

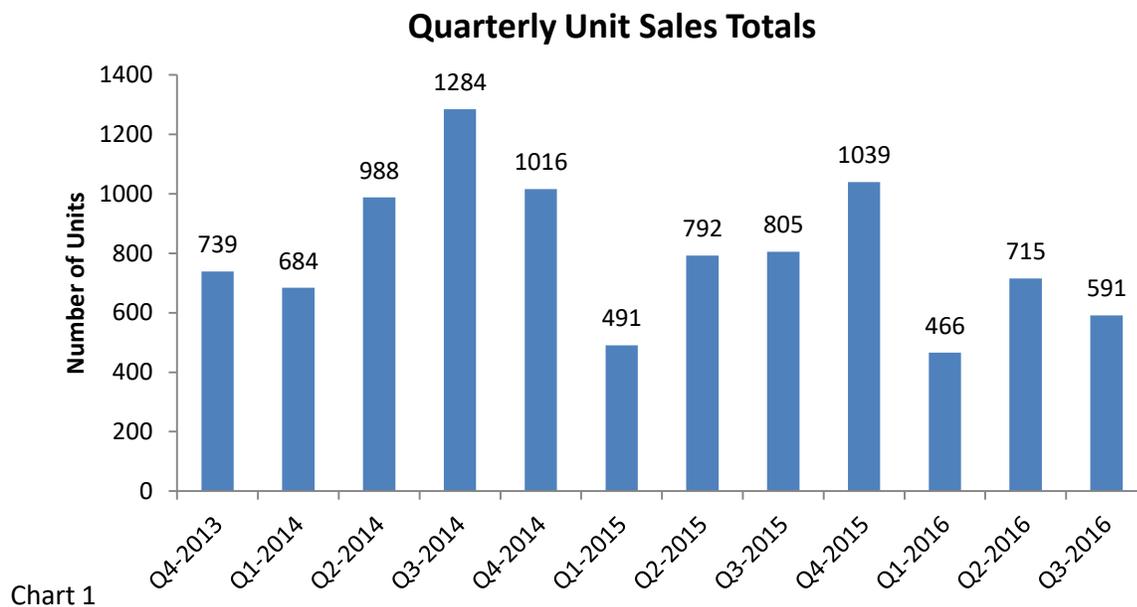
THE UA TAKE –THIRD QUARTER 2016:

'SUMMER SLUMBER'

Tenuous consumer and business confidence resulting from the persistent economic uncertainty in Alberta continued to impact the new multi-family home market in Calgary in the third quarter of 2016. A general lack of buyer urgency resulted in the third lowest quarterly sales total in the past three years. Sales activity in the concrete condominium sector in the urban neighbourhoods of the market was particularly sluggish, which has prompted a number of developers of this higher density product form to delay the launch of new projects. Meanwhile, ground-oriented product in the outer sub-markets targeting younger, price-sensitive buyers enjoyed more sustained absorptions, which prompted developers of in these areas to move up the release of additional product to the fourth quarter of 2016.

Sales and Inventory Analysis

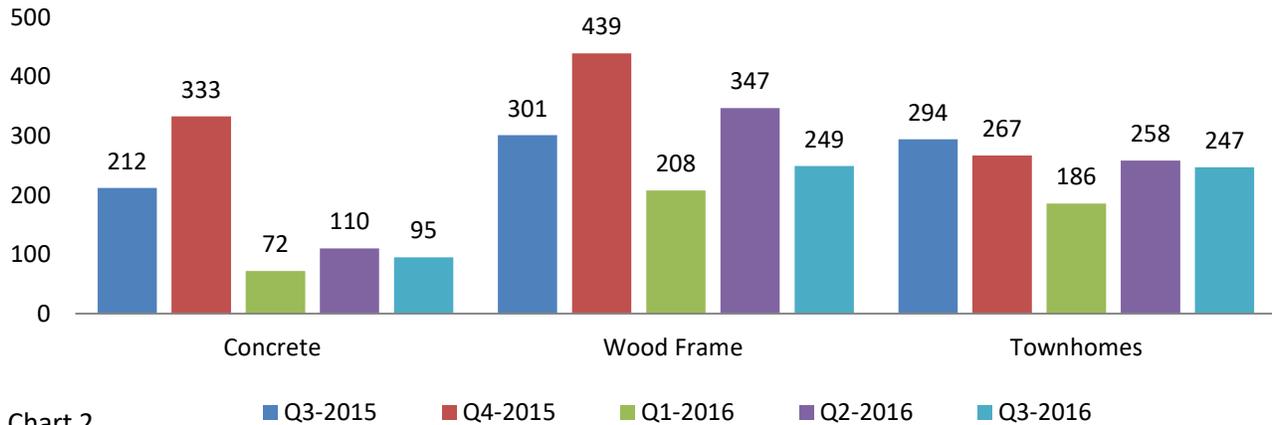
Total sales of new condominiums and townhomes dropped by 27 percent in the third quarter of 2016 compared to the same quarter the previous year. While more moderate buyer demand was the primary contributor to the lower absorptions, the lack of significant project launches was also a factor.



Absorptions were 17 percent lower than in the second quarter but remained 27 percent higher than the first quarter of the year. Many sales representatives indicated the generous inventory levels of all product forms, combined with the number of competing projects in many sub-markets resulted in lower urgency levels among prospective purchasers; there is little to no fear of missing out on a home they may be contemplating. Developers pulled back on incentive offerings in the third quarter despite the lower buyer demand; perhaps an indication that developers may have been willing to accept lower absorptions rather than reduce prices further.

Quarterly sales of concrete condominiums and townhomes were moderately lower than the the previous quarter; 14 and 4 percent respectively. The 28 percent drop in quarterly sales of wood frame condominiums was more pronounced. The drop in sales in this sector could be a response to developers of this product form pulling back on the value of incentive offerings.

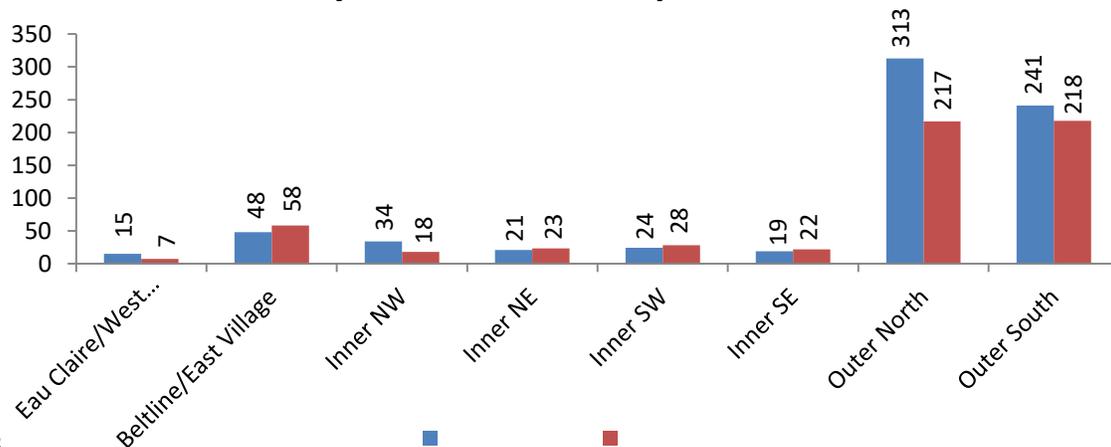
Quarterly Unit Sales Comparison



Year-over-year quarterly sales were also lower for all three product forms, but particularly for concrete condominiums, which experienced a 55 percent drop in absorptions in the Q3-2016 relative to the same quarter in 2015. Developers of this product form have delayed launching new concrete condominium product in response to lower demand from both investor and end user buyers. While it is difficult to justify adding substantial new supply to the market given recent absorption and traffic trends, it's assumed sales of this product form would be moderately higher had some new product in an appealing location been launched to generate some renewed excitement.

Chart 3 clearly illustrates dominance of sales occurring in the outer sub-markets.

Sales by Sub-market Comparison



In spite of the disparity in sales volumes between the Inner and Outer sub-markets, the outer market projects still experienced lower absorptions in comparison to the previous quarter. The Outer North

was hit with a 31 percent drop in quarterly sales volume while there were 10 percent fewer sales in the Outer South sub-market. Meanwhile, the Beltline/ East Village sub-market saw a 21 percent increase in sales in the third quarter, with the majority of sales occurring at Qualex Landmark’s *Park Point* and Hon Developments’ *The Guardian* projects. Quarterly unit sales in the Inner Southwest and Inner Southeast sub-markets rose by 17 and 16 percent respectively; a greater increase than the 10 percent rise in sales in the Inner Northeast sub-market.

An analysis of year-to-date sales volume between 2015 and 2016 clearly illustrates the impact lower concrete condominium sales have had on total absorptions. While sales of wood frame condominiums and townhomes have risen by 11 and 16 percent respectively, concrete condominium sales have dropped by 64 percent. Again, while lower demand among investors and end

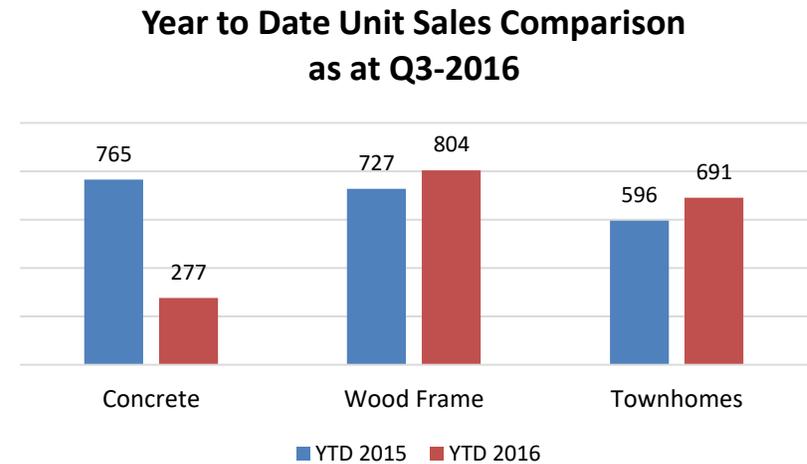


Chart 4

user buyers has contributed to this drop in sales activity, part of the lower sales volume can be attributed to the lack of any significant new supply being added to the market this year. Whereas there were eight concrete condominium projects with 1,124 units released to the market in the first three quarters of 2015, just two projects with 245 units have been released to date in 2016. While this is not to suggest the market would have absorbed the same number of concrete condominium units this year as last, total sales volume would likely be higher with more new product released.

One of the benefits of the fewer number of significant project launches is that the amount of released inventory has remained stable over the first three quarters of 2016. While the total number of released and unsold units in Calgary has increased by 17 percent compared to the same period in 2015, much of this increase can be attributed to the townhome sector, which has experienced a 33 percent rise in released and unsold units due to a number of new project launches and phase releases.

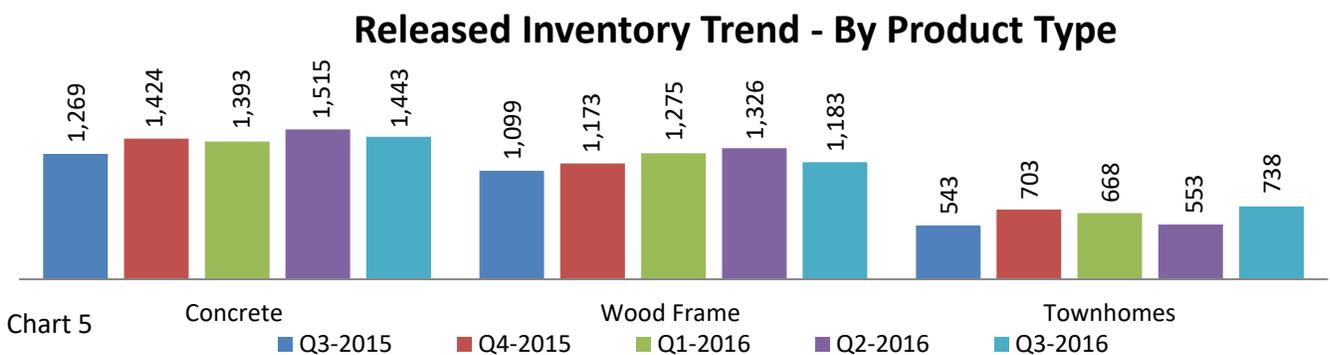
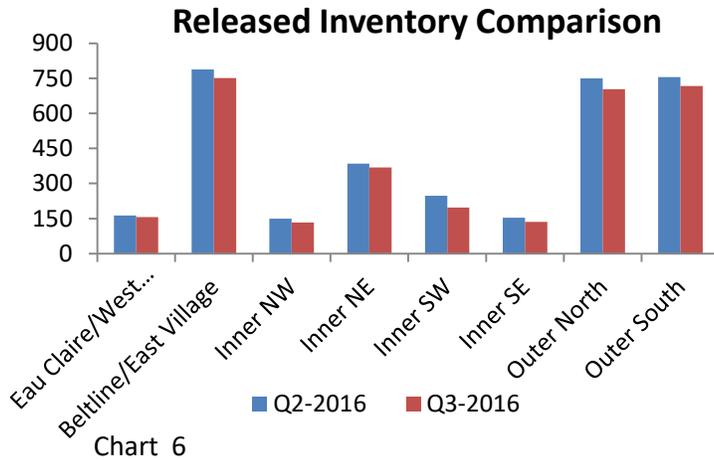
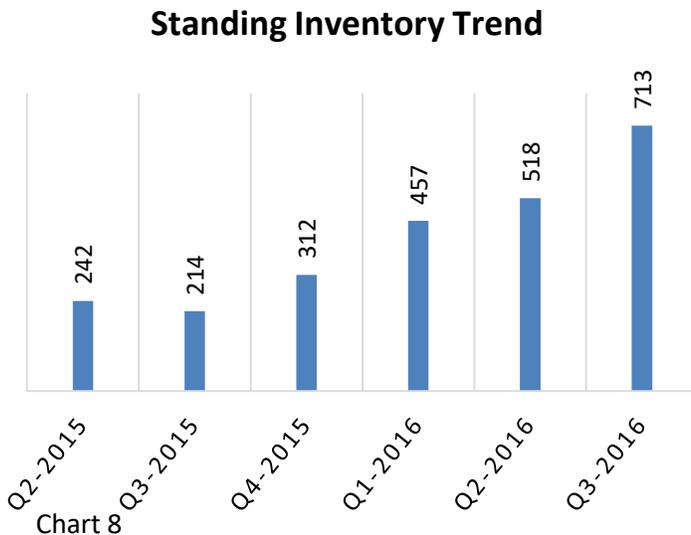
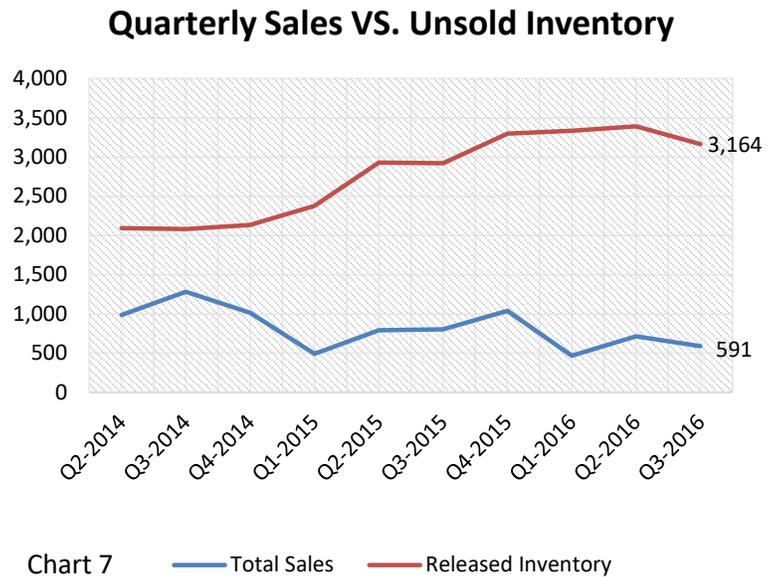


Chart 5



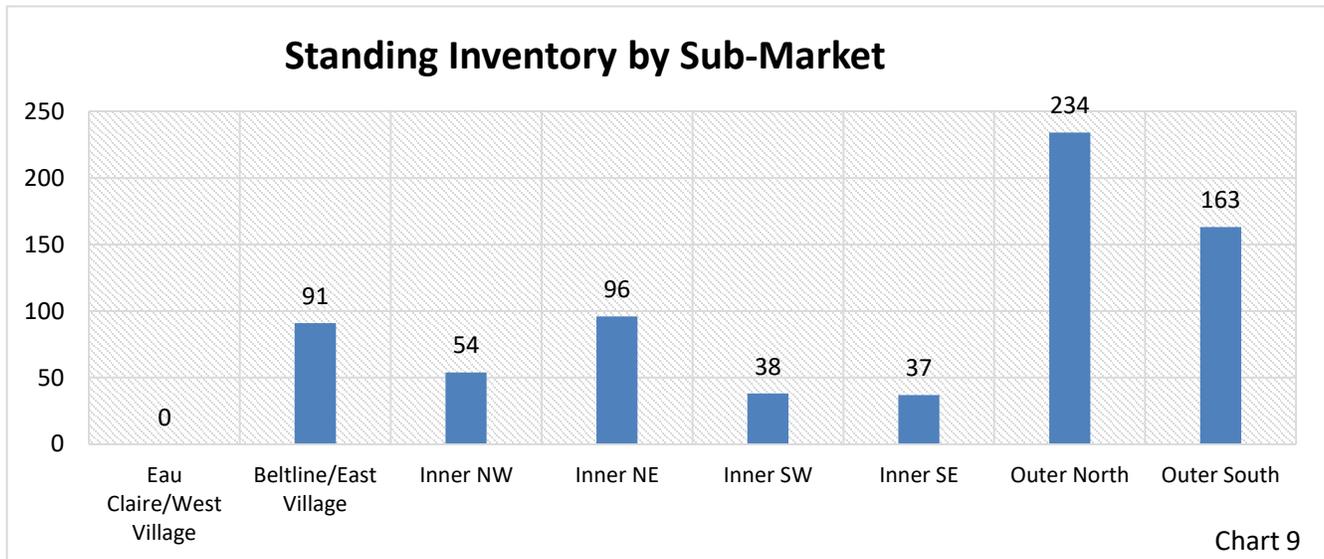
As Chart 6 illustrates, the amount of released and unsold inventory was lower in Q3-2016 than in the previous quarter in all sub-markets, including those with the greatest amount of townhome product available.

Chart 7 provides one of the best trend analyses of the Calgary market. As the trend lines in the chart illustrate, the spread between the number of sales in a given quarter and the number of released and unsold inventory at the end of each quarter has moderated over the past two quarters after widening considerably between the fourth quarter of 2015 and Q1-2016. However, while the spread has narrowed slightly in each of the past two quarters, it has experienced total growth of 130 percent during the past two years.



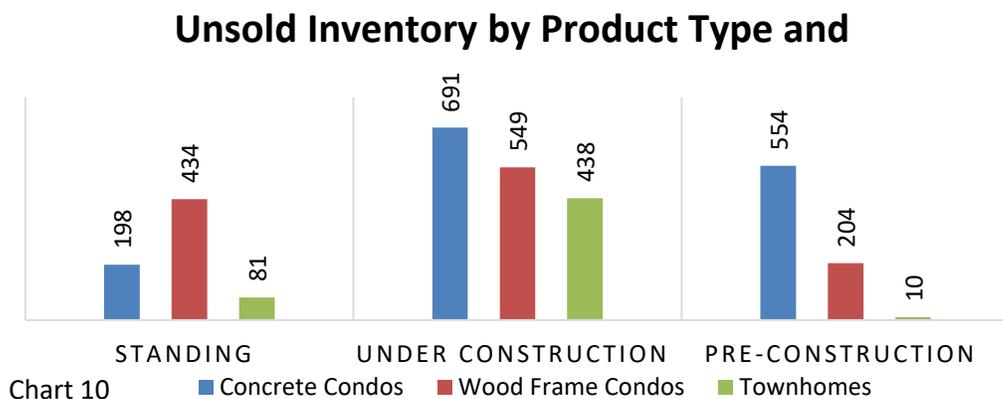
Another important metric to monitor is the amount of completed and unsold inventory in a market. As Chart 8 illustrates, the amount of standing inventory of new multi-family product has been increasing over the past several quarters. Since the second quarter of 2015, the number of completed and unsold new condominium and townhome units has increased by 471 units or 195 percent.

However, it's also important to consider where the majority of this standing inventory exists. As Chart 9 shows, the overwhelming majority of these completed and unsold new multi-family units exist in the outer sub-markets of Calgary, where sales activity has been strongest in recent quarters. Further, new home demand in these outer sub-markets is being driven primarily by end-user buyers who tend to purchase product that is complete or nearing completion.



It is also important to consider that the 81 completed and unsold concrete condominium units account for just 11 percent of all standing inventory in the Calgary market. A large proportion of completed and unsold inventory of this product form would be more concerning due to the fact it tends to attract a greater number of investor buyers, who are largely absent from the Calgary market at this time.

Chart 10 illustrates the construction status of the unsold inventory in the Calgary market as of the end of Q3-2016. While the limited number of completed and unsold concrete condominiums is encouraging, the inventory status will become more concerning should sales activity remain low and the considerable amount of product currently under construction remains unsold when it is completed. Developers with any significant amount of unsold inventory under construction and scheduled to complete in the next six months should consider implementing marketing programs designed to increase absorptions to avoid being left with considerable standing inventory.



Price Trends

The second quarter of 2016 saw many project developers reduce pricing and/or offer incentives to attract buyers. By the third quarter of the year, price reductions were not as prominent. Many developers reached their limit of price reductions and/or price-reducing incentives in the second quarter of the year. While the majority of projects maintained pricing levels and the value of incentives from the previous quarter, a very few raised prices.

There was very limited price movement in the Downtown sub-market during the third quarter of the year.

- Qualex-Landmark's project *Park Point* continues to offer to pay purchasers' condominium fees for the first two years of ownership.
- Fram Slokker's *Verve* continues to offer an incentive of \$5,000 off one bedroom units, \$7,500 off two bedroom units and \$10,000 off sub-penthouse and penthouse units.

Pricing and incentives offered by projects in the inner sub-markets varied marginally during the third quarter.

- Assured Communities' *Mission 34* reduced prices on remaining units from \$22,000-\$49,000.
- Birchwood Properties' *Ezra on Riley Park* is offering to pay purchasers' condominium fees for the first two years of ownership.

The outer sub-markets had very few price reductions in the third quarter of the year compared to the first two quarters. A few brave builders reduced the value of incentives in response to steady demand in the outer markets. Cedarglen Homes' *Elements of Nolan Hill*, and Gablecraft's *The Timbers* have revoked earlier incentive offerings valued at \$7,500 and \$10,000. Most incentives offered by outer sub-market projects are in the form of upgrades.

- Mattamy Homes' *Cityscape* is offering a Design Studio Credit valued at \$7,500 to \$15,000.
- Cardel Lifestyles' *Nolan Park* is offering an incentive of either \$5,000 off the purchase price or \$7,000 in upgrades.

The wood frame condominium sector in the outer sub-markets saw few incentive offerings and only nominal price changes in the third quarter. Developers appear content to maintain current pricing levels to help sustain the steady buyer demand being experienced in these areas.

Buyer Trends

Entry level purchasers continue to comprise a larger proportion of new multi-family home sales in Calgary. Demand for townhome and wood frame condominium product forms priced under \$350,000 are attracting the greatest interest. The Outer South and Outer North areas have been especially popular with the entry level buyer in the area. Sales representatives at projects in the Downtown submarkets reported fewer young professionals and entry level purchasers in recent months. They

reported very little urgency among these buyers in regards to purchasing condominium product in the urban core neighbourhoods of the city.

Downsizer empty nesters and 'Snowbirds' have been more active in the downtown markets, particularly at Qualex Landmark's *Park Point*, and Embassy Bosa's *The Royal* projects. Many of these purchasers typically spend the winters in warmer climates, and are downsizing from the Mount Royal, Scarboro and higher-valued inner city neighbourhoods. Downsizing empty nesters have also been active at Streetside Developments' *Vivace*, and Jayman Homes' *Overture* projects.

Investors remained on the sidelines during the third quarter of the year. There has been a limited amount of new investor-oriented product released during the past year. While the launch of projects such as Embassy Bosa's *Arris* and Fram Slokkers' *Verve* in 2017 will likely attract some investors to the East Village community, they're unlikely to attract a significant number of them until consumer and business confidence in local and provincial economic conditions improve. The tax on foreign buyers in Vancouver introduced by the BC government this past summer has not generated any notable increase in foreign buyer interest in the Calgary market as some had suggested it would.

Looking Ahead

As the recently announced new mortgage rules come into effect in October and November, UA predicts an increase in sales in the more affordable wood frame condominiums and townhome sectors, as entry level and move-up home buyers are priced out the detached home market due to a substantial drop in their buying power.

There are several project launches anticipated in the outer sub-markets of Calgary in the latter months of 2016. The inner sub-markets continue to respond to slower market conditions by delaying project launches for the time being.

Projects to launch during the fourth quarter of 2016 include:

- *Calligraphy* by Jayman Homes- Mahogany
- *Sandgate Building 2* by Hopewell Residential- Mahogany
- *Buffalo* by Avi Urban- Silverado
- *The Loop* by Streetside Developments- Evanston
- *Verona Townhomes* by Tricoe Homes- Sage Hill
- *Walden Place Building 2* by Cardel- Walden
- *The Pinnacle at Kincora Building 2* by Cove Properties- Nolan Hill



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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