

THE UA TAKE – FIRST QUARTER 2017:

'SIGNS OF LIFE'

After experiencing generally flat conditions through much of 2016, the new multi-family home sector of Calgary's residential market showed some signs of life in the first quarter of 2017. What was particularly encouraging was the increase in buying activity by investors in condominium projects in the inner sub-markets. Investor demand for this product has been especially limited in recent quarters so the reports of greater interest among these buyers is an indication of improved confidence in the Calgary market and in the region's economic recovery. Sustained higher absorption levels in the inner sub-markets during second and third quarters of the year should help reduce unsold inventory levels and perhaps prompt the first concrete condominium project launch in more than 18 months.

Sales activity remained steady in the wood frame condominium and townhome sectors of the market, which continues to be driven primarily by younger, price-sensitive entry level buyers and empty nester downsizers. The end-user nature of most buyers in the outer sub-markets has resulted in some developers building wood frame condominium projects out prior to launching a marketing campaign, which leads to temporary increases in completed and unsold inventories of this product form. This higher standing inventory count has made for more competitive market conditions and greater value for prospective new home buyers.

In general, 2017 has started on a positive note for the new multi-family home sector. It will be interesting to see whether the increased sales activity can be sustained.

Sales and Inventory Analysis

Total new multi-family home sales increased by five percent compared to the fourth quarter of 2016. When looking at a year over year comparison, the first quarter of 2016 saw a 17 percent increase in sales compared to the same quarter in 2016.

Aggregate Quarterly Unit Sales

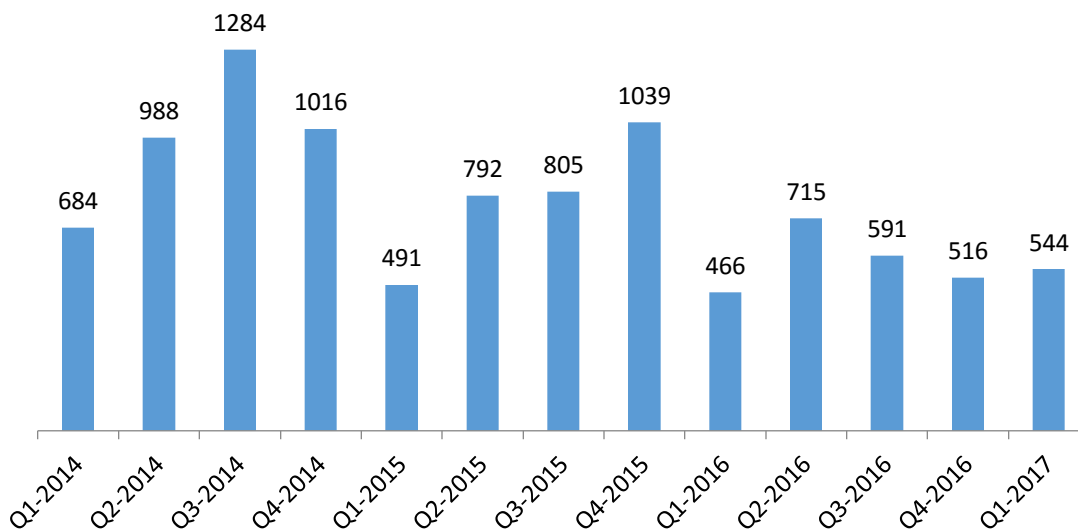


Chart 1

After experiencing limited demand and lower absorptions throughout 2016, the concrete condominium sector rebounded in the first quarter of 2017 with a 28 percent jump in sales compared to the previous quarter. The increase occurred in spite of the collapse of 21 firm sales at the *Emerald Sky* project in the Outer North due to pre-sale buyers failing to complete their purchases upon the project’s construction completion. Most encouraging about this increase in concrete condominium sales is that it was driven in part by increased demand among investor purchasers in the Beltline/East District sub-markets. The stronger absorptions combined with the fact there hasn’t been a concrete condominium project launch in the downtown sub-markets for over 18 months has reduced inventory levels.

In spite of a slight three percent drop in wood frame condominium sales relative to the previous quarter, absorptions remained steady in this sector. Most encouraging in this sector was the response to Truman Homes’ *Noble* project in the new *University District* community where 45 unit sales were reported during the project’s initial launch. Increased competition in the outer sub-markets has prompted some developers to offer higher-valued buyer incentives, particularly at projects that were completed prior to launching.

Sales volume in the townhome sector rose eight percent over the previous quarter and was five percent higher than the same quarter in 2016. As in previous quarters, much of the townhome sales activity occurred in the outer suburbs. However, the initial response to the launch of Brookfield’s *Ivy* townhome project in the *University District* community in early March was encouraging; project representatives report six firm and another 19 conditionally sold shortly after the launch.

Chart 2 illustrates Q1-2017 sales by product form.

QUARTERLY UNIT SALES COMPARISON

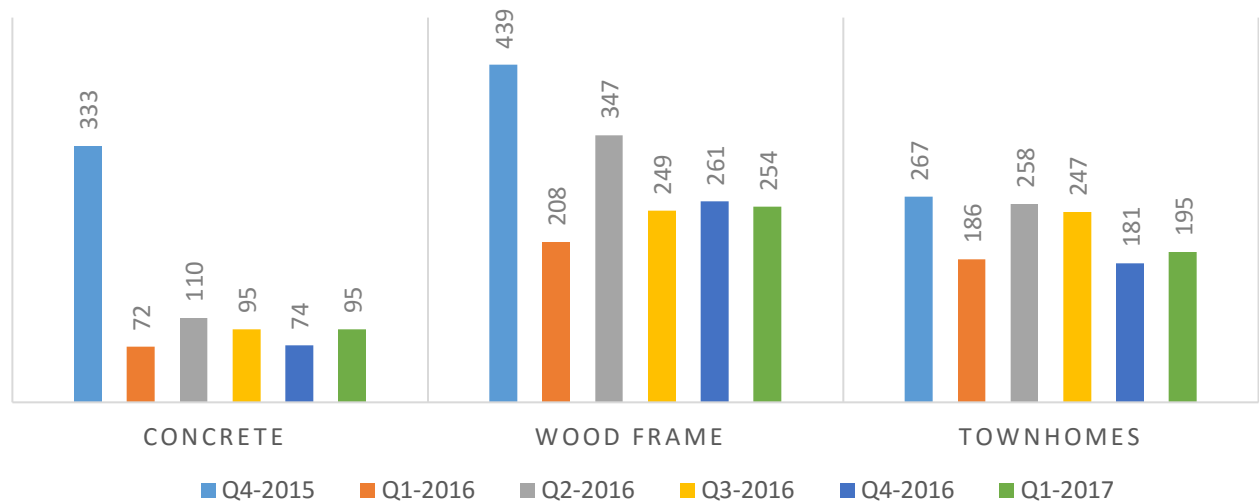


Chart 2

Chart 3 compares the year-over-year first quarter sales in each Calgary sub-market of the Calgary market.

YEAR-OVER-YEAR Q1 SALES COMPARISON BY SUB-MARKET

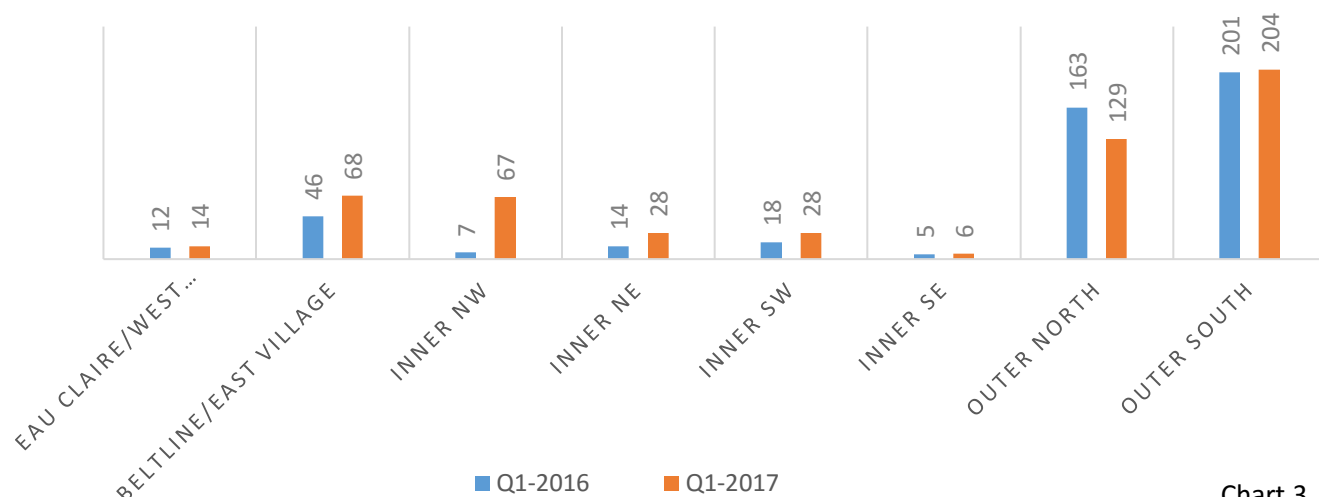


Chart 3

With the exception of the Outer North, all sub-markets registered higher year-over-year sales in Q1-2017. The sales increase in the inner sub-markets can be attributed to increased demand in both concrete and wood frame condominium product. The 48 percent increase in absorptions in the Beltline/East Village sub-market was driven in large part by higher sales activity at Qualex Landmark's *Park Point* high rise project, where 17 sales occurred in the first quarter. Steady sales in the Outer South were assisted by the launch of Copperfield Park III (building 3000), which reported 14 firm and 14 conditional sales during the last quarter. Projects in the Outer North reported more modest demand in Q1-2017, in spite of five new projects launching. Of the two new wood frame condominium and three new townhome projects, just one reported more than five sales in the first quarter. Project sales staffs in these outer sub-markets indicated that increased competition has led to lower buyer urgency, which is resulting in prospective buyers taking longer to make their buying decision.

In spite of the launch of eight new projects (mostly in the outer sub-markets) in Q1-2017, the total number of unsold new multi-family units throughout the Calgary market dropped by one percent. Not surprising given the increased demand and lack of new project launches during the past 18 months, the supply of unsold units in the Eau Claire/West Village and Beltline/East Village sub-markets dropped by eight percent from the previous quarter. New project launches in the Outer North and South led to a six percent rise in unsold inventory levels. A 54 percent increase in unsold inventory in the Inner Northwest sub-market can be attributed to recent new project launches in the *University District* community. Chart 4 illustrates the quarterly comparison in unsold inventory levels by sub-market as of the end of the first quarter of 2017.

RELEASED INVENTORY COMPARISON BY SUB-MARKET

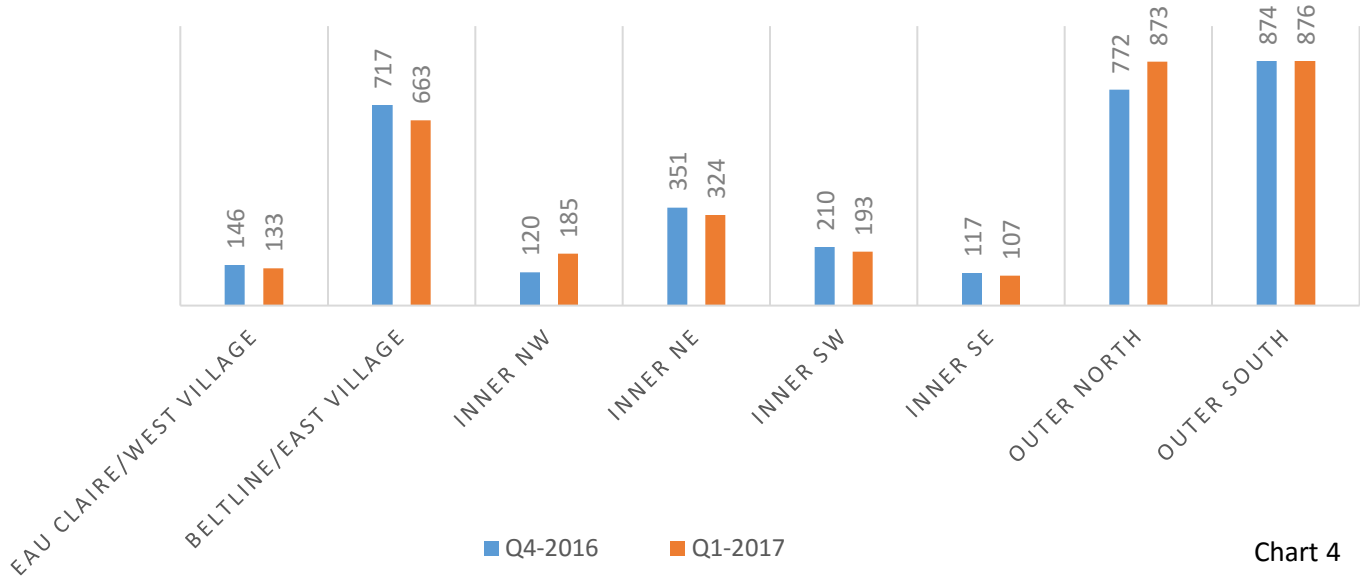


Chart 4

The previously noted increased demand for concrete condominium product resulted in a six percent drop in unsold inventory from the last quarter of 2016. Concrete condominium inventories in the Calgary market have dropped by just over 15 percent since the second quarter of 2016. Higher unsold inventories in the wood frame condominium and townhome sectors can be attributed to several new project launches in Q1-2017. Unsold inventory in the wood frame condominium sector rose by eight percent and is the highest its been in the past five quarters. While the number of unsold townhome units increased by just over three percent from Q1-2016, it is 20 percent lower than at the end of the third quarter of 2016.

RELEASED INVENTORY COMPARISON BY PRODUCT TYPE

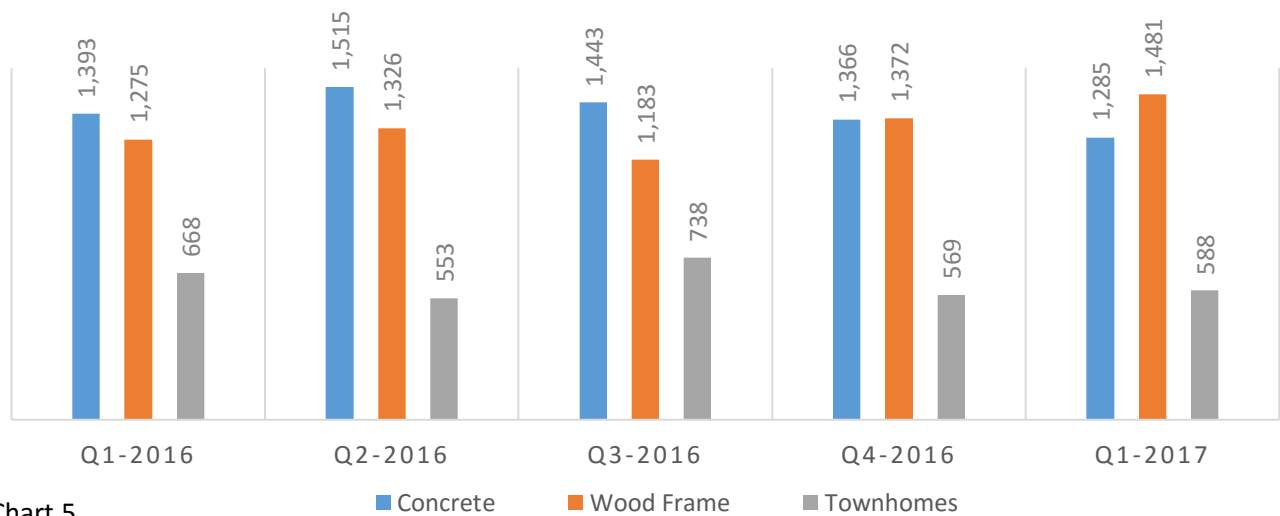


Chart 5

The spread between the number of quarterly sales and the amount of unsold inventory at the end of a quarter (illustrated in Chart 6) widened further in the first quarter of 2017. However, the spread between these two metrics increased by a much smaller amount; 1.4 percent compared to 8.4 percent in Q4-2016. The stronger demand for new multi-family home product kept the spread from being wider in light of the numerous new project launches that added a significant amount of new supply to the market. Regardless, new multi-family home market will continue to favour buyers as long as the spread between these two metrics remains as wide as it is.

Quarterly Sales VS. Unsold Inventory

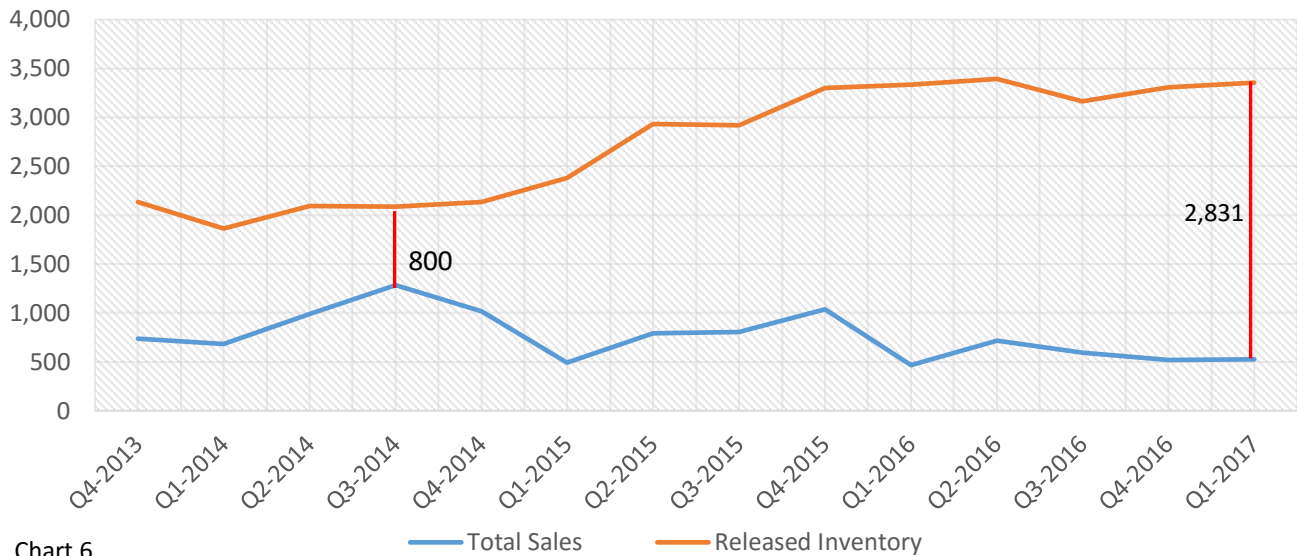


Chart 6

The increase in standing inventory over the past quarter has been largely due to the completion of several projects throughout the quarter including Grosvenor’s *Smith*, Assured Developments’ *Mission 34*, Avi Urban’s *Canoe*, and Carlisle Group’s *Emerald Sky*.

Standing Inventory Trend

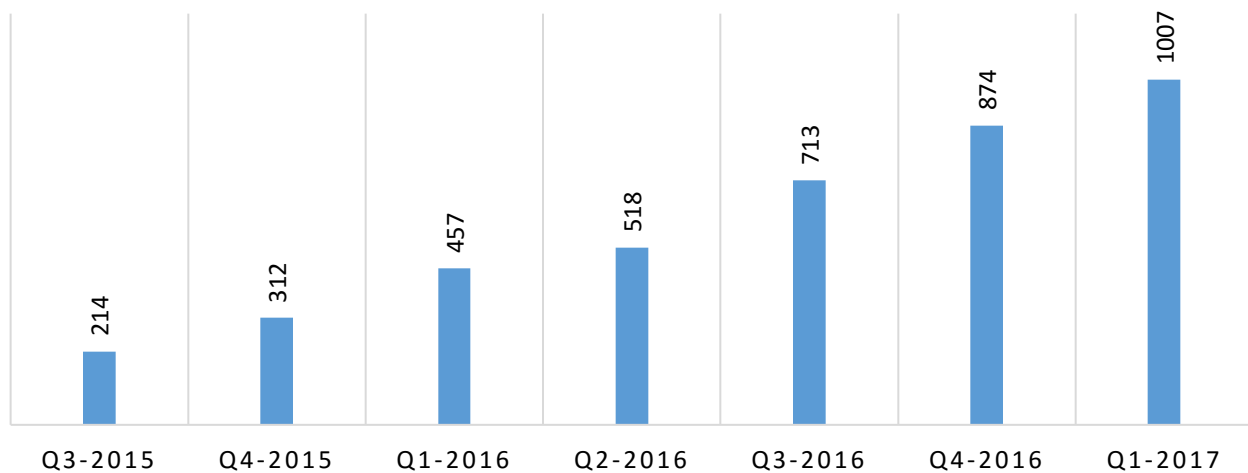


Chart 7

Chart 8 shows how the majority of the standing inventory continues to be located in the outer sub-markets.

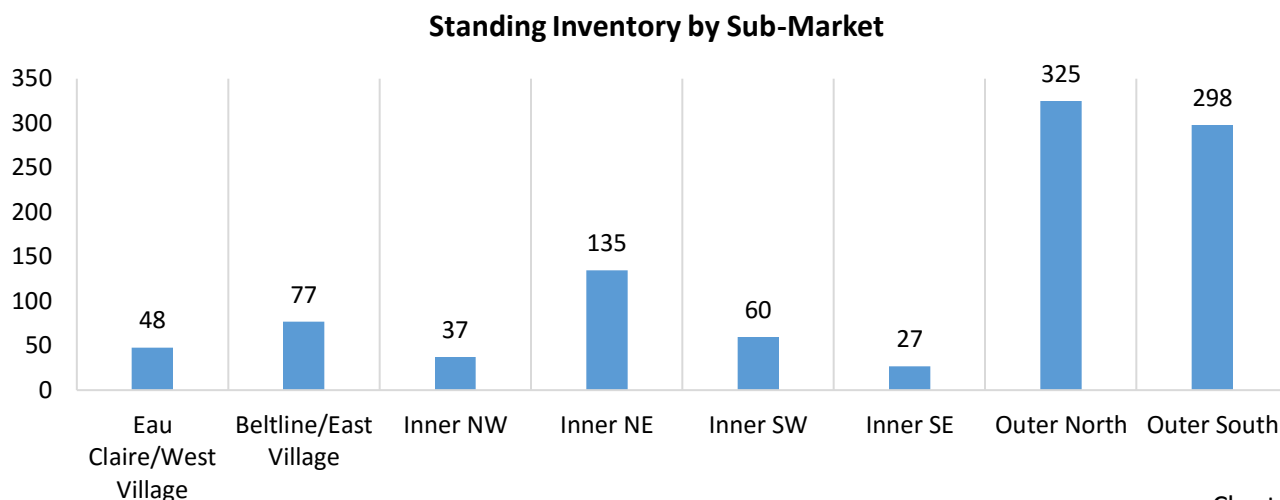


Chart 8

The Eau Claire/West Village and Outer North sub-markets experienced the most substantial increases in standing inventory. The increase in the Downtown sub-market is due entirely to the construction completion of Grosvenor’s *Smith* concrete condominium project. UA expects the number of unsold units in this project to drop considerably in the coming months as the developer increases marketing efforts to sell these remaining units. Standing inventory levels in the Outer North sub-market should also drop as buyers respond to recently completed and launched wood frame condominium projects.

Chart 9 illustrates the construction status of the unsold inventory in the Calgary market as of the end of Q1-2017. The absorption rate of recently completed projects in the coming months will be a strong indicator of the trend in demand levels in the Calgary market.

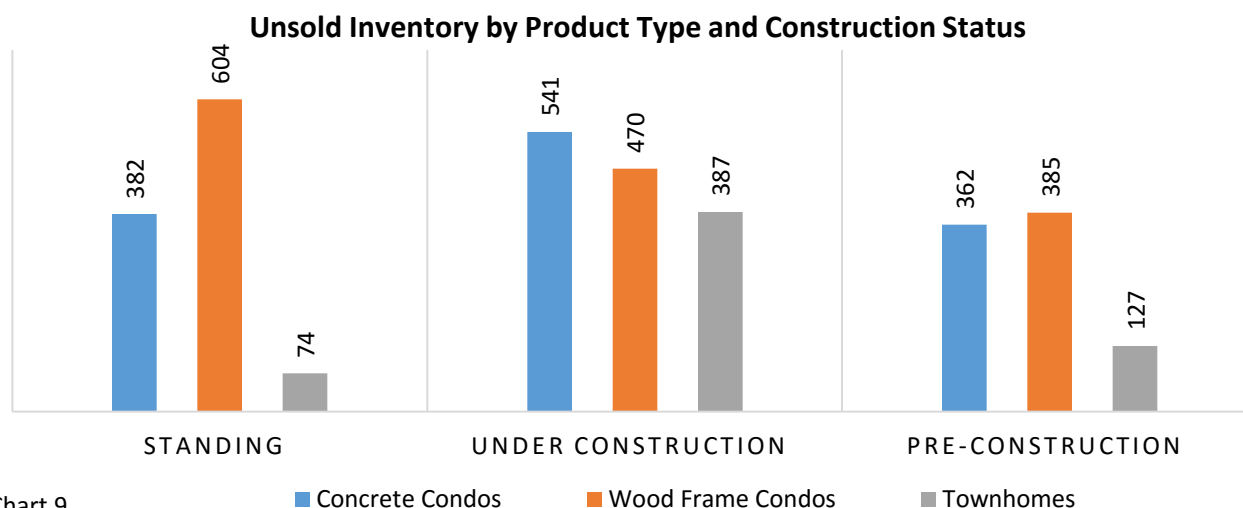


Chart 9

Price Trends

Not surprising given the generally flat market conditions over the past year, there was little change in list pricing in the various sub-markets of the Calgary market. In spite of the limited change in pricing, buyers were able to attain better value by taking advantage of incentives offered by some developers, particularly in the Downtown sub-markets.

Inner Sub-Markets:

- Grosvenor launched a new realtor bonus campaign at *Smith*, which resulted in four firm sales. In addition to the standard commission amounts, the campaign offers realtors a bonus of \$2,500 for the sale of a one bedroom unit, \$5,000 for the sale of a two bedroom units. The incentive doubles if a realtor sells three or more units in the project.
- Bucci's *Radius* continues to offer the incentive of \$10,000 off one bedroom units, \$15,000 off junior two bedroom units and \$20,000 off three bedroom units.
- Cove Properties *The Armory* is currently offering \$15,000 off remaining two bedroom units.

Outer Sub-Markets:

- Emerald Sky by *Carlisle Group* is offering \$20,000 off all remaining units, accounting for a decrease of \$15 decrease in the blended PSF to \$343. Project is now complete and move-in ready with 104 units of standing inventory.
- *Synergy at Skypointe* by Reid Built Homes is currently offering a mix of incentives that include; \$5,000 off each home, 5000 Air Miles with the sale of each home, \$5,000 appliance credit with designated supplier, one year of Shaw home internet, cable and phone as well as paid legal fees
- Shane Homes and Stonecroft are both offering the incentive of paid condo fees for one year at *The Mark 101* and *Auburn Bay Bldg IV*.

Buyer Trends

Price sensitive entry level purchasers remain the strongest buyer type in the outer sub-markets. Many sales representatives in the outer sub-markets indicate many of these entry level purchasers continue receive financial from parents to facilitate the purchase of a new home.

For the first time in several quarters, investors were active participants at projects in the Downtown sub-markets. Sales representatives at *Park Point*, *The Royal* and *6th and 10th* all reported increased investor buyer activity during the first quarter. A lack of new project launches has led these investors to reconsider the projects that have been on the market for some time.

The launch of the *University District* has also attracted investor purchasers who see strong potential in this comprehensive planned community. Entry level buyers, nearby hospital employees and university employees have also factored in the purchaser mix at the two projects launched to date. Sales representatives at *Noble* noted a number of Asian family purchasers buying for their kids who plan to

attend the University of Calgary. The *Ivy* townhome project has attracted interest from soon-to-be empty nesters who are attracted by the walkable concept of the community.

Looking Ahead

- *The Townes of Redstone* by Streetside Developments- Redstone
- *Motif* by Jayman Built- Redstone
- *Legacy Park Building 4000* by Brad Remington Developments- Legacy

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 maintaining the most current new multi-family home 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.

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