

# NEW CONDO BUYERS IN GREATER VANCOUVER

CONSUMER SURVEY SPONSORED BY THE CEMENT ASSOCIATION OF CANADA

Spring 2006

In 2004 the Greater Vancouver area reached new home start levels reminiscent of the volumes of construction experienced in the peak times of 1989 and the mid 1990's. New home starts reached **19,430** of which **48.9%** of all construction was condominium development. Condominium development was concentrated through the cities of Vancouver and Burnaby which collectively accounted for more than **63%** of all condominium starts throughout the GVRD. Indications from statistics released for 2005 is that development kept pace with 2004 with only a slight decline in housing starts; furthermore, CMHC forecasts an additional **17,500** units will commence construction in 2006.

This accelerated level of development along with the increased pace of sales has left many questioning when the bubble may burst. While the past has taught us that real estate is cyclical and that the average cycle of the real estate market is five years there are a number of indications that British Columbia and specifically the Lower Mainland will remain in a healthy market for the foreseeable future.

Nearly 14% more new condominiums were sold in Greater Vancouver in 2005 than in 2004. Nearly 81% of the 12,750

new condominium units marketed in 2005 were constructed of reinforced concrete.

Most prospective purchasers have indicated a preference and increased confidence in condominiums constructed of concrete over equivalent woodframe condominiums. Over 70% of all those surveyed are prepared to pay a premium for concrete product.

Over 76% of all condominiums sold in 2005 were sold in the urban sub-markets of Greater Vancouver with the remaining 24% of condominium sales occurring in

the Downtown market. The Real Estate Board of Greater Vancouver (REBGV) reported a 6.5% increase in apartment/condominium sales on MLS in 2005. Price increases of ground-oriented housing in 2005 – REBGV's benchmark price of a detached home in the region is \$567,417 up from \$496,980 in 2004 – continued to fuel the appeal and demand for multi-family housing in the region. As a reflection of both escalating prices and the lack of available land, higher density urban neighbourhoods and condominium living is now desired by more new home buyers than ever.

# MARKET OVERVIEW

Sales of new multi-family housing forms in 2005 exceeded the record volumes of 2004. With nearly 12,750 new condominiums sold throughout Greater Vancouver and the Fraser Valley consumer demand continues to be met in nearly all regions of the Lower Mainland. Standing inventory – the number of units completed and unsold – was virtually negligible at the end of 2005.

New condominium product introduced to the market through 2005 continued to sell out well ahead of construction completion; furthermore, one week sell outs were accomplished in nearly 10 developments. More than 1800 condominium units were sold during the launch weekends. This strong consumer demand, coupled with rising land values, increased construction costs and sustained low interest rates contributed to price increases of up to 12% in most sub-markets in the region.

The continued concern over rising construction and labour costs forced many developers to delay sales until the costs of development had been updated from earlier projections – and this has often been a 'moving target'. Other developers upped pricing on available product to cover the increases to costs that were being experienced during construction.

The escalating cost of land has further forced developers to consider any and all options to maximize revenues by utilizing all developable space. Depending on the location of the building, increasing ingenuity has led to more niche products entering the market. Whether it is the omission of common space and amenities to enhance the livable area of the units or the implementation of space-saving alternatives in urban locations, the need to create products for a wider range of consumers will continue to be at the forefront in this very active market.

With condominium product becoming the new housing option of choice with the majority of buyers, developers' ability to deliver quality product in a variety of locations has become paramount. Because the results of this survey indicate that more than 70% of those surveyed recognize and would pay for the benefits of concrete construction, the option of delivering concrete multi-family product – including low- and mid-rise – has become the development of choice for a growing number of builders.

Over the next five years it is anticipated that the Greater Vancouver population will grow by more than 27,000 new residents each year, or more than 130,000 new residents by the end of 2010. This projected increase in population, coupled with the demand from existing residents and rising real estate prices will place heavy demand on attached housing and condominium product.



## INTENTION TO BUY

71% of respondents to the survey intend on purchasing their next new home within 12 to 18 months. 65% of buyers intend to buy more than 800 square feet.

### CONDO BUYERS' NEEDS

The five main factors deemed 'extremely important' by the majority of potential condo buyers:

1. Builder Reputation
2. Location
3. Price and Value
4. Builder Warranty
5. Building Envelope Performance

**Just over 70% of prospective new purchasers are more inclined to purchase a condominium of concrete construction over woodframe developments despite the assurances of and changes made in the design and construction of new woodframe condominiums.**

## THE PROCESS

In the early winter months, MPC Intelligence, a British Columbia based real estate research and consulting firm, conducted the fifth of what has become an annual comprehensive survey of prospective condominium purchasers. The goal of the survey is to determine the primary concerns of prospective home buyers, along with their needs and desires. A second motive is to determine consumer perceptions regarding the integrity of woodframe and concrete condominiums – and how these perceptions impact the buying decisions of consumers in today's new condominium market.

## THE RESULTS

The survey results are based on 150 detailed survey questionnaires filled in and returned by prospective purchasers of new condominium developments in Greater Vancouver in December and January, 2005/6. Questions in the survey related to respondents' perceptions of the current new housing market, wood and concrete construction, housing needs and purchasing preferences.

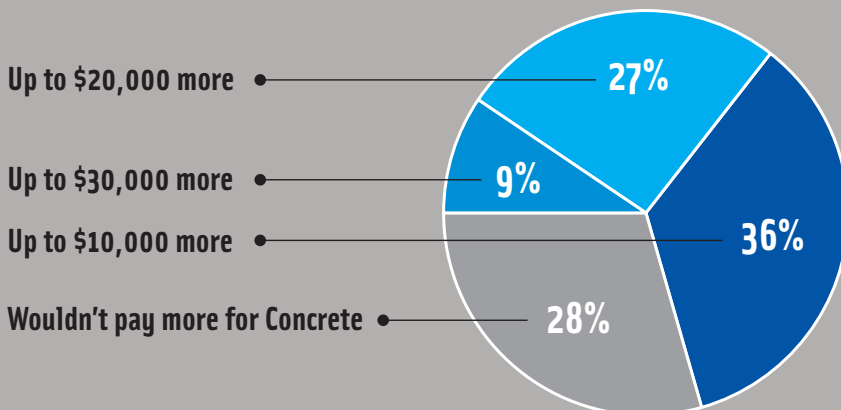
The proportion of respondents who already owned their home increased slightly to more than 59%. The desire to live in a new home remained the largest motivating factor for those interested in purchasing. However, the expectation of the size of the home has decreased slightly which demonstrated an understanding of the constraints in today's market due to increasing costs of new condominiums.

The leaky condominium issue is still a significant consideration for respondents to the most recent survey. However, the issue appears to have less of an influence on their willingness to buy this year compared to last. Respondents continue to place an importance in the integrity of the developer they choose to purchase from. 'Rain screen' technologies and building envelope design remain important issues for consumers. Despite the assurances of improved wood-frame construction, more than 64% of all respondents indicated that they are more inclined to purchase concrete product over a woodframe condominium.

## PERCEPTION OF VALUE

In an effort to determine the degree to which new condominium purchasers valued concrete constructed condos over wood-frame units, respondents were asked hypothetical questions pertaining to purchasing and product preferences. In this section of the survey respondents were asked to choose between two identical condominiums (size, location, style and amenity) – one wood-frame and the other built of concrete. They were then asked how much of a premium they would pay for the condominium constructed of concrete.

**Assume for a moment..... How much more would you pay for a concrete building assuming that the woodframe condominium cost \$225,000?**



In 2005 the response remained similar to those in previous years, a large majority of potential purchasers indicated a distinct willingness to pay a premium for concrete product.



## PROFILE OF THE URBAN LOW- OR MID-RISE CONDO BUYER

- 30 years or older – professionals and couples
- Mature professionals and empty nesters with stable incomes from established careers
- Professional couples are seeking larger living space in desirable locations and neighbourhoods. For these buyers condominium product is often the most viable option for ownership
- Empty nesters are also seeking larger condominiums in prime neighbourhoods
- Both of these groups have the capacity to spend more than \$375,000
- 70% of purchasers recognize the value and benefits of concrete construction and will pay a premium for it
- The majority of purchasers are willing to pay up to 15% more for developments of concrete construction

## CONCLUSIONS

- Consumers of urban condominium product in Vancouver and the surrounding municipalities are inclined to purchase concrete constructed buildings over wood-frame.
- Consumers place an added value on concrete both for the perceived added level of structural integrity, noise abatement and safety and for the long-term value they believe it offers.
- The majority of prospective purchasers are willing to pay up to a 15% premium for concrete constructed condominiums.
- The primary purchaser of urban concrete condominiums tends to have a higher level of disposable income and greater purchasing power. These purchasers are typically able to afford units in the higher price ranges and on average anticipate spending more than \$375,000 on their next home.
- The two largest buying groups of urban condominiums remain urban professional couples and empty nesters. Both groups will be attracted to product which offers both functional floorplans with ample living space as well as locations and proximity to urban amenities.

## REDESIGN AND COSTING ANALYSIS

### ACTUAL LOW-RISE PROJECT REDESIGN AND COSTING PROJECT

#### THE REDESIGN PROCESS

In the fall of 2005 the Cement Association of Canada commissioned Butterfield Development Consultants Ltd (BDC) to provide a fourth update of a cost comparison study which was originally conducted in 2001 of an actual 4 storey, 148 unit condo project in Richmond. This wood-frame project was redesigned with a concrete scheme – an optimized concrete frame with wood in-fill partitions. BDC updated the independent tendering and costing analysis done in 2001 to determine an accurate cost differential between wood and concrete construction – using the costs for both options based on mid-2005 data.

#### THE COSTING ANALYSIS

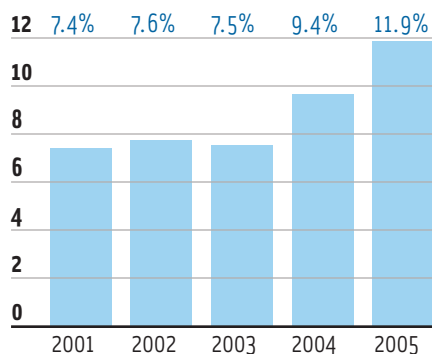
The costing analysis revealed that over the past year, construction costs for both wood and concrete construction both increased significantly – 16.4% and 20.3% respectively. The rise in cost to wood construction was primarily attributed to higher labour costs and the shortage of skilled labour. Costs to concrete construction were further escalated by the continued shortage of skilled labour, especially forming labour.

The following chart illustrates the change in the cost premium to build the subject building using the method described above. Note that this is the all-in project premium, considering all hard and soft costs including land. Until the spike in construction costs in both 2004 and 2005 the premium had been around 7.5%.

The estimated pro-forma cost premium of constructing a 4 storey condominium building using the concrete with wood in-fill model rose by nearly 2.5% in the past year. However, this cost differential is still well within the premium range indicated by the majority of respondents to the survey. Selling premiums of as much as 15-20% for concrete over wood-frame condominiums in many

of the core urban markets minimize the impact of the construction cost premium for concrete. As noted in previous versions of this study, higher margins can be achieved by building low-rise concrete framed buildings in appropriate areas – and this remains the case today.

#### CHANGE IN COST PREMIUM TO BUILD



#### ADDITIONAL FINDINGS FROM THE COSTING ANALYSIS INCLUDE

- The shortage of skilled carpenters in both forming and framing sectors remains critical
- The surge in 2010 Olympic work will continue to place a demand for skilled labour which will ramp up as we move through the coming 4 years
- Considering the price volatility of lumber, the relative stability of concrete material costs could offer more security around project cost projections
- Over the past 12 months the significant average cost increases in both construction and land in comparison to the average selling prices have resulted in a decrease in developer margins, particularly in the mid- to high-end market. On the whole selling prices have not risen at the same rate as development costs.

### If your budget meant that you could not get all the features you wanted in a condominium, which features would you be willing to scale back or do without?

