THE UA TAKE – THIRD QUARTER 2016:

GOVERNMENT MEDDLING LEADS TO LOWER BUYER URGENCY

In observing what has been a wild ride in the Metro Vancouver residential real estate market over the first nine months of the year, it's become clear there are two certainties in this sector of the economy; government meddling and denial.

After spending the better part of the past two years pointing their blame finger at local municipal governments for contributing to the growing affordability issue in the Metro Vancouver housing market by restricting supply through their slow approvals processes, the BC Liberal Government did a complete about-face on the issue and implemented Bill 28, which comprised the Foreign Buyer Tax (aka The Chinese Buyer Tax). Some form of action on the part of the Liberals was fully expected given the growing rhetoric and resentment being heard among local voters about the ever-escalating home prices and the ethnic group that was presumably to blame for local residents being priced out of the housing market. However, what wasn't expected was the unconscionable and confounding decision to not grandfather existing purchase agreements with completion dates scheduled after the tax's implementation. The only reasonable explanations we have for the decision to apply the tax to existing agreements entered into without knowledge of its pending implementation are:

- greed on the part of the Liberals, and;
- Ignorance on the part of finance ministry staff regarding the difference between the date a purchase agreement is entered into and the date it completes.

The Liberal government's Bill 28 also included a provision to allow the City of Vancouver to impose a Vacant Home Tax. While this purely political 'bone' thrown to the Vision party by the Liberals has been sold as a tool to encourage homeowners, be they foreign buyers, secondary homeowners or investors to add their units to the rental pool, and to help fund affordable housing, it is our assertion that it will have little to no impact on the market rental or affordable housing supply in the city, and will instead use up valuable time and resources that could instead be appropriated to seeking ways to increase the efficiency of new home approvals throughout the City and increase supply to levels that will at least meet the higher demand we've experienced over the past 18 to 24 months.

Not to be outdone by its provincial and municipal counterparts, the federal Liberal government decided to join the meddling party and introduce a number of measures designed to both slow demand in the housing market, enforce existing tax policies and close tax loopholes on home purchases by foreign buyers. The primary policy change introduced to slow demand in the housing market was a stress test for prospective high ratio borrowers that essentially wiped out tens of thousands of dollars in the purchasing power of buyers who have contributed the least to the affordability issue, but are the most vulnerable to its effects.

While UA does not disagree that some level of government action is appropriate to ensure the housing market is not being impacted by certain buyer groups seeking to take advantage of loopholes in the system, we feel strongly that without a multi-pronged approach that addresses supply as well as demand, the impact of this government meddling will be short-term at best and will not effectively address the affordability challenges the Metro Vancouver region is facing.

With respect to denial, many elected municipal officials continue to deny municipalities have in any way contributed to the affordability issue in the region, which is ludicrous when anyone with the most basic understanding of economics can tell you that any increase in demand for a product without a corresponding rise in its supply will lead to a higher price for that product.

The following charts and analysis related to the trend in demand (sales) and supply (inventory) in the new multi-family home sector of Metro Vancouver's residential real estate market will illustrate why we've experienced such significant price escalation in new home prices in the first three quarters of this year, and why in spite of the recent flattening in demand levels, the market is unlikely to experience a significant correction.

Sales and Inventory Analysis

As the more stringent mortgage qualification rules introduced by the federal government weren't implemented until October, BC's Foreign Buyer Tax is the only significant government policy that could have impacted the new multi-family home market in Q3-2016. The most significant impact of the tax on the new multi-family home market during the third quarter was a drop in buyer urgency, which contributed to lower year-over-year sales volume in all three product sectors.

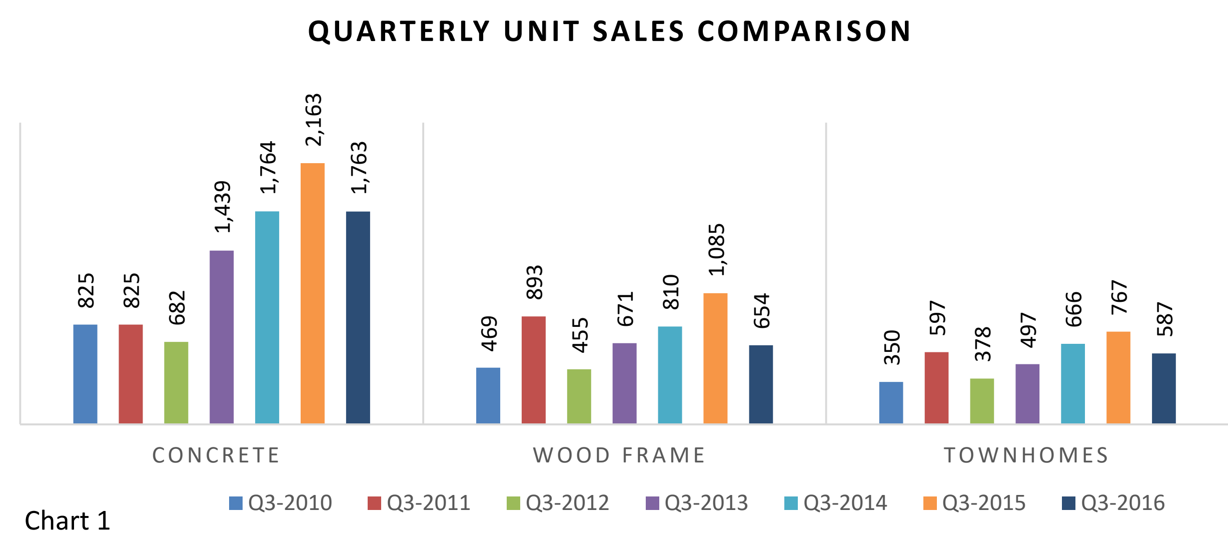

Chart 1

Lower buyer urgency levels were noted by sales representatives in suburban South of Fraser sub-markets, where end user buyers dominate and where wood frame condominium and townhome product has experienced some of the most rapid and significant price escalations in the region this year. Representatives also indicated they sensed a level of market fatigue among prospective buyers.

Another contributor to the drop in sales was the limited number of significant new project launches that occurred throughout the market. Just as many buyers appeared to take a pause from their home buying process to see the impact of the Foreign Buyer Tax on the market, developers also appeared less urgent to release significant new projects until they attained a sense of the market's reaction to the tax.

The impact of fewer significant new project launches in the third quarter was felt most in the inner sub-markets, which experienced 53 percent fewer new home sales in Q3-2016 than the previous quarter.

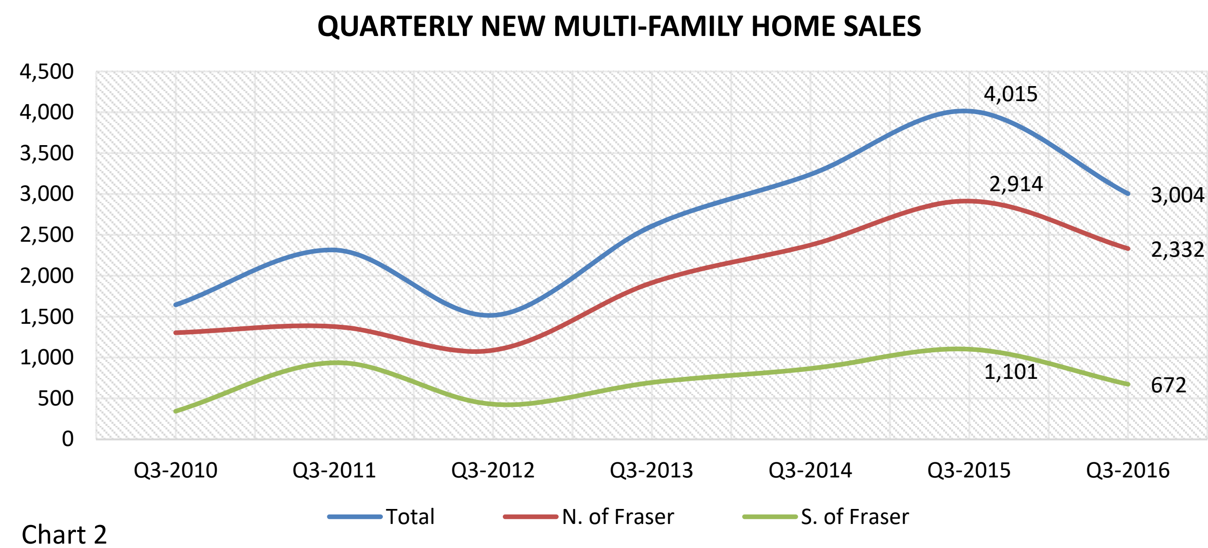

Chart 2

In spite of the lower sales volume in the third quarter, year-to-date sales are well ahead of previous years. Total new multi-family home sales in the first three quarters of 2016 is 28 percent higher than the same period in 2015. The increase in sales through the first nine months of the year is very similar across all three product sectors; Concrete Condominiums – 28 percent, Wood Frame Condominiums – 26 percent and Townhomes – 29 percent. There is little doubt 2016 will record the highest number of new condominium and townhome sales since UA began its quarterly tracking of the market in 2010.

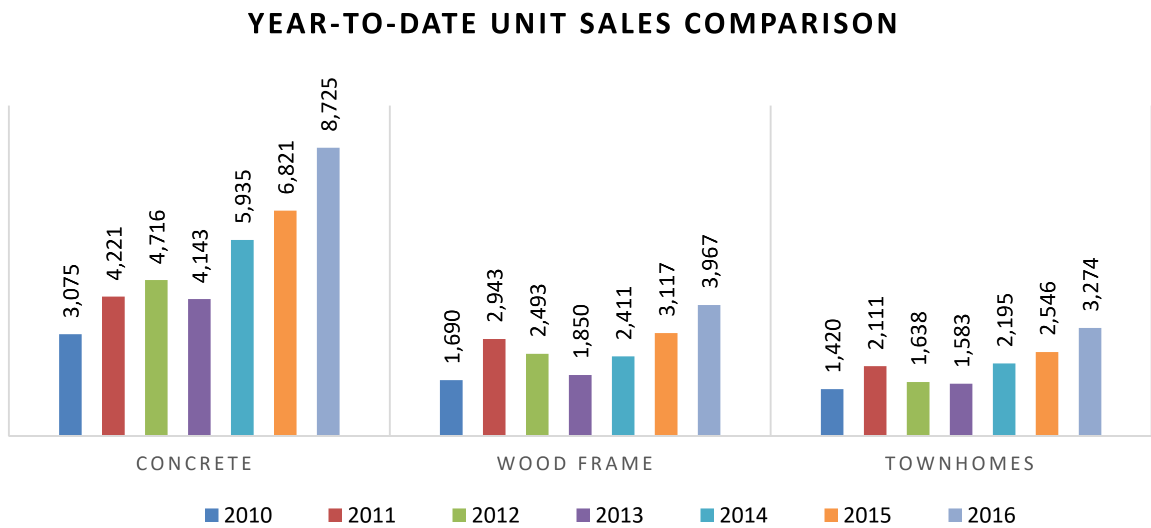

Chart 3

As has been the trend in the market in recent years, sales in the first three quarters of 2016 remained strongest in the North of Fraser sub-markets, which accounted for 76 percent of all new condominium and townhome sales in the region. It's no surprise that year-to-date sales increased more in the North of Fraser sub-markets; 34 percent versus 12 percent in 2016 relative to 2015.

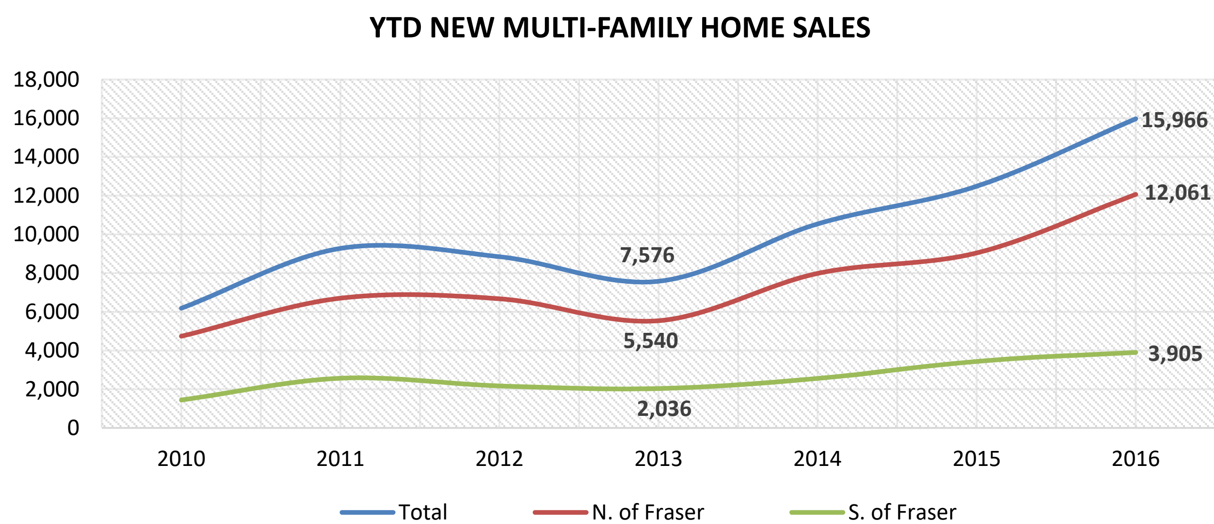

Chart 4

The lower sales volume in Q3-2016 reversed the trend of the growing spread between quarterly sales of new multi-family homes and the amount of unsold inventory at the of each quarter.

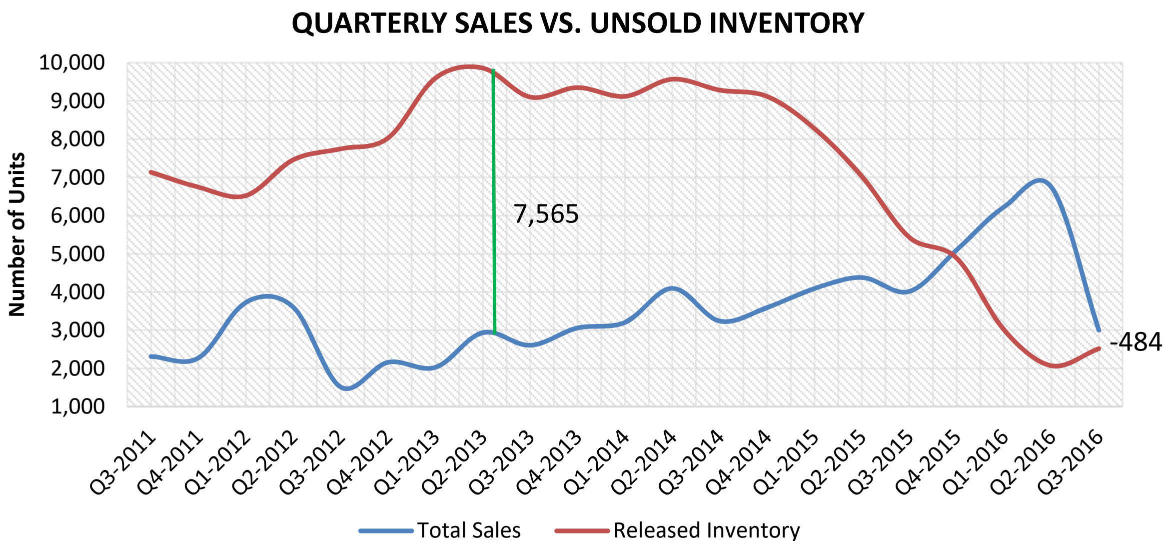

Chart 5

The number of quarterly sales exceeded the number of unsold homes at quarter's end for the first time at the end of 2015. The spread continued to increase in the first two quarters of the year, peaking at 4,668 in Q2-2016 before narrowing to just under 500 units at the end of the third quarter. In spite of the substantial drop in this spread, the fact the market has continued to absorb more units than are remaining unsold each quarter indicates demand is still exceeding the rate at which new supply is being added to the market. Based on the pace of sales during the first nine months of the year, and the number of unsold units at the end of Q3-2016 *there is just 1.4 months of supply of new multi-family homes in Metro Vancouver*.

Chart 6 provides further visual evidence of how the number of sales is exceeding the pace at which new supply is being released in every Metro Vancouver sub-market. There have been 26 percent more units sold in the first six months of this year than units released to market.

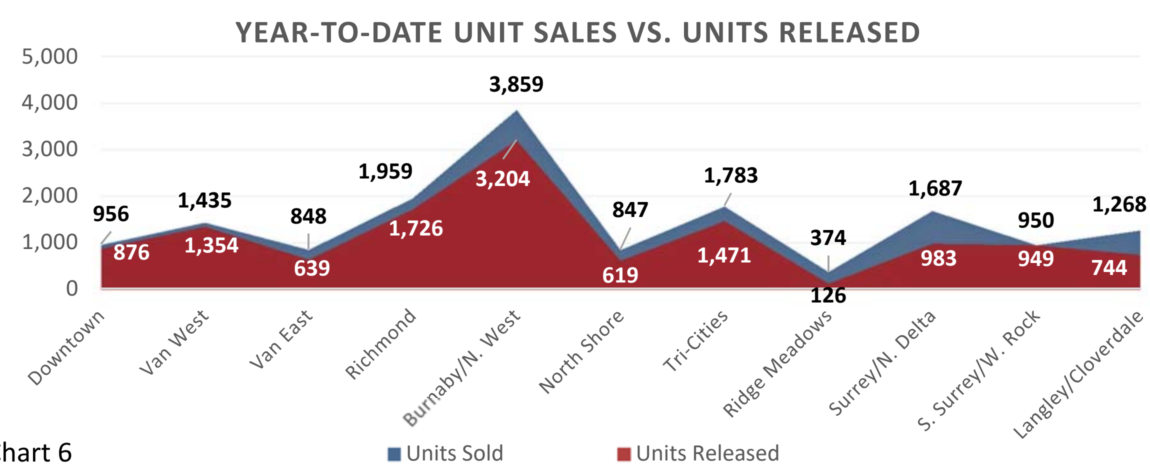

Chart 6

As in the first two quarters of the year, there was a significant year-over-year drop in the amount of unsold inventory in all three product sectors. Compared to the second quarter of this year, inventory was 17 percent higher in the concrete condominium sector, four percent higher in the wood frame condominium sector, and nearly 60 percent in the townhome sector. However, these inventory levels are well below those seen in prior years when pressure on sale prices was much more moderate.

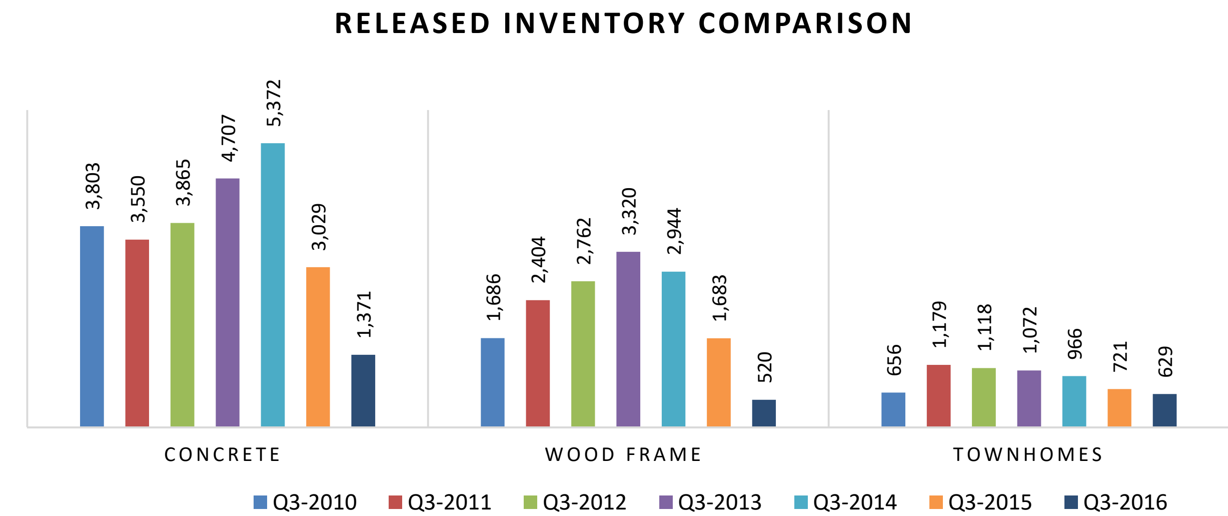

Chart 7

Not surprising given the data in the previous chart, the amount of unsold inventory increased in all but three of the sub-markets.

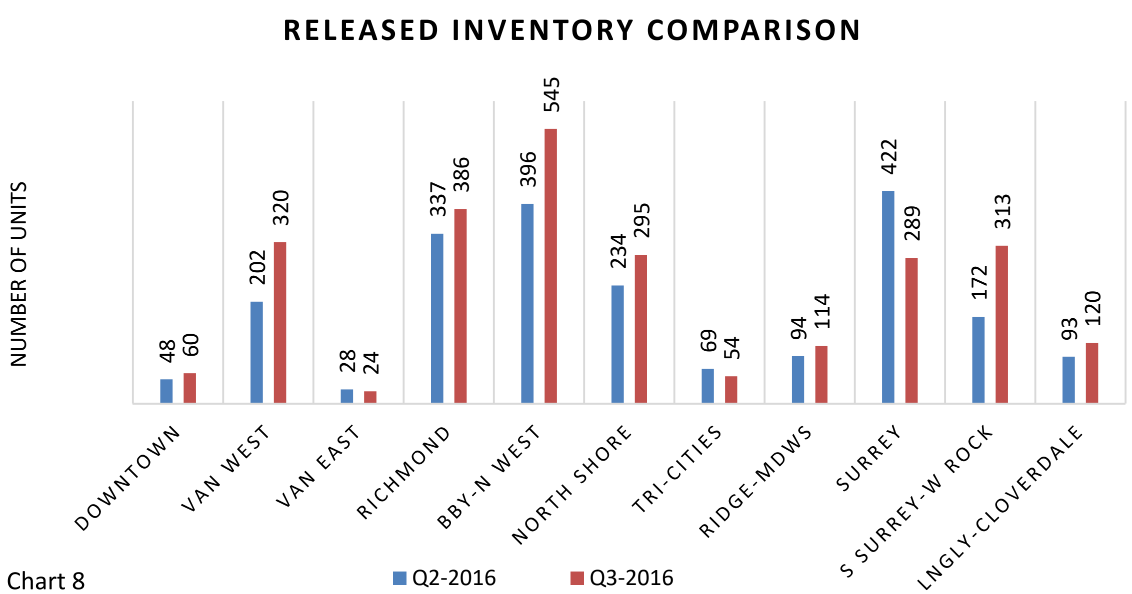

Chart 8

In spite of the increase in unsold inventory, buyers seeking to purchase and move into a completed unit continue to face an extremely limited supply of standing inventory. The 62 completed and unsold units across Metro Vancouver in Q3-2016 is nearly half the number that were available to purchase at the end of the second quarter.

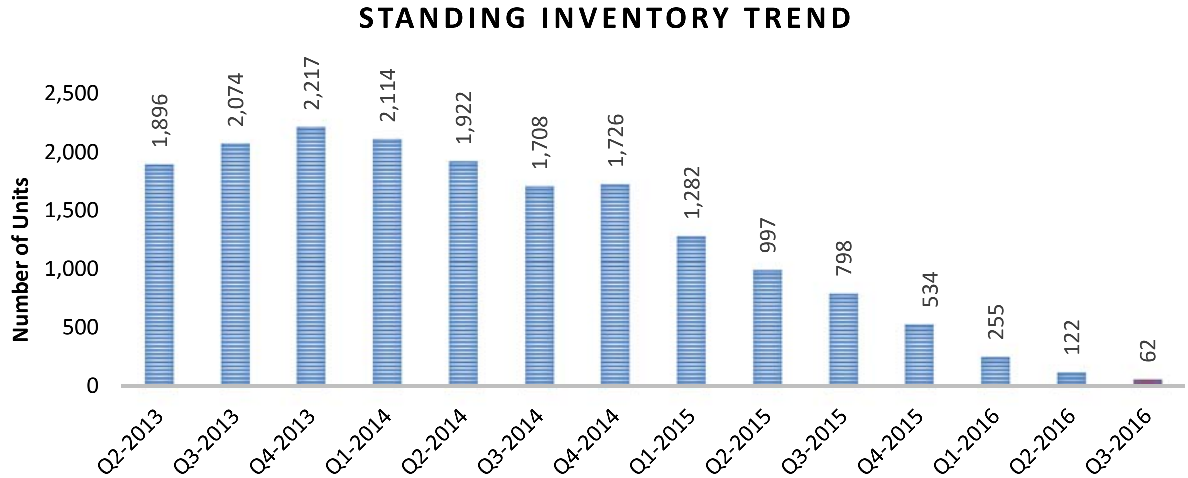

Chart 9

Chart 10 illustrates the number of completed and unsold units in the various Metro Vancouver sub-markets. Not a single sub-market had more than 15 units of standing inventory at the end of the third quarter. In spite of the increase in unsold inventory, it’s clear the majority of product currently being marketed and constructed is being absorbed ahead of its completion.

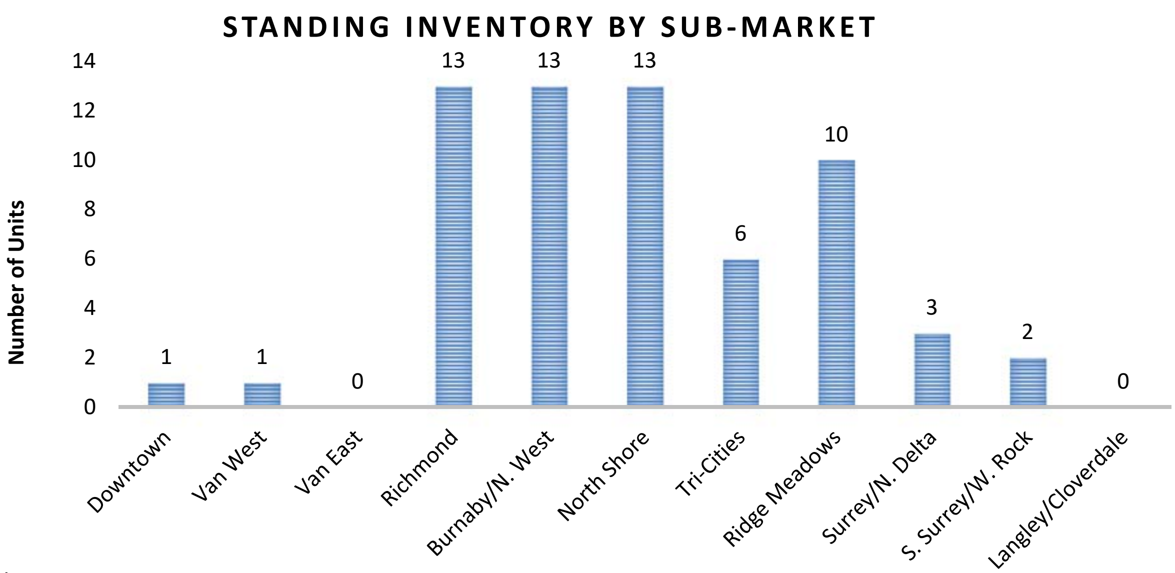

Chart 10

The amount of unsold inventory as of the end of Q3-2016 by product type and construction status is illustrated in Chart 11. Interestingly, the amount of unsold condominium inventory Under Construction was 42 percent lower, with the supply of wood frame condominiums dropping by 48 percent. Given this data, there is little risk of an increase in the amount of completed and unsold condominium product. The 322 percent increase in the number of unsold townhomes at the Under Construction stage reflects the lower buyer urgency levels in the suburban sub-markets. In spite of this increase, this sector of the market remains under-supplied.

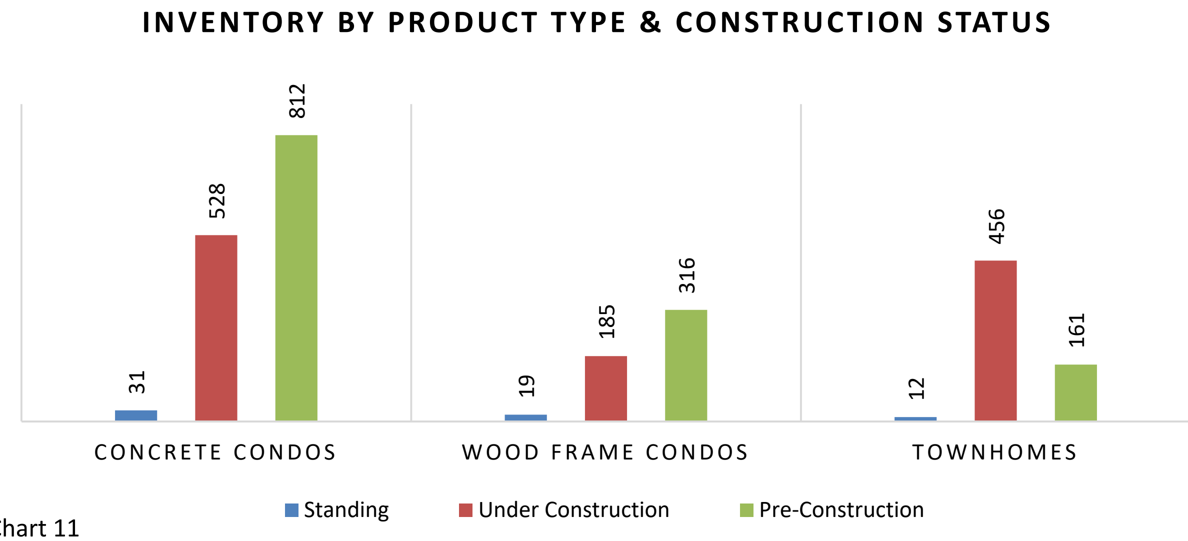

Chart 11

Price Trends

Not surprising given the moderating demand in the third quarter is the fact that new multi-family home prices were relatively flat in most sectors and sub-markets of the region. This flattening was most evident in the suburban sub-markets where a few developers who launched new projects at prices that assumed the previous trend of rising values would continue and priced their product accordingly. However, after achieving lower than expected sales, some of these developers have been forced to reduce prices.

Prices were generally flat in the inner sub-markets as well. The exceptions were the projects in prime transit oriented and highly desirable locations such as Coal Harbour in Downtown Vancouver, the Cambie Corridor in Vancouver West and select locations in Richmond and Burnaby. Developers launching projects in non-transit oriented locations or in less-established neighbourhoods should take care to position the product appropriately given recent market adjustments.

The following summarizes the approximate average sale values being sought and presumably attained for various housing forms in different sub-markets of Metro Vancouver:

- *Downtown Vancouver* – The most recent project to launch reportedly achieved an average sale value of over $1,700 per square foot. UA anticipates very few projects launching in the foreseeable future in Downtown Vancouver are likely to seek average sale values of less than $1,500 per square foot.

- *Vancouver West* – Softening in the higher end of the detached home resale market in a number of Vancouver West neighbourhoods impacted demand and moderated sale values for local downsizer-oriented luxury condominium product in those areas. Meanwhile, pricing for product along the Cambie Corridor continued to increase, though by a smaller amount than earlier in the year. Concrete condominium product launching late in Q3-2016 sought average values approaching $1,200 per square foot.
- *Richmond* – New concrete condominium product launched here in Q3-2016 sought average sale values of approximately $680 per square foot.
- *Burnaby* – Concrete condominium product launched in the Brentwood neighbourhood retreated to the mid-$700 per square foot range.
- *North Shore* – View-oriented concrete condominiums in the Lower Lonsdale neighbourhood of North Vancouver is seeking an average of nearly $1,000 per square foot.
- *Port Moody* – The only actively selling new townhome product in Port Moody and Coquitlam during Q3-2016 attained an average of approximately $570 per square foot.
- *Ridge-Meadows* – Recently launched townhome product is seeking average sale values approaching $300 per square foot.
- *Fraser Valley* – Lower buyer urgency levels resulted in a flattening of pricing in the townhome sector. Limited supply of new wood frame condominium product allowed values to increase moderately.

With a few exceptions, the implementation of the Foreign Buyer Tax in early August stalled the rapid price escalations the market had experienced in the first half of 2016. UA anticipates a further softening in demand and therefore pricing in some younger end-user oriented sectors of the market as a result of the new mortgage qualification rules announced by the Federal Finance Ministry late in Q3-2014 and implemented early in the fourth quarter.

Buyer Trends

While the Foreign Buyer Tax had an immediate impact on the higher end of the detached home resale market, particularly in the higher valued neighbourhoods, there appeared to be only limited impact on the new presale condominium sector of the market as interest in projects in the urban sub-markets targeting the Chinese buyers reported continued strong interest from that buyer group.

Projects targeting local empty nester buyers selling their current detached homes reported lower demand due to the softening in that sector of the resale market.

The entry level and move-up sectors of the market took a breather during the third quarter, in part due to the uncertainty brought on by the Foreign Buyer Tax, but also due to some market fatigue.

Looking Ahead

After comparatively few new project launches in Q3-2016, there will be a number of significant new project launches in the fourth quarter in both the inner and outer sub-markets that will provide an indication of the market's reaction to recent government meddling.

Some of the more noteworthy projects UA expects to launch over the next two quarters and will be monitoring closely include:

- *The Smithe* – Vancouver Downtown
- *Avenue One* – Vancouver West
- *Primrose* – Vancouver West
- *Edward* – Vancouver West
- *Belpark* – Vancouver West
- Cambie + King Edward – Vancouver West
- *Avalon Park at River District* – Vancouver East
- *River Park Place 3* - Richmond
- *Broadmoor Gardens* – Richmond
- *Station Square – Towers 5 & 6* – Burnaby
- *Triomphe* - Burnaby
- *City of Lougheed* – Burnaby
- *Imperial* - Burnaby
- *Promenade at the Quay* – North Vancouver
- *Bellevue* – West Vancouver
- *Marquee* - Coquitlam
- *Parker House* - Coquitlam
- *HQ* – Surrey
- *Kitchner* – South Surrey
- *Hudson* – South Surrey
- *Zetter Place* – Langley/Cloverdale
- *The Wex* – Langley/Cloverdale
- *The Belmont at Heritage* – Langley/Cloverdale

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*, the web-based platform of the *New Home Source*.

In addition to the *New Home Source* at *nhslive.ca*, UA provides a variety of advisory and consulting services tailored to meet your firm's specific needs. Please call to discuss how we can assist you in the design and or positioning of your new multi-family home community.

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