

Q3 2021

MULTI-FAMILY TAKE : VANCOUVER

PRE-FALL FATIGUE



PRE-FALL FATIGUE

What happened in Q3-2021

After a frenetic and record-breaking pace of sales in Metro Vancouver's new multi-family home market during the first six months of the year, buyers appeared to take a breather during the third quarter as Zonda Urban (formerly Urban Analytics) recorded 16 percent fewer total sales than the previous quarter. The lower volume of sales can be attributed to a combination of buyer fatigue and a drop in the number of new project launches (and therefore supply). Despite this, total Q3-2021 sales volume was the highest ever recorded by Zonda Urban during a third quarter.

The South of Fraser sub-markets experienced another impressive quarter of sales. While total unit absorptions in the suburban sub-markets were 15 percent lower than the previous quarter, they were 82 percent higher than the next highest third quarter total since 2011. The only two quarters with higher sales than Q3-2021 were the first and second quarters of this year. The Surrey/North Delta sub-market once again led the way with nearly 1,500 units sold during the third quarter, just seven percent fewer than Q2-2021. The 3,052 unit sales in this sub-market during the past two quarters is 67 percent more than the next most active sub-market (Burnaby/New Westminster) during the same period.

Condominiums continued to drive demand throughout the market, including in the South of Fraser sub-markets. Concrete and Wood Frame condominiums comprised 83 percent of all new multi-family home sales during the third quarter. One of the more successful concrete condominium project launches in the Fraser Valley was *The Grand on King George* by Allure Ventures. All but nine of the 333 units released for sale in late July have been sold at an average price of just over \$900 per square foot. In the wood frame sector, *Quinn* by Porte Homes in the Surrey City Centre neighbourhood was substantially sold out during Q3-2021 after launching in mid-August. 114 of the 174 units in the project were sold within the first three weeks of launching, with the other 60 units selling by the end of the quarter. The townhome sector remained active with the primary reason for the 27 percent drop in sales being a more limited supply of this product type. Rising prices also made affordability a bigger challenge for some buyers seeking townhome product. However, the fact new townhome projects, particularly in the South of Fraser sub-markets, are not being approved quickly enough to replace product that's been quickly absorbed over the past 18 months is the biggest contributor to the lower sales.

The continued strong sales activity through the first three quarters of the year has depleted the supply of unsold inventory throughout the market as evidenced by the fact there were 930 fewer unsold units available to purchase at the end of the third quarter than at the end of Q2-2021. Not surprising, the lower supply levels have put increased pressure on pricing for all product types across the market, though higher labour and materials costs have also led to higher pricing. In addition to adjusting prices to reflect current demand levels, developers are factoring anticipated cost inflation into the sale values being sought.

PRE-FALL FATIGUE

What's Next

At the time of writing, southwestern British Columbia is dealing with the devastating effects of record-breaking torrential rains, which has greatly limited the flow of goods in and out of the Lower Mainland, thereby putting even further pressure on supply chains. While it is too early to gauge the full impact on construction costs in the residential development sector, it is safe to assume it will be difficult for the industry to avoid some disruptions in supply and additional cost inflation. This of course is secondary to the daunting challenges faced by families, farmers and business owners who have lost homes and livelihoods. The thoughts of all Zonda Urban team members are with all those affected by flooding in the eastern Fraser Valley and beyond.

Despite these challenges, and if the early results being reported at several significant project launches during the first several weeks of the fourth quarter are an indication, sales volumes will rebound during the final three months of the year and make 2021 one of, if not the busiest year for new condominium and townhome sales ever in Metro Vancouver. Zonda Urban analysts will be at every project launch and ensure all relevant data is entered into NHSLive as quickly as possible for all subscribers to view and use for their needs.

SALES & 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 third quarter of

QUARTERLY NEW MULTI-FAMILY HOME SALES

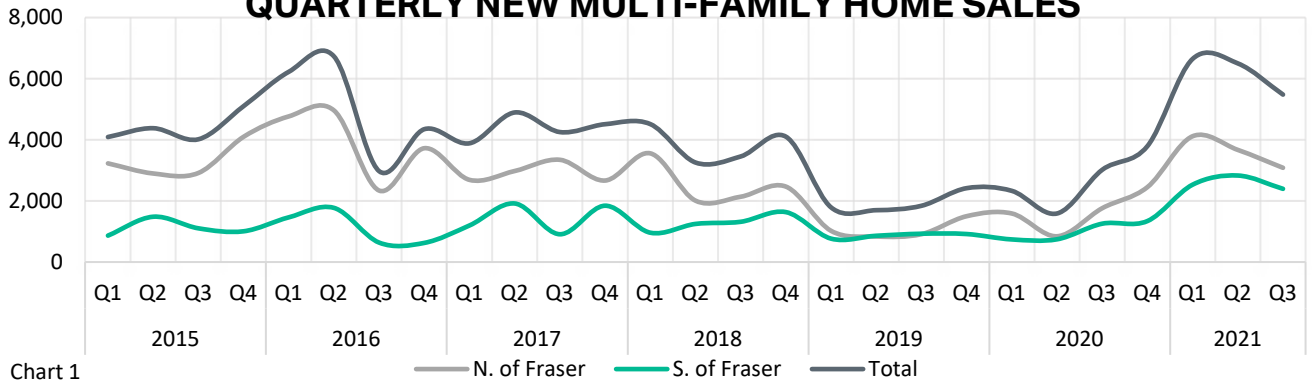


Chart 1

- A total of 5,481 units were sold across Metro Vancouver in the third quarter of 2021; 16 percent fewer than the previous quarter
- Lower buyer urgency and fewer new project launches combined to limit the number of new multi-family home sales across the region.
- The drop in sales was similar in the North of Fraser and South of Fraser areas, leaving the ratio of sales between the two unchanged at 1.29, which reflects the sustained demand for new condominium and townhome product in the suburban sub-markets.
- Despite the lower overall sales volume, the number of new multi-family homes sold during the third quarter was 48 percent above the five-year average quarterly sales.
- 18,636 new condominium and townhome sales were recorded as of the end of the third quarter, resulting in the highest year-to-date (YTD) sales in the past decade and representing 92 percent of total number of new units sold during all of the recent peak sales year of 2016.

Q3 YEAR-OVER-YEAR NEW MULTI-FAMILY HOME SALES

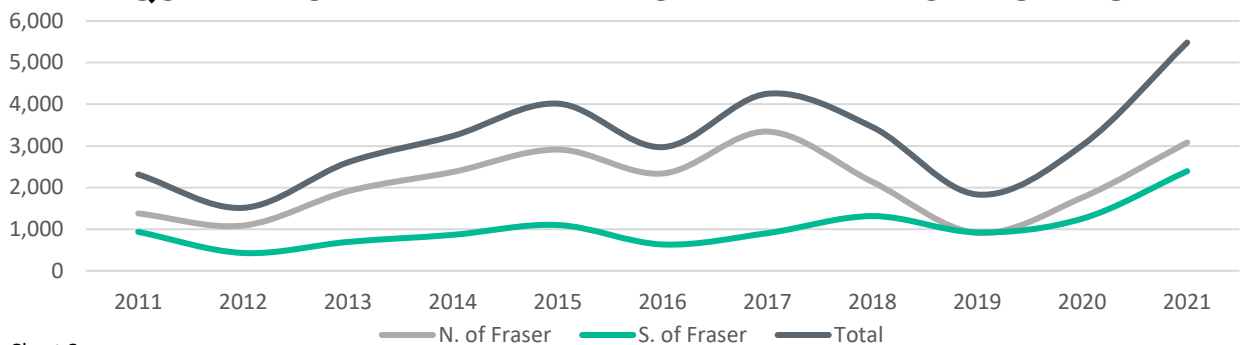


Chart 2

- There was an 82 percent increase (+2,466 units) in year-over-year sales in Q3-2021, which is impressive given the strengthening demand for new multi-family product seen during the same quarter in 2020.
- The 5,481 sales recorded in Q3-2021 is the highest Q3 sales recorded in the past decade, exceeding the 10-year average of 3,154 sales by 74 percent.

QUARTERLY UNIT SALES COMPARISON

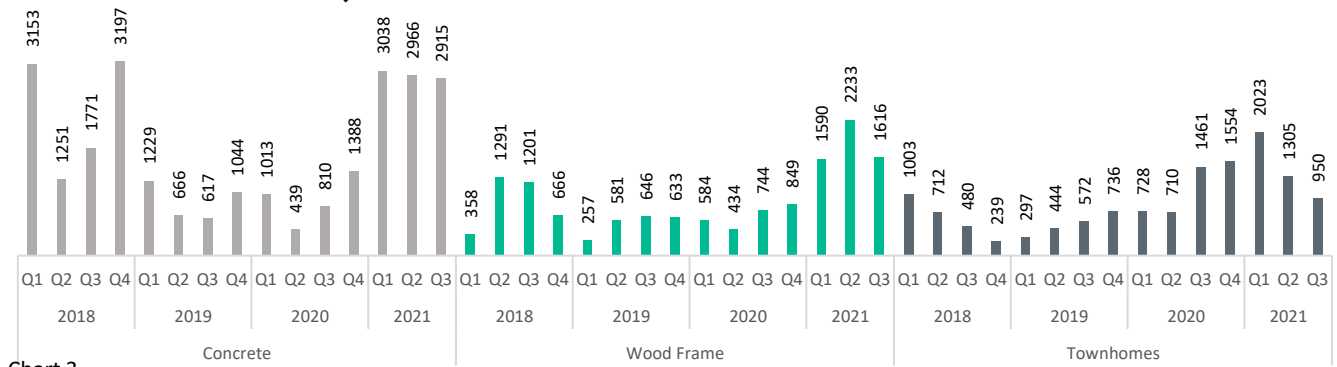


Chart 3

- Sales of all product types dropped during the third quarter with the smallest decrease felt in the concrete sector, where sales dropped by just two percent while wood frame and townhome sales decreased by 28 and 27 percent, respectively.
- The concrete sector alone has recorded 8,919 YTD sales, primarily due to increased investor confidence and more new inventory being released to the market. This is 24 percent higher than the sum total of concrete condominium sales in 2019 and 2020.
- Similarly, despite the 28 percent decrease in Q3-2021 quarterly sales, the total YTD wood frame unit sales (5,439 sales) exceeds the sum total of wood frame sales in 2019 and 2020 by 15 percent.
- Townhome sales decreased for the second consecutive quarter.
- This decreasing sales trend, highlighted by the 27 percent fewer Q3 sales compared to the previous quarter can be largely attributed to a diminished supply and the inability to introduce new townhome product at a fast enough rate to replace the absorbed product.
- Substantial price increases in this sector have also priced some buyers out of this sector and contributed to the lower sales.

SALES COMPARISON



Chart 4

- Only four sub-markets (Downtown, North Shore, Richmond/South Delta, South Surrey) recorded higher sales in the third quarter of 2021.
- Surrey/North Delta alone accounted for 27 percent of total sales in Q3-2021. This is largely due to nine new project launches in this sub-market. Remarkably, 96 percent of this recently released inventory was absorbed during the third quarter.
- Vancouver East, Abbotsford/Mission, and Squamish recorded the lowest sales due to a lack of new inventory and the limited variety in product offerings.

QUARTERLY SALES VS UNSOLD INVENTORY TREND

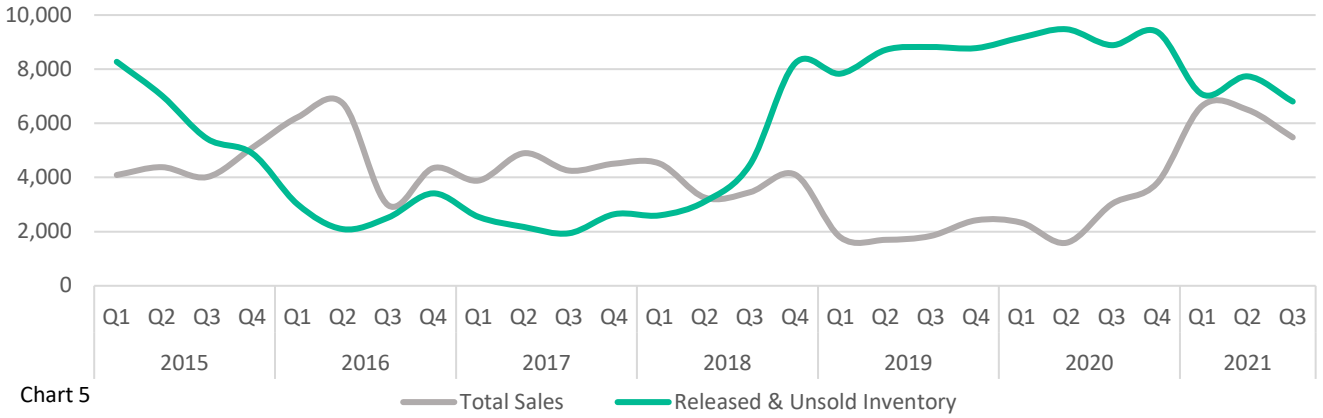


Chart 5

- There were 1,327 more unsold units at the end of the third quarter than the total number of unit sales during the quarter, increasing the spread by a nominal 93 units compared to the previous quarter.
- This narrow spread between unsold inventory and quarterly sales will continue to put upward pressure on pricing in all sectors of the new multi-family home market.
- The exceedingly slow process of getting new product approved and launched to the market is keeping the spread between these two metrics too close to provide any relief to pricing pressures.
- This is evidenced by the wider spread between unsold inventory and quarterly sales experienced in 2019 and much of 2020, when home prices were steady, and in some areas dropped.
- Even a moderate increase in demand over the next few quarters will result in quarterly sales exceeding unsold inventory, as occurred through 2016 and 2017, and led to a rapid escalation in new home prices.

QUARTERLY RELEASED & UNSOLD INVENTORY COMPARISON

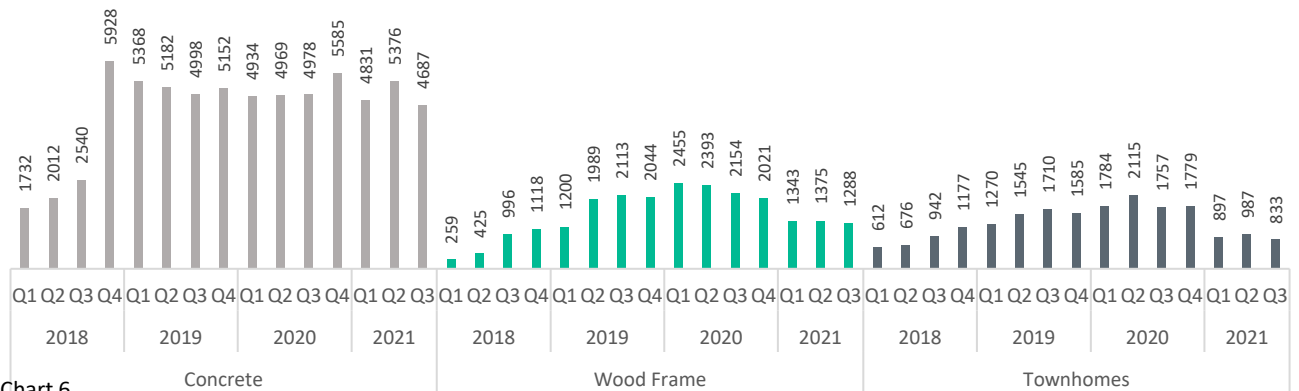


Chart 6

- There were 6,808 unsold new multi-family home units at the end of Q3-2021; a 12 percent decrease from the previous quarter.
- The number of unsold concrete condominium units decreased by 689 units while wood frame condominiums and townhomes decreased by a more modest 87 and 154 units, respectively.

- The current number of unsold concrete condominium units is the lowest since Q3-2018 and is largely the result of fewer new projects launched during the third quarter; there were 19 and 32 percent fewer concrete condominium units released in Q3 than during the first quarter and second quarters of the year, respectively.
- Despite the drop in wood frame condominium and townhome sales, the number of released and unsold homes in these sectors decreased by six and 16 percent, respectively
- This emphasizes how sustained strong demand for ground-oriented product types, combined with fewer new project launches (i.e. 25 fewer projects launched in Q3-2021 compared to Q2) is working to limit the supply of new product in these sectors.
- The impact of the decline in the released and unsold inventory is less significant than during the previous peak of market sales activity in 2016 where at one point inventory dropped to just 1,942 unsold units.
- The fact several projects that were initially scheduled to launch in 2019 but were held off due to market conditions, were launched in 2020 and 2021 has assisted in maintaining an adequate level of supply.
- However, as these projects are launched and sold, inventory levels are likely to drop further as there are fewer new projects that will be approved and ready to launch unless municipal approvals processes are streamlined and sped up.

RELEASED & UNSOLD INVENTORY COMPARISON

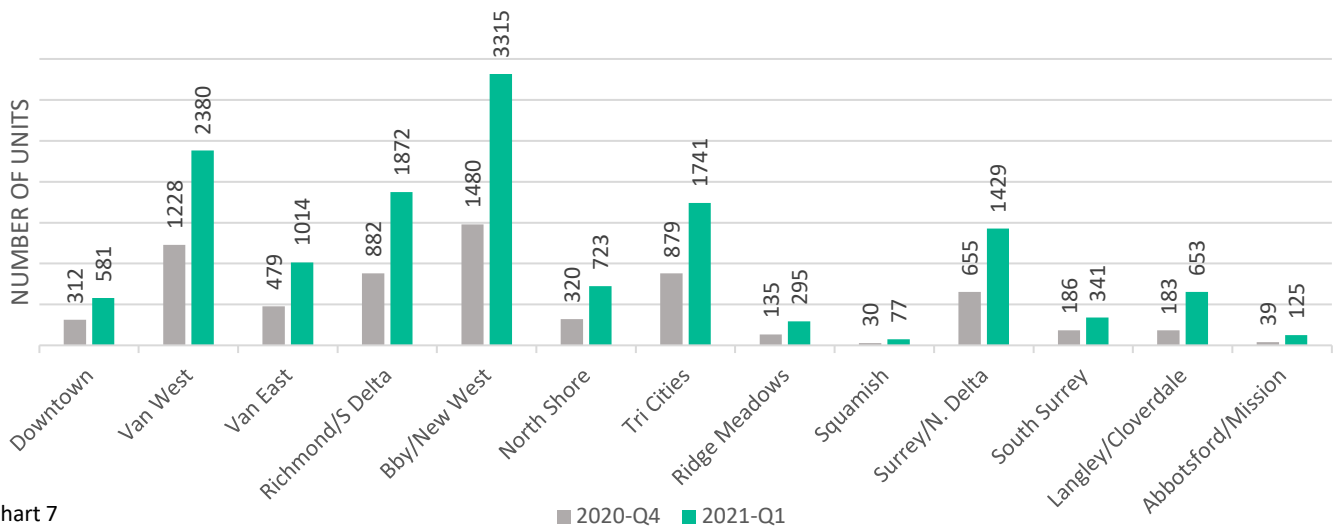


Chart 7

- There were 4,395 units released from 38 new project launches during Q3-2021; 32 percent fewer than the previous quarter
- This represents the fewest number of released and unsold units since the third quarter of 2018
- Nine of the 13 sub-markets recorded lower inventory levels at the end of Q3-2021 with Burnaby/New Westminster recording the largest decrease; -355 units
- Vancouver West recorded the largest increase in inventory (+76 units), which was due to a combination of new project launches and softer absorptions given the higher price points being sought for product here.

STANDING INVENTORY TREND

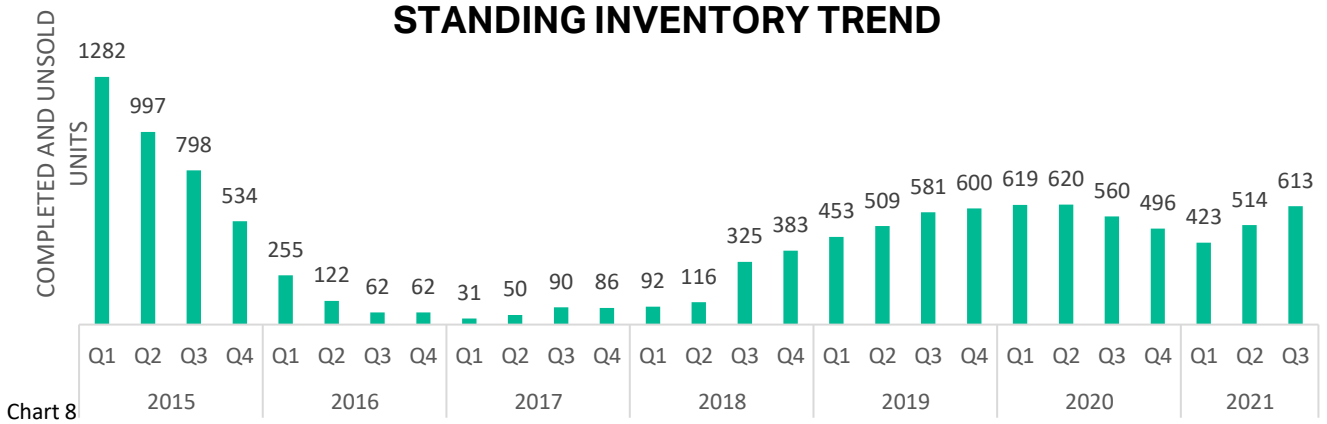


Chart 8

- The number of unsold move-in ready units increased by 19 percent from the previous quarter and rose nine percent year over year.
- The concrete condominium sector accounted for the entirety of the increased standing inventory units as the number of completed and unsold wood frame condominium and townhome units dropped by 72 and nine units, respectively.
- The number of completed and unsold units is nearly 10 times higher than 2016 when sales volumes were comparable with current levels.
- This in part reflects the investor-oriented nature of current market conditions where most of the demand is for pre-construction projects with greater price appreciation potential during construction.
- While the 613 completed and unsold units at the end of Q3-2021 is approaching the most recent peak of standing inventory reached in 2020, it still represents just nine percent of all unsold new multi-family units across Metro Vancouver.

STANDING INVENTORY BY SUB-MARKET

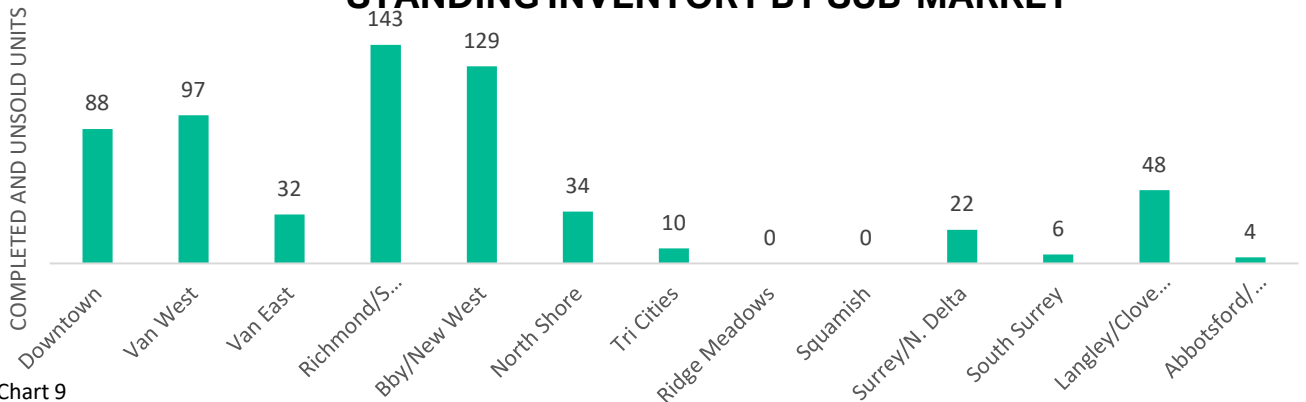


Chart 9

- Vancouver Downtown registered the largest increase in standing inventory due to the recent completion of a concrete condominium project with 64 unsold units; 73 percent of the total number of completed and unsold units in this sub-market.
- The Richmond/South Delta and Burnaby/New Westminster sub-markets continue to record the highest number of unsold move-in ready units due to having 13 completed and actively selling projects
- There are few unsold move-in-ready units in the Tri-Cities, South Surrey, Abbotsford/Mission, Ridge Meadows and Squamish sub-markets.

INVENTORY BY PRODUCT TYPE & CONSTRUCTION STATUS COMPARISON

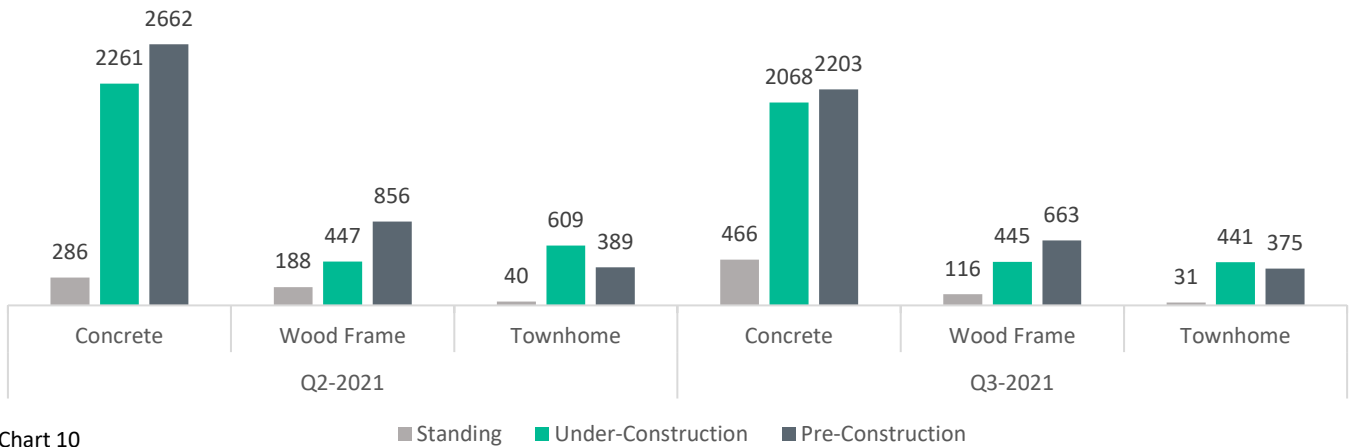


Chart 10

- 43 percent of the total 6,808 unsold new multi-family homes across Metro Vancouver are under construction; there was no change in the proportion of unsold units under construction compared to the previous quarter.
- There were 12 new concrete condominium project launches comprising a total of 2,109 newly released units during Q3-2021; 77 percent of these new units were absorbed.
- There were 19 percent more completed and unsold concrete condominiums, while the number of all unsold wood frame condominiums and townhomes decreased by 11 and 17 percent, respectively.

CONCRETE CONDOMINIUMS COMPLETION & UNSOLD INVENTORY ANALYSIS FOR METRO VANCOUVER (Q3-2021 TO Q4-2025)

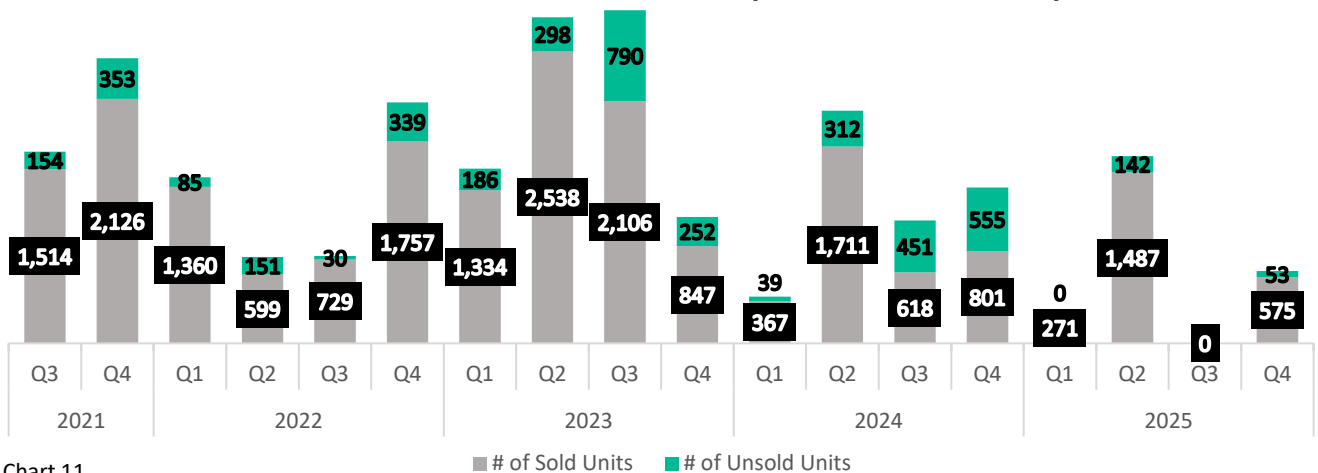


Chart 11

- 83.2 percent of concrete condominium units released for sale and scheduled to complete by the end of 2025 have been sold.
- Just 12 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 due to the lack of current listings in the resale market and given the expectation that the current strong local demand levels will be sustained or increase as immigration resumes and return to pre-COVID levels.

PRICE TRENDS

The upward pressure of new multi-family home prices in Metro Vancouver continued throughout the third quarter. Price increases were felt more significantly in some sub-markets and product sectors than others. In terms of absolute overall average pricing being sought, concrete and wood frame condominium prices stayed relatively constant, increasing by approximately one percent compared to the previous quarter. Given the current strong demand for investor-oriented comprehensive condominium projects, we could expect to see more aggressive price increases for smaller units than on larger units.

Townhome prices rose by 10 percent due to increasingly limited supply of this product form throughout the region. The significant drop in new townhome units released to the market in Q3-2021 further reduced the amount of unsold inventory as demand remained strong. The Surrey/N.Delta sub-market recorded the largest price increases.

Comparing the average price of new multi-family home product released in 2020 and 2021, average sale values sought for all product types in the North and South of Fraser sub-markets increased by four and 15 percent, respectively, thereby tightening the price spread between the two geographic areas of the region. The spread in sale values being sought for new multi-family home product the North and South of Fraser areas has decreased at a higher rate for the concrete and wood frame condominiums. Prices for these product types increased by 15 and 19 percent, respectively in the South of Fraser sub-markets. During the same period, average townhome prices in North of Fraser sub-markets increased by 14 percent while townhomes in South of Fraser sub-markets increased by 11 percent.

Some additional factors affecting the current price increases include construction material delays caused by global supply chain disruptions, rising costs of labour and materials, higher holding costs due to longer approval periods, and increased municipal fees and amenity contributions. While there are other economic factors affecting prices, the ongoing strong levels of demand relative to insufficient new supply has been the greatest influence on pricing. However, the recent sharp rise in inflation and the resulting expectation that higher interest rates are likely sooner than previously suggested will begin to impact new home pricing in 2022. With inflation making the cost to bring new product to market ever-higher, thereby requiring higher sale prices, and the prospect of higher borrowing costs reducing purchasers' buying power, Zonda Urban expects the supply of new product to remain limited or fall further thereby making some projects unviable, and suggests developers carefully consider the prices paid for development properties.

Average gross prices of newly launched projects in Q3-2021 in Metro Vancouver are as follows (rounded to nearest thousand):

- Concrete condominiums: \$952,000
- Wood frame condominiums: \$661,000
- Townhomes: \$1,096,000

Chart 12 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.

	Concrete	Wood Frame	Townhome
Vancouver Downtown	\$1,720 - \$1,837	N/A	N/A
Vancouver West	\$1,305 - \$1,816	\$1,242 - \$1,403	\$1,137 - \$1,489
Vancouver East	\$1,136	\$928 - \$1,136	\$1,098 - \$1,263
Richmond	\$1,100 - \$1,160	\$738 - \$890	\$808 - \$895
Burnaby	\$847 - \$1,400	\$827 - \$971	\$897
New Westminster	N/A	\$778	\$660
North Shore	\$1,025 - \$1,390	N/A	N/A
Tri-Cities	\$950 - \$1,015	\$753 - \$873	\$503 - \$742
Squamish	N/A	\$774 - \$856	\$790 - \$909
Ridge Meadows	N/A	\$635 - \$636	\$461 - \$554
Squamish	N/A	N/A	N/A
Surrey/N.Delta	\$820 - \$950	\$628 - \$805	\$420 - \$580
South Surrey	N/A	\$687 - \$766	\$561 - \$584
Langley/Cloverdale	N/A	\$551 - \$715	\$480 - \$569
Abbotsford/Mission	N/A	\$548	\$357 - \$406

PRICE TREND BY SUBMARKET

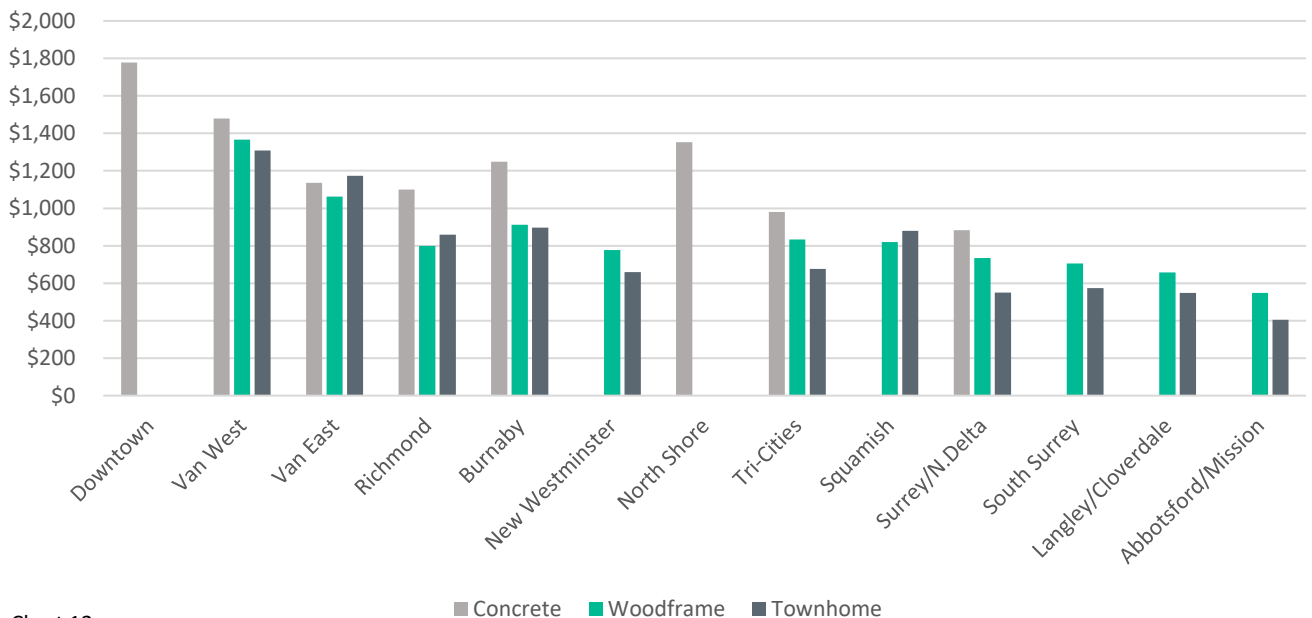


Chart 12

BUYER TRENDS

Local investors and end user buyers continued to dominate demand for new multi-family homes in Metro Vancouver in Q3-2021. While there appeared to be some fatigue settling into the market during the late summer, which contributed to a drop in quarterly sales, demand rebounded during the last month of the third quarter with several newly launched projects reporting strong sales results.

Investors actively sought smaller, price-oriented one bed and one & den units in transit-oriented locations. The low rental vacancy rates and rising rents noted by Zonda Urban on its NLSLive Rental Data platform appeared to renew investor interest at projects in transit-oriented locations and in areas near post-secondary schools and employment centres. It must be emphasized that most of the current investor demand is being driven by local buyers. Project representatives report very little off-shore investor interest/demand. These local investors remain bullish on the real estate market with some investing with friends and family members. These buyers are also taking advantage of the low interest rates and are refinancing existing properties to purchase secondary investment homes. An example of strong investor activity can be seen in the Central Surrey sub-market where 90 percent of the over 1,350 condominium units (many investor-oriented) launched during the third quarter were sold. While investor demand is strong, it remains price sensitive and most responsive to more affordable product that requires a lower downpayment.

Given the seeming unlikelihood that any significant measures or policy changes meant to increase the supply of both for-sale and rental product will be implemented in the short-term, investors anticipate supply pressures and therefore, price appreciation will continue. As such, they continue to view residential real estate as an attractive investment option.

Ground-oriented product throughout Metro Vancouver, but particularly in the South of Fraser sub-markets continued to appeal to end-user purchasers seeking larger living spaces at comparatively affordable prices. Younger buyers continue to rely on the 'Bank of Mom and Dad' to assist with new home purchases. Downsizer buyers continue to comprise a substantial proportion of new home buyers at higher-priced and more luxury-oriented condominium developments in North of Fraser sub-markets. While the proportion of off-shore buyers remains very small relative to local purchasers, the recent launch of an ultra-luxury condominium development in Downtown Vancouver has reportedly attracted greater interest from these buyers, though many are said to hold Canadian passports or intend to seek landed immigrant status before taking possession of any product they're purchasing.

LOOKING AHEAD

There were many challenges and distractions faced by the residential development industry and the economy in BC during the third quarter of the year. In addition to the ongoing effects of the COVID-19 pandemic, which saw a rise in cases and hospitalizations during the summer months, there were devastating wildfires affecting many parts of the province and an unnecessary federal election to distract consumers. The fact the psychological impacts of these events on home buyer confidence didn't result in a more substantial drop in sales further illustrates the resiliency of the residential market in Metro Vancouver, including the new multi-family home sector. Despite some clear signs of buyer fatigue in some parts of the new home market during the third quarter, sales were the third highest of any quarter since 2010, just behind each of the first two quarters of 2021.

Moving into the final quarter of the year, it would not be surprising to see market activity soften further. However, early indications from projects launched since the start of the fourth quarter are that buyers only needed the short breather the third quarter provided. Should the strong absorptions reported by many projects launched since October 1st be sustained through much of the quarter, there will be more new multi-family homes sold across Metro Vancouver in 2021 than in any other year since Zonda Urban began monitoring this market. Perhaps the most surprising aspect of the record absorptions is the fact it is largely domestically-driven as Canada continues to see a fraction of pre-COVID immigration levels.

Despite the exceptional demand and absorptions seen through the first three quarters of 2021, there are some potential factors that could prove a drag on sales as we move into the final weeks of the year and look ahead to 2022. Rising inflation appears to be more than a passing fad and is likely to be with us for the foreseeable future as there is no apparent short-term resolution to supply chain issues and labour shortages in related key sectors. This is likely to lead to higher borrowing costs sooner than had been anticipated; as soon as the first half of 2022. Given how new home prices have risen in 2021, this could price more buyers out of this sector of the market.

We look forward to monitoring all activity in the new multi-family home market in Metro Vancouver during the final quarter of the year and keeping all industry stakeholders updated on its status on Zonda Urban's NHSLive data platform.

Zonda Urban 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. Zonda Urban 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, Zonda Urban also offers subscription access to new purpose-built Rental Data and Land 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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