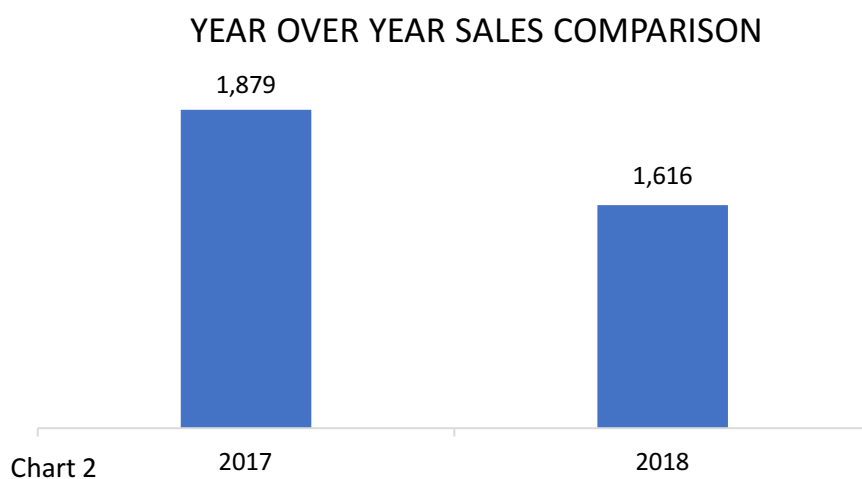


Chart 1

### *Moderately Lower Year Over Year Sales*

The full impact of the new stress test mortgage qualification rules is illustrated in Chart 2, which compares the number of sales achieved in Edmonton's new multi-family home market in 2018 vs. 2017. Total new condominium and townhome sales were 14 percent lower in 2018 than during the previous year. The flattening of sales volume throughout 2018 can largely be attributed to the loss of buying power caused by these new mortgage qualification rules and the multiple interest rate hikes, which in turn contributed to lower consumer confidence and uncertainty among some buyer groups. Further, the abundance of competitive supply in the market reduced urgency levels among prospective buyers who felt little need to rush their buying decisions.



### *A Significant Drop in Wood Frame Condominium Sales*

Chart 3 outlines historical fourth quarter sales by product type. Concrete condominiums and townhome sales volume remained steady while the wood frame condominium sector experienced a significant 64 percent decrease in sales volume. The substantial drop sales in this sector can largely be attributed to the higher demand that occurred in the fourth quarter of 2017 when purchasers were buying ahead of the implementation of the stress test rules at the start of January 2018. There were also several new wood frame condominium projects launched during the last quarter of 2017, which helped generate new buyer interest and urgency.

## HISTORICAL Q4 SALES BY PRODUCT TYPE

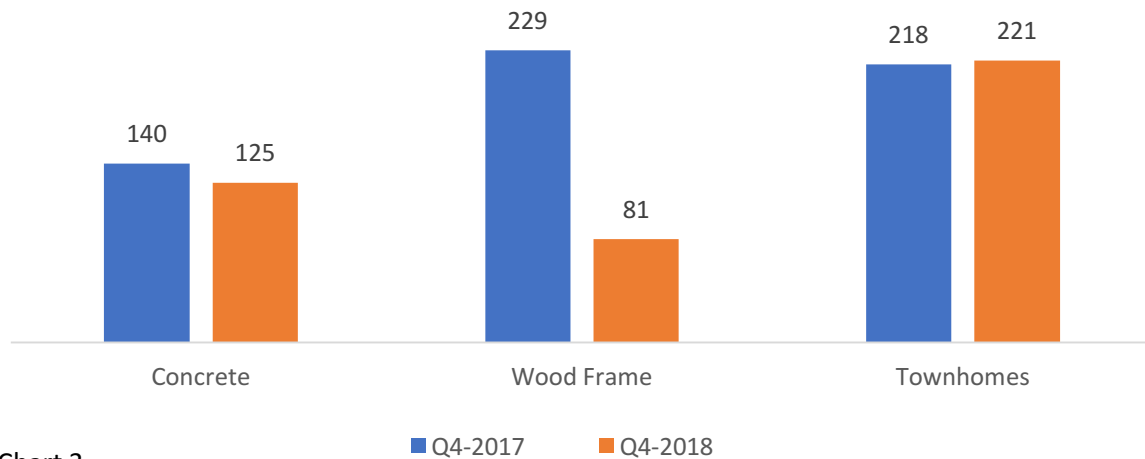


Chart 3

### *Concrete Condominiums and Townhomes Remain Steady*

Concrete Condominium sales remained reasonably steady with an 11 percent decrease in the fourth quarter of 2018 compared to the same quarter in 2017. Strong absorptions from the newly launched concrete condominium tower *The View at Grandin City* by Westrich Pacific allowed the concrete condominium sector to hold its own in Q4-2018, particularly considering the most number of sales ever recorded in the concrete condominium sector occurred in Q4-2017. A new concrete condominium project called *Falcon One* by Langham Developments is expected to launch early in 2019 and will hopefully generate more energy among buyers in this sub-market.

The townhome sector continues to be the strongest performing product form in Edmonton's new multi-family home market. On a year over year basis, townhome sales rose by a nominal one percent. Sales volume was also extremely consistent with figures in the third quarter of 2018. A mix of entry level buyers, young couples, young families and downsizers continue to comprise the majority of townhome purchasers in Edmonton. As in previous quarters, the \$350,000 threshold is important as most townhome demand remains below this threshold due to the loss of buying power purchasers experienced.

## QUARTERLY UNIT SALES COMPARISON BY PRODUCT TYPE

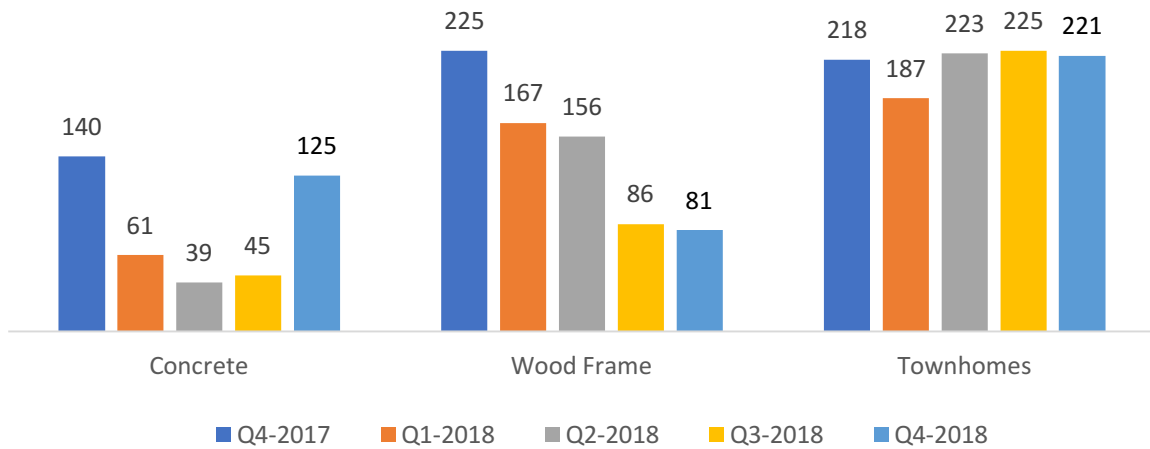


Chart 4

### *Downtown Holds Its Own*

The Downtown sub-market experienced a sluggish start in terms of sales in the first quarter of 2018, which continued through the third quarter of the year. However, Q4-2018 sales rose by 177 percent compared to the third quarter. As noted, a positive response to the recently launched *The View at Grandin City* by Westrich Pacific combined with steady sales at *SKY Residences* by One Properties allowed the Downtown sub-market to experience a strong finish to the year.

## SALES BY SUB-MARKET COMPARISON

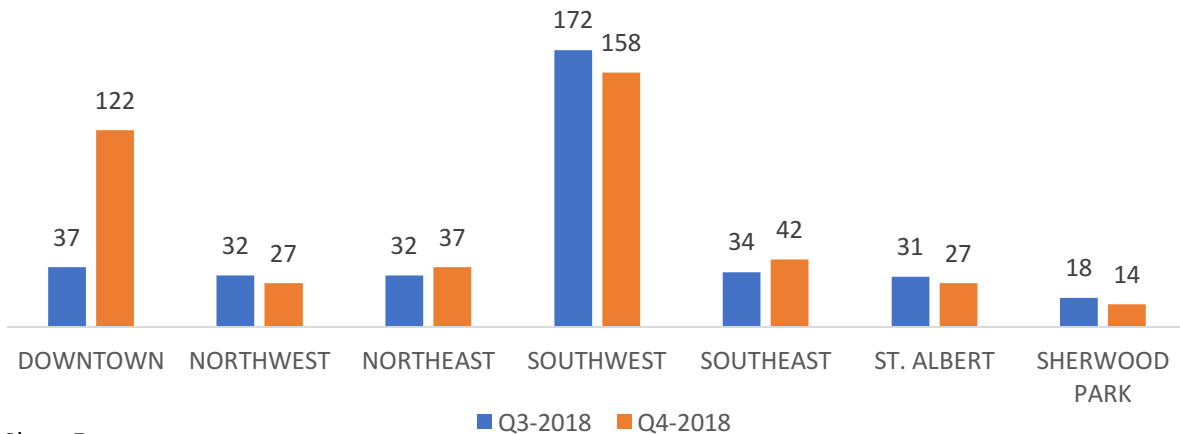


Chart 5

### *Southwest Sub-market Leads Sales, Again*

The Southwest of Edmonton continues to be the strongest performing sub-market in Edmonton's new multi-family home market due to the amount of competitive supply in the market and the relative affordability of the product offered there. The higher sales volume in this sub-market is directly correlated

to the high number of actively selling projects in the area. The Southwest experienced the highest number of wood frame condominium and townhome sales in the fourth quarter of 2018 compared to all other sub-markets. While this submarket recorded more sales than other areas of the city during the fourth quarter, the Southwest still experienced an eight percent drop in total sales compared to the previous quarter.

*Edmonton’s East Side Experiences increased demand*

Both the Northeast and Southeast sub-markets experienced higher sales volume in Q4-2018 relative to the previous quarter. The Downtown sub-market was the only other sub-market to see higher sales activity in the fourth quarter of the year. The Southwest sub-market experienced a 25 percent increase in sales while the Northeast saw a 16 percent increase in sales in Q4-2018. The Southeast and Northeast sub-markets also achieved the second and third highest number of townhome sales after the Southwest area.

**Q4-2018 SALES BY PRODUCT TYPE & SUBMARKET**

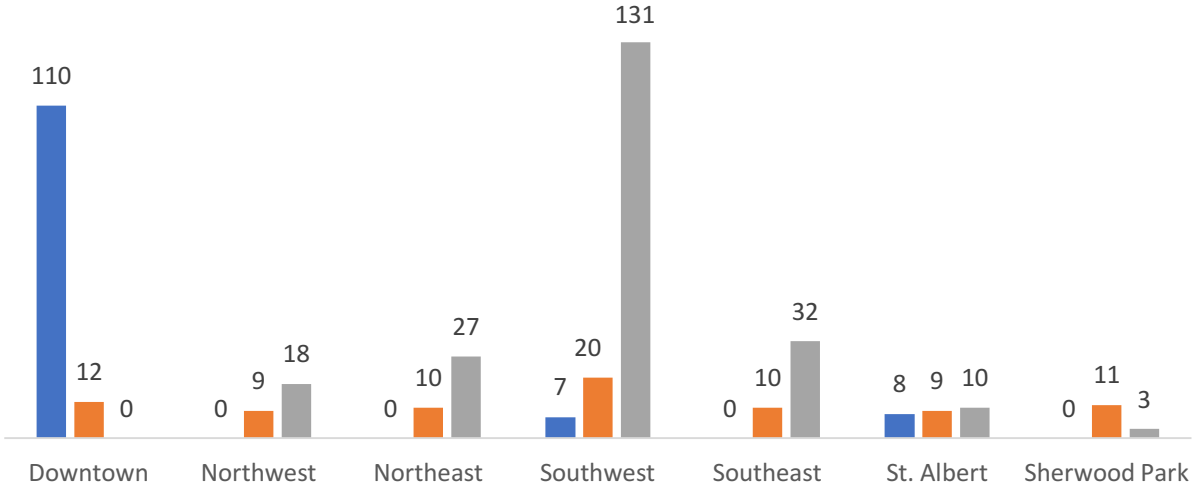


Chart 6 Concrete Wood Frame Townhome

*Changes in Released Inventory*

The limited amount of new concrete project launches over the past 12 to 18 months in Edmonton has resulted in a steady reduction in inventory levels in this sector. The supply of released concrete condominium, wood frame condominium and townhome product was lower in the last quarter of the year compared to Q3-2018. The largest decrease occurred in the wood frame condominium sector with a significant 22 percent decrease. The townhome and concrete condominium sector experienced an 11 percent and three percent decrease in released inventory respectively. On a year over year basis, the number of released and unsold concrete condominium and wood frame condominium units dropped by 12 percent and seven percent respectively in Q4-2018. Release townhome inventory rose by a modest three percent on a year over year basis.

### RELEASED INVENTORY COMPARISON

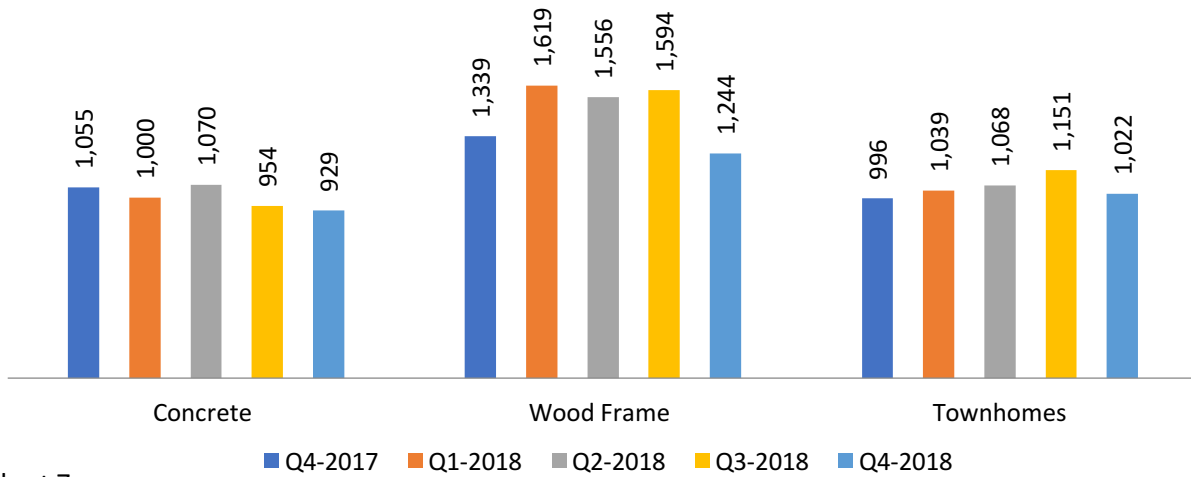


Chart 7

Chart 8 illustrates the amount of released inventory by sub-market in Edmonton. The Downtown sub-market was the only one to experience an increase in released inventory in the fourth quarter of 2018. The number of released and unsold condominium units in the Downtown sub-market rose by nearly three percent in Q4-2018 compared to the third quarter. This slight increase is attributed to the launch of *The View at Grandin City* by Westrich Pacific, which came to market in October 2018. The Southwest sub-market experienced a significant 25 percent drop in released inventory due primarily to Pelham Master Builders’ decision to convert 180 units in its four storey wood frame condominium project *The Village at Summerside* to luxury rental apartments.

### RELEASED INVENTORY COMPARISON BY SUBMARKET

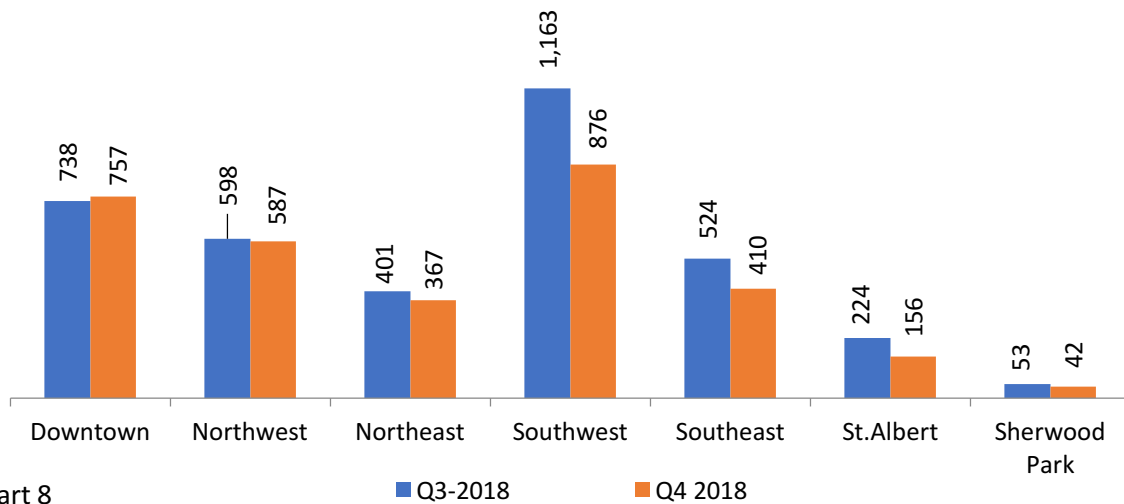


Chart 8

*Declining Spread in Quarterly Sales and Unsold Inventory in Q3-2018*

The spread between the number of units sold in Q4-2018 and the number of available units to purchase at the end of the fourth quarter narrowed further during the past quarter. This is largely due to the higher sales absorptions experienced in the fourth quarter of the year, and to some market condominium projects being converted to rental apartments.

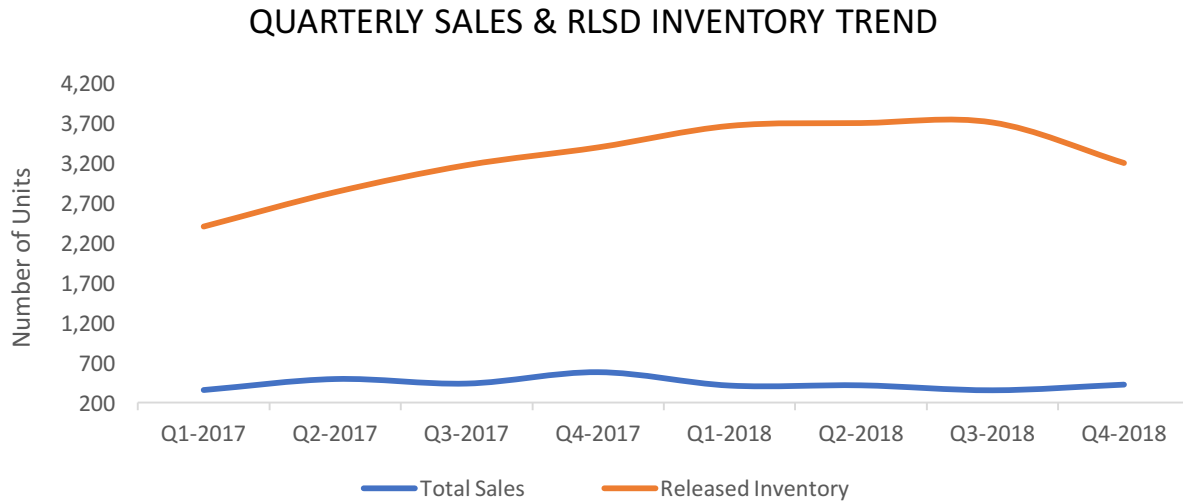


Chart 9

*Standing Inventory Rises After a Steady Decline*

Chart 10 shows an increase in standing inventory levels in Q4-2018. The 26 percent increase in standing inventory levels in Edmonton’s new multi-family home market in Q4-2018 relative to the previous quarter can be largely attributed to Cassel Developments’ four storey wood frame condominium project *The Connaught* completing construction and introducing 144 move-in ready units to the market. On a year over year basis, standing inventory levels at the end on 2018 are almost the exact same as at the end of 2017. On a more positive note, standing inventory levels are 28 percent lower than at the end of 2016, indicating the steady absorption of completed and unsold units.

### STANDING INVENTORY TREND

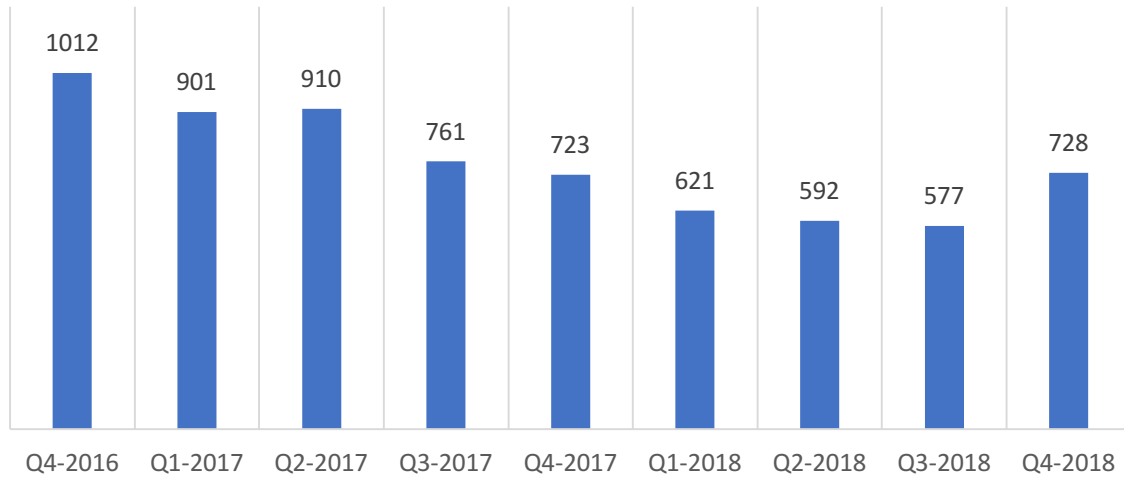


Chart 10

#### *Standing Inventory Varies by Sub-market*

Three sub-markets experienced increases in standing inventory levels in the fourth quarter of 2018. The number of completed and unsold units in the Northwest sub-market rose by a substantial 115 percent due to the noted launch of the completed *The Connaught* project. St. Albert recorded a 62 percent increase in the number of unsold move-in ready units due to the current completed inventory at Bordreau Developments' *Botanica*. There was also a seven percent increase in standing inventory in the Southwest sub-market. This slight increase was due to several townhome projects release blocks of newly completed new units to the market. The most significant drop in completed and unsold units occurred in the Northeast Sub-market; 27 fewer move-in ready units compared to the Q3-2018.

### STANDING INVENTORY BY SUBMARKET

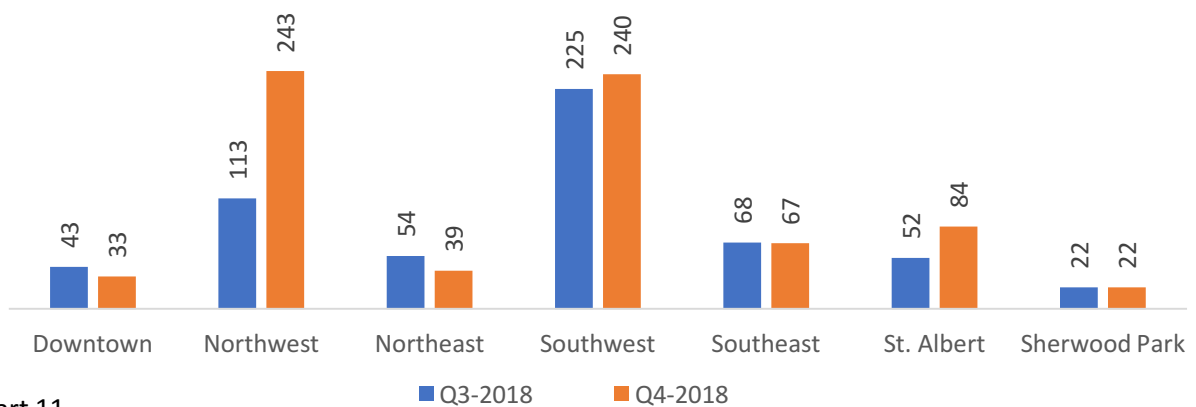


Chart 11



### More Choice for Wood Frame Condominium Buyers

The wood frame condominium sector continues to offer the most choice in terms of completed, under construction and pre-construction units. A significant number of townhomes are currently under construction as this product type typically gets absorbed closer to completion. Overall, the projects in the *under construction* status offer the widest variety of choice to buyers with a generous supply of units available in all three product forms.

## UNSOLD INVENTORY BY PRODUCT TYPE AND CONSTRUCTION STATUS

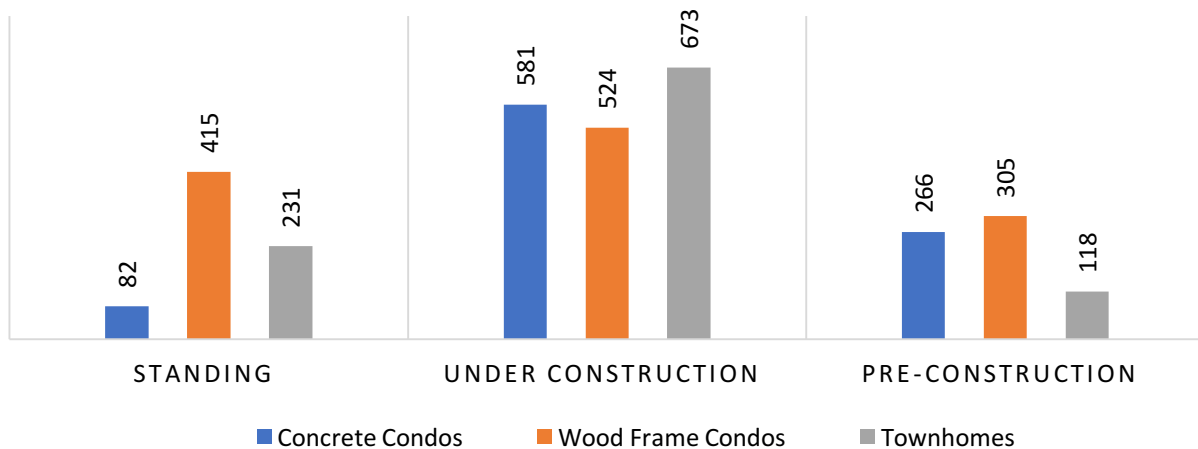


Chart 12

### Price Trends

There were few price changes in Edmonton's new multi-family home market in the fourth quarter of 2018. Instead, developers continued to offer incentives to increase sales volume. These incentives typically reduce the purchase prices of units by several thousand dollars. Some of the noteworthy price changes and incentives offered at actively selling projects across Edmonton are as follows:

- *Valour Buildings A & B*: Up to \$35,000 off the purchase price
- *Trumpeter by Big Lake*: Up to \$30,000 off units
- *Altius Glenriding*: Up to \$18,000 off units
- *Canvas*: Free moving package
- *Solera at Skyview*: Free condo fees for one year
- *Escapes I*: Final unit reduced by \$116,000
- *Escapes II*: \$7,000 to \$10,000 off unit price
- *Northshore at Schonsee II*: A combination a of a free parking stall + no condo fees for one year + up to \$5,000 towards upgrades (depending on the unit)
- *Moda One at Keswick*: \$10,000 in upgrades or \$7,500 off the unit price
- *Sora Condos*: One year of free condo fees and a free parking stall valued at \$7,000

- *Neptune Townhomes*: \$20,000 off units
- *Elan Building II*: \$3,000 to \$8,000 in design credits and a free storage locker
- *Bellwether Park*: \$5,000 in free upgrades
- *Caspia Townhomes*: \$7,500 Southgate gift card
- *Crreekwood Landing Phase I and II*: 16% off remaining units
- *Street Towns in Rosenthal*: \$10,000 off units
- *The Strand in Rosenthal*: \$15,000 off current unit price
- *Kirkness*: \$20,000 off two bedroom units, \$25,000 off three bedroom units and \$5,000 in free upgrades

### **Buyer Trends**

The impact of the stress test and rising interest rates resulted in a loss of buying power throughout 2018. First time home buyers were significantly impacted by the changes introduced, pushing them to stay in the rental market for longer. While this led to strength in Edmonton's rental market, it also resulted in lower new multi-family home sales year over year. The surge in sales in the fourth quarter of 2017 was largely driven by buyers seeking to enter the housing market prior to the changes that were introduced in 2018. The lower sales in Edmonton's new multi-family home market in 2018 resulted in some developers holding off launching new projects, or converting existing stock to rental units. Developers of projects scheduled to launch in the first few months of 2019 are encouraged to consider the challenges the more price-sensitive buyer groups in the market are facing with the drop in buying power. Developers can help combat these changes by offering aggressive incentives and partnerships with financial institutions to help buyers obtain a mortgage.

### **Looking Ahead**

The following is a list of projects that launched in the early stages of Q4-2018:

- Westrich Pacific launched *The View at Grandin City*, a concrete condominium totalling 178 units. 165 units have been released to date at an average blended price per square foot of \$504.
- Coventry Homes launched a 20 unit townhome project in the Northwest neighbourhood of West Second. The project is seeking an average blended price per square foot of \$259.

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.

- Falcon One – Langham Developments
- Artika in Oliver – Cove Properties
- 121 West Condos – Regency Developments
- Essential Aurora – Rohit Communities

**UA's NHSLive new home data platform is the most comprehensive source of current and detailed new multi-family home project information. UA makes 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  
(403) 975-5296  
info-alberta@urbananalytics.ca**