

Speaking Notes – UDI Luncheon Presentation

Metro Vancouver – A Three-Legged Housing Market

October 22nd, 2015

Slide: Market Highlights

- Status review of current market conditions...sales, inventory, pricing...
- Top performers

Slide: 3 Legged Stool

- Many factors driving market – will focus on 3 today

Slide: The Three Legs Identified

- 3 legs that impact demand and supply...
 - Buyers
 - Land
 - Municipalities

SLIDE: New Multi-Family Home Market – The Status

- Have a look at where we stand as of the end of Q3-2015
- It's been a crazy year so far...

SLIDE: YTD Sales

- Over 2,000 more sales than at same point last year – 20% increase
- Two-thirds more sales than in 2013.

SLIDE: YTD Sales – North and South of Fraser

- Over 72% of sales occurred in sub-markets North of Fraser
- 9,102 sales North of the Fraser
- 3,480 sales South of the Fraser
- Impressive increases on both sides of the Fraser

Slide: YTD Sales – By Product Form

- Sales higher for all product forms so far this year
- Biggest percentage increase in the wood frame sector
- Strong sales in the Fraser Valley, Richmond, North Vancouver

Slide: Inventory Trend

- Supply of all product forms dropping – not surprising
- Concrete supply down 77%
- Wood Frame down 75%
- Townhome down 34%
- Look at current unsold inventory of 721 Townhome units

Slide: Townhome Months of Supply

- 721 unsold townhome units at end of Q3-2015
- 820 townhome units sold in Q3-2015
- Leaves just 2.64 months of supply of townhomes

Slide: Condominium Months of Supply

- Not much better in condo sector
- 4.1 months of concrete condo supply
- 4.6 months of wood frame condo supply

Slide: Standing Inventory

- Talked last year about the dropping trend in standing inventory
- Had dropped 30% from peak in Q4-2013
- Has dropped by 114% in just the last year.

Slide: Standing Inventory

- Standing inventory lower in all sub-markets compared to 2014
- Biggest drops in Vancouver West (-110), Richmond (-150) and Langley/Cloverdale (-162)

Slide: Quarterly Sales vs. Inventory Trend

- Supply and demand trend illustrated
- A very telling chart
- The spread between quarterly sales and the amount of released inventory has shrunk by nearly 600% since Q1-2013

Slide: Concrete Condominium Completion Analysis

- In case you were worried about an oversupply of concrete condos.

- Of the over 21,600 concrete condominium units scheduled to complete by the end of 2018, 87% are already sold.

Slide: Pricing

- Narrowing in Demand/Supply having impact on prices
- In more areas and for more product type
- Some areas increasing more than others
- Construction costs and land costs becoming bigger factors
- Tougher to price product on historical data
- Need to factor speculative pricing

Slide: New Concrete Condo Pricing

- Estimated achievable Sale Price for typical condo project in sampling of neighbourhoods
- Downtown Proper – no Chinatown
- “Luxury” projects
- Higher than a year ago in most areas
- Exceptions = Richmond (supply), Burquitlam (Evergreen completion), Surrey CC (need end user buy-in)

Slide: Resale Concrete Condo Pricing

- Resale pricing adds to complexity of pricing new product
- Resale values for concrete condos completed since 2010

- No Cambie Corridor or Burquitlam – not enough resale data
- All over map...lower in Downtown, Brentwood & New West
- Wayyyy lower in Surrey City Centre – limited end user demand
- Higher in Metrotown, Richmond and Lonsdale in North Van.
- Metrotown driven by high demand ... Lake vs. Pool of buyers
- Richmond – competitive new condo sector
- Lonsdale...not as many newer projects...
- Average drops to \$667 if buildings completed back to 2008 included.

Slide: Wood Frame Condos and Townhomes

- Values rising for wood frame condos in some areas ... including in some Outer Metro sub-markets
- Increasing at slower pace
- Inner Metro Townhome prices to rise - limited supply and higher detached home pricing
- North Van townhomes...don't be surprised to see stacked townhome pricing approaching \$600 psf.

Slide: The Highlights

- Lots of highlights – not surprising given overall sales stats.

Slide: Yorkson Creek

- Talked about this project last year... unique interior design...

- Sold out 188 units in first Parkside building in 14 months
- Parkside 2 launched September 12th – 107 sales in first month.

Slide: Ridge at Bose Farms

- Talked about this one last year too
- Fewer sales this year – larger, more expensive end user product
- Pre-sold majority of units...very challenging in this market
- Market leading sale values – last building achieving \$365 psf

Slide: Exchange

- 98 units sold in 6 months
- Smaller average unit size allowed for affordable pricing
- \$300,000 to \$380,000 price ranges
- Entry level and restart condo buyers who preferred townhome

Slide: Beverley

- 71 sales in 5 months in fickle White Rock market
- Smart building design oriented units to maximize views

Slide: Verve

- Honourable mention for right product mix & perseverance in a challenging area (Surrey City Centre).
- Just over 10 of 198 units left after about 3 years of marketing

Slide: Surrey City Centre Concrete Condos

- Evolve – 325 sales since April 2015 launch
- Prime – 252 sales since June 2015 launch
- Park Avenue West – 330 sales in past 4 quarters
- Still primarily investor driven
- Concord having some success selling from their Hong Kong office

Slide: Village Green – Maple Ridge

- Garcha Properties
- Best selling project in Maple Ridge
- 2 storey design was differentiator
- Good value - \$350,000 for 1580 sf average unit size (\$219 psf)

Slide: Fremont Village - PoCo

- Sold 116 units in past year...over 300 units since spring 2013
- Saltbox architecture and master planned community
- Convenient access to shopping
- Good perceived value - \$334 psf for just over 1,300 sf

Slide: Black and Whites

- Another example of demand for townhomes in urban markets
- Over 100 sales in 8 months – many prior to grand opening
- Affordable alternative to detached homes in the neighbourhood
- \$575,000 average price for just about 1,435 square feet

Slide: Riversky

- Best-selling concrete project in New West in years
- Higher values than previous projects - \$510 - \$515 PSF
- Effective marketing - attracted mix of buyers...end users, investors, Bosa Properties groupies

Slide: Alexandra Court

- Polygon continues to rock it in Richmond
- 184 units sold in the last year
- Over 320 sold in past two years
- Just launched Jayden Mews townhome project in Richmond...over 30 sales in first month.

Slide: Brentwood 2

- Talk about success...
- Developing residential as part of comprehensive retail development next to rapid transit – no brainer
- Over 560 units in Brentwood 2 sold late last year.
- Over 850 units sold in past two years
- Launching third tower with 520+ units - expect 300 sales by year's end

Slide: River District

- Over 260 sales this year between Wesgroup and Polygon
- Good value relative to other Vancouver concrete product

- Lack of rapid transit is biggest challenge
- Anticipate values to rise with increased construction activity

Slide: Wall Centre Central Park

- Most product sold before 2015
- 1,081 total homes sold since project launched in 2013
- Buyer mix predominantly local
- Good value relative to other Vancouver product

Slide: The Independent

- Talk about redemption for Rize and partner Ayala
- Contentious approval
- Where were buyers during public hearing process?
- Wide mix of buyers including local families.
- Well done Chris, Will, Vince and the rest of the team.

Slide: Voda at The Creek

- Nice to see Concert back in market in Vancouver
- Great success with Voda
- Sold 185 units in less than 90 days at \$811 PSF

Slide: Cambie Corridor

- 1,430 multi-family units released since October 2014
- 1,261 units sold

- Just 169 units remain unsold as of October 2015
- Average of over 114 units sold monthly

Slide: W1

- Can't mention the Cambie Corridor without talking about W1
- Launched first of 2 towers in August at about \$840 PSF
- Phenomenally successful – strength of Concord brand
- Marine Gateway completion and rapid transit proximity.
- Overall project estimated to be averaging \$840 - \$850 psf
- First tower sold here exclusively
- About 90 units in 2nd tower sold from Hong Kong sales office.

Slide: South Cambie Price Trend

- Trend in values at Southwest Marine Drive and Cambie Street
- Marine Gateway launches in spring 2012 at just over \$660 psf
- Intracorp launches MC2 in the fall of 2012 at about \$640 psf
- Onni brings Northwest on market last fall at just over \$700 psf
- And now \$840 psf a year later ... 31% increase in just two years...

Slide: Trump

- Some questioned whether this project would get built
- Not only getting built, it's pretty much sold out.
- Just 2 penthouses are unsold

Slide: Burrard Place

- Last but not least...
- George Wong – overwhelmed by the response so far.
- Over \$1,200 PSF... starting to approach *Vancouver House* averages
- About half of product was priced over \$1 million –end users
- Other half priced under \$1 million - attracted investors
- Marketed exclusively in Vancouver

Slide: Three Legged Housing Market

- Analysis of three of the primary factors impacting the market today...
- Buyers, Land Values and Municipalities

Slide: The First Leg - Buyers

- How are buyers influencing the market
- New immigrant and off-shore buyers
- Most of these buyers are from Mainland China
- Talked immigration in past talks – What drives this buyer group to purchase property here.
- Spoke with a few different realtors who work with this group here.
- Talked to sales staffs at a number of projects
- Get a sense of their motivations, why Metro Vancouver
- What do they consider when making buying decision?

Slide: Currency

- Mainland Chinese buyers active here since 2009/2010.
- Activity increased recently...especially in the last year.
- Biggest factor is currency value
- Chinese currency tied to US Dollar
- Chinese currency increased by 30% relative to Canadian Dollar

Slide: Value

- Vancouver real estate a great value for this buyer group
- Realtor put it in perspective... small condo inside central three ring roads in Beijing = three new condos in Metrotown.
- ...that are finished ...
- Parking stalls sold separately in China
- Mortgage on investment units here – pay cash in China
- Qualification requirements eased for new end-user arrivals
- Safe harbour for money

Slide: Quality of Life

- Let's not forget how great it is to live here

OTHER INTERESTING TID-BITS

- Mix of end use and investment
- Most investors buy to hold and rent.
- Need 10 – 15% lift to sell at completion

- Consensus – 20% to 30% working with local realtors are off-shore – most have some connection to the area
- Power of attorney to local realtor to purchase investment product.
- Convenience is one of key factors in buying decision;
- Luxury product purchased as more of ego play
- Peer pressure.
- Restrictions on moving money out of China have tightened
- There are still ways to move money out...
- Underground banks
- Union Pay – debit card for Chinese bank account
- Some developers have approval to accept UnionPay for deposits

Slide: No End in Sight

- Asked what could stop this buyer group... Not much
- Increase in value of Canadian dollar
- Significant immigration policy change
- Policy changes in China to increase appeal of investment there
- Earthquake

Slide: Other Buyers

- Chinese not only buyers in the market
- Local buyers more active in the past year
- Detached home prices ... younger buyers consider alternatives

- Townhome demand increased - especially in Inner Metro areas
- Growing demand is still evident

Slide: North Van Townhomes

- Two new projects recently released in North Vancouver
- Maplewood Place – 30 sales in two weeks
- Seymour Village – 28 of 56 sold in first week
- Townhome demand exceeds supply North of Fraser
- Strong townhome sales in Squamish - new townhome product selling within months or weeks of launch
- Activity is also strong South of the Fraser
- Entry level buyers – help from the bank of mom and dad
- Mature family buyers and empty nesters are more active – master on the main product
- Demand for projects with bigger units seeking bigger price points in South Surrey and in Murrayville
- Sizes range from 2,000 to 3,000 SF range
- Pricing from mid-500's to \$850,000.
- Empty nesters like larger condos - Beverley, Yorkson Creek and Ridge
- Most won't buy presale unless it's a limited opportunity.
- Existing home values rise = strong empty nester demand

Slide: Lynn Valley Centre

- Bosa Developments' Residences at Lynn Valley = home run
- Mature buyers want to stay in current neighbourhood

Slide: The Second Leg - LAND

- Now let's talk about the fun one...

Slide: Completely Bonkers

- Spoke with brokers active urban markets and Fraser Valley
- Get a sense of land sales activity and impact on the housing market.
- Some funny responses ...one developer's response... **CLICK**
- Another half-jokingly said his response to someone who'd asked him what he'd paid for a site was...

"What did I pay?!?!?!?! Who cares...I got it!"

- Know how young couples feel with accepted offer in bidding war.
- Different factors at play in urban & south of Fraser sub-markets
- But some similarities.

Slide: Inner Metro Land Market - New Players ... New Rules

- Local developers have had land market to themselves
- Played by same rules ... evaluated opportunities generally the same.
- Assess market conditions, numbers into a proforma...
- Capital from off-shore ... a lot of it.

Slide: Photo of Chinese Yuan

- **Couple different kinds of buyers after land here**
 - **Established off-shore developers looking to get established here**
 - **Well-capitalized**
 - **Patient**
 - **Reasonably sophisticated**
 - **Hire good local firms to help them through process.**
 - **Seeking large and/or prime properties to establish foothold in market**
 - **Prepared to over-pay relative to current market values to get the site they want**
 - **Use commercial broker to assist with search and purchase.**
 - **Mom and Pop Investor**
 - **Also have patient money – just not as much of it.**
 - **First priority is to park cash here**
 - **Short term hold - longer term development potential.**
 - **Will pay more than what a local player has historically paid to get site and bet on the market rising.**
 - **Less sophisticated –buy first & ask questions later**
 - **Use local residential realtor to assist with purchase**
 - **Not as familiar with local zoning policies approvals process.**
 - **Costly surprises not unusual**

- Market has covered up many these costly mistakes.
- In general...
- Different motivations than local developers ... care less about 'Return on Capital' than getting the site
- "They've taken the discipline out of the land market."
- Seeing it over and over again...the purchase of former Mercedes dealership site on Broadway and Hemlock.
- \$31 million...left everyone shaking their heads
- Looks like not a bad deal today...

Slide: Some other examples of off-shore land buys

- Other examples of properties purchased by new off-shore arrivals...

Slide: Main & 20th – Burritt Brothers

- Burritt Brothers site at Main and 20th
- Sold for \$269 / buildable

Slide: 10th & Alma

- Same firm bought former Esso Station property for \$311 per bldble.
- Developer also after this site indicated they entered \$900 per square foot for a concrete low rise product to make this number work.

Slide: 222 – 236 W. Broadway – Citti Project – CM Bay

- \$184 per buildable in December 2013 – less than 2 years ago.

Slide: 130 W. Broadway – MEC - Reliance

- \$308 per buildable in June of this year.

Slide: Broadway and Ash – Rogue Wet Bar Site

- Sold for \$415 per buildable just a few weeks ago.
- Crazy thing is you can't build residential on it.
- Cambie Example – Intracorp paid \$150 bsf for Livingston site in fall 2013.
- Nearby site sold this summer for \$224 per buildable ... 50% more.

Slide: What are local players to do? Head grabber

- What is local developer to do?

Slide: Play by the new rules. Boxing gloves

- Strap on the gloves and getting in the ring with new players.
- One local developer has completely changed approach to buying land.
- Will pay land values unsupported by current market conditions.
- Focussing on premium sites
- Design product that targets upper end of market.
- Just one more thing that puts pressure on affordability...
- Important! Strategy doesn't work outside of core areas.
- Locals accepting terms they wouldn't have considered in the past
 - 30 day conditions
 - Hard deposits
 - Shorter closings
- Sellers have the hammer.

- Looking further from core for land, but finding it competitive
- Whether in Metrotown, Brentwood, North Vancouver or Coquitlam.
- Like typical consumer looking for home in today's market - frustrating

Slide: South of the Fraser

- Not much off-shore money
- Increasingly competitive - local established and well-capitalized developers competing for development sites.
- Some similarities to the Inner Core markets
- Seeing land sales at prices not supported by current market pricing
- Prepared to land-bank and bet on higher values in the future.
- Groups not already in the Fraser Valley unlikely to compete there.
- Margins too low for groups more established North of the Fraser.
- Broker discourages North of the Fraser clients from considering moving south.
- Fraser Valley developers looking to reinvest capital North of Fraser

Slide: Land Market - Summary – Perfect Storm

- Immense amounts of off-shore capital
- Local groups reinvesting profits
- Other capital looking for financing or investing opportunities.
- All competing for a very small slice of the developable land pie
- The pressure keeps building and prices keep rising...

Slide: The Three Legs - Municipalities

- Tough to get a handle on due to stakeholders involved.
- Developers, Planners, Engineers, Elected Officials and the Public
- Spoke with developers active in different areas
- How are municipalities impacting the market - supply and costs?
- Spoke to municipal representatives...
- Response to industry issues ... what can industry do facilitate process.
- Start with the industry side...

Slide: Municipalities – The Industry’s perspective - Policy

- Lack of flexibility – don’t think outside boundaries of guidelines.
- See it as hard as fast as opposed to a guide
- Blanket policies don’t anticipate intricacies of project and unique conditions.
- Policies that don’t take current market conditions and land values into consideration.
- Norquay Plan... Why so little townhome development in Norquay?
- Value of the smaller lots on which the plan provided townhomes to be built on is too high to make redevelopment viable.
- Properties being traded as detached home lots and having new homes built on them... Will delay redevelopment...

- Need more nimble policy process so planners can react to issues at or as close as possible to speed of business.
- Design guidelines that don't allow allowable density to be realized
- Design guidelines too prescriptive – developer designs project based on the guidelines. Design panel requests more creativity/imagination

Slide: Bureaucracy

- This is a big one.
- Disconnect between departments and among staff within same department
- Requests made of developers and consultants by different departments that result in delays.
- Time spent meeting requests of one department, only to have another request something completely different.

Slide: Green Initiatives

- Most developers on board.
- Not a thorough enough cost-benefit analysis of many green initiatives – District Energy systems.
- Not enough consideration for cost of initiatives and impact they have on home prices/affordability – LEED Gold for rezonings

Slide: Delays

- The most common issue the industry has (perhaps other than CAC's)

- Limit supply of new inventory ... maintains pressure on pricing.
- More competition usually = slower price appreciation
- Richmond concrete condo market and the Fraser Valley townhome and condo markets are examples.
- Here's another real life example... The Independent
- How many local end user buyers got priced out of that project
- Lack of appreciation of the impact the various layers of costs imposed on developers has on home prices.
- Developers should absorb the costs & not pass them on to buyers

Slide: Lack of Political Will

- Another big one for the industry.
- Elected officials often heard empathizing about housing affordability, not prepared to make the tough decisions required to allow housing forms in greatest demand (i.e. townhomes in urban areas) to be developed in certain areas, or to allow for greater densities in areas where it's clearly appropriate.
- Townhomes west of Granville removed from Marpole plan.

Slide: Appreciation

- Pretty much everyone I spoke with from the Industry side indicated a genuine appreciation for the challenging jobs staffs have.

- They realize they're working within a system that doesn't allow them the flexibility to achieve what the industry would ideally like.

Slide: The Municipalities' Perspective – Hands are tied

- While I was fortunate enough to speak with a few planning department representatives, including one Director of Planning, I would have liked to speak with other department heads and City Management staff.
- In some cases, I sensed a desire to speak more openly, but there was some definite reservation and careful consideration in how some of my questions were answered.
- There was also a definite appreciation of the frustrations of the industry with respect to policy and guidelines.
- However, most indicated the system is simply not set up to make some of the changes the industry would like to see made quickly.
- Genuine desire to work with the industry to streamline processes, while respecting public process and the desires of elected officials.

Slide: Lack of Understanding

- Lack of understanding of process among some newer entrants to market.
- Some realtors not informed of the process and costs associated with the rezoning of a property.

- Education and hand-holding results in delays for the subject development, and for planner's other files.
- The better prepared an applicant is, the smoother the process.

Slide: Working on it

- Do the best they can to respond to industry concerns or challenges.
- District of North Vancouver is working on adjusting their CAC policy to have a fixed rate calculation for more 'simple' rezonings.
- City of Vancouver has established steering committee with UDI to explore ways to streamline process

Slide: Can't Control the Market

- Recognize the demand for townhomes in brownfield areas.
- Also dealing with residents looking to sell their homes as part of an assembly who realize higher density zoning = equals higher sale price.
- Harder to rezone to townhome use than to condo use.
- Municipalities can't derive the same level CAC's from townhomes as condos.