

Q2 2021

UA Take – Multi Family Homes: Metro Vancouver SECOND QUARTER SPRINT



UA



What happened in Q2-2021

In light of the delayed 2020 Summer Olympic Games finally taking place this summer in Tokyo, we felt it appropriate to use a track and field event as a metaphor to describe the state of the new multi-family home market in Metro Vancouver during the first half of 2021. After starting with a light warm-up jog in the latter months of 2020, the new home market broke into a full sprint in the first half of 2021 as demand from a wide range of buyer groups drove sales to levels not seen since the frenzied pace of 2016 and 2017.

While Q2-2021 sales did not match the extraordinary levels experienced during the first quarter, they contributed to making total new multi-family home sales exceed the previous peak of the first half of 2016 that had been considered unprecedented until this year. As has been the case for the past few quarters, demand was spread across various buyer groups. However, while the suburban sub-markets continued to experience impressive sales volume, demand spread geographically and was stronger in the urban sub-markets as developers gained sufficient confidence to launch projects in areas that had seen little new product and sales activity since 2018; Vancouver West and Downtown Vancouver. Vancouver Downtown welcomed the first successful new concrete condominium launch since 2018 (Two Burrard Place by Reliance/Pattison). Despite the success of Two Burrard Place, there is still some question as to the depth of the Downtown sub-market, particularly given the ongoing limited travel and immigration due to COVID.

The condominium sector was the primary driver of sales during the second quarter. Concrete condominium sales volume nearly matched the first quarter while Q2 wood frame condominium sales were 40 percent higher than the first quarter as the launch of several new projects, particularly in suburban sub-markets south of the Fraser River met the pent-up demand for this more affordable product. Fewer new townhome project launches combined with higher prices led to lower sales in this sector during the quarter.

Despite the ongoing concerns and rising COVID infection rates, there is a sense that more businesses will require employees to work from the office more frequently, if not full time, as we move into the fall months. This, combined with the planned return to in-person learning at post-secondary schools has made transit-oriented locations more appealing for end-users and investors. As such, projects offering convenient access to existing and future rapid transit lines experienced strong demand.

After the extraordinary sales volume experienced during the first quarter of the year caused a substantial drop in inventory levels, the launch of several comprehensive new condominium projects throughout the region helped ease concerns of supply-induced price inflation that arose after the first quarter. With more projects lining up to launch during the second half of the year, the amount of choice and selection offered to prospective buyers should keep any frenzied buying to minimum and therefore prevent any quick and significant price inflation. The recent and somewhat dramatic slump in lumber prices from peak pricing in May should also ease concerns about rapidly rising construction costs, though the industry will still need to remain cognizant of potential price spikes in other materials and/or labour.

End users continued to be the primary drivers of demand in the suburban sub-markets during the second quarter, though there was an increase in the proportion of investors purchasing along the future Skytrain extension to Langley. Investors remained the primary buyer of concrete condominium product in the urban sub-markets. However, whether end-user or investor, project representatives stress the overwhelming majority of buyers are local with a very small number being off-shore. As such, any discussion about the influence of foreign buyers in the new residential market is unfounded.

What's next?

At the time of writing this, positive COVID infections are on the rise (though hospitalizations remain at manageable levels), thousands of hectares of BC's forests are on fire and a completely unnecessary and vanity-driven federal election has been called. Despite all this, UA analysts continue to monitor a very active new multi-family home market in Metro Vancouver with projects launching since the end of the second quarter reporting strong absorptions. As we look ahead to the rest of 2021 there is no less certainty with what form of 'normal' we'll be able to experience. However, it seems as though we'll continue to experience steady demand for new condominiums and townhomes across the market as prospective buyers seek to take advantage of the historic low borrowing costs. Based on the number of new multi-family projects UA is tracking that are expected to launch in the coming months, these prospective buyers will have more selection and choice than they did in the first half of the year. This will lead to a slight drop in urgency levels and less pressure on pricing. Developers that try to push pricing too aggressively will likely find more resistance than was faced earlier in the year. Finally, with international travel remaining limited through the end of 2021, demand will continue to be largely driven by local end-user and investor purchasers. And while there are sure to be some unexpected surprises, we're hopeful the overwhelming majority will be of the pleasant variety.

SALES AND INVENTORY ANALYSIS

The following is an analysis of quarterly sales activity along with a review of inventory and price trends in Metro Vancouver's new multi-family home market during the second quarter of 2021.

QUARTERLY NEW MULTI-FAMILY HOME SALES

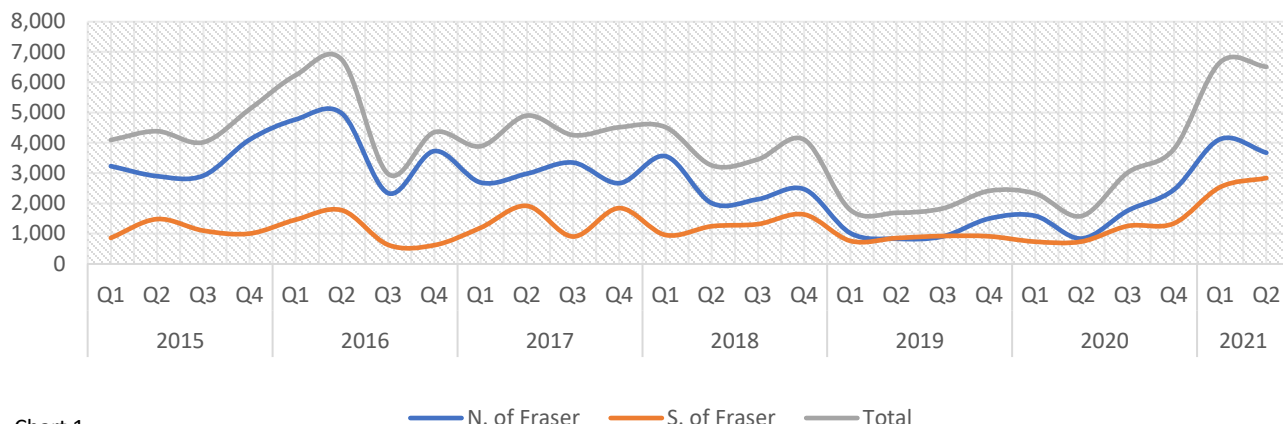


Chart 1

- A total of 6,504 units were sold across Metro Vancouver in the second quarter of 2021; a two percent decrease from the previous quarter and only three percent less than the peak sales in Q2-2016.
- There were 13,155 sales recorded in the first half of 2021, 193 more sales than the 12,962 sales recorded in first half of 2016 and 441 percent higher than the total sales in the first half of 2020.
- Fewer comprehensive concrete project launches in the North of Fraser sub-markets during the second quarter contributed to an 11 percent decrease in sales in Q2-2021 compared to the previous quarter.
- Strong buyer demand combined with abundant new product released to the market led to a 12 percent increase in sales in the South of Fraser sub-markets over the previous quarter.
- The ratio of sales between the North and South of Fraser sub-markets decreased to 1.29 in Q2-2021 for the second consecutive quarter from 1.62 in the previous quarter. This reflects the sustained strength of demand for new multi-family product in suburban sub-markets.

Q2 YEAR-OVER-YEAR NEW MULTI-FAMILY HOME SALES

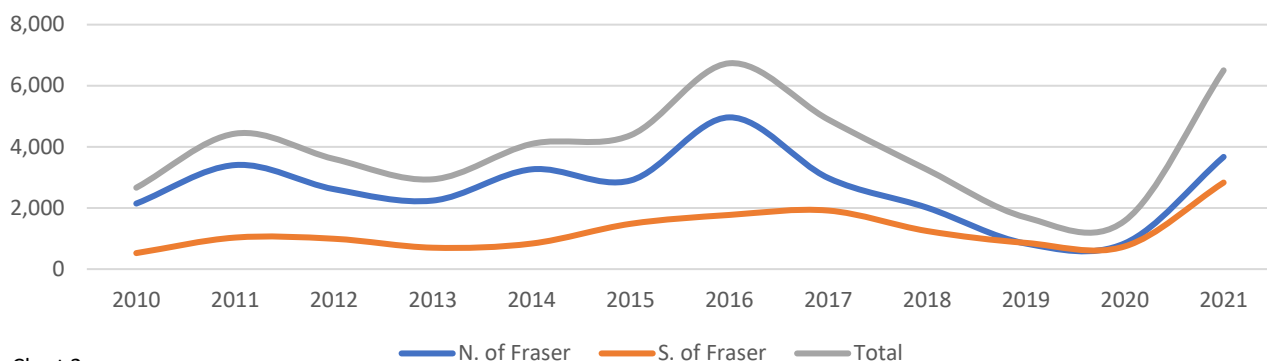
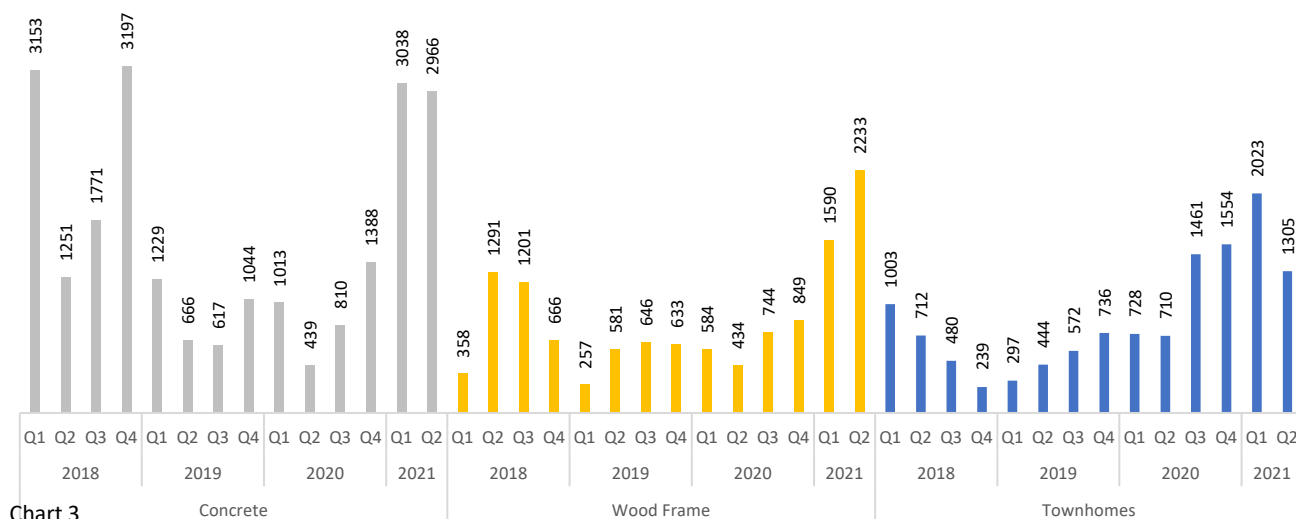


Chart 2

- The 311 percent (+4,921 units) year over year increase in quarterly sales in Q2-2021 can be largely attributed to the limited Q2 sales in Q2-2020 resulting from the initial COVID protocols that were in place.
- The seemingly unrelenting buyer demand in the Fraser Valley sub-markets continued as first half of 2021 sales in the South of Fraser areas exceeded the previous first half sales peak in 2016 by 66 percent.

QUARTERLY UNIT SALES COMPARISON



- Wood frame condominium sales increased for the fourth consecutive quarter and were 40 percent higher than during the previous quarter.
- The 2,233 wood frame condominium sales in the second quarter of accounts for 86 percent of total wood frame condominium units sold in 2020
- This is the highest quarterly total in the past decade; 18 percent higher than the peak sales quarter of Q2-2016 (1,894 sales).
- Q2-2021 sales of concrete condominiums and townhomes decreased by two percent and 35 percent, respectively, compared to the previous quarter.
- The concrete condominium sales accounted for 46 percent of total new multi-family home sales in Q2-2021 in recording just 72 fewer sales than the previous quarter.
- Year-over-year, quarterly sales of concrete condominiums, wood-frame condominiums and townhomes increased by 576 percent, 415 percent, and 84 percent, respectively.
- Townhome sales dropped by 718 units during the second quarter of 2021 compared to the previous quarter as developers struggled to get new projects approved and launched to meet the demand.
- Rising prices for new townhomes also likely forced some prospective buyers to more affordable new wood frame condominiums or older townhome product.
- Despite fewer Q2-2021 townhome sales, total sales during the first half of 2021 exceeded the total townhome sales recorded in the second half of 2020 by 10 percent, when demand for this product type was surging.

QUARTERLY SALES VS UNSOLD INVENTORY TREND

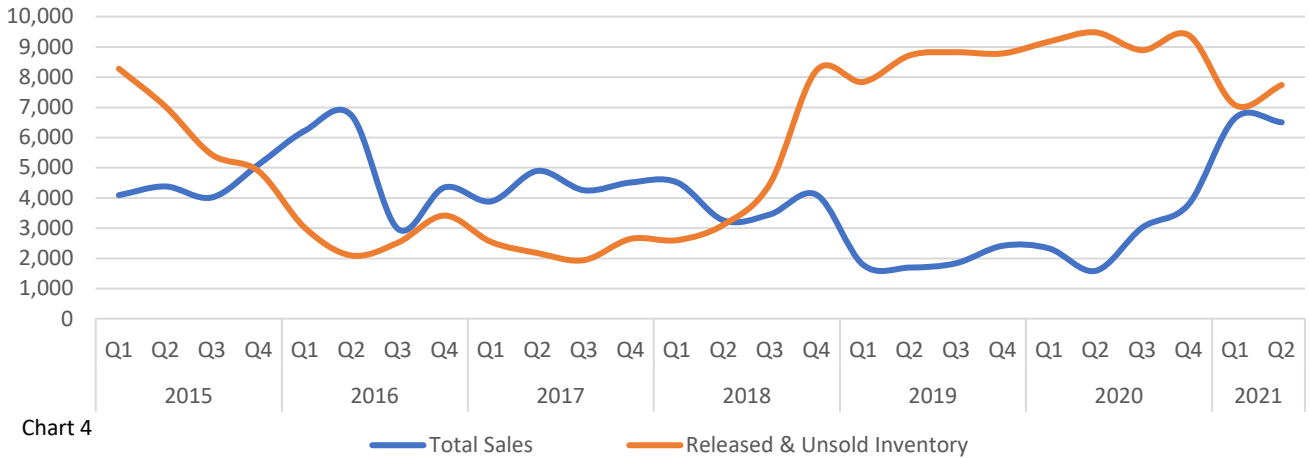


Chart 4

- As demand for new multi-family homes persisted in the second quarter of 2021, the release of new condominium inventory outpaced demand, resulting in a wider gap between quarterly sales and the number of unsold units at the end of the quarter.
- There were 1,234 more unsold units at the end of the second quarter than the total number of unit sales during the quarter, thereby increasing the spread by 358 units.
- This widening spread follows a similar pattern to the second and third quarters of 2018, where substantial new supply was added to the market resulting the amount of unsold inventory exceeding the number of new units sold at the end of the quarter.
- The number of projects available for purchase at the end of Q2-2021 is still 173 percent higher than the inventory level in Q3-2018, when unsold inventory started to increase again.
- Current higher inventory levels should help maintain buyer urgency at levels that would otherwise lead to sharp and significant price increases.
- More moderate buyer urgency will also cause demand to stabilize and allow for the lag in the release of new inventory caused by slow municipal approvals to sustain sufficient supply levels.

QUARTERLY RELEASED & UNSOLD INVENTORY COMPARISON

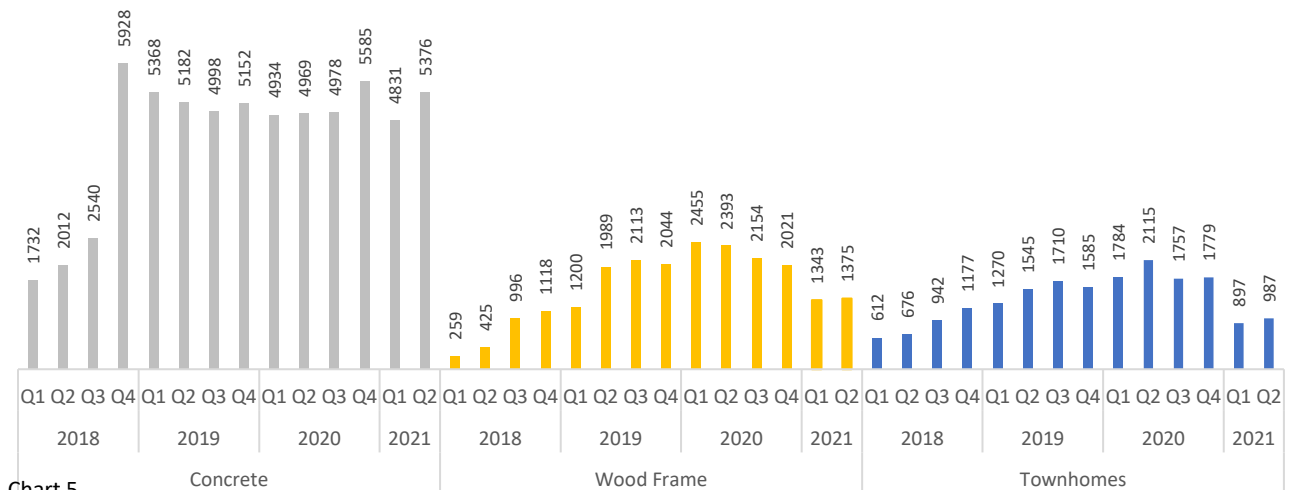


Chart 5

- There were 7,738 unsold new multi-family home units at the end of Q2-2021; a nine percent increase from the previous quarter but 18 percent lower year over year.
- The number of unsold concrete condominium units increased by 11 percent as the demand for this product type remained consistent from the previous quarter and five more new concrete condominium projects launched compared to the first quarter of 2021.
- Given the strong demand for wood frame condominiums, the released and unsold inventory of this product type increased by just two percent compared to the previous quarter.
- Remarkably, 75 percent of the nearly 2,100 wood frame condominium news released at second quarter new project launches were absorbed.
- Despite the 35 percent drop in the new townhome sales, there were only 90 more released and unsold townhome units across Metro Vancouver at the end of Q2-2021 compared to the end of the previous quarter.

RELEASED & UNSOLD INVENTORY COMPARISON

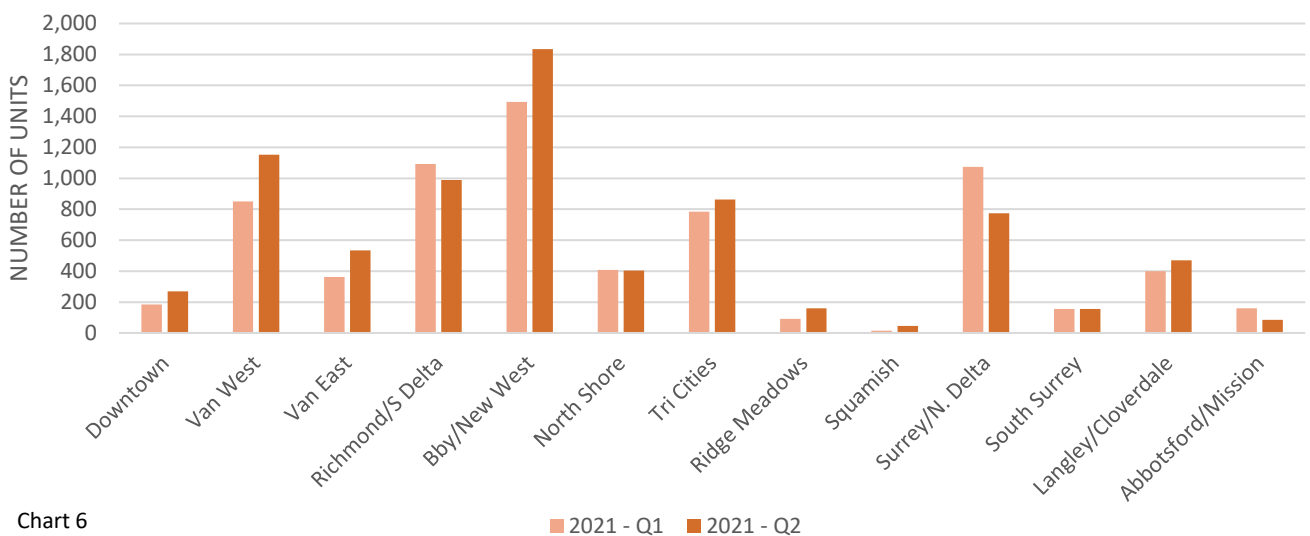
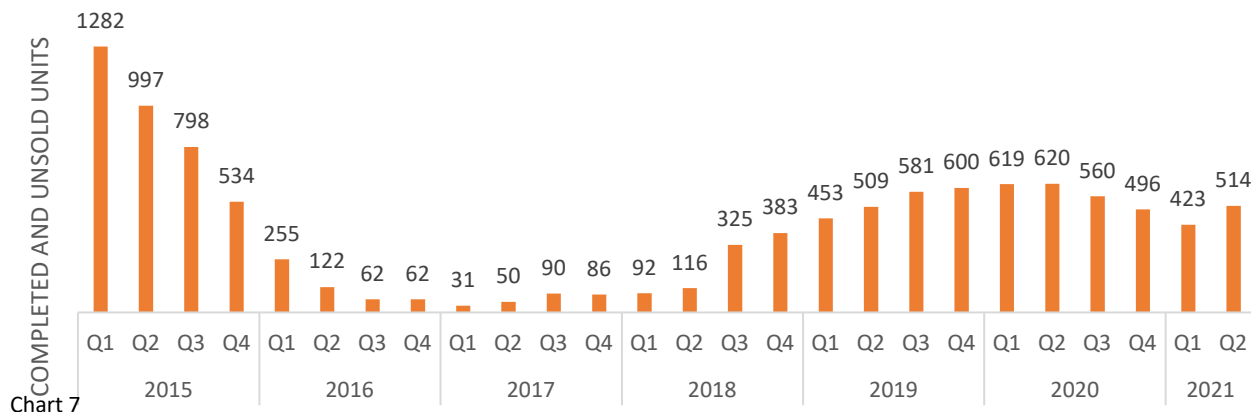


Chart 6

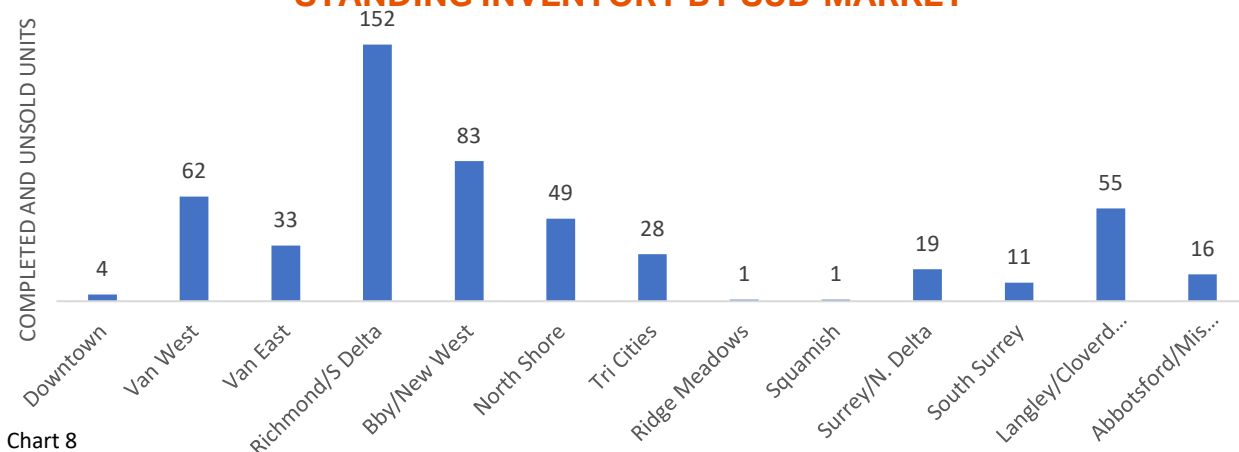
- There were 6,423 units released from 63 new project launches during Q2-2021; a 67 percent increase from the previous quarter.
- Despite the impressive increase in new product released, the total number of released and unsold units increased by just 667 compared to the previous quarter, which reflects the continued strong demand for new multi-family homes across Metro Vancouver.
- Unlike the previous quarter, where majority of the sub-markets recorded a decrease in the number of released and unsold units, eight of the 13 sub-markets recorded higher inventory levels at the end of Q2-2021.
- Vancouver West and Burnaby/New Westminster recorded the largest increase in inventory; +302 and +341 units, respectively.
- Surrey/North Delta and Richmond/South Delta sub-markets recorded the largest decrease in inventory; -300 and -103 units, respectively.

STANDING INVENTORY TREND



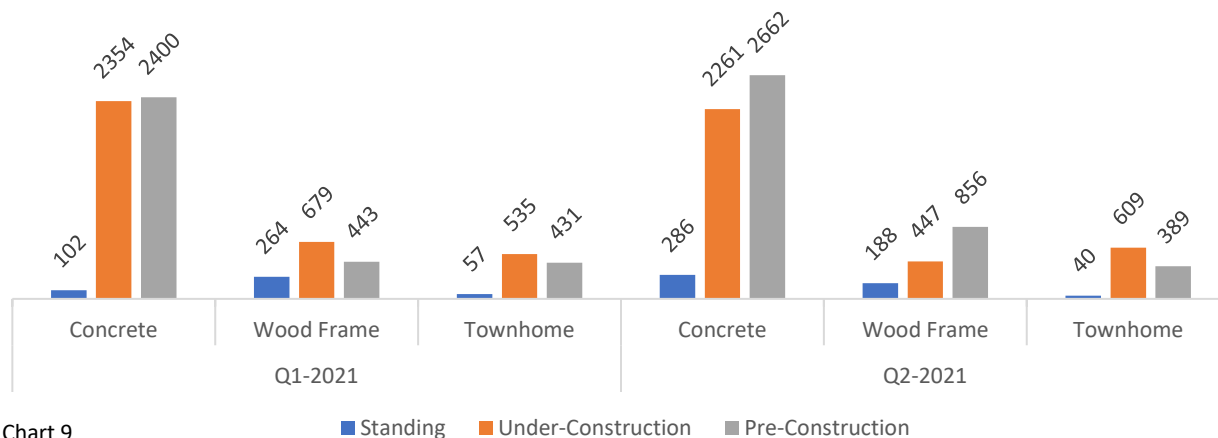
- After three consecutive quarters lower completed and unsold new multi-family home units across Metro Vancouver, the number of unsold move-in ready units rose by 22 percent during Q2-2021 compared to the previous quarter.
- The increase standing inventory is primarily attributable to the completion during the second quarter of a single concrete condominium project with a reported 105 unsold units.
- Despite the increase, overall standing inventory levels remain 17 percent lower than at the end of the same quarter in 2020 and well below levels experienced in 2015.
- The concrete condominium sector accounted for all of the increase as standing inventory levels in that sector rose by 184 units while the wood frame condominium and townhome sectors recorded 76 and 17 fewer completed and unsold units, respectively.
- An 87 percent year-over-year drop in the number of unsold move-in ready townhome units illustrates how supply of this product form is not coming close to meeting the strong demand, particularly in the suburban sub-markets.
- In contrast, the number of completed and unsold concrete condominium and the wood frame condominium units are 82 percent and 19 percent higher year-over-year, respectively.
- The 514 completed and unsold units at the end of Q2-2021 represents just 6.6 percent of all unsold new multi-family units across Metro Vancouver.

STANDING INVENTORY BY SUB-MARKET



- The Richmond/South Delta sub-market recorded the largest increase in the number of completed and unsold units due to the recent completion of a concrete condominium project there with 105 unsold units, which accounts for nearly 70 percent of the total number of move-in ready units in this sub-market.
- The Burnaby/New Westminster sub-market recorded the largest decrease of all sub-markets (-42 units), unlike the previous quarter where it recorded the largest increase in the number of standing inventory units.
- There less than five unsold move-in-ready units in Vancouver Downtown, Ridge Meadows, and the Squamish sub-markets.

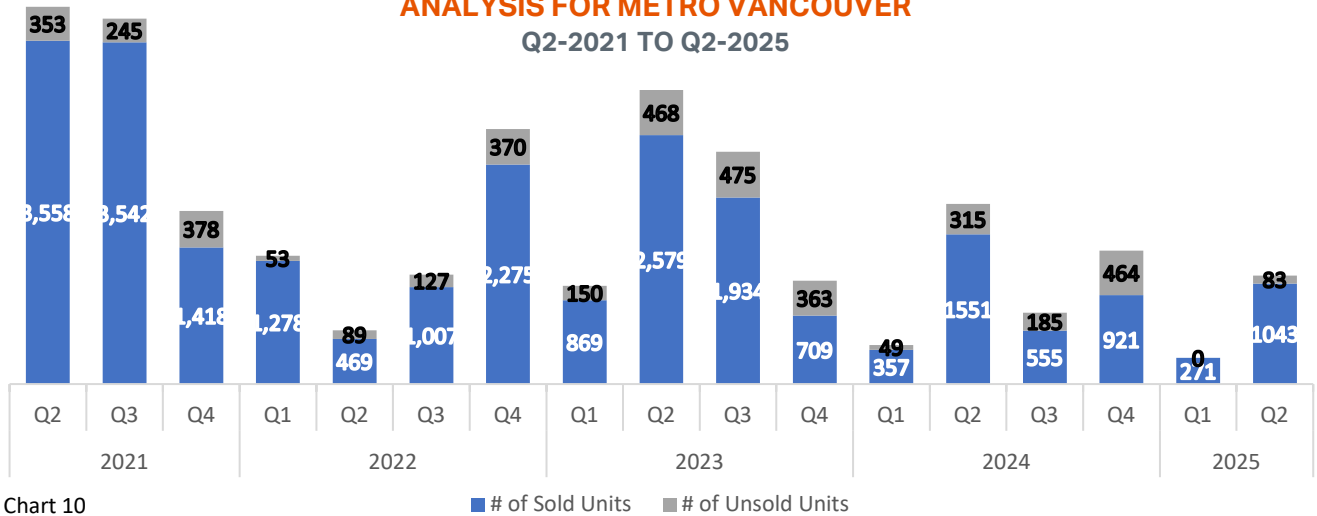
INVENTORY BY PRODUCT TYPE & CONSTRUCTION STATUS COMPARISON



- 43 percent of the total 7,738 unsold new multi-family homes across Metro Vancouver are under construction; a decrease of six percent in the proportion of unsold units under construction compared to the previous quarter.
- There were 16 new concrete condominium project launches comprising a total of 3,090 newly released units during Q2-2021.
- 55 percent of these new units were absorbed, resulting in an 11 percent increase in the proportion of units in pre-construction compared to the previous quarter.
- The new project launches in the wood frame sector for Q2-2021 tripled compared to the previous quarter, and 75 percent of the recently launched units were absorbed during the quarter, which resulted in a 93 percent increase in the number of wood frame condominium units in pre-construction compared to the previous quarter.
- The number of townhomes under construction has increased by 14 percent as the demand for this product type weakened after reaching its peak during the previous quarter.

CONCRETE CONDOMINIUMS COMPLETION & UNSOLD INVENTORY ANALYSIS FOR METRO VANCOUVER

Q2-2021 TO Q2-2025



- 85.4 percent of the concrete condominium units scheduled to complete by the end of Q2-2025 have been sold.
- Just 10 percent of all concrete condominium units scheduled to complete by the end of 2021 remain unsold.
- UA anticipates much of this unsold inventory will be sold prior to or shortly after completion given the expectation that the current strong local demand observed continues and as population grows with increased immigration as borders start to open through 2021 and beyond.

Price Trends

The new multi-family home market in Metro Vancouver continued to experience upward pressure on pricing during the second quarter of 2021. With buyer demand remaining at near unprecedented levels, developers took the opportunity to launch new product at prices that ranged from nine to 12 percent higher than previously released comparable product. Demand is just one factor driving the higher prices as developers are also reacting to higher materials and construction costs, particularly for lumber and labour. Not surprising, sales representatives in some areas indicated the higher prices had eased demand somewhat, particularly for product that experienced the highest list price increases. Nevertheless, the historic low borrowing costs continue to make much of the price increases easier for buyers to absorb.

As many employers continue to offer the flexibility of a hybrid work model or permanent remote positions whereby employees are not required to commute and will seek larger living spaces further from the urban core employment centres. However, with some workplaces indicating a desire to have employees return to the office on a full-time or 'most-of-the-time' basis, some buyers may be reluctant to move too far from the employment centres to limit the length and duration of commutes. It will also make transit oriented locations all the more appealing for prospective buyers as evidenced by the steady price increases recorded along the new Skytrain extension in the Surrey and Langley.

Given that 70 percent of the substantial amount of new supply released to the market during the second quarter of 2021 was absorbed, the upward pressure on prices is not surprising. UA anticipates a flattening in demand and absorptions during the second half of the year as prospective buyers adjust to the higher prices and greater choice resulting from an expected further increase in new supply.

There continues to be speculation of even more pressure on new home prices as demand from new immigrants is added to current domestic demand once borders open fully post-COVID. However, this is unlikely to occur in the short term given prevailing concerns of a fourth wave in Canada and around the world due to the more aggressive spread of the Delta variant. It is also somewhat questionable as to whether the government will be able to meet the higher immigration targets set out for the coming years.

Chart 11 and the table following illustrate the average sale values being sought at recently launched projects in each Metro Vancouver sub-market by product type. The noted values are exclusive of buyer and realtor incentives.

PRICE TREND BY SUBMARKET

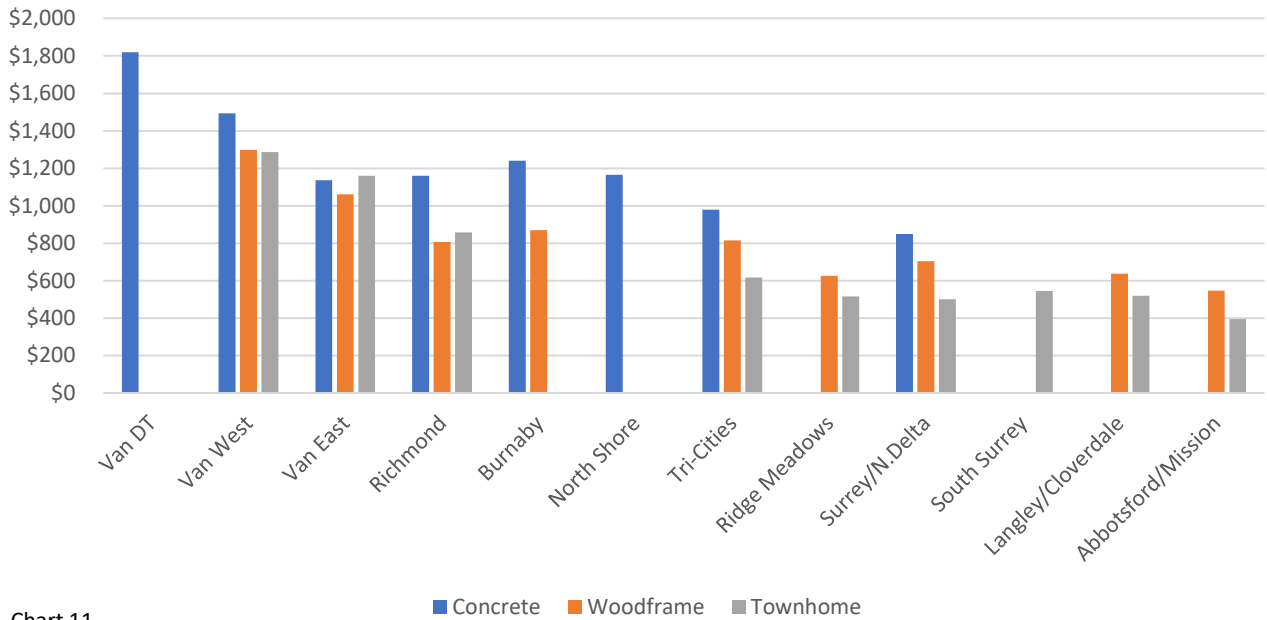


Chart 11

	Concrete	Wood Frame	Townhome
Vancouver DT	\$1,820	N/A	N/A
Vancouver West	\$1,305 - \$1,880	\$1,242 - \$1,329	\$1,112 - \$1,489
Vancouver East	\$1,032 - \$1,136	\$928 - \$1,136	\$991 - \$1,263
Richmond	\$1,160 - \$1,165	\$741 - \$806	\$719 - \$895
Burnaby	\$884 - \$1,400	\$827 - \$971	\$715
New Westminster	N/A	\$743	\$583
North Shore	\$1,025 - \$1,390	N/A	\$779 - \$880
Tri-Cities	\$895 - \$1,015	\$711 - \$845	\$503 - \$750
Ridge Meadows	N/A	\$512 - \$625	\$365 - \$554
Surrey/N.Delta	\$820 - \$870	\$628 - \$805	\$420 - \$554
South Surrey	N/A	N/A	\$402 - \$565
Langley/Cloverdale	N/A	\$549 - \$702	\$412 - \$553
Abbotsford/Mission	N/A	\$548	\$357 - \$404

BUYER TRENDS

There was very little change in buyer trends during the second quarter of 2021. Local investor activity continued to rise as new project offerings were made available, and purchasers who were repeatedly losing out on bidding wars in the resale market shifted their focus to the new home presale market. The desire for larger living spaces in suburban locations further from the urban core employment centres waned slightly as some buyers shifted their buying priorities to proximity and ease of access to transit due to the likelihood of needing to return to working from the office on a more regular basis.

As the real estate market becomes more competitive and home prices continue to rise in some sectors and areas, the 'Bank of Mom and Dad' will become an ever-more important contributor to demand, particularly for more price-sensitive entry-level and move-up buyers. The current low interest rates remain a huge incentive for these younger demographic and their parents as it allows them to enter the market with the comfort of locking borrowing costs in at today's historic low interest rates.

The local investors were further incentivized to invest in areas where new transit infrastructure already exists and is being built and contemplated. As such, there has been considerable investor interest in projects along transit-oriented locations and in areas that would appeal to renters. While investor activity has increased, the expected launch of several comprehensive developments throughout the region during the second half of the year will provide more choice for these buyers and keep urgency levels moderate, thereby limiting any further substantial price increases.

Entering the second quarter of 2021, BC was in the midst of the third wave of the COVID-19 pandemic, which caused many businesses to scale back operations considerably or shut down completely. While vaccine availability was beginning to increase, a very low proportion of the eligible population had received a single dose, let alone two doses. Despite these challenges and the uncertainty they caused, the new multi-family home market continued to experience demand levels and sales activity not seen since 2016/17. Whether driven by the optimism of the anticipated higher vaccination rates and prospects for reopening the economy and loosening COVID measures in late spring and summer, the amount of activity in the market during the first half of the year was remarkable.

As the market moves in the second half of the year, 'uncertainty' remains a key factor to consider and manage as COVID infection rates rise due to the aggressive spread of the Delta variant and the inexplicable reluctance of some of the population to get vaccinated. Will COVID measures need to be reintroduced? Will the return to working from the office, even part-time, be delayed? Will Universities revert to a remote learning model? Will international travel and therefore immigration remain limited? Will an ill-timed federal election call create further uncertainty over the appeal of investing in Canada? And will the uncertainty over when the worst of COVID will be behind us cause new home purchasers to hit the pause button on their buying decision, or will they continue to see this as temporary and continue to take advantage of historic low borrowing costs to enter the market or add to their portfolio in one of the most livable and dynamic real estate markets in the world?

It is UA's opinion that while the new multi-family home market will experience steady demand and sales activity in the second half of 2021, absorptions will flatten compared to the first two quarters of the year. The combination of higher prices, increased inventory and therefore competition, economic uncertainty caused by COVID, the election and inflation among other factors, will cause buyer urgency levels to ease compared to earlier this year. However, the prospects of us being closer to the end of the pandemic than the start, an economic recovery and higher immigration levels combined with the low borrowing costs will sustain demand for new homes across the region. That is, the market will move from a sprint to a jog during the second half of 2021. We look forward to monitoring all activity in the new multi-family home market in Metro Vancouver during the third quarter of the year and keeping you updated on its status on UA | Zonda's NHSLive data platform.



UA | Zonda maintains the most current and accurate database of actively selling and contemplated new multi-family home projects in Metro Vancouver, Calgary and Edmonton on NHSLive.ca. UA | Zonda analysts are constantly updating the data for the most active projects to ensure our subscribers have the data and intelligence to make better decisions as quickly as possible. In addition to the Multi-Family Home platform on NHSLive.ca, UA also offers subscription access to new purpose-built Rental Data, Land & Commercial Transaction Data on the platform. Please contact sales@urbananalytics.ca for a demonstration of these products and to inquire about our advisory services to help you appropriately design and position your next project.

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