

THE UA TAKE – FIRST QUARTER 2018:

STRONG SALES IN SPITE OF SPEED BUMPS

Entering the first quarter of 2018, there were several factors new multi-family home market stakeholders were monitoring closely. The first quarter of the 2018 saw the implementation of the ‘Stress Test’ mortgage qualification rules as of January 1st, and a series of policies introduced by the provincial government, primarily in the form of new taxation for foreign buyers, owners of homes valued at over \$3 million and secondary home owners, as part of its budget. The impact of the new stress test rules is not likely to be felt until the second quarter of the year, given many prospective purchasers with the intention to enter the housing market prior to the end of 2017 would likely have sought to obtain mortgage pre-approvals ahead of the new rules’ implementation.

As for the provincial government’s new taxation policies, it appears the Finance Minister chose to ignore any input from numerous stakeholders in the housing industry, or simply failed to make an effort to understand the complex forces driving the housing market in Metro Vancouver and elected to introduce measures targeting demand for housing. There was not a single acknowledgement of the lack of or slow pace of approvals of new market-oriented housing supply into the market. While the government should be applauded for its intentions to increase the supply of below market and affordable rental housing supply in the region (despite serious doubts about how it will find the labour resources required to meet its ambitious targets for new affordable housing units), it will in time recognize that none of the demand-targeted taxation policies it introduce will have no long-term impact on the market housing affordability challenges facing Metro Vancouver.



As the data and analysis that follows illustrates, the new multi-family home sector of Metro Vancouver’s housing market continued to achieve strong sales in the first quarter of 2018. This is not to say there aren’t headwinds ahead for this sector of the market as it confronts growing uncertainty among new home buyers regarding general conditions in the market here. Unfortunately, as the level of rhetoric from all sides of the housing issue escalates, some prospective buyers begin to question whether to delay their purchasing decision to see whether conditions and product prices soften. Stakeholders who recognize these headwinds and adjust their pricing expectations will continue to experience strong absorptions relative to historical averages. Stakeholders who don’t recognize the buyer uncertainty regarding market conditions should budget for longer absorption periods as their projects will take longer to sell.

The following provides an analysis of Q1-2018 sales activity and the inventory status as at the end of the quarter.

Sales and Inventory Analysis

In spite of the new challenges facing new home purchasers in the form of stricter mortgage qualification rules, and the added uncertainty caused by the provincial government’s demand-focused policies introduced as part of its budget, new multi-family home sales in the first quarter of 2018 increased by over 16 percent over the same quarter in 2017.

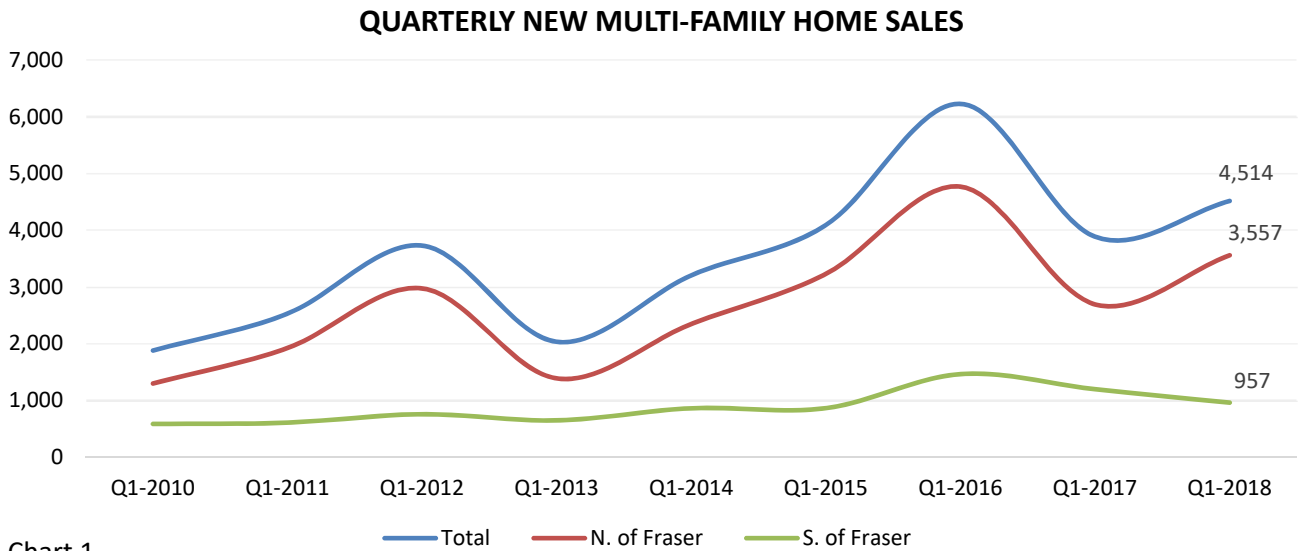


Chart 1

Part of the increase in year-over-year sales can be attributed to the 47 percent increase in new condominium and townhome units released in the first quarter of this year compared to 2017. There was one fewer project launched in Q1-2018 as in the same quarter in 2017, meaning the amount of competitive supply in the market (i.e. the number of actively selling projects competing for buyers at any given time) remained largely unchanged.

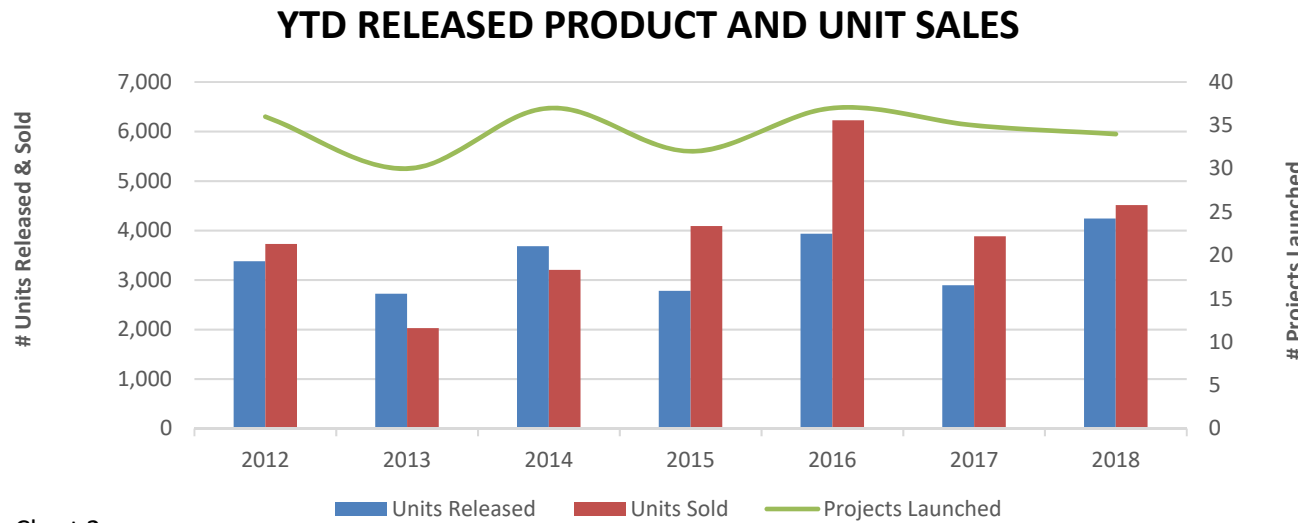


Chart 2



An increase in the number of new concrete condominium units released for sale in the first quarter helped generate a substantial increase in sales as pent up demand in a number of markets helped absorb much of the new product released, particularly in Burnaby, New Westminster and Coquitlam.

QUARTERLY UNIT SALES COMPARISON

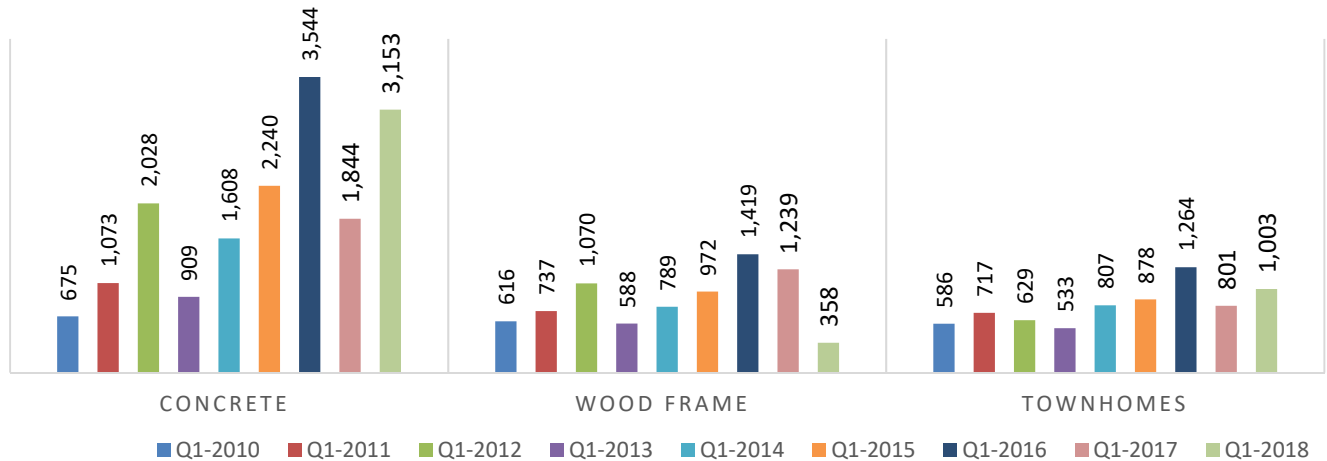


Chart 3

New supply in the townhome sector also helped generate higher year-over-year sales. The fact just six new wood frame condominium projects with a total of 324 units were launched in the first quarter resulted in a substantial drop in sales in this sector compared the same quarter in 2017.

The spread in the number of new multi-family homes sold in a quarter and the number of unsold units at the end of that quarter widened by three percent in Q1-2018 compared to the previous quarter. There remains less than two months of supply of new multi-family units as of the end of the quarter.

QUARTERLY SALES VS UNSOLD INVENTORY TREND



Chart 4



While there was a substantial increase in the amount of new supply released to the Metro Vancouver market in Q1-2018, a majority of the new units launched are located in just three municipalities. 67 percent of all new condominium and townhome units were released in Burnaby, New Westminister and Coquitlam. The number of new multi-family homes sold in the first quarter exceeded the number of units released in all sub-markets except for Burnaby/New Westminister.

QUARTERLY UNIT SALES VS. UNITS RELEASED

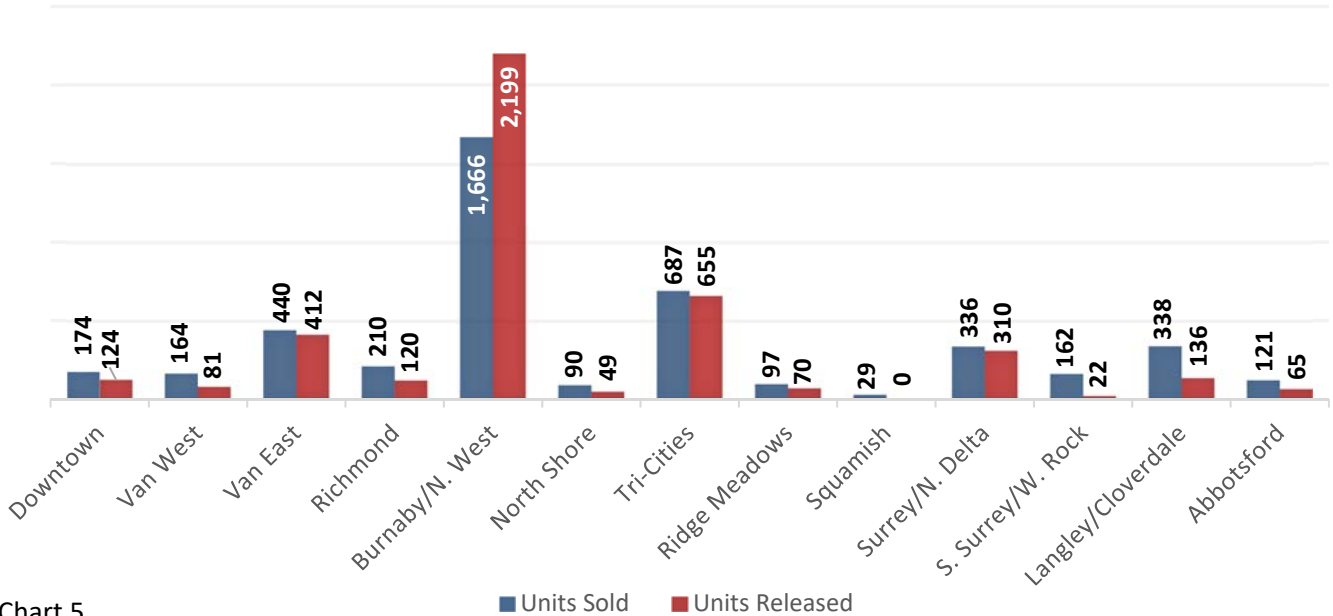


Chart 5

Not surprising given the miniscule amount of new wood frame condominium projects launched in Q1-2018, the number of unsold units in this sector dropped by 48 percent. The significant number of concrete condominium units released during the first quarter led to a 21 percent rise in unsold inventory. The number of unsold townhomes remained largely unchanged as strong pent-up demand in the South of Fraser sub-markets absorbed much of the new supply released in that sector.

RELEASED INVENTORY COMPARISON

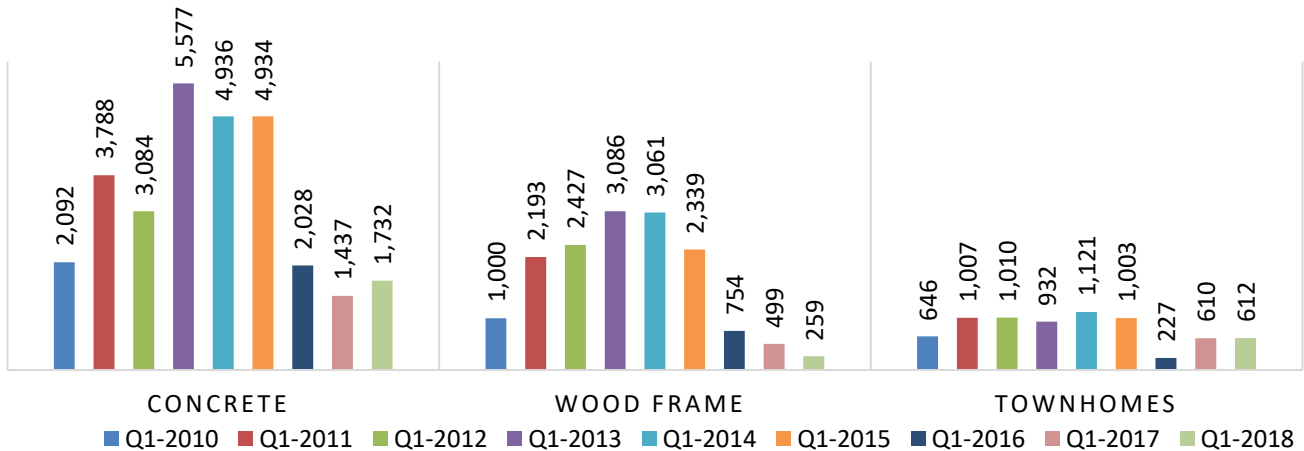


Chart 6



As expected at the end of 2017, the substantial increase in the number of new projects launched in Burnaby and New Westminster resulted in that sub-market experiencing the biggest increase in unsold inventory. The fact some of these new projects were launched in the second half of the first quarter contributed to the higher amount of unsold inventory in this sub-market. While most newly launched projects continue to achieve strong absorptions, the higher prices some new projects are attempting to achieve are leading to sales at some of the new project slowing after the initial 60 to 70 percent of the inventory is sold. Once again, the strong demand in South of Fraser sub-markets that continues to exceed supply led to lower inventory levels in the first quarter of the year.

RELEASED INVENTORY COMPARISON

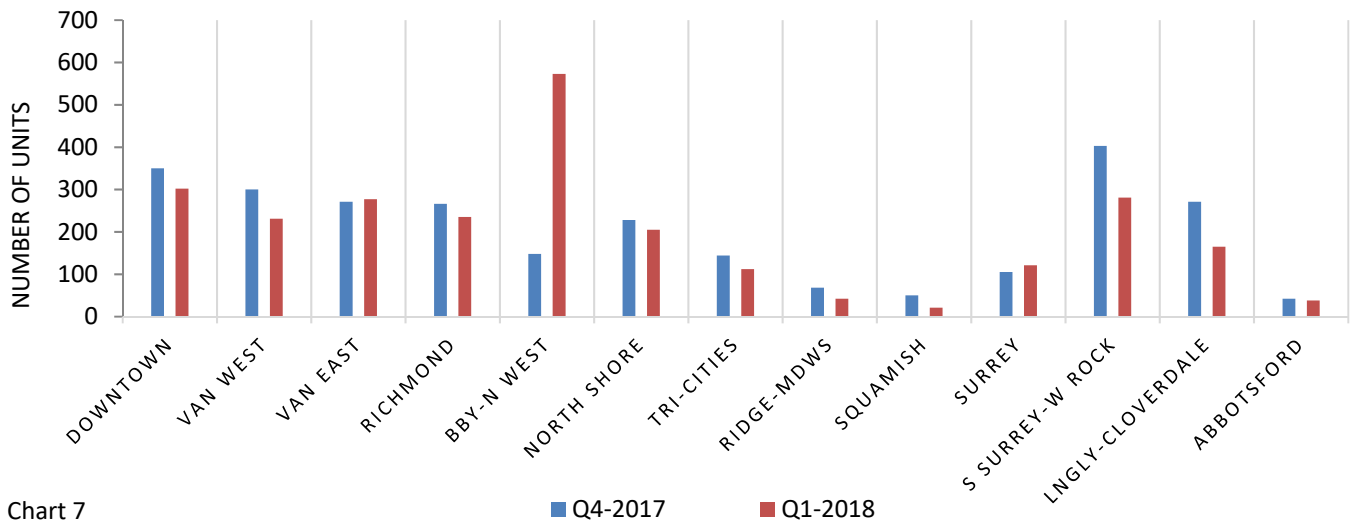


Chart 7

The number of completed and unsold units available to purchase in Metro Vancouver rose slightly from the last quarter of 2017. There has been fewer than 100 move-ready units available to purchase in all of Metro Vancouver for seven consecutive quarters.

STANDING INVENTORY TREND

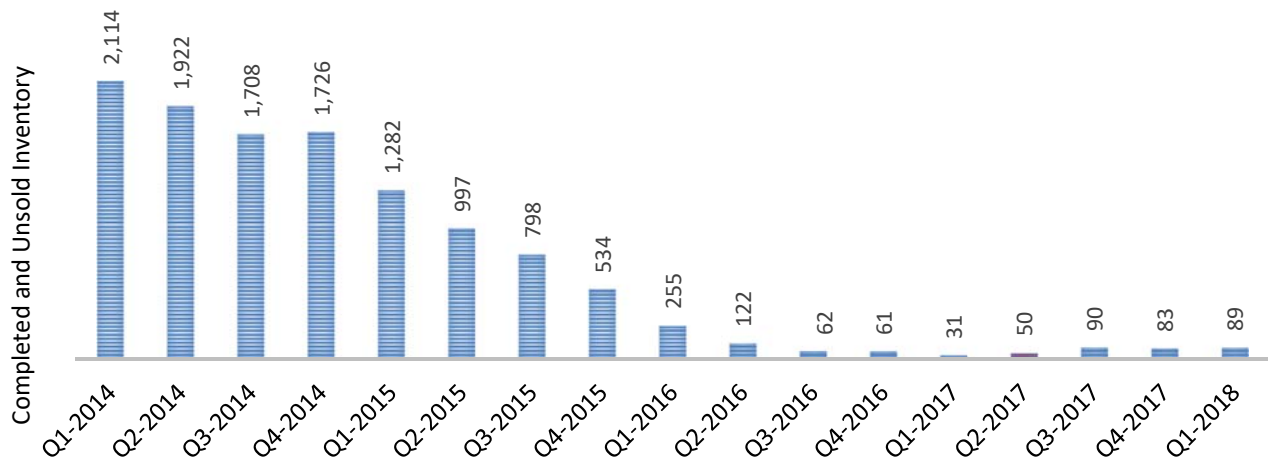


Chart 8



The recent completion of a few smaller projects along the Cambie Corridor resulted in an increase in the number of move-in ready unsold units in Vancouver West. New Westminster continues to feature the highest number of completed and unsold units due to the unsold inventory at *The Peninsula* project in the Port Royal neighbourhood. We anticipate a drop in this unsold inventory in Q2-2018 as the developer releases the balance of the product in this completed tower.

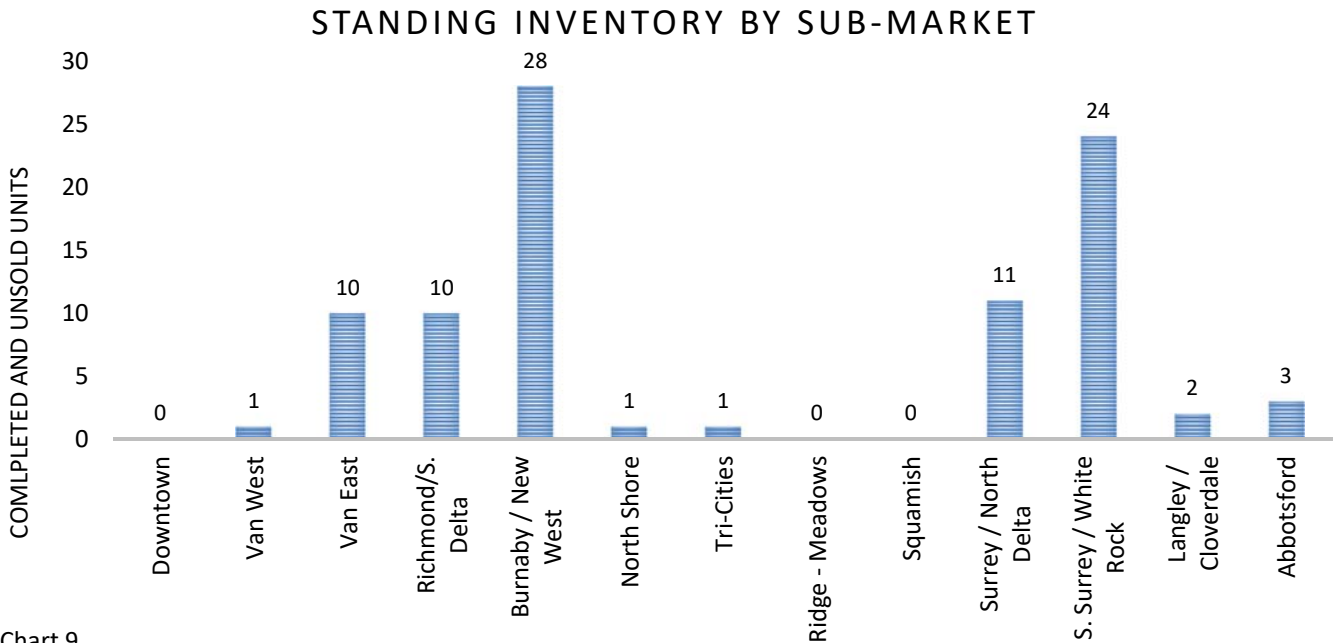


Chart 9

The number of new concrete condominium projects launched in Q1-2018 led to a 21 percent increase in number of unsold units in the the pre-construction phase. Strong demand for townhome product reduced the number of unsold units 'under construction' dropped by 56 percent from Q4-2017.

INVENTORY BY PRODUCT TYPE & CONSTRUCTION STATUS

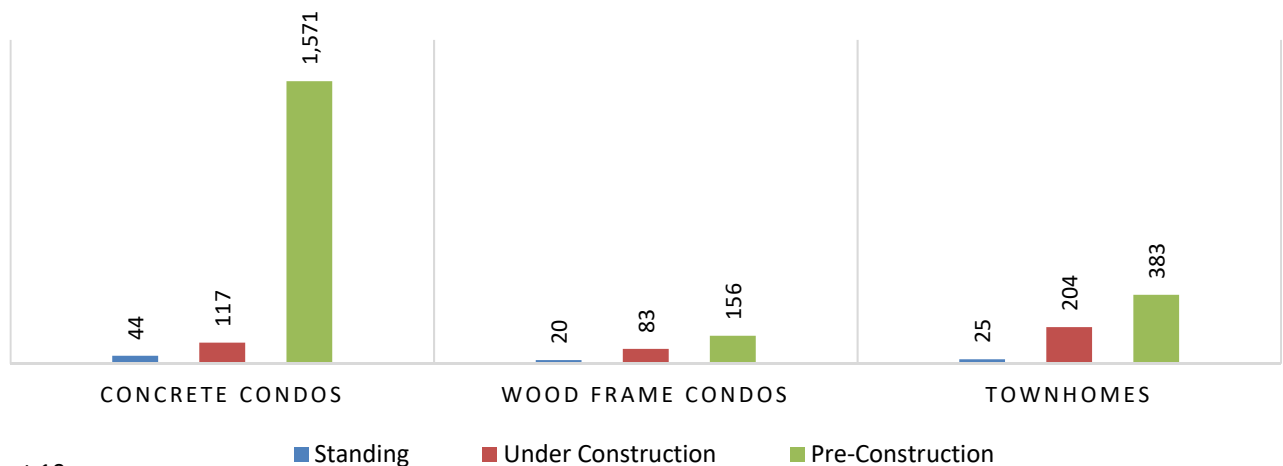


Chart 10

Price Trends

Despite most new projects launched in the first quarter of 2018 achieving higher sale values than previously released developments, there are indications of some resistance to projects testing the market with what some prospective buyers might consider excessively higher sale values. This perceived resistance is very project-specific and is not causing any concern of a project not selling out or achieving its presale goal; it's simply resulting in slower absorptions than would have been achieved a year ago, or if the developer had been less aggressive with pricing. The desire to achieve higher values is understandable in some cases given the rising construction costs being experienced in the market. Some of the higher sale values being sought can be attributed to developers wishing to build in a higher contingency to allow for higher than anticipated increases in material and labour costs.

While greater uncertainty among prospective new home purchasers result in a flattening in achievable new multi-family home prices over the next several months, the continued trickle of new projects being approved by municipalities throughout the region will limit the amount by which prices will fall through the balance of 2018. New government policies targeting foreign buyers and secondary home owners will have little to no impact on housing affordability in Metro Vancouver.

The following provides a summary of average sale values being sought for various product forms in different Metro Vancouver sub-markets and neighbourhoods:

- *Vancouver West* – New concrete condominium product launched along the Cambie Corridor during the first quarter is seeking average sale values of \$1,500.
- *Vancouver East* – New concrete condominium product launched in Q1-2018 achieved an average of \$1,125 per square foot. Wood frame condominium product launched in Mt. Pleasant achieved below market-average absorptions after seeking higher than anticipated sale values averaging over \$1,300 per square foot.
- *Richmond* – Recently launched concrete condominiums are now seeking sale values exceeding \$1,100 per square foot, while product expected to launch in Q2-2018 will reportedly seek approximately \$1,330 per square foot.
- *Burnaby* – As expected, new concrete condominium product launched in Q1-2018 in both the Metrotown and Brentwood neighbourhoods exceeded average sale values of \$1,200 per square foot.
- *North Shore* – Average sale values sought for new wood frame condominium product in North Vancouver continues to rise with new product anticipated to launch in Q2-2018 expected to seek over \$900 per square foot. New concrete condominium product could break the \$1,300 per square foot threshold. Larger townhome product targeting end users are experiencing slower absorptions as buyers are taking longer to sell their existing homes due to softer conditions in the detached resale sector of the market.

- *Tri-Cities* – New concrete condominium product launched in Q1-2018 achieved sale values ranging from \$900 to \$950 per square foot. Townhome product recently launched in Port Moody has successfully achieved an average sale value of nearly \$711 per square foot.
- *Ridge-Meadows* – Wood frame condominium product in this sub-market is seeking average sale values of over \$540 per square foot. Recently launched townhome product is seeking average sale values of over \$380 per square foot.
- *Fraser Valley* – Concrete condominium product actively marketing in White Rock continues to encounter some resistance to product seeking overall average sale values exceeding \$1,000 per square foot, leading to slower absorptions. Recently launched wood frame condominium projects in Surrey sought an average of \$504 per square foot.
- New townhome product launched in Fraser Valley sub-markets in Q1-2018 is seeking the following average values:
 - *Surrey/North Delta* – \$390 to \$440 per square foot
 - *South Surrey/White Rock* – \$440 per square foot
 - *Langley/Cloverdale* – \$475 to \$495 per square foot

Buyer Trends

The profile of active buyers of new multi-family purchasers in Metro Vancouver in the first quarter of 2018 remained largely unchanged from previous quarters. Local investors, parents buying or helping their kids and local end-users continue to comprise the majority of concrete condominium buyers. Luxury concrete condominium projects are attracting a primarily local end-user purchasers along with secondary purchasers from outside the City attracted to the more exclusive condominium product in Downtown Vancouver. Absorptions for higher priced condominium product in some Vancouver West neighbourhoods is expected moderate as downsizers may be reluctant to commit to a purchase without knowing what they're able to sell their current home for.

The provincial government's decision to increase the Foreign Buyers' tax to 20 percent is expected to lead to a softening in demand from off-shore buyers over the next two to three quarters. However, the fact this segment of buyers generally makes up less than 10 percent of the overall buyer mix will minimize the impact on the market as a whole.

Strong absorptions at new townhome projects launched in the South of Fraser sub-markets indicates the reduction in buying power caused by the implementation of the stress test rules may have led to increased demand for townhomes from buyers who might have otherwise purchased a detached home. The same scenario may materialize in the wood frame condominium sector once more of this product form is released to the market.

With respect to ethnicity, local Asian buyers (primarily Chinese) continue to be the dominant buyer profile at preselling concrete condominium projects in the urban sub-markets. There are also indications of increasing demand among local Korean purchasers. South Asian buyers continue to be active in South of Fraser sub-markets.

Looking Ahead

The announcement of several new demand-oriented taxes in the provincial government's budget did little to ease uncertainty among prospective buyers of new multi-family home product in Metro Vancouver. Looking ahead, UA anticipates uncertainty will continue to be a key factor that developers launching new projects will need to monitor as they attempt to appropriately position that new product in the market to achieve required absorptions. Some of the more noteworthy projects UA expects to launch over the next two quarters and will be monitoring closely include:

- *Fifteen Fifteen – Downtown Vancouver*
- *Cambie Gardens – Vancouver West*
- *8888 Osler – Vancouver West*
- *Coco Oakridge – Vancouver West*
- *Winston – Vancouver West*
- *View Star (Bldg E) – Richmond*
- *Atmosphere – Richmond*
- *Hampton Cove – South Delta*
- *Cirrus @ Solo District – Burnaby*
- *Bordeaux – Burnaby*
- *Gilmore Place – Burnaby*
- *City of Lougheed (Tower 3) – Burnaby*
- *Crest – North Vancouver*
- *Park West – North Vancouver*
- *Marine + Fell – North Vancouver*
- *The Trails – North Vancouver*
- *Jumar – Squamish*
- *Squamish by Bosa - Squamish*
- *Regan West – Coquitlam*
- *Kentwell – Coquitlam*
- *Victoria - Coquitlam*
- *Montrose Square – Port Coquitlam*
- *The 222 – Ridge-Meadows*
- *Linea – Surrey*
- *Coast at Fraser Heights - Surrey*
- *Fraser Landmark - Surrey*
- *La Voda Living - Surrey*
- *Forest Ridge – South Surrey/White Rock*
- *Isola – South Surrey/White Rock*
- *Orchard Park – South Surrey/White Rock*



Cirrus at Solo District - Appia

- *Union Park – Langley/Cloverdale*
- *Luxia at Yorkson – Langley/Cloverdale*
- *Onyx at Mahogany - Abbotsford*
- *Upper Montrose – Abbotsford*

As always, UA looks forward to monitoring the sales progress of these and all other actively selling new home projects and updating the data as it is collected on *nhslive.ca*.

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

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