

**FINISHING STRONG’ISH**

**Sales and Inventory Analysis**

After sluggish sales during the summer months, Calgary’s new multi-family home market experienced a moderate increase in activity in the fourth quarter of the year. New project launches in the Downtown and University District sub-markets helped inject some buyer interest and subsequent momentum in the inner city and drove the increase in sales. While the increased activity was a positive sign that demand exists for new homes in the Calgary market, the combination of the new ‘stress test’ mortgage qualification rules introduced at the beginning of 2018, rising interest rates and the economic malaise that continues to impact Alberta continues to impact consumer confidence and therefore the overall level of demand for new multi-family homes throughout the Calgary market. Despite these challenges, the positive response to recently launched projects in the inner sub-markets during the fourth quarter indicates some buyers are adjusting to the new buying conditions and feel secure enough to make a significant buying decision such as that of a new home. Developers have contributed to this adjustment by offering product more appropriately designed for the prevailing market conditions and the most active buyer groups in the multi-family market.

*Increase in Quarterly Unit Sales*

Total sales of new multi-family homes in Calgary increased by 16 percent in the fourth quarter of 2018 compared to the previous quarter. The launch of Battistella’s *NUDE* in the Beltline and Brookfield Residential’s *Capella* in University District helped contribute to the increase in sales during the quarter. The 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. As such it is usually one of better periods during the year to launch new product.

**QUARTERLY UNIT SALES COMPARISON**

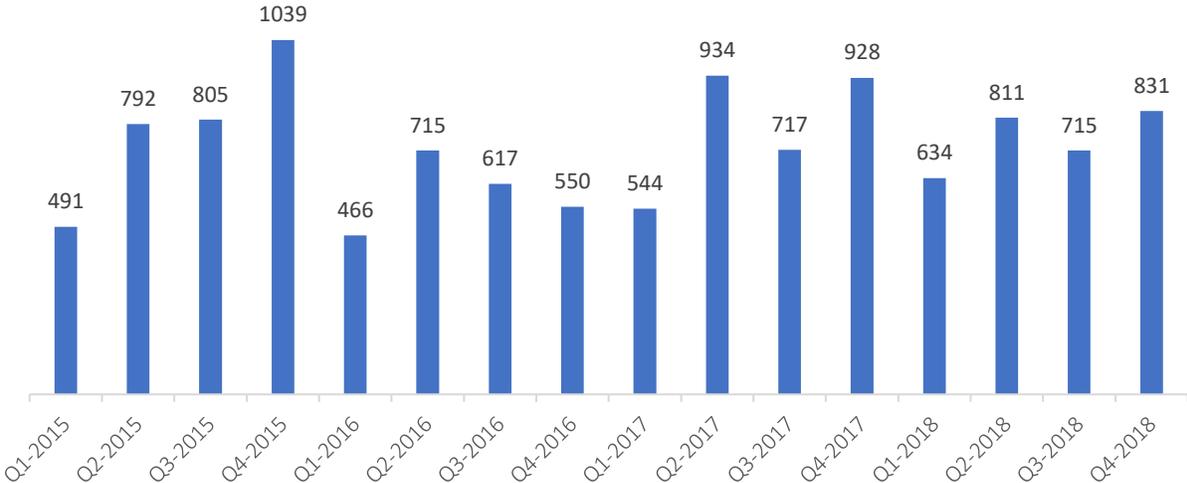


Chart 1

### *Lower Year Over Year Quarterly Sales*

While Q4-2018 sales were higher than during the previous quarter, they were 10 percent lower compared to the same quarter in 2017 in sales, year over year. The decrease in year over year sales can be attributed to fewer project launches in the fourth quarter of the year; just 10 project launches in Q4-2018 compared to 17 launches in the same quarter in 2017. In addition to the higher number of project launches, the last quarter of 2017 also benefited from greater urgency among buyers seeking to purchase prior to the implementation of the new stress test mortgage qualification rules at the start of 2018. This sense of urgency was largely missing in the final quarter of 2018, which resulted in lower sales activity at many projects.

### YEAR OVER YEAR QUARTERLY SALES COMPARISON

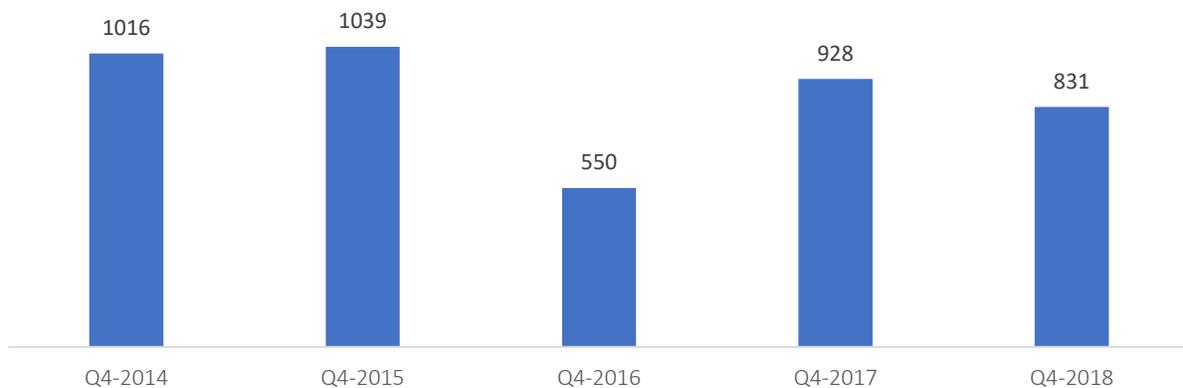
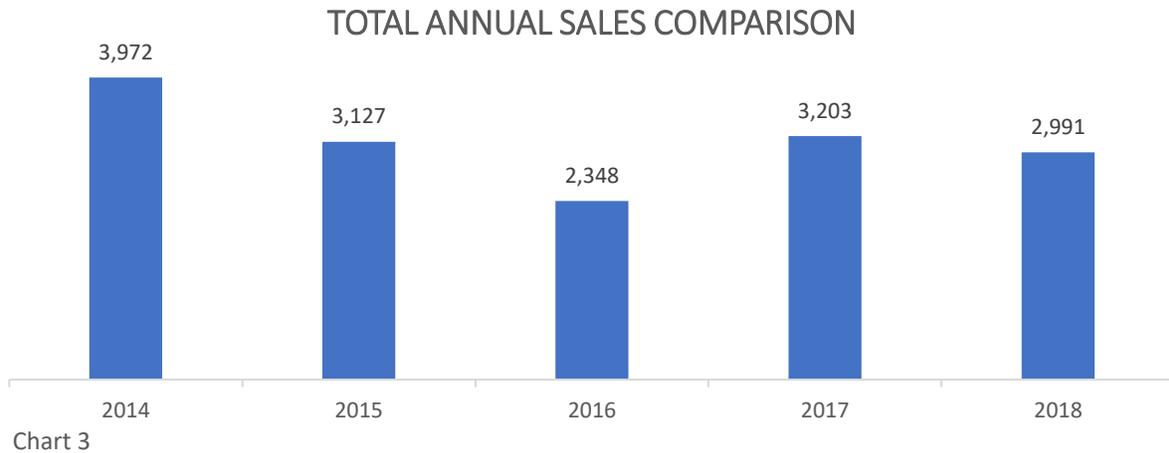


Chart 2

### *Lower Year Over Year Annual Sales*

The 2,991 total new condominium and townhome sales in the Calgary market in 2018 represents a six percent drop from the total in 2017. However, it's encouraging to note the 2018 total is 27 percent higher than the number of sales achieved throughout the market in 2016. As such, while the market encountered several challenges throughout the year, the fact that reasonably steady sales activity was experienced in many parts of the market is encouraging.



#### *Higher Sales Across Product Forms*

All three product forms experienced higher sales volume in the fourth quarter of the year compared to the third quarter. The 25 percent increase in concrete condominium sales in the fourth quarter of the year can be largely attributed to the launch of Battistella’s *NUDE* project, a 176 unit tower in the Beltline neighbourhood, which recorded 36 sales since launching in the early fall. Compared to the same quarter in 2017, concrete condominium sales decreased by 42 percent, which is largely due to the very limited number of new project launches in this sector, and the reluctance by developers to reduce prices and/or offer price-reducing incentives. Due to the cancellation of a tower in the Beltline that was launched in 2017, *NUDE* is the first concrete condominium project to launch in downtown in 36 months.

The wood frame condominium sector experienced a similar trend to the concrete sector; sales were 10 percent higher in the fourth quarter of the year compared to the previous quarter, and 13 percent fewer sales year over year. New communities approved by the City of Calgary have an increased density requirement which is resulting in more wood frame product type being brought to market in suburban locations where buyers typically seek detached home product as first choice for a housing form and townhomes as their second choice. The result of the increase in new wood frame condominium supply in the outer sub-markets is greater choice for buyers, which in turn has led to lower urgency levels and slower sales than the previous year. The generous supply of wood frame condominiums in these outer areas should give developers cause to carefully consider releasing more product. While townhome product is still viable in these locations for multiple buyer groups, demand for the wood frame product type is more limited to younger, price-sensitive entry level and newer immigrant buyers.

Townhome product experienced 22 percent higher sales in the fourth quarter of the year than Q3, and a more modest five percent decrease in sales year over year.

## QUARTERLY SALES BY PRODUCT TYPE

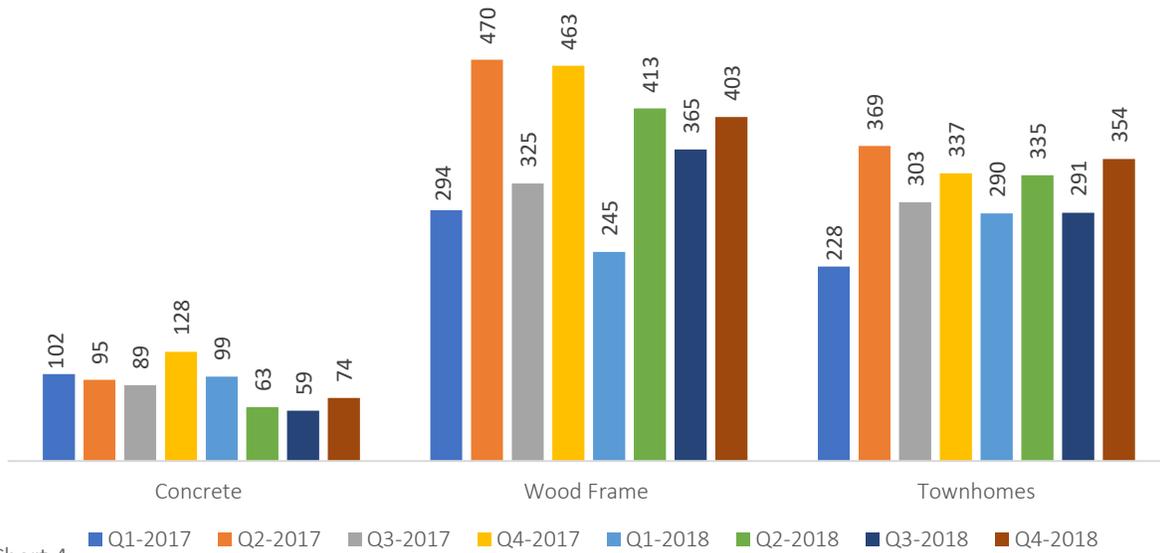


Chart 4

### Higher Sales in Most Sub-Markets

Despite the more limited urgency due to the number of competing projects, demand levels remained steady in the Outer North and Outer South sub-markets in the latter part of 2018. Of the 179 actively selling projects that UA is currently tracking, 99 are in the Outer North and Outer South areas. While individual projects may experience lower than desired absorptions due to the amount of competition, the aggregate sales throughout these sub-markets indicates healthy demand for new multi-family home product.

## QUARTERLY SALES BY SUB-MARKET COMPARISON

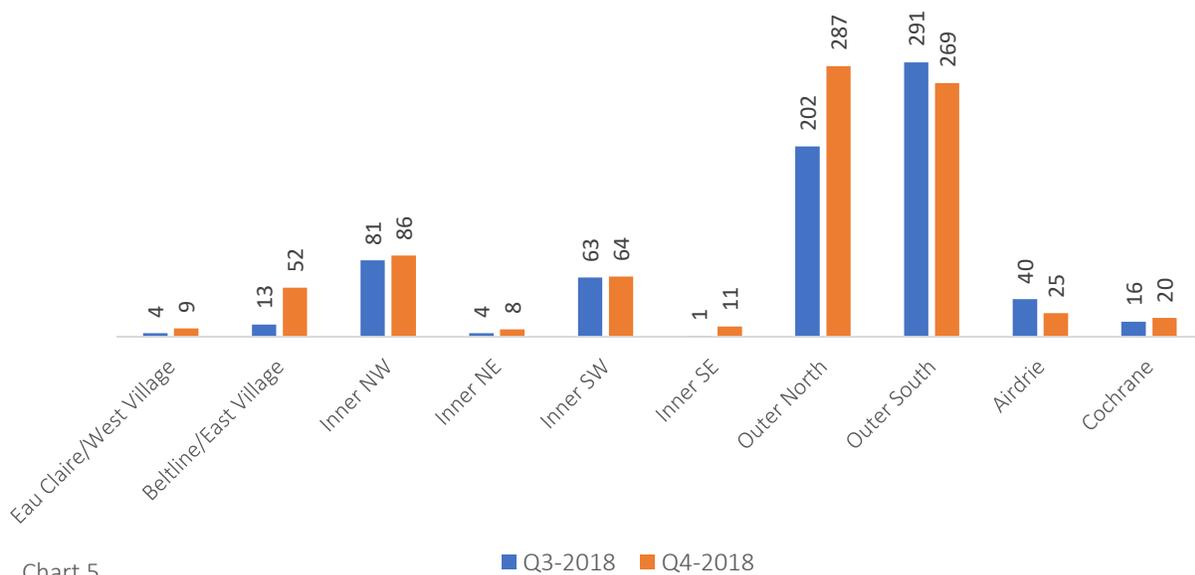


Chart 5

Eight of the ten sub-markets experienced higher sales in the fourth quarter of 2018 compared to Q3:

- Eau Claire/West Village: +125 percent
- Beltline/East Village: +300 percent
- Inner NW: +6 percent
- Inner NE: +100 percent
- Inner SW: +1.6 percent
- Inner SE: +1000 percent
- Outer North: +42 percent
- Cochrane: +25 percent

Just two of the ten sub-markets experienced lower sales in Q4-2018 compared to Q3:

- Outer South: -7 percent
- Airdrie: -38 percent

*Higher Sales = Decreasing Inventory*

All three product types experienced a decrease in inventory in the fourth quarter of the year as units absorbed during the quarter were not replaced with new inventory due to fewer projects being launched. The concrete condominium sector experienced a five percent drop in inventory compared to the previous quarter. Wood frame condominium inventory dropped by 16 percent while townhome inventory was three percent lower at the end of Q4-2018 than the previous quarter.

RELEASED INVENTORY COMPARISON BY PRODUCT TYPE

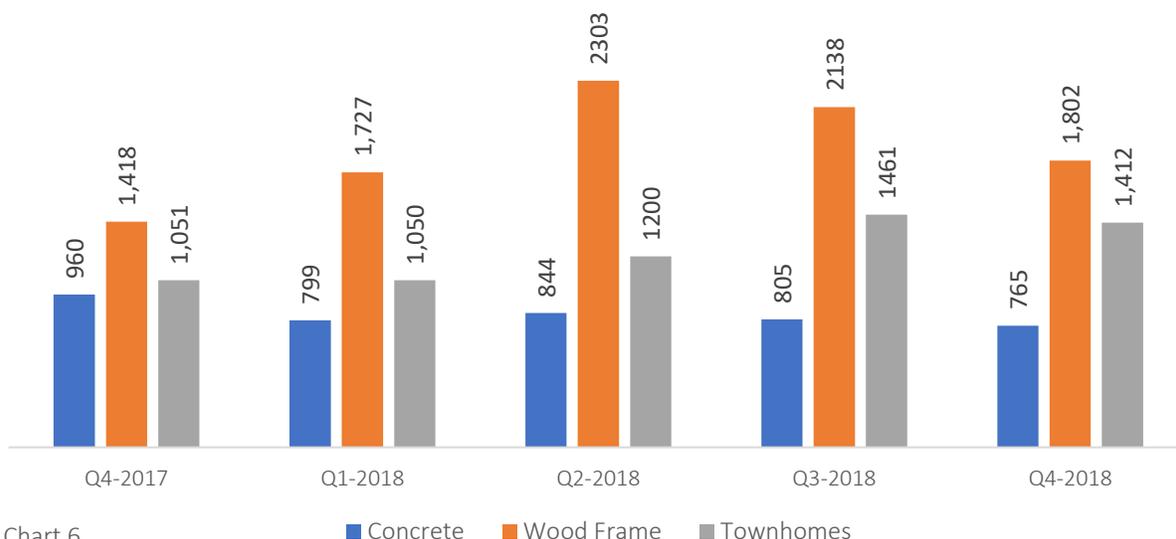


Chart 6

Chart 7 illustrates the amount of released inventory by sub-market. With the exception of the Beltline/East Village and Inner Northwest, all sub-markets experienced a decrease in inventory levels.

- Eau Claire/West Village: -9 percent
- Beltline/East Village: +45 percent
- Inner NW: +18 percent
- Inner NE: -6 percent
- Inner SW: -25 percent
- Inner SE: -16 percent
- Outer North: -18 percent
- Outer South: -9 percent
- Airdrie: -6 percent
- Cochrane: -8 percent

### RELEASED INVENTORY BY SUB-MARKET

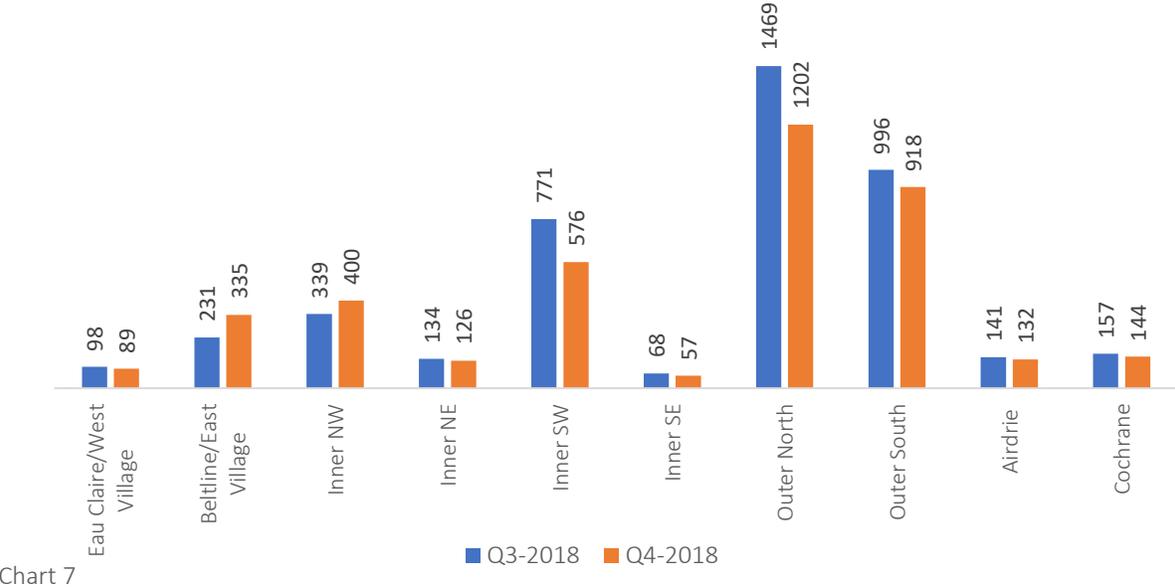


Chart 8 provides a breakdown of the number of unsold move-in ready units at the end of the fourth quarter. Total standing inventory levels dropped by two percent in the quarter as more completed units were absorbed.

While townhome projects continued to add standing inventory to the market, a few significant condominium projects were also completed, which added to the supply of move-in ready condominium units. These projects include Bucci’s *Radius* (72 units) and Fram + Slokker’s *Verve* (21 units).

### STANDING INVENTORY BY SUB-MARKET

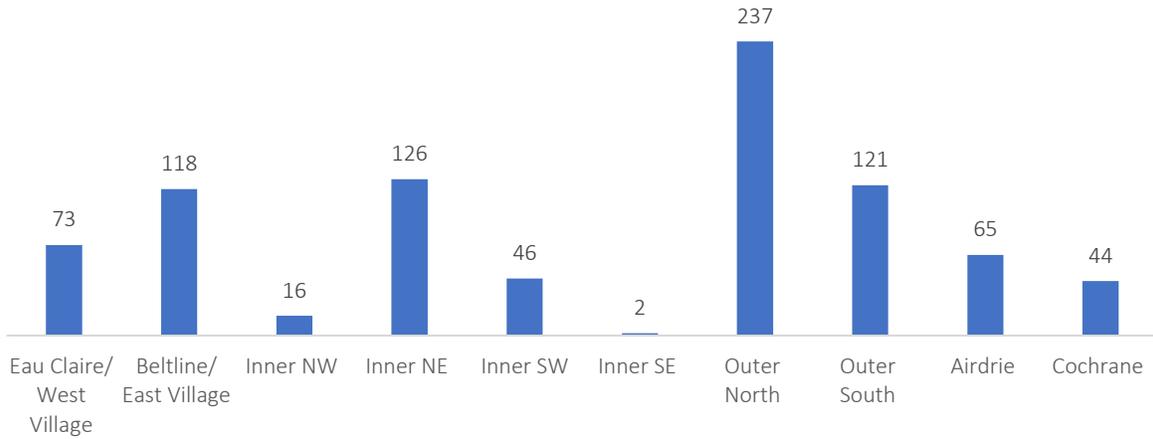


Chart 9

Chart 10 illustrates the spread between the number of unit sales in a given quarter and the number of unsold units at the end of the quarter. The spread narrowed considerably in the latter half of 2018 as a result of the combination of steady sales activity and fewer new project launches during the latter two quarters of the year.

### QUARTERLY SALES VS. UNSOLD INVENTORY

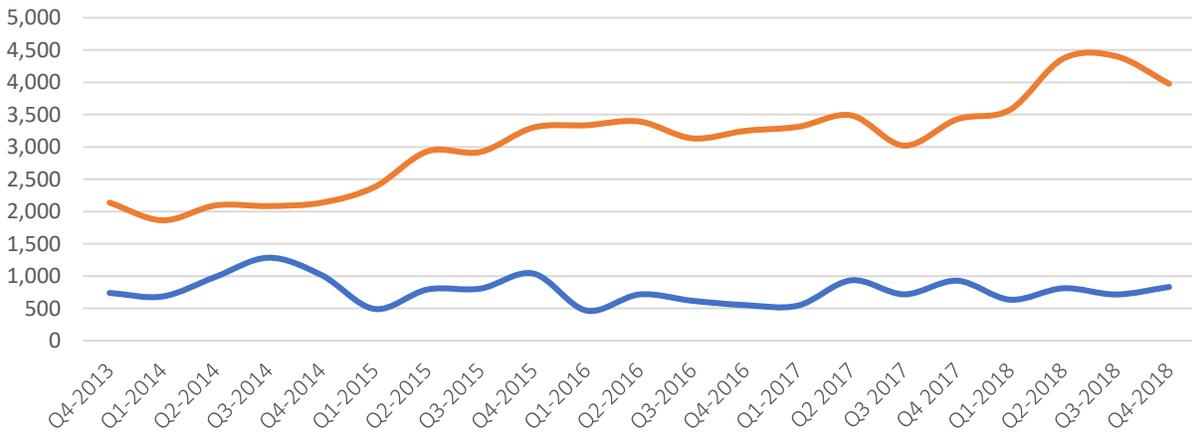


Chart 10

— Total Sales — Released Inventory

Chart 11 shows the total amount of unsold inventory by product type and construction status. Wood frame condominium product in the pre-construction stage continues to represent the highest proportion of unsold inventory. The highest proportion of both unsold townhomes and concrete condominium units are at the *under construction* stage.

### UNSOLD INVENTORY BY PRODUCT TYPE AND CONSTRUCTION STATUS



Chart 11

#### **Price Trends**

Developers continued to offer value-added incentives during the fourth quarter of 2018, helping to offset the impact of the mortgage stress test rules and higher lending rates that continued to impact the market in the fourth quarter. The following outlines some of the incentives offered;

- Streetside Developments is offering up to \$30,000 off remaining units at *Origins at Cranston*
- Avalon Developments is offering a ‘live free for three months’ promotion and \$5,000 off remaining townhomes at *Zen Redstone*
- Birchwood Properties is offering a ‘live free for one year’ incentive, and up to \$20,000 off unit prices for quick possession at *Brand Townhomes*
- Vericon Developments is offering \$5,000 off one bedroom units, \$10,000 off two bedroom units and \$15,000-\$20,000 off three bedroom units for the next 10 townhomes sold at *The Marlo*
- Cardel is offering \$8,000 in free upgrades and concierge moving services at *Cranston Ridge*
- Truman Homes is offering \$20,000 off the purchase price at both *Yorke Townhomes* and *Legends of Cornerstone*
- Trico Homes is offering \$20,000 off quick possession units at *Wentworth Pointe*
- Avi Urban is offering \$20,000 off move in ready units at *Maverick at Livingston*

A full list of project incentives can be found on NHSLive. UA expects developers to continue offering generous incentives in the first quarter of 2019 as they seek to sustain absorption levels from the fourth quarter, which would allow for the launch of new product.

## **Buyer Trends**

The loss of buying power caused by stricter mortgage qualification rules and higher interest rates combined with the economic uncertainty that continues to plague Alberta led to lower sales in 2018 compared to 2017. The mortgage stress test rules introduced at the beginning of 2018 had the most significant impact on sales throughout the year as many first-time purchasers were unable to qualify, causing them to remain in the rental market. Developers responded appropriately with significant price incentives, which allowed price sensitive purchasers to enter the market. Additionally, purchasers without a single family home to sell were able to enter the market at a lower price. Investors also capitalized on the discounts offered throughout the year, primarily in walkable amenity-rich locations. While the impact of the mortgage rules were felt throughout the market, UA expects sales to increase in 2019 as buyers become more adjusted to the current market conditions and explore the significant savings currently being offered at many projects.

Price sensitive buyers were most active in the outer sub-markets where there is more product being offered in their affordability range.

Downsizer and empty nester purchasers continued to be active in the market, though they took longer to commit to a purchase than younger price-sensitive buyers. Higher end projects offering larger living spaces and an appealing specification level continued to appeal to these buyers who are seeking to downsize with the equity from their home.

## **New Launches**

There were 10 new projects launched during the fourth quarter of 2018;

- *Nude* by Battistella launched 176 units in the Beltline neighbourhood. The unit mix comprised primarily studio and one bedroom units. The project is seeking a blended average price per square foot of \$587.
- *The Fifth* by Arlington Developments launched in the Beltline. The 48 units are seeking a blended average price per square foot of \$537.
- Brookfield Residential launched *Capella Single Level Residences* and *Capella Condos* in the University District at a blended average price per square foot of \$529 and \$537 respectively.
- Brad Remington Developments launched *Sage Hill Park Building 2* and *Legacy Park Bldg 6000* both wood frame buildings in Sage Hill and Legacy at a blended average price per square foot of \$251 and \$246 respectively.
- Brookfield Residential launched *Regatta Auburn Bay Building 1* in Auburn Bay at a blended average price per square foot of \$284.
- Vericon Developments launched *The Marlo* stacked townhomes in Altadore at a blended average price per square foot of \$378.
- Armour Developments launched *Aurora at Sky Pointe*, a townhome project in Skyview ranch consisting of 74 townhomes seeking a blended average price per square foot of \$236.
- Streetside Developments launched *Ember Park* a townhome project in Redstone consisting of 74 townhomes and seeking a blended average price per square foot of \$235.

- Avalon Master Builders' launched *Zen Riverstone* a townhome project in Cranston at a blended average price per square foot of \$266.

The following is a list of projects UA expects to launch in the upcoming months and will be monitoring closely:

- *Jasper* – Avi Urban
- *Mantra* – Groupe Denux
- *Courtyard 33* – RNDSQR

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

(403) 294-0135

[Info-alberta@urbananalytics.ca](mailto:Info-alberta@urbananalytics.ca)