

STRESS TEST PROVES A DRAG

Sales and Inventory Analysis

The new multi-family home sector of Calgary’s residential real estate market experienced higher demand in the second quarter of 2018 than the first quarter of the year. While the increase in sales in the second quarter of the year is a positive indicator that confidence grew, the mortgage stress test implemented at the start of the year combined with rising consumer borrowing rates continued to act as a drag on sales. Demand has been driven to the price sensitive sectors of the market, primarily in the outer sub-markets. Developers have continued to adapt to these changes by launching product at price points appropriate for the current market conditions. While developers held off launching projects in Downtown Calgary, they continued to launch projects in other inner-city neighbourhoods. The launch of new projects helped generate higher sales in the inner sub-markets, proving the pent-up that demand existed for new multi-family home product. While the effects of the stress test and higher interest rates will continue to impact sales in Calgary, Urban Analytics (UA) anticipates that sale volumes will be higher in the second half of 2018 than in the same period in 2017.

Increase in Quarterly Unit Sales

Sales in Calgary’s new multi-family home market increased by 28 percent in the second quarter of 2018 compared to the first quarter. The surge in buyer activity in the second quarter of the year is consistent with previous years, as buyers re-enter the market after the winter months.

QUARTERLY UNIT SALES COMPARISON

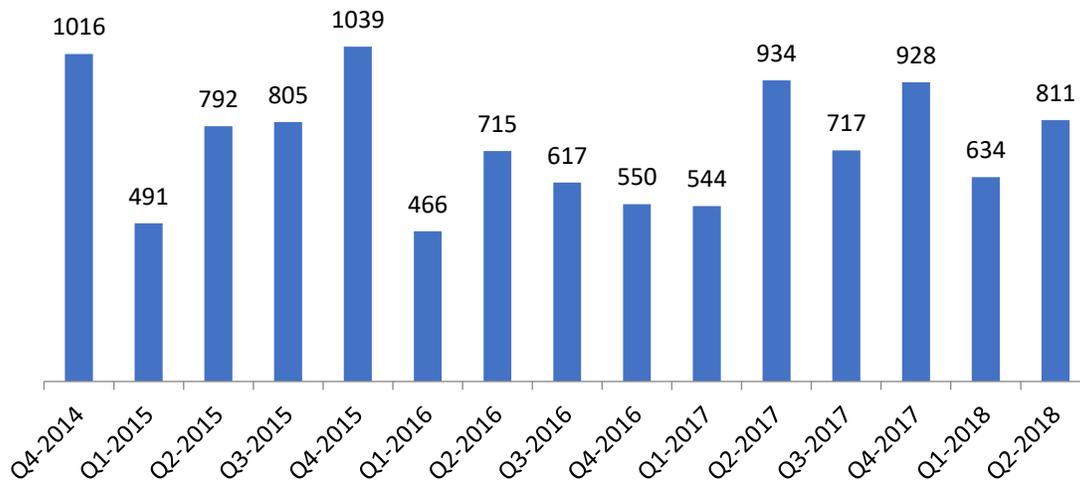


Chart 1

Lower Year-Over-Year Sales

Sales in Q2-2018 decreased by 13 percent compared to the previous year's second quarter. The lower sales can be attributed to the introduction of the stress test and the higher borrowing costs prospective buyers are faced with. These changes prevented many first-time homebuyers from qualifying for a mortgage and being able to purchase a new home. Q2-2018 sales were the second highest since 2014. Many project sales associates in the Outer North sub-market indicated the stress test was the more

YEAR OVER YEAR QUARTERLY SALES COMPARISON

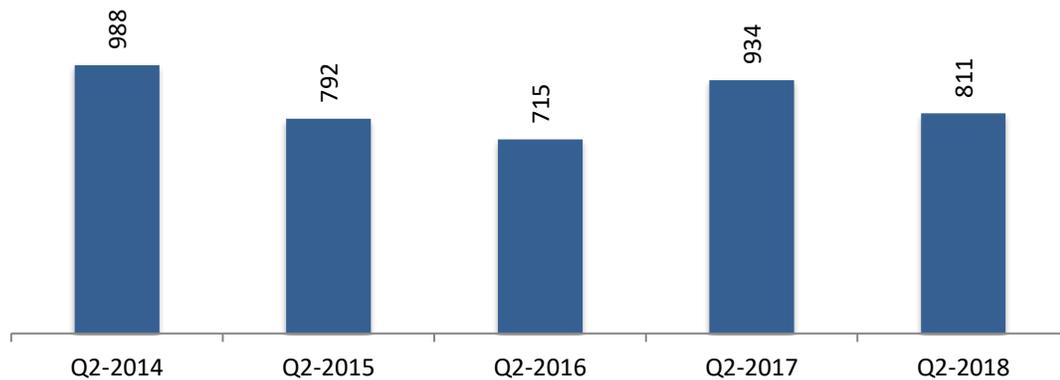


Chart 2

significant challenge for prospective buyers. Despite this, the Outer North sub-market continued to be the strongest performing in Calgary.

New Wood Frame Condominium Project Launches Spurs Sales

Wood frame condominium sales increased by 69 percent in Q2-2018 compared to the first quarter of the year. The spike in wood frame condominium sales can be attributed to a large number of new project launches throughout Calgary in Q2-2018. Avi Urban's *August*, Logel Homes' *Auburn Rise 3*, Carlisle Group's *Skyview Landing 2000*, and Brad Remington's *Sage Hill Park* were a few of the wood frame condominium projects launched in the second quarter of the year. In spite of the higher quarterly sales, year-over-year sales were 12 percent lower. Concrete condominium sales dropped by 36 percent in Q2-2018 compared to the first quarter, and by 34 percent year over year, mostly due to a very limited amount of new product released in this sector over the past several quarters. Minto's *Annex* is the only concrete condominium project in Calgary to have launched since Chelsea Sky's *Citizen Tower* in August 2017. Lack of inspired downtown projects have left buyers with limited choice and little urgency. The Townhome sector experienced a 16 percent increase in sales from the previous quarter, and a nine percent drop in sales compared to Q2-2017.

QUARTERLY UNIT SALES COMPARISON

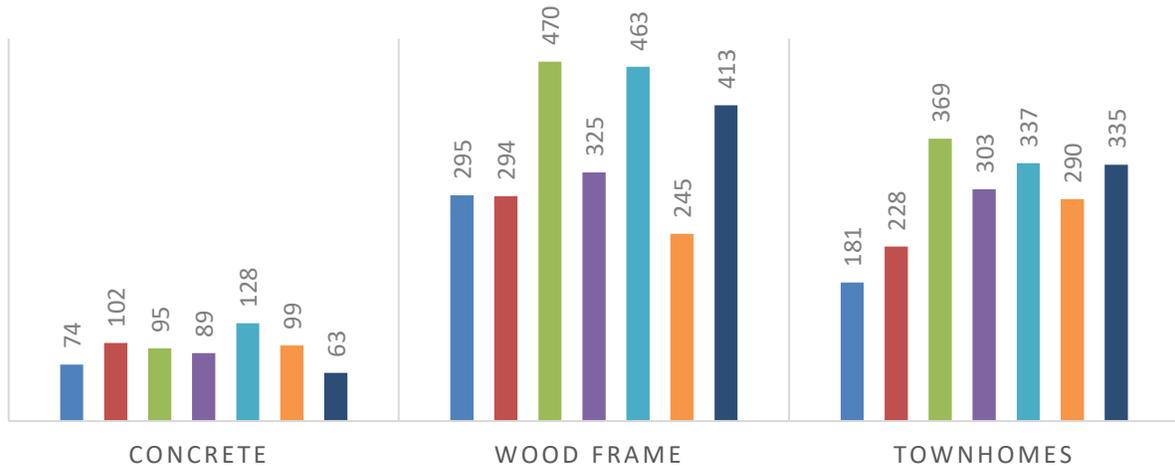


Chart 3 ■ Q4-2016 ■ Q1-2017 ■ Q2-2017 ■ Q3-2017 ■ Q4-2017 ■ Q1-2018 ■ Q2-2018

Strong Sales in the Outer Sub-Markets

The outer sub-markets accounted for 76 percent of all sales in Calgary’s new multi-family home market in the second quarter of 2018. The Outer sub-markets are attracting price-sensitive buyers with a generous supply of projects at relatively affordable price points. Of the 170 actively selling multi-family projects that Urban Analytics is tracking in the Calgary market, 56 percent are located in the Outer North and Outer South sub-markets.

The Outer South sub-market experienced the largest increase in sales in the second quarter, with 50 percent more units sold than the previous quarter. The Outer North sub-market experienced a 34 percent increase in sales compared to the previous quarter. Notable project launches that attracted buyers in the outer sub-markets include the third building in *Seton Park Place II*, *Skyview Landing (Building 3000)*, and *Sage Hill Park (Building 1)*.

QUARTERLY SALES BY SUB-MARKET COMPARISON

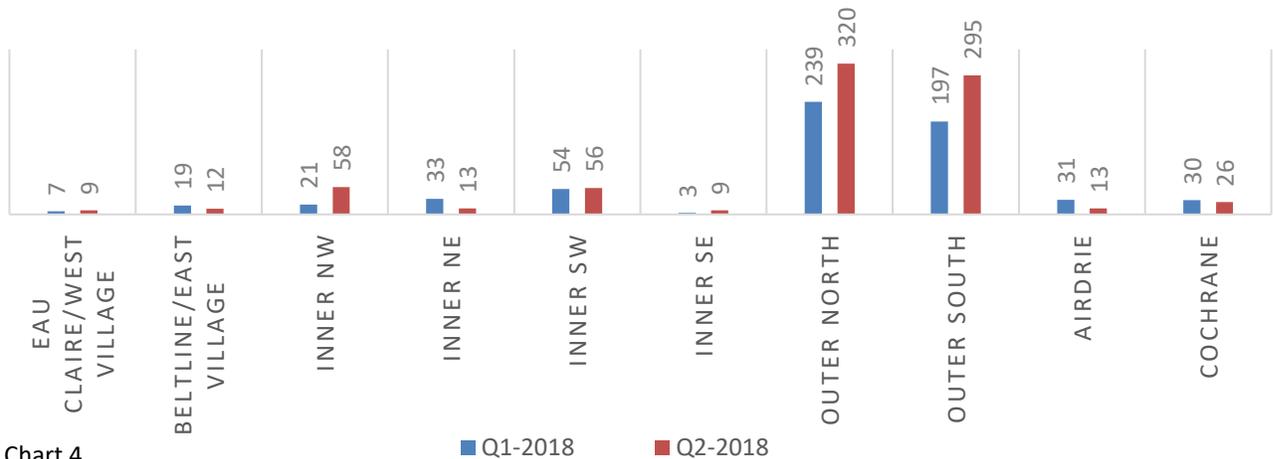


Chart 4 ■ Q1-2018 ■ Q2-2018

Six of the ten sub-markets experienced higher sales in the second quarter of 2018 compared to Q1:

- Eau Claire/West Village: +29 percent increase
- Inner Northwest: +176 percent increase
- Inner Southwest: +4 percent increase
- Inner Southeast: +200 percent increase
- Outer North: +34 percent increase
- Outer South: +50 percent increase

Four of the ten sub-markets experienced lower sales in Q2 compared to the first quarter of 2018:

- Beltline/East Village: -37 percent decrease
- Inner NE: -61 percent decrease
- Airdrie: -58 percent decrease
- Cochrane: -13 percent decrease

Continued Surge of the Wood Frame Condominium

All three product forms experienced an increase in inventory in Q2-2018 compared to the first quarter. Developers continued to introduce more wood frame condominium projects, which resulted in a 33 percent increase in inventory relative to the previous quarter. The launch of eight new projects with over 700 units in this sector during the second quarter contributed to the higher inventory in spite of the strong demand and sales volume.

For the first time in several quarters, the concrete condominium sector experienced higher inventory. Minto's launch of its *Annex* project added 108 new concrete condominium units to the market, and increased inventory in this sector by six percent. Townhome inventory rose by 14 percent in Q2-2018 over the previous quarter due to the launch of four new townhome projects.

RELEASED INVENTORY COMPARISON BY PRODUCT TYPE

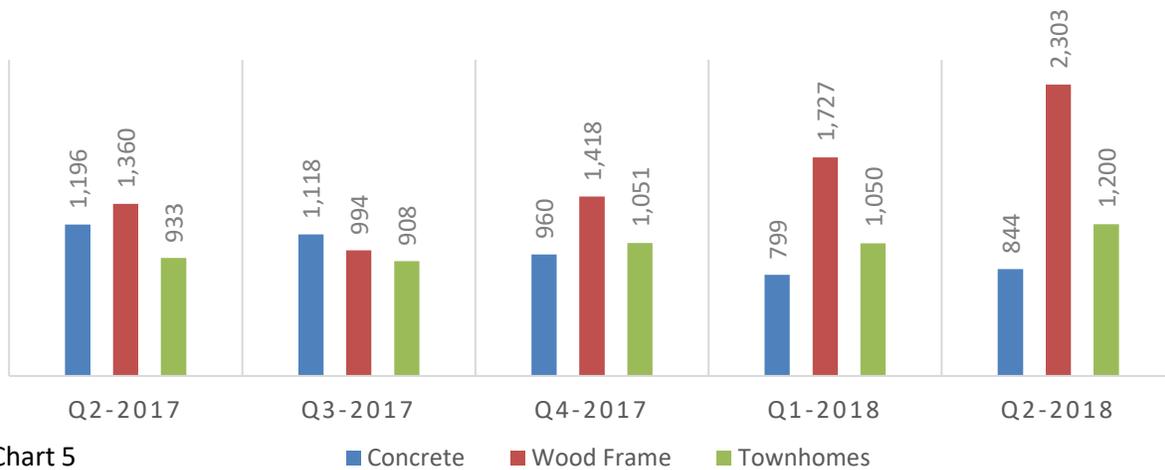


Chart 5

Chart 6 compares the released inventory by sub-market. While most areas ended the second quarter with higher inventory levels than the first quarter, the most significant increase inventory occurred in the outer north sub-market.

- Eau Claire/ West Village: +13 percent
- Beltline/East Village: -1 percent
- Inner NW: +154 percent
- Inner NE: -23 percent
- Inner SW: +17 percent
- Inner SE: -13 percent
- Outer North: +48 percent
- Outer South: +5 percent
- Airdrie: +14 percent
- Cochrane: -4 percent

RELEASED INVENTORY COMPARISON BY SUB-MARKET

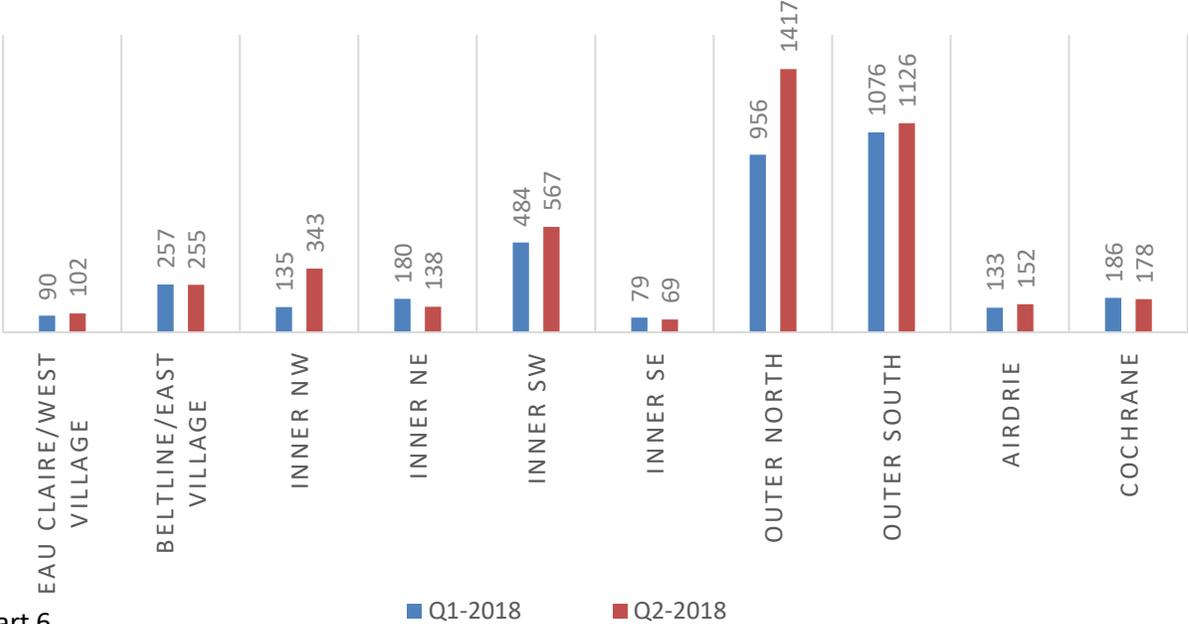


Chart 6

Spread in Quarterly Sales and Unsold Inventory Widens in Q2-2018

The launch of 15 new projects and the ensuing increase in new unit inventory in the second quarter widened the spread between the number of units sold in the quarter and the number available to purchase at the end of Q2. This spread increased by 21 percent compared to the first quarter of 2018. On a year over year basis the spread increased by 39 percent. The higher demand experienced in the new multi-family home sector of the Calgary market in recent quarters prompted many developers who'd held off launching product throughout 2016 and the first half of 2017 to release new projects over the past 12 months. The higher supply is not concerning as UA considers much of the new supply to be appropriate in terms of form, mix and pricing for sub-markets they're being released into.

QUARTERLY SALES VS. UNSOLD INVENTORY

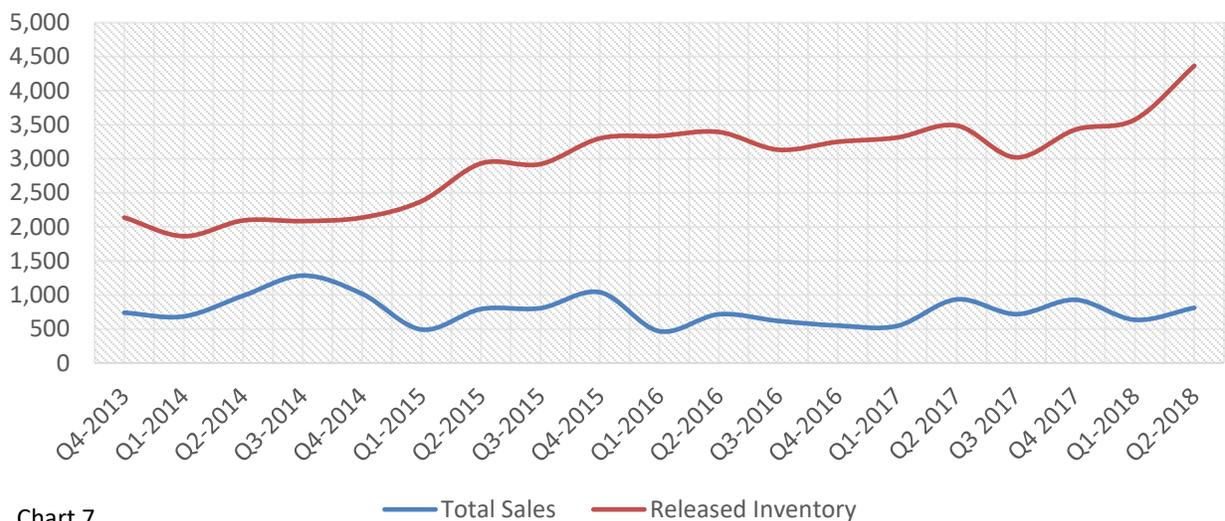


Chart 7

Slight Increase in Standing Inventory

After five consecutive quarters of lower Standing inventory levels, the number of move-in ready (completed and unsold) units increased by two percent in the second quarter. Possessions began taking place at *Sandgate at Mahogany (Building 2)* in Q2-2018, which added 16 units of standing inventory to market. The rest of the new standing inventory product added to the market in the second quarter was in the form of townhome product.

STANDING INVENTORY TREND

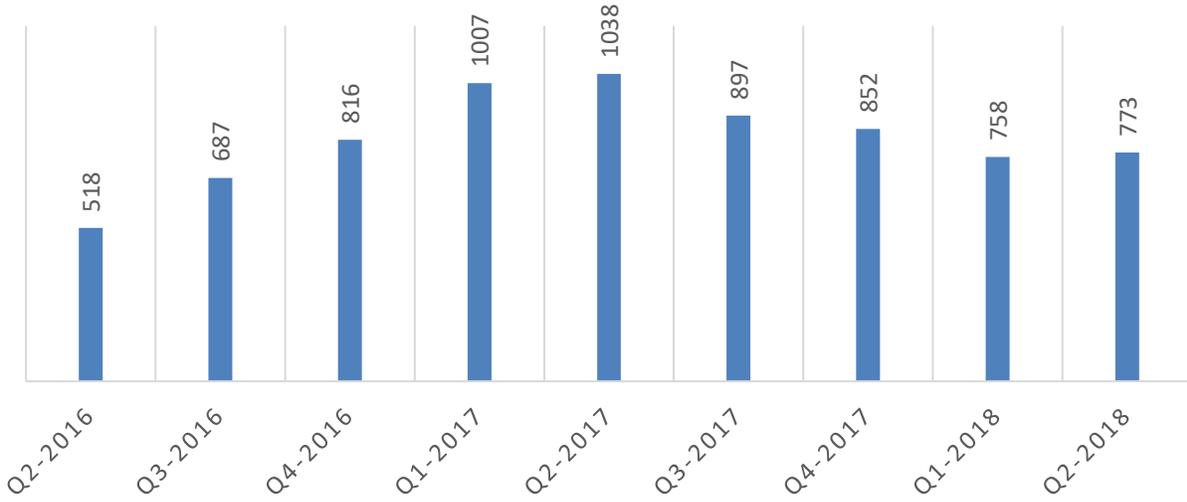


Chart 8

More New Projects = More Standing Inventory in Outer Sub-Markets

The greatest amount of standing inventory exists in the Outer North and Outer South sub-markets, which corresponds to increase in new actively selling projects in these areas. The sub-market with the least amount of standing inventory is Inner Southeast, where actively selling projects are either nearly sold out or are under construction.

STANDING INVENTORY BY SUB-MARKET

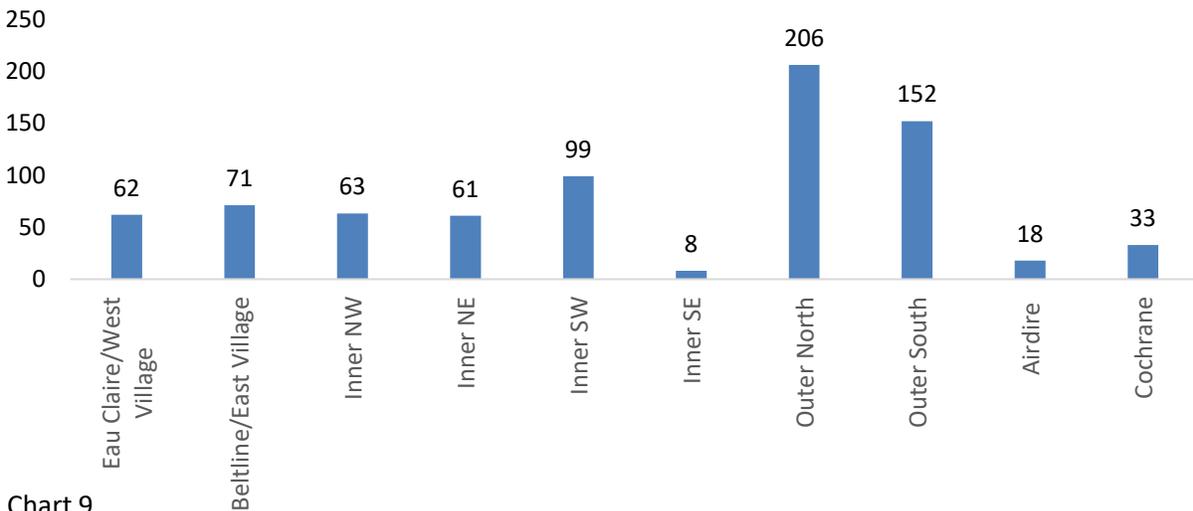


Chart 9

Surge in Wood Frame Product

Chart 10 shows a surge in the wood frame product in the pre-construction stage, with 6 times as many wood frame units as concrete condominiums and townhomes. The limited supply of new concrete condominium units is a result of the few concrete launches over the past few years. The townhome sector continues to have the largest number of units currently under construction which is attributed to the comprehensive phasing of townhome projects.

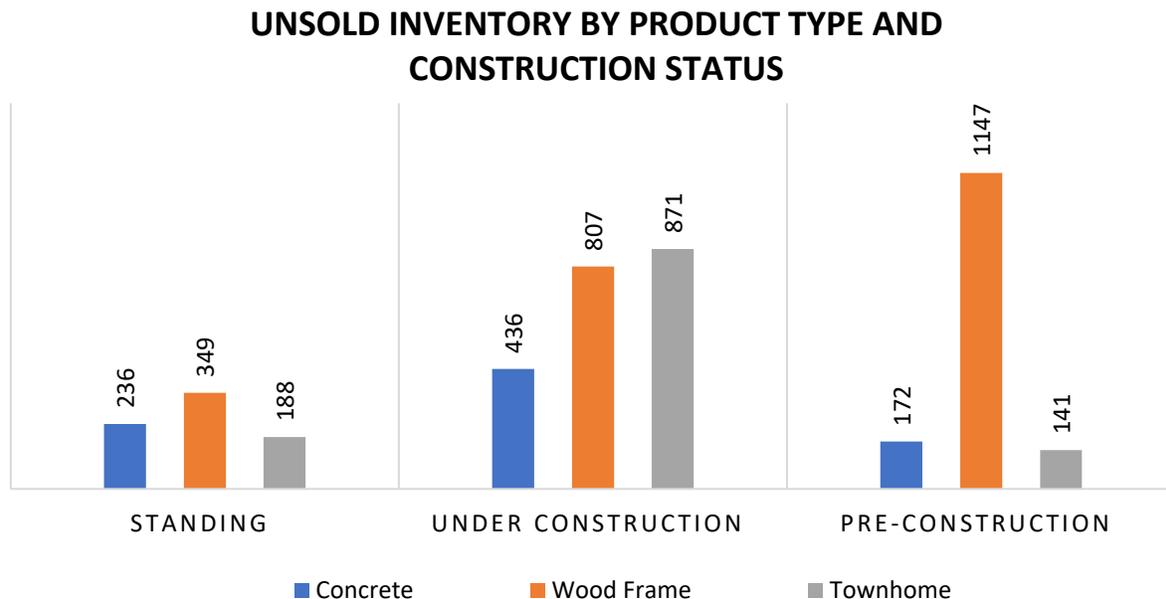


Chart 10

Price Trends

There was relatively limited change in sale values being sought for new multi-family home product in Calgary. However, developers continued to offer generous value-added incentives during the second quarter of 2018, which partially offset the impact of the higher borrowing costs resulting from rising interest rates. The following outlines some of the incentives currently being offered:

- *Park Point*: \$10,000 to \$15,000 off one bedrooms, \$30,000 to \$40,000 off two bedrooms plus a den, and \$50,000 to \$60,000 off penthouse homes;
- *Avenue*: Offering \$30,000 to \$50,000 off one bedrooms, \$25,000 to \$45,000 off one bedroom plus dens, \$100,000 off two bedrooms, \$50,000 off two bedroom plus flex homes, and \$40,000 to \$85,000 off two bedroom plus den homes;
- *Victory and Venture*: \$29,000 to \$40,000 off the price remaining homes;
- *The Annex*: \$30,000 off select units during the project's Grand Opening in June;
- *Irvine*: 10 percent discount on the next two sales;
- *Avenue33*: \$40,000 off current prices;
- *Wentworth Pointe*: Offering a Trico Redcard worth \$25,000 in upgrades;
- *Vivace I & II*: Offering \$10,000 off current unit prices;
- *Carrington Urban Terraces*: \$5,000 for repeat buyers or referred buyers;
- *Carrington Urban Townhome Phase I*: Offering up to \$40,000 off select units;

- *Streetscape Carrington*: Offering repeat or referred buyers \$5,000;
- *The Loop in Evanston*: \$10,000 off 'Carmine' units in Phase 1 of project;
- *The Rise Condos and Townhomes at Harvest Hills*: Offering \$10,000 off unsold units;
- *Maverick at Livingston Building I*: \$5,000 off prices of first floor units and \$7,000 off second floor units;
- *Octave*: Offering an incentive of pre-completion pricing, which is \$10,000 to \$20,000 in value;
- *Emerald Sky*: Offering 18 percent off prices of remaining homes;
- *The Mark 101*: Offering up to \$20,000 off remaining units;
- *The Mark 101 Building II*: Offering a 'Mix and Match Remix' incentive. Buyers can select any two of upgraded appliances, free condo fees for 6 months, or an \$1,800 travel certificate;
- *Zen Redstone*: Buyers can live free for three months on quick possession units;
- *Cityscape*: Offering \$5,000 to \$20,000 worth of design studio credit;
- *Laurels of Saddlestone*: One year free condo fees.
- *The Link at Symons Gate*: Offering 2017 & 2018 post-secondary graduates a \$2,000 discount;
- *Diseno Condos*: No condo fees for one year and \$5,000 in upgrades;
- *Diseno Townhomes*: Offering \$5,000 in upgrades;
- *McCall Landing Building 2000 and 3000*: Reduced pricing on select units;
- *The Townes of Redstone*: Offering a \$5,000 discount on unsold units;
- *Regatta Auburn Bay Building 3*: Offering \$10,000 off one bedroom and one bedroom plus den units;
- *The Streetscape Belmont*: \$10,000 towards basement development;
- *Legacy Gate Building 1000, 2000 and 3000*: Including air conditioning;
- *Legend of Legacy*: Offering \$10,000 off price and no condo fees for one year;
- *Sandgate in Mahogany Building 2*: \$5,000 off select units;
- *Sandgate in Mahogany Building 3*: \$2,500 off the first 10 home sales;
- *Buffalo*: Offering free basement development;
- *Axis*: Offering a \$30,000 rebate on completed and unsold units;
- *Holland Park*: Offering \$5,000 off condo fees in first year of ownership plus free upgrades;
- *Connexions*: Free landscaping and fencing; and,
- *Brand Townhomes*: \$5,000 in upgrades or \$5,000 off of the unit price.

Buyer Trends

Young first-time homebuyers who were affected by the new mortgage rules implemented in the first quarter of 2018 remain cautious as they adjust to the reduced buying power caused by these new rules. While these buyers continue to visit new multi-family home projects, they're finding it increasingly difficult to qualify to purchase townhomes priced over \$300,000. The required adjustment to a different home than what they were hoping to purchase has caused many of these prospective homebuyers to delay their purchasing decision. UA anticipates this group will become more active in the coming months, particularly in the outer markets where there are more affordable homes.

Downsizers, who do not require a mortgage, were much more active in the second quarter. The primary challenge for this buyer group is the amount of time it's taking to sell their current home. This is being impacted by the lower buying power of younger purchasers who would typically buy these homes due to the stress test and higher interest rates.

Sales staff at projects in the Outer North and South markets reported an higher sales compared to the first quarter. These markets have successfully attracted younger price-sensitive buyers due to the affordability of the wood frame condominium and townhome product offered. Demand in the Downtown market remained limited due to the lack of new product in the area. Developers remain reluctant to introduce new product to this area until current inventory levels are drawn down further and there is more clear evidence of higher demand for concrete condominium product. This has caused buyers seeking multi-family product in more urban areas to consider Inner sub-markets adjacent to Downtown, or resale product.

Looking Ahead

The following is a list of projects that launched in the early stages of Q2-2018, along with projects expected to launch in the second half of 2018 that UA will be monitoring and adding to NHSLive:

- Arlington Street Investments launched 86 units its *Windsor* project at a blended average price per square foot of \$560.
- Brad Remington Homes launched the first building of *Sage Hill Park*. The project has 79 units with a blended average price per square foot of \$259.
- Hopewell launched the third building in *Sandgate in Mahogany*. There are 80 units with a blended average price per square foot of \$305.
- Landmark Homes launched *Artis*. The 77-unit townhome project is in the new Northwest community of Greenwich and is seeking blended average sale price per square foot of \$293.
- Cedarglen Living's third building in *Seton Park Place II* launched at the end of April. There are 95 units with a blended average price per square foot of \$301.
- Avi Urban's *Carrington Urban Terraces* was launched at the end of April. The townhome project has 72 units with a blended average price per square foot of \$266.
- Homes by Avi launched *The Streetscape Belmont*. The project features 54 townhomes and is seeking a blended average price per square foot of \$252.
- Homes by Avi launched *Streetscape Carrington*. The project features 32 townhomes with a blended average price per square foot of \$279.
- Bow Developments launched *Scarboro17* at the beginning of May. The project comprises 52 units with a blended average price per square foot of \$561.
- Minto's *The Annex* was launched at the beginning of June. The project has 108 total units with a blended average price per square foot of \$631.
- Morrison Homes launched the first building of *Q Condominiums*, which features a total of 75 units with a blended average price per square foot of \$374.
- Avi Urban launched the second building in *Maverick at Livingston* at the beginning of June. The project has 58 units with a blended average price per square foot of \$344.
- Logel Homes launched the third building in *Auburn Rise*, which features 64 units and is seeking a blended average price per square foot of \$322.

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

In addition to the *Multi-Family Home* platform on nhslive.ca, UA also offers subscription access to new purpose built rental data in Calgary, Edmonton and Metro Vancouver on NHSLive. Please call or email for a demonstration of these products and to inquire about our advisory services to help you appropriately design and position your next project.

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