

## THE UA TAKE – FOURTH QUARTER 2017:

### ***2017 – THE FAST AND THE FURIOUS***

In reviewing year end data for 2017 in the new multi-family home market in Metro Vancouver, we continue to be astounded at the resilience and depth of the market in the face of a number of potential headwinds that would have a much greater impact on a more typical market. But as has become quite evident, the new home market in Metro Vancouver has been anything but typical. In spite of a 50 basis point increase in borrowing costs in the second half of 2017 (and expectations of further increases in 2018), the looming implementation of new borrower stress test rules, Chinese government-imposed restrictions on capital leaving that country, the election of a Green Party-influenced NDP government and anticipation/anxiousness over potential new policies designed to curb demand in the housing market, new condominium and townhome projects continue to be quickly absorbed at ever-higher sale values.

The seemingly unabated demand for new pre-selling condominium and townhome product throughout the region, combined with the resulting rapid sale price appreciation has increased the level of public fatigue, frustration and even anger, particularly among an increasing number of residents feeling like they've been priced out of their desired markets. While this angst in the market will undoubtedly lead to the introduction of government policies targeting various demand forces, UA once again asserts that addressing the pace at which new supply is approved and released to the market must be part of any discussion around the housing affordability issue in Metro Vancouver.

Whether Metro Vancouver's new multi-family home market can sustain the pace of sales and price increases experienced over the previous two years is a topic of much discussion throughout the industry. Early indications are that demand is as strong as ever for presale product in all sectors of the market as representatives of numerous projects scheduled to launch in Q1-2018 note a level of qualified interest that far exceeds the amount of product available. UA will closely monitor activity at all actively selling projects, and how government policies and potential further interest rate hikes impact this demand. In the meantime, the following provides an analysis of sales activity and inventory trends in the new condominium and townhome sectors of Metro Vancouver's housing market.

The following provides an analysis of Q4 sales activity and the inventory status as at the end of 2017.

#### *Sales and Inventory Analysis*

After experiencing a 62 percent increase in sales from 2015 to 2016, the new home market in Metro Vancouver absorbed 14 percent fewer new condominium and townhome units in 2017 than the year previous. The biggest drop occurred in North of Fraser sub-markets (-26%), whereas sales in South of Fraser sub-markets were 31 percent higher than in 2016, which reflects in part the migration of buyers seeking more affordable new home options in suburbs further from the region's urban cores.

### ANNUAL NEW MULTI-FAMILY HOME SALES

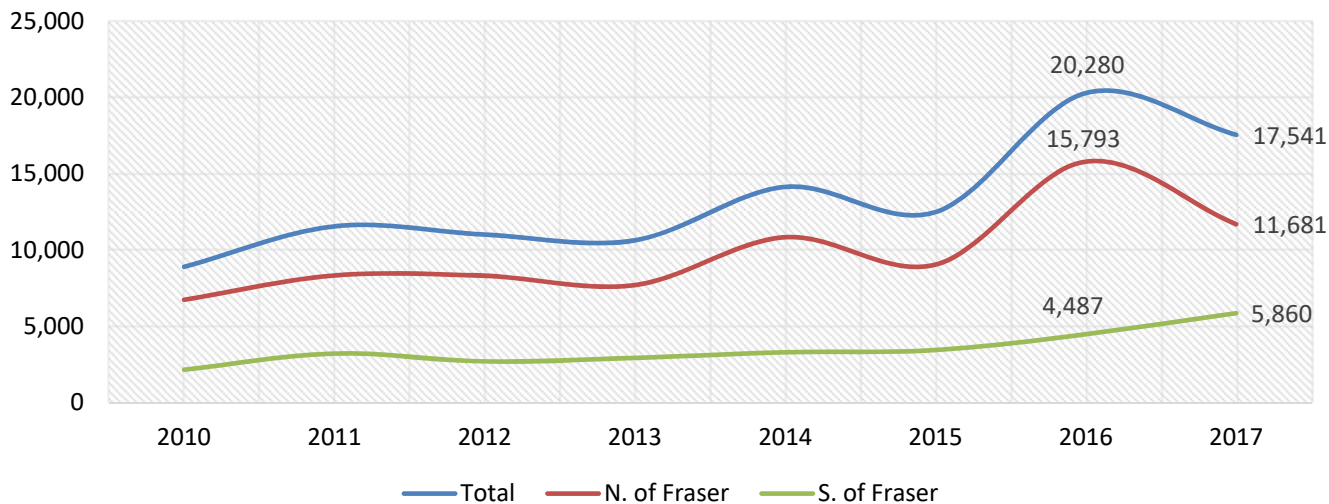


Chart 1

The fewer units sold in 2017 vs. 2016 (-2,739) is not a reflection of any less demand for new multi-family homes in Metro Vancouver. As Chart 2 illustrates, the fact there were 2,905 fewer units released for sale in 2017 compared to the previous year is the primary reason for the lower absorptions. Had more units been released, more units would have been sold.

### ANNUAL Released Product and Unit Sales

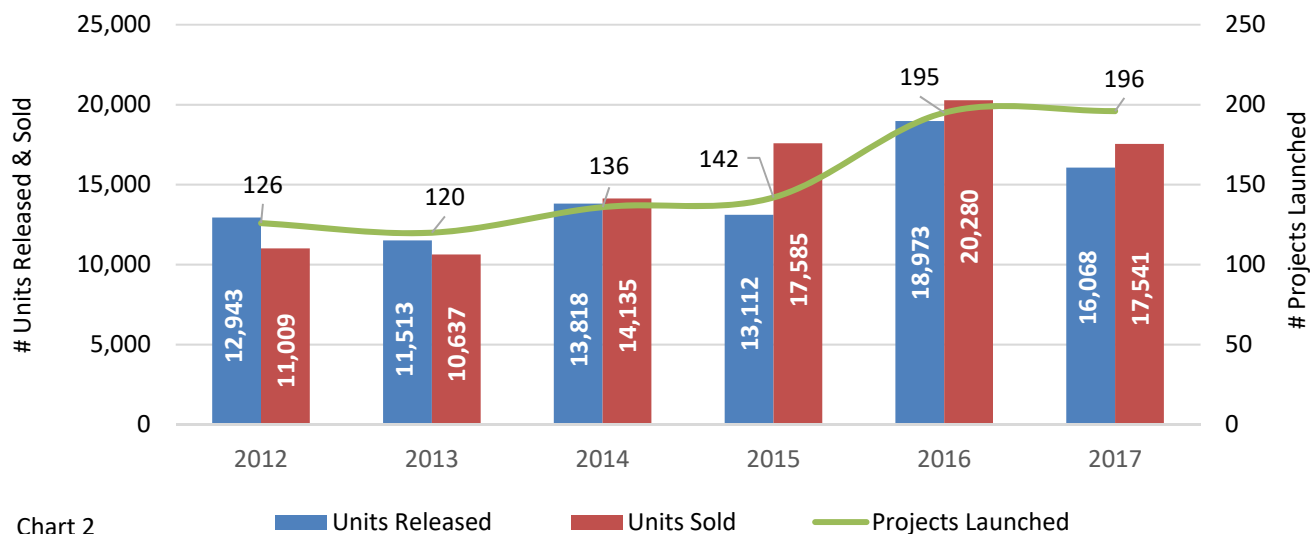


Chart 2

A drop in the number of new concrete condominium units released for sale in 2017 resulted in this sector experiencing the most significant year-over-year (YOY) drop in sales; 23 percent compared to four percent and 10 percent in the wood frame condominium and townhome sectors respectively.

## ANNUAL UNIT SALES COMPARISON

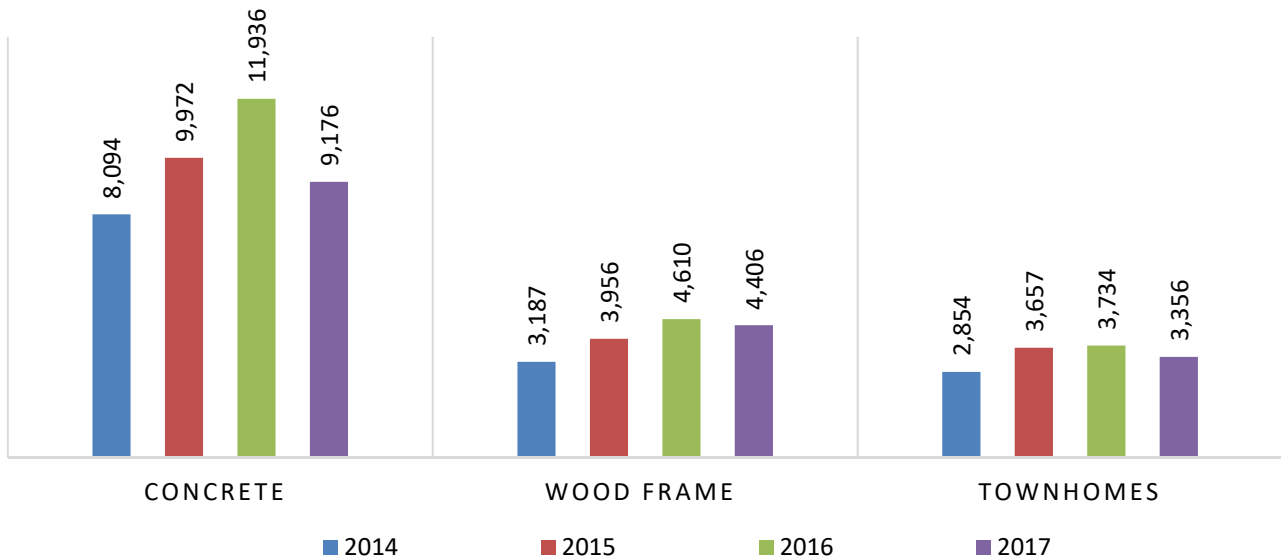


Chart 3

The same disparity in sales among concrete condominium and the other two product sectors is reflected in the comparison of quarterly sales in Chart 3. While Q4-2017 sales of concrete condominiums were 18 percent lower than in the third quarter, wood frame condominium and townhome sales increased by 49 percent and 87 percent respectively in the fourth quarter.

## QUARTERLY UNIT SALES COMPARISON

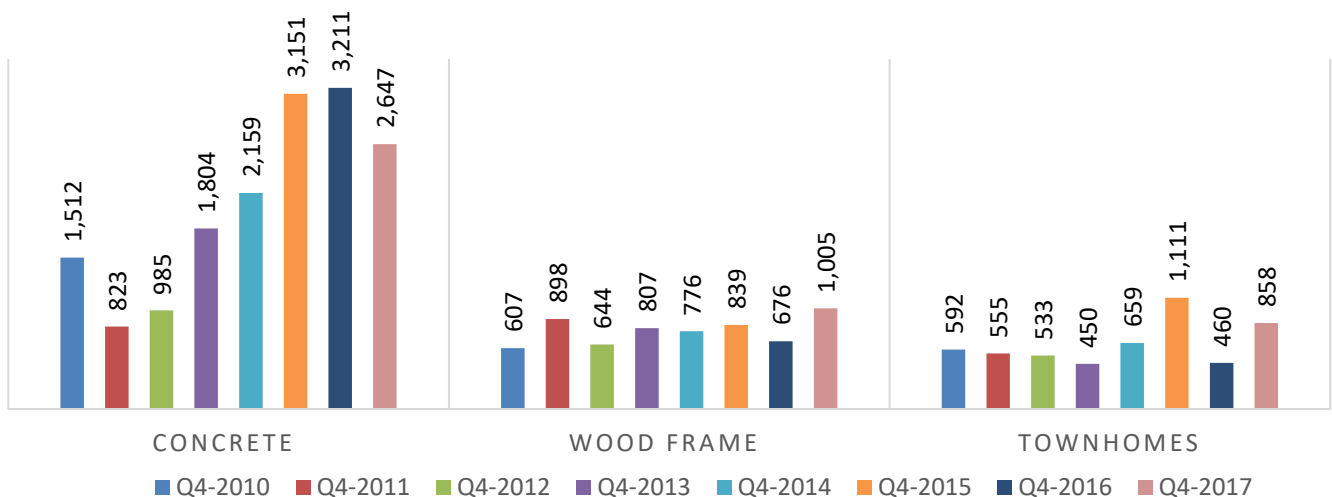
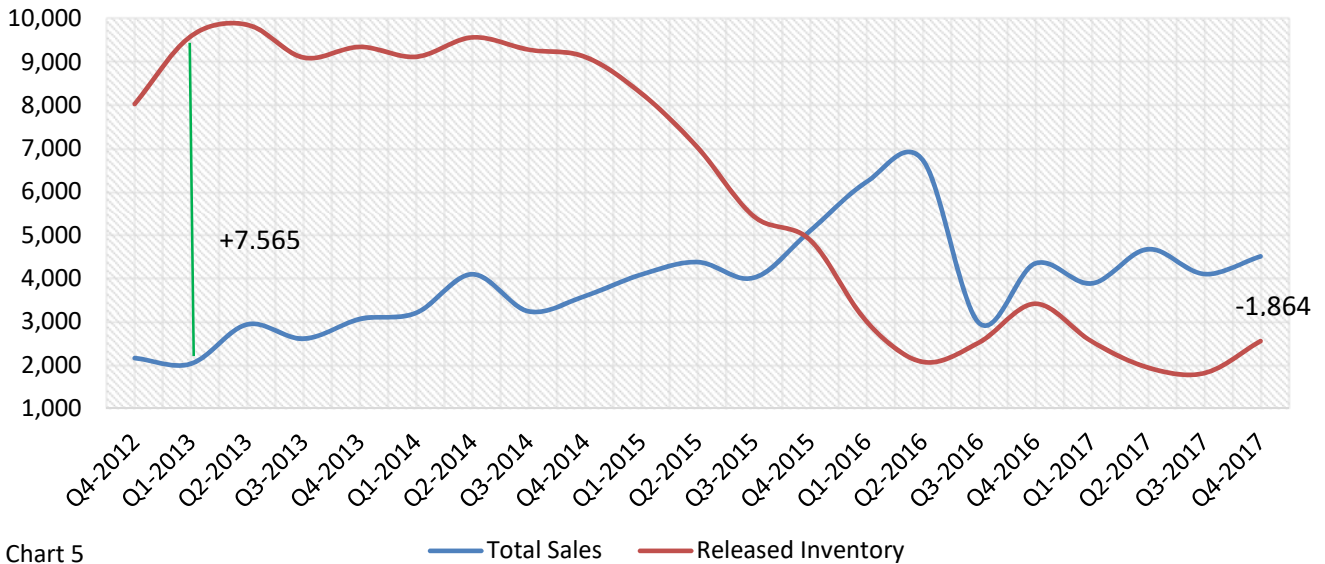


Chart 4

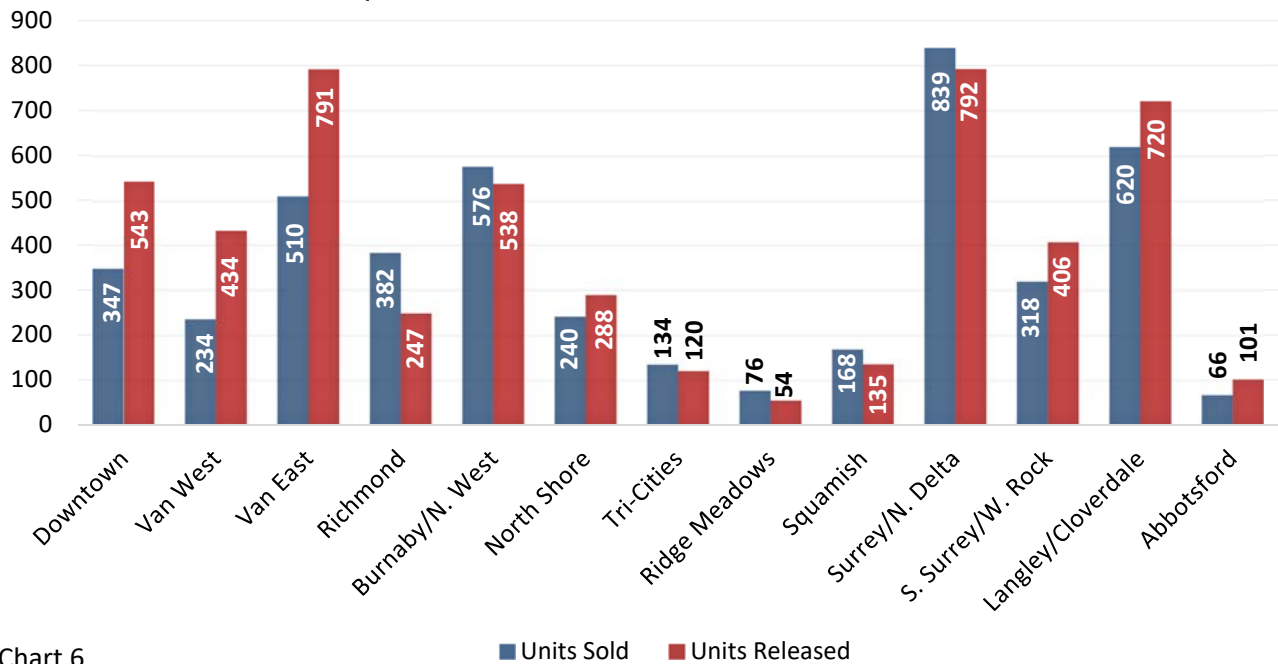
The spread in the number of new multi-family homes sold in a quarter and the number of unsold units at the end of that quarter narrowed by 19 percent in Q4-2017 compared to the previous quarter. However, based on the number of new condominium and townhome sales achieved across the market over the past 12 months, there was less than two months of supply remaining as of the end of 2017.

## QUARTERLY SALES VS. UNSOLD INVENTORY



It is somewhat encouraging to see the amount of new supply coming to market in Q4-2017 exceeding the number of units sold in several sub-markets, particularly in Vancouver and parts of the Fraser Valley. However, sales in active markets like Richmond, Burnaby and the Tri-Cities continue to exceed the amount of new supply being added to the market. Overall, there were 659 more units released in Q4-2017 than were sold.

## QUARTERLY UNIT SALES VS. UNITS RELEASED



Also encouraging is the increased supply the market experienced in the fourth quarter of 2017 as several developers moved forward with new project launches right through the holiday season. The desire to launch at what is typically a very quiet time of year was due in part to prevailing strong market conditions, and to some developers wishing to get into the market prior to the implementation of the new mortgage ‘stress test’ rules at the start of 2018. New project launches in all three sub-markets of Vancouver resulted in a 200 percent increase in the amount of unsold inventory at the end of Q4-2017 compared to the end of the previous quarter. Despite the new supply added to the market in the last quarter of the year, the total amount of unsold inventory at the end of 2017 is 23 percent lower than at the end of 2016. The townhome sector was the only one to end the year with more unsold inventory.

### RELEASED INVENTORY COMPARISON

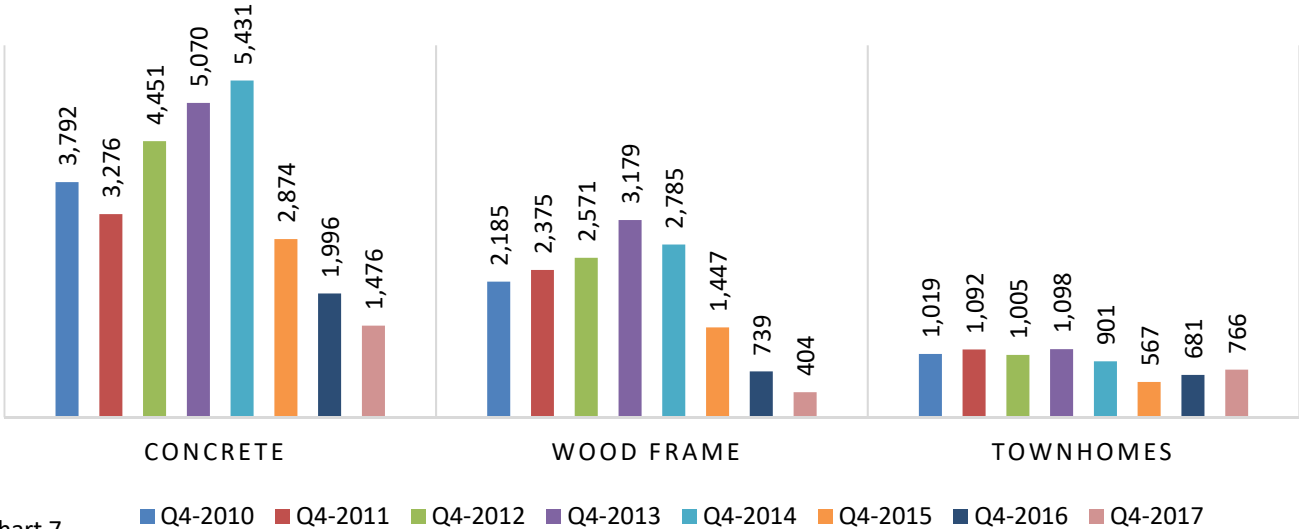


Chart 7

New townhome and wood frame condominium project launches in South Surrey/White Rock and Langley/Cloverdale nearly doubled the amount of unsold inventory in those two sub-markets. A drop in unsold inventory levels in sub-markets such as Burnaby, New Westminster and Richmond were the result of limited new supply being added to these sub-markets. This will change in Q1-2018 with the anticipated launches of several new projects, particularly in the concrete condominium sector.

## RELEASED INVENTORY COMPARISON

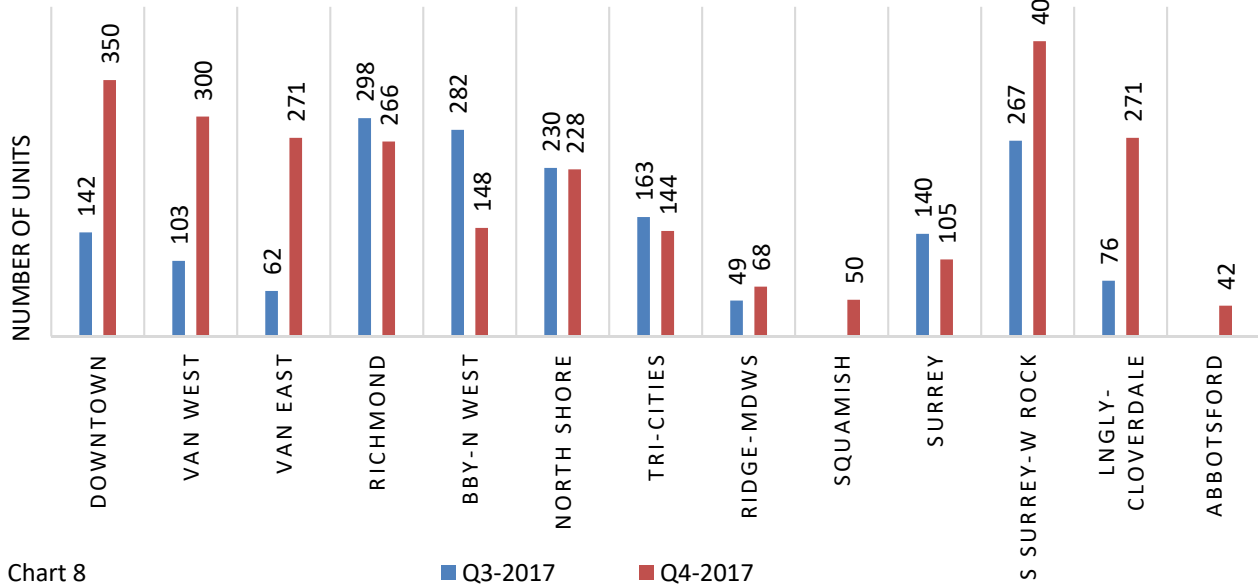


Chart 8

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

## STANDING INVENTORY TREND

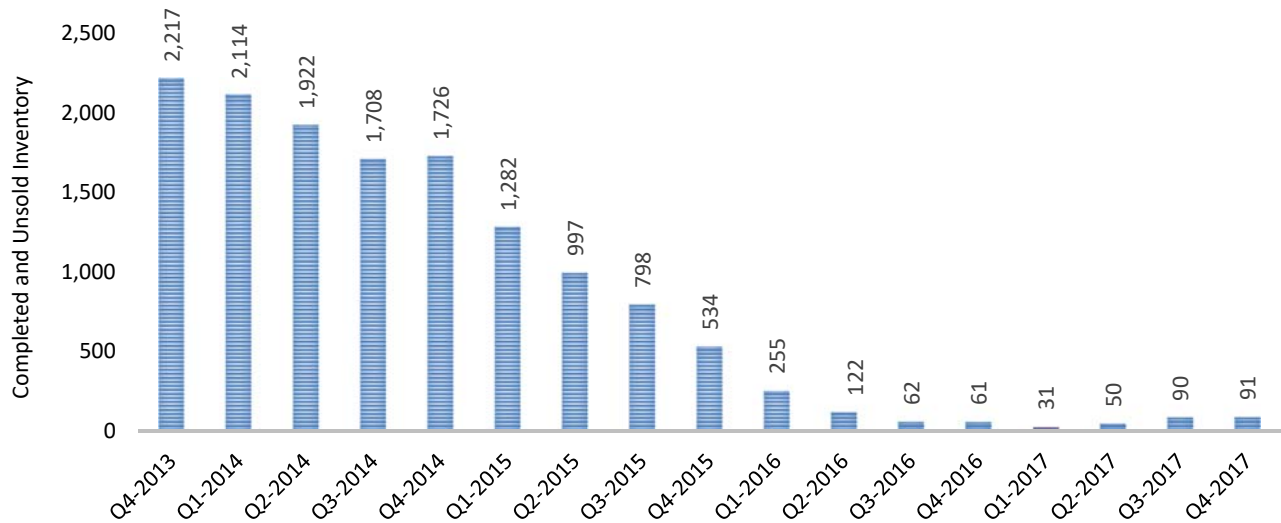


Chart 9

The most significant change in standing inventory levels occurred in Richmond, where more than half of number of move-in ready units available at the end of Q3-2017 were absorbed. More than half of Metro Vancouver's sub-markets have fewer than five completed and unsold units.

## STANDING INVENTORY BY SUB-MARKET

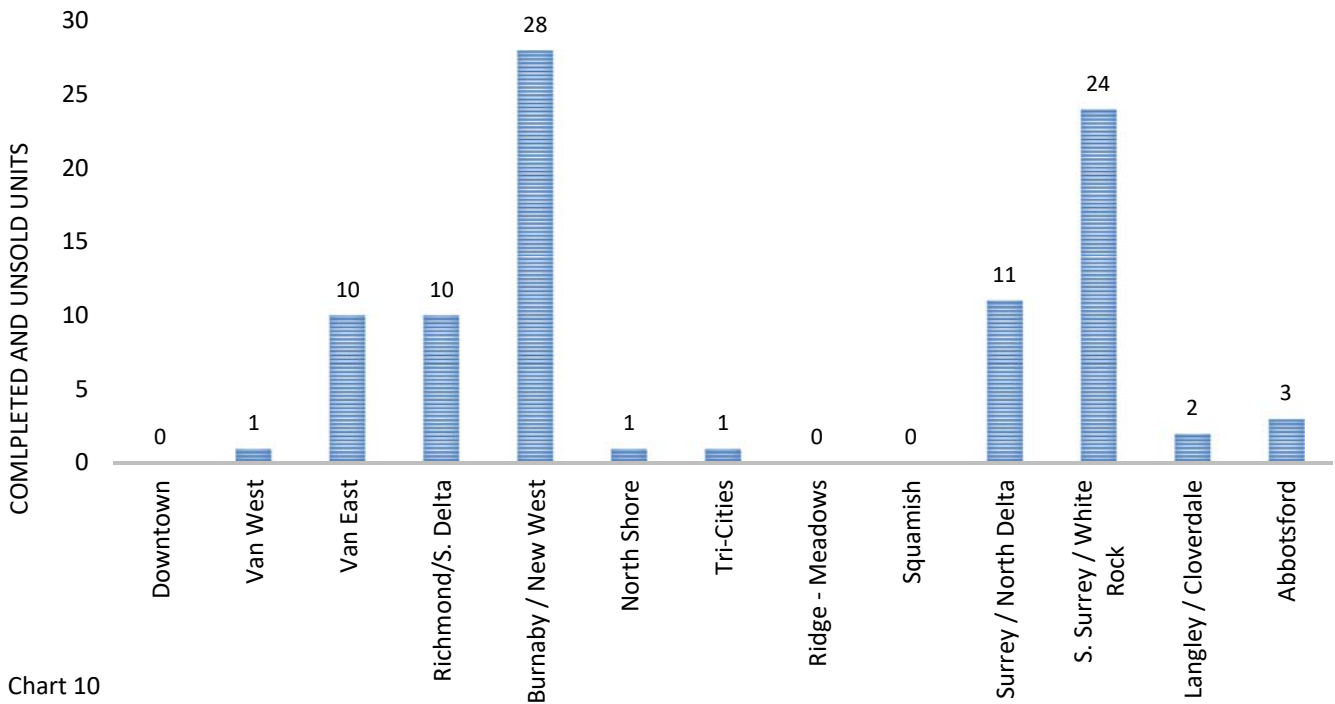


Chart 10

The previously noted launch of several new projects towards the end of 2017 resulted in an increase in the amount of unsold inventory in the 'under construction' and 'pre-construction' stages of marketing. This, combined with the limited amount of new standing inventory leaves little concern over an oversupply of new multi-family home product in Metro Vancouver.

## INVENTORY BY PRODUCT TYPE & CONSTRUCTION STATUS

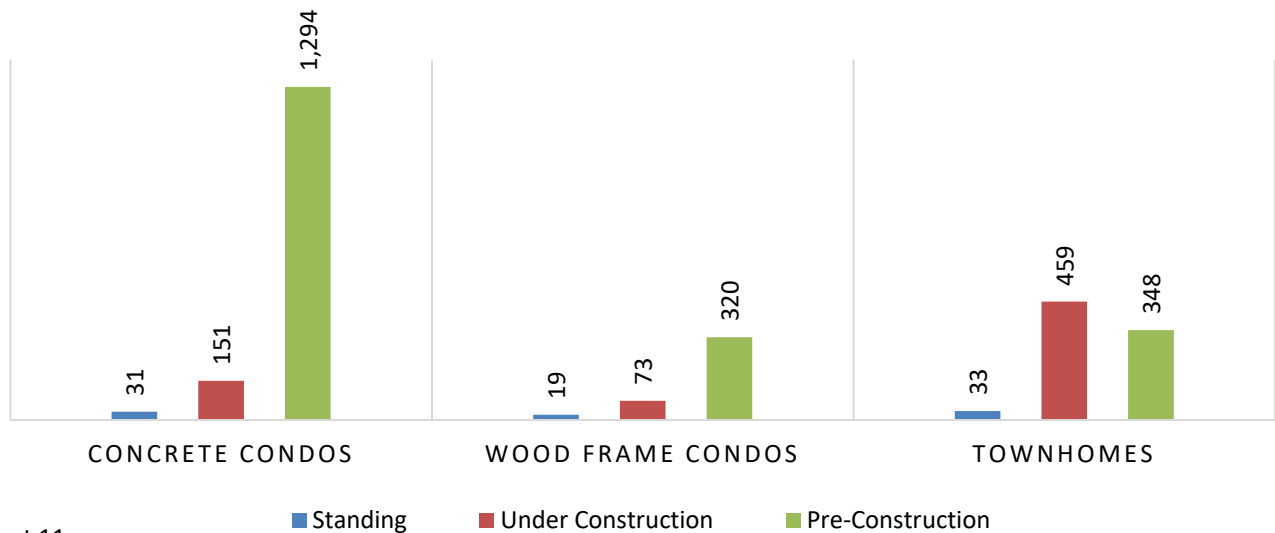


Chart 11

### Price Trends

While some sectors of the residential resale market (i.e. higher priced detached homes) in Metro Vancouver are experiencing flat market conditions, the new multi-family home sector continues to experience extraordinary demand, particularly for new condominiums. Representatives of most recently launched projects continue to report a level of buyer interest that exceeds the amount of available product. The ongoing demand/supply imbalance continues to put greater pressure on pricing, with many new projects setting new sale price thresholds for the neighbourhood in which they're located. UA will be monitoring the impact of the new mortgage 'stress test' rules, the recent interest rate hikes and any new policies introduced in the NDP's budget on the new home market very closely.

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

- *Downtown Vancouver* – New projects launched sought average sale values of \$2,000 in and near the West End and nearly \$3,000 per square foot in Coal Harbour.
- *Vancouver West* – Average values being sought for newer concrete condominium product along the Cambie Corridor is now exceeding \$1,300 per square foot
- *Vancouver East* – New concrete condominium product launched in Q4-2017 broke the \$1,000 per square foot threshold. Some new townhome product launched in the second half of 2017 encountered resistance to average sale values exceeding \$1,000 per square foot.
- *Richmond* – Recently launched concrete condominiums are now seeking sale values exceeding \$1,000 per square foot.
- *Burnaby* – New concrete condominium product anticipated to launch in Q1-2018 in both the Metrotown and Brentwood neighbourhoods is expected to break through the \$1,200 per square foot threshold.
- *North Shore* – Average sale values sought for new wood frame condominium product in North Vancouver range from \$800 to \$860 per square foot depending on location.
- *Tri-Cities* – New concrete condominium product launching in Q1-2018 is expected to achieve average sale values approaching \$900 per square foot. Recently launched wood frame condominium product in Port Coquitlam has successfully achieved an average sale value of nearly \$590 per square foot.
- *Squamish* – The most recently launched wood frame condominium product in Squamish sold out in two months at average sale values of approximately \$600 per square foot
- *Ridge-Meadows* – Wood frame condominium product in this sub-market is seeking average sale values of \$445 per square foot. Recently launched townhome product is seeking average sale values approaching \$350 per square foot.
- *Fraser Valley* – Recently launched concrete condominium product launched in White Rock are encountering some resistance to product seeking overall average sale values exceeding \$1,000



per square foot are, leading to slower absorptions. Wood frame condominium projects are seeking the following average sale values in the Fraser Valley sub-markets:

- *Surrey/North Delta* - \$505 per square foot
- *South Surrey/White Rock* - \$540 per square foot
- *Langley/Cloverdale* – Over \$500 per square foot
- New townhome product launched in Fraser Valley sub-markets in Q3-2017 is seeking the following average values:
  - *Surrey/North Delta* – \$430 to \$440 per square foot
  - *South Surrey/White Rock* – \$430 to \$470 per square foot
  - *Langley/Cloverdale* – Approaching \$430 per square foot
  - *Abbotsford* – Approximately \$380 per square foot

### *Buyer Trends*

There was little change in the type and profile of buyers who were active in Metro Vancouver's new multi-family home market in the last quarter of 2017. Presale buyers of concrete condominium product in sub-markets outside the Vancouver West and Downtown Vancouver continued to comprise a mix of primarily local investors, parents buying for their kids or assisting them with a purchase and end users. Given the rapid and substantial rise in new condominium values over the past two years, an increasing number of investors active in the presale market are presumed to be speculative in nature; they plan to assign their unit(s) prior to completion or will flip it shortly after. The overwhelming majority of these investors are believed to be financially capable of executing their purchases.

Due to the high price of new condominium product in Vancouver West and Downtown Vancouver, buyers of new condominium product in these sub-markets comprise a mix of affluent local downsizers and international purchasers seeking a luxury secondary home. The ongoing sluggish pace of sales in the resale sector of the detached home market has softened demand among some downsizer buyers targeted by larger condominium product in neighbourhoods such as the Cambie, Oak and Granville Street corridors in Vancouver West.

The entry level and move-up buyers were active in Q4-2017 as they sought to take advantage of their mortgage pre-approvals prior to the January 1<sup>st</sup> implementation of the new mortgage stress test rules. The limited amount of inventory of new townhome and wood frame condominiums in the outer suburbs maintained the level of urgency among these buyer groups, which allowed most projects launching in the fourth quarter to sell quickly. The launch of several new luxury-oriented concrete condominium projects in White Rock levelled off urgency for this product among local downsizers and targeted buyers from outside the area, which resulted in more moderate sales results.

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

Until the details of the BC government's new housing-related policies are released in mid-February, there is likely to be a level of uncertainty among prospective buyers in the marketplace. However, the limited amount of available supply in the market will sustain urgency levels among buyers in most sectors and sub-markets in Metro Vancouver. It will be interesting to monitor the response of the market to any new government policies designed to address and cool demand in the new multi-family home market. Some of the more noteworthy projects UA expects to launch over the next two quarters and will be monitoring closely include:

- *Landmark on Robson – Vancouver Downtown*
- *1121 Seymour + Davie – Vancouver Downtown*
- *Marquise – Vancouver West*
- *Fraser Commons – Vancouver East*
- *Main & Twenieth – Vancouver East*
- *Cascade City 2 – Richmond*
- *Atmosphere – Richmond*
- *Alpha at Lumina – Burnaby*
- *Concord Brentwood 3 & 4 – Burnaby*
- *Polaris – Burnaby*
- *Pier West – New Westminster*
- *The Trails – North Vancouver*
- *Park West – North Vancouver*
- *Hensley – Coquitlam*
- *Wynnwood Green – Coquitlam*
- *Regan West – Coquitlam*
- *Salisbury South – Port Coquitlam*
- *Cottonwood Lane – Ridge-Meadows*
- *Kings Landing – Surrey*
- *Canopy - Surrey*
- *Blackberry Walk 3 - Surrey*
- *Fairways – South Surrey / White Rock*
- *Greenfield Living – Langley / Cloverdale*
- *Union Park – Langley/Cloverdale*
- *Boulevard at Town Centre – Langley/Cloverdale*
- *Roundhouse – Abbotsford*



**Pier West - Bosa**

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](http://nhslive.ca).

In addition to the *New Home Source* at [nhslive.ca](http://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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