2017 DEVELOPMENT ACTIVITY REPORT

February 2018

Planning and Development Department

An overview of development activity for 2017 and trend analysis for historical activity in the City of Spruce Grove.

Contents

List of Figures

Cover: Westwind Development, 2018 (Photo by Alicia Marangoni)

INTRODUCTION

The Planning and Development Department tracks a variety of development activities in the City for the purpose of providing growth information to Council and other stakeholders. Included in the permits tracked are building and development permits, which are common measurements used to track economic vitality and growth in communities. It is useful for communities to monitor trends in permitting levels to determine their economic health, as well as to examine the impact of external forces on growth and development.

Growth in Spruce Grove has generally been stronger than average for the Capital Region for the past decade, but that has changed in the past two years where growth has tracked at an average for the region. The region has experienced a cooling off period for the past two years following the unprecedented growth of the past decade. Administration is anticipating development growth to slowly increase over the next few years as economic factors improve.

The following pages contain analysis of the growth trends for the past decade (2008-2017), focusing specifically on activity in 2017. This report provides an overview of building permit and development permit information. In addition, compliances and other permits are tracked in order to provide a more accurate picture of the total activity taking place in the Planning and Development Department.

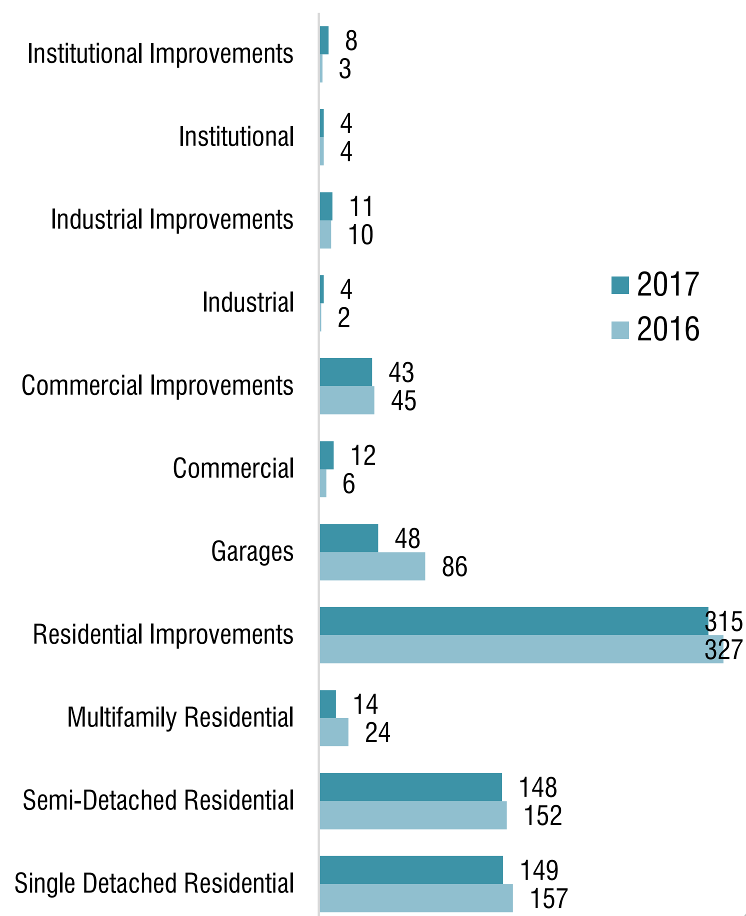
BUILDING PERMITS

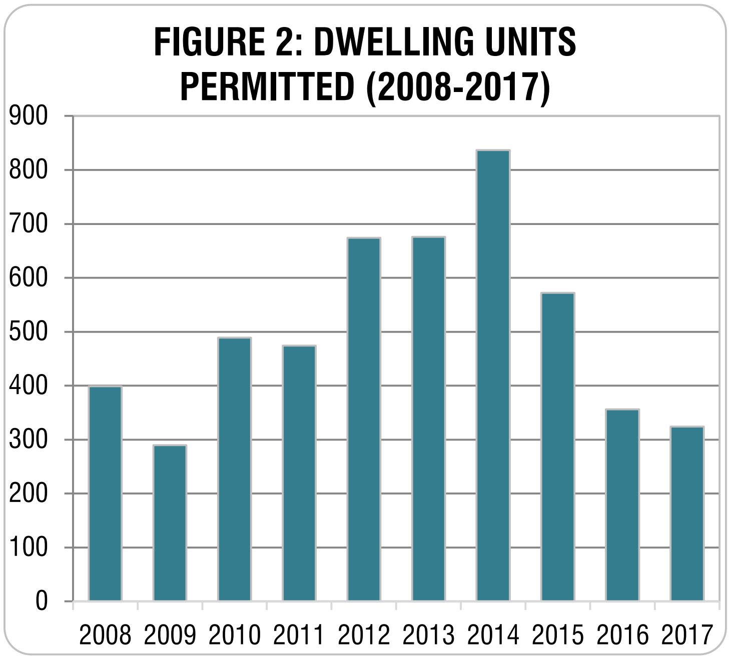
Spruce Grove issued 756 building permits in 2017, a 6.8% decrease from permit activity in 2016. Permit activity decreases were largely in the residential sector, seen most markedly in multifamily residential products.

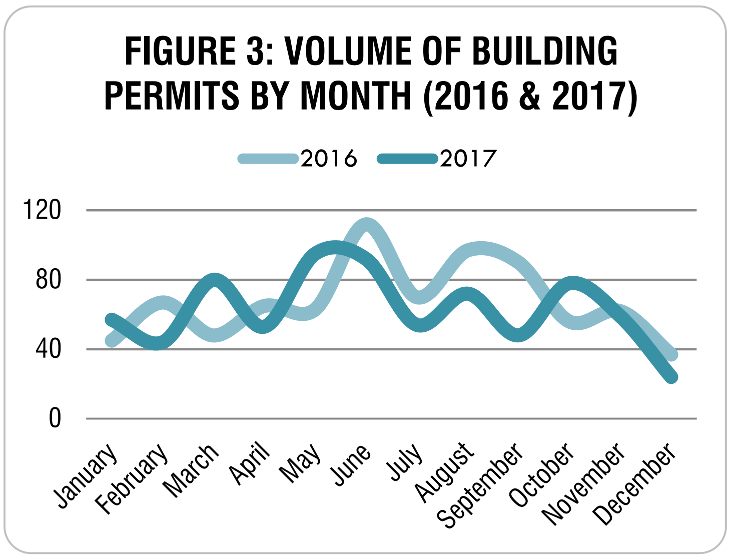
Figure 1 details building permits issued by type, and compares the volume for the past two years.

Overall, about 89% of the permits issued in 2017 were for residential construction, including new dwellings, improvements and garages, which represents a slightly lower percentage than the past five years.   Detached garages comprised about 6.3% of all permits in 2017, which has been tracking lower over the past few years due to greater market demand for

FIGURE 1: VOLUME OF BUILDING PERMITS BY TYPE (2016 & 2017)







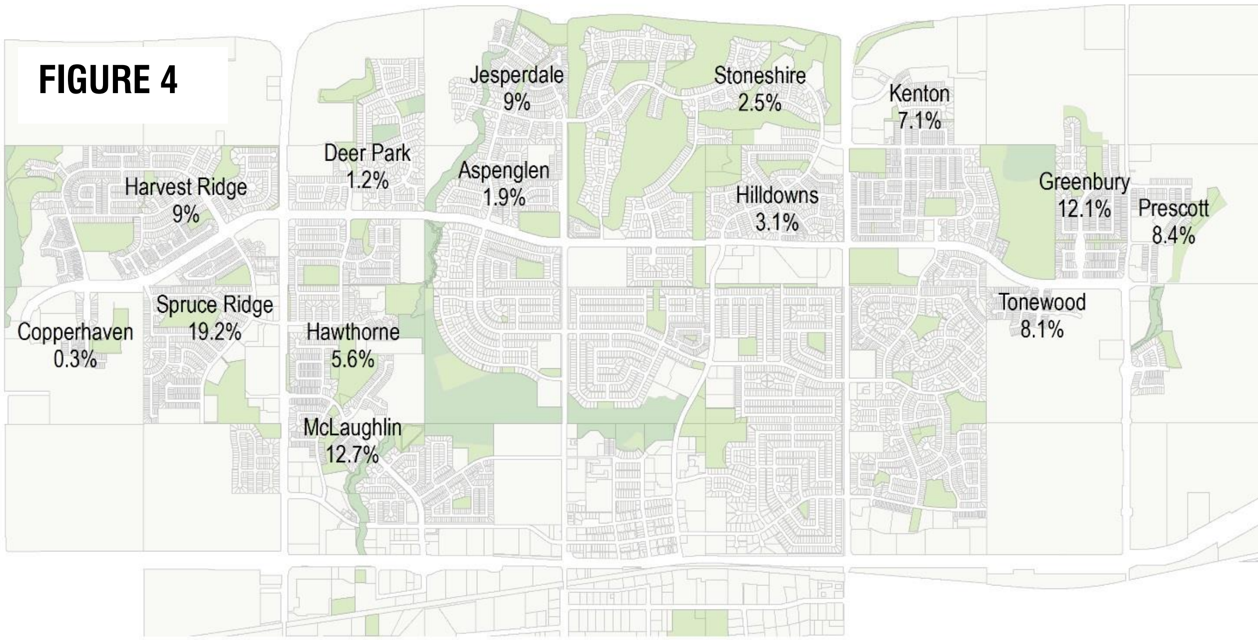
attached front garages coupled with other homebuyers sensitive to price points opting for parking pads off rear lanes.

Residential activity saw a substantial correction in 2015 and 2016, after an inexplicably robust year in 2014. Based upon CMHC absorption data, the residential market is still working through inventory. Overall, 2017 saw only a 9% decline from 2016 levels. While both single detached and semi-detached products decreased approximately 5% and 3% respectively, multifamily units had the greatest decline. Spruce Grove saw no apartment style development in 2017, similar to 2016. Meanwhile, rowhouse units declined by a further 42.5%. Looking at **Figure 2**, one can see the cyclical nature of residential growth that parallels the regional economy.

In the non-residential sector, the City saw four new industrial buildings, compared to two in 2016. Typical years see three new industrial buildings. While still a bit on the low side, industrial permit valuation increased from $1.1 million in 2016 to $3.7 million in 2017. Industrial improvements also increased from 10 to 11 permits from 2016 to 2017, and valuation of those permits more than doubled.

Building permits issued for new commercial structures doubled in 2017 from six to 12 permits, which is a marked improvement as six permits has been typical in the past decade. Valuation for new commercial buildings also nearly doubled to $20.9 million, which is also seen as robust considering the average valuation in the past decade has been approximately $13 million. The number of commercial improvements decreased slightly from 45 building permits in 2016 to 43 building permits in 2017; however, permit valuation increased roughly 20%.

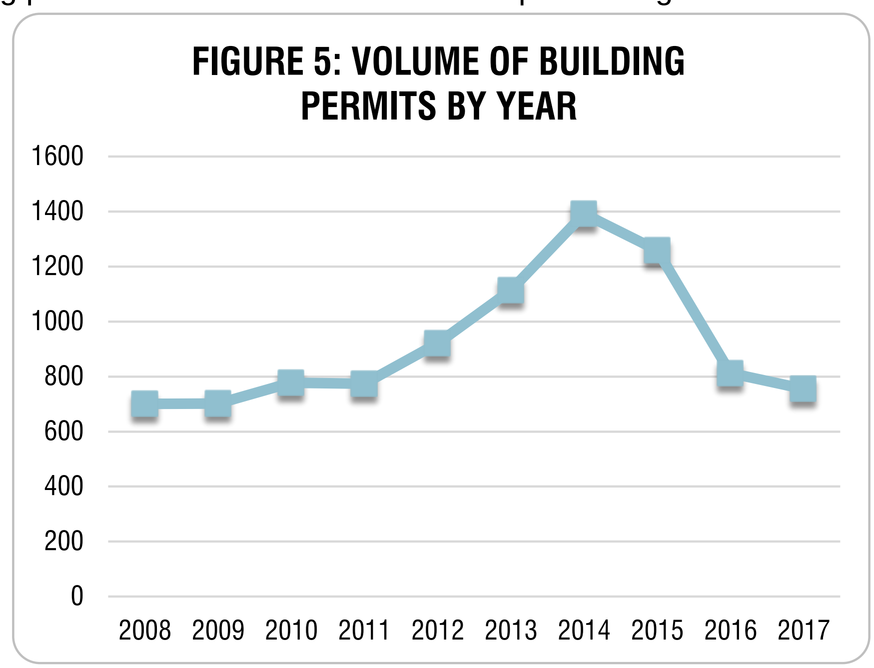
Figure 3 depicts the number of building permits issued per month for 2016 and 2017. In this

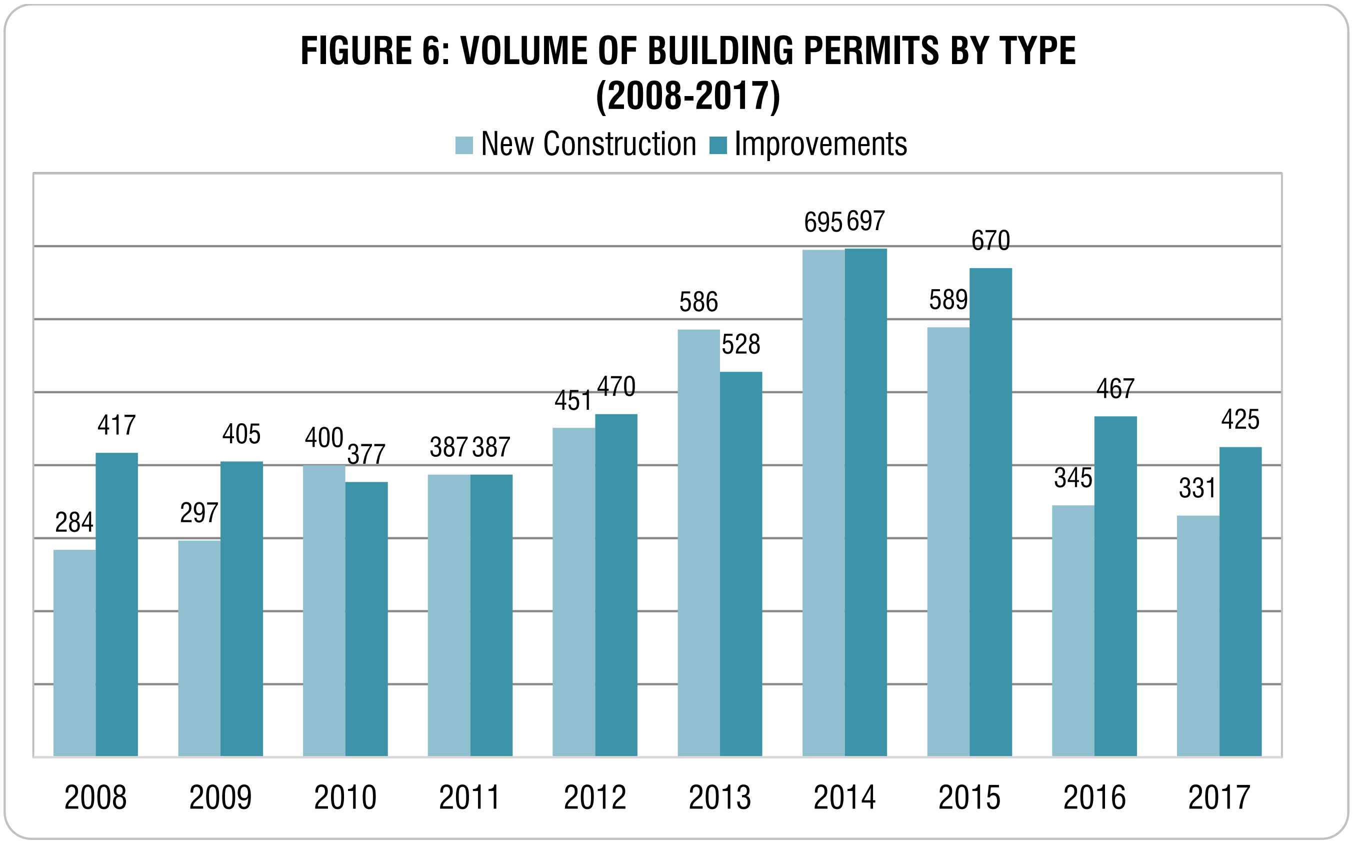


region, construction activity is usually slowest during the winter months, increasing in the spring and remaining high until autumn. Permitting in the last two years have seen a slight shift from the norm, with strong permitting levels throughout the year. This is likely due to two factors: longer permit validity times giving greater flexibility to builders, along with warmer weather during all seasons allowing for a longer construction season.

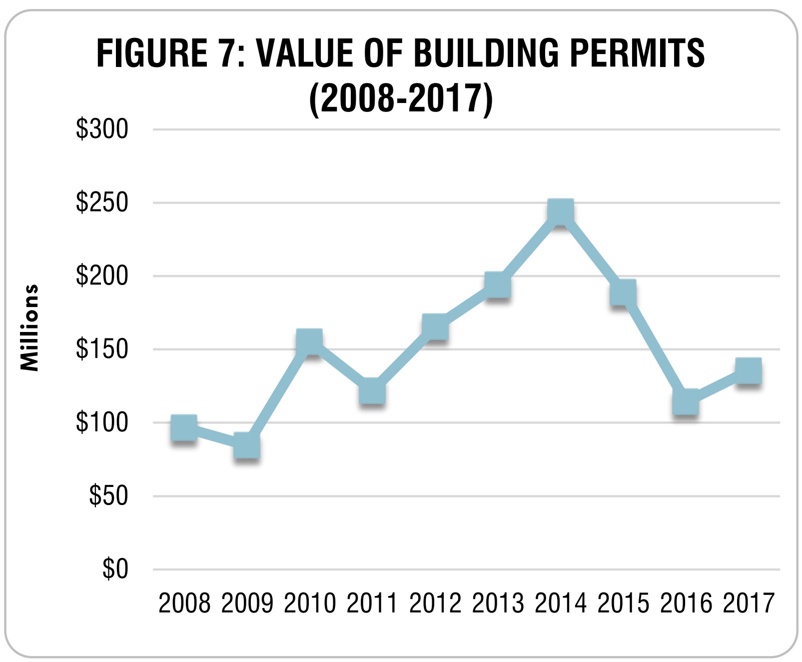
Figure 4 illustrates the housing units permitted in Spruce Grove by neighbourhood. The percentages include all unit types: single detached, semi-detached, and multifamily dwellings. The highest percentage of building permits for new units occurred in Spruce Ridge for the third year in a row. Greenbury and McLaughlin also showed significant growth. Also notable was the first permit being issued for the Copperhaven neighborhood on the City's west boundary.

To get a better context of permitting levels for 2017, **Figure 5** depicts the total number of building permits over the past decade. One can see that 2016 and 2017 reflect a return to the more typical level of activity, prior to the boom that occurred from 2013 to 2015. The number of building permits



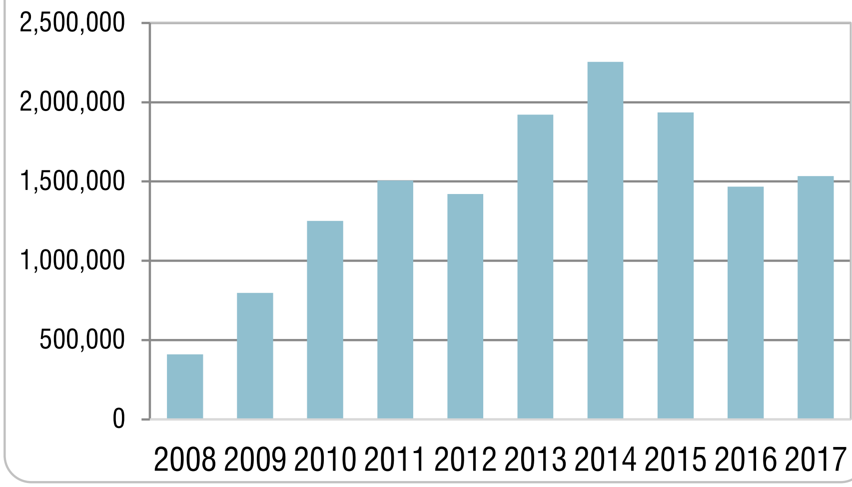


issued in 2017 still remains 18% lower than average permitting levels for the past decade, largely due to the hot market referenced above. Another consideration, that unfortunately wasn't flagged in 2016, was that the City changed the building permit procedure for rowhousing products in 2016, allowing multiple units to be approved under one permit. As an example, 188 rowhouse units were approved in 2015 under 188 different building permits. So while a reduction of overall permits would still occur from 2015, the number is not as extreme as originally thought due to administrative changes. **Figure 6** provides additional detail regarding the historic split between new buildings and improvements. As one can see, the decline in permitting levels in the past two years affected new development to a greater degree than improvements.



Looking closer at investment trends over the past decade, one can see that the value of permits has mostly correlated with permitting levels **(Figure 7)**. This past year is an exception, however, as the value of construction has gone up, while permitting activity has gone down. The reason is that non-residential construction has rebounded and added significant value on relatively few permits. **Figure 8** demonstrates the value of the average industrial and commercial building permit over the past 10 years.

FIGURE 8: AVERAGE NEW COMMERCIAL & INDUSTRIAL BUILDING PERMIT VALUE (2008-2017)



In reviewing the investment trends over the past few years, the average value of new commercial and industrial buildings has been generally higher compared to historic investment values earlier in the decade. This reflects the development of larger, higher quality structures.

DEVELOPMENT PERMITS

Figure 9 illustrates the trends in the volume of development permits issued over the last ten years. Development permit activity in 2017 was up approximately 4% from 2016. The minor difference between building permit and development permit activity levels is due to the ability to issue a single development permit for several structures on a lot, while separate building

FIGURE 9: VOLUME OF DEVELOPMENT PERMITS BY YEAR (2008-2017)

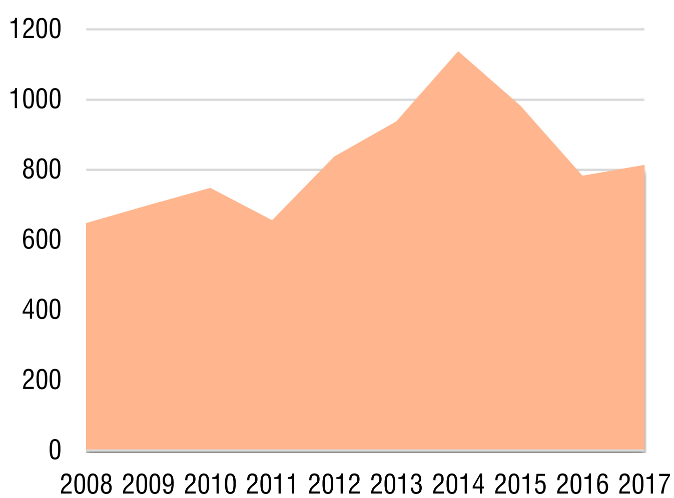
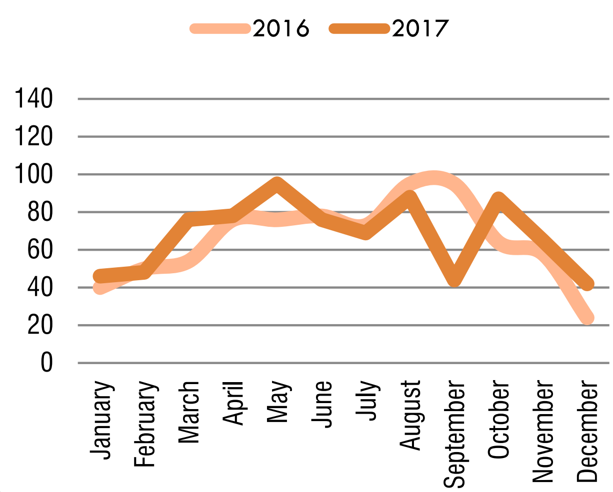
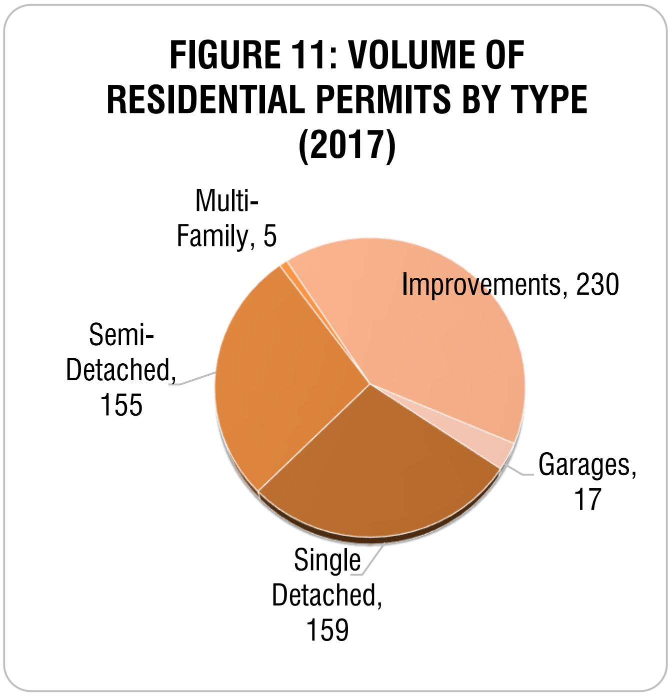
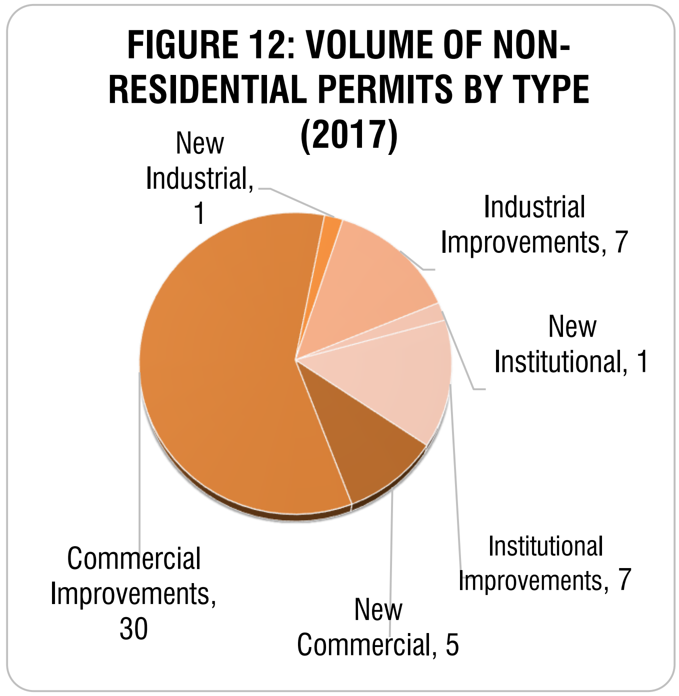


FIGURE 10: VOLUME OF DEVELOPMENT PERMITS BY MONTH (2016 & 2017)







permits are required for each structure on a property, as well as for changes of use or tenant improvements.

The next factor under examination is the volume of development permits issued on a monthly basis. **Figure 10** (previous page) depicts the number of permits issued by month for 2016 and 2017. The pattern shown is typical of development activity for the region, where higher activity levels occur during the warmer months. Activity in 2017 follows this typical pattern, with the exception of the dive in development permit activity in September and rebound in October.

Figure 11 provides the breakdown of residential development permits issued by type. The graph is dominated by residential improvements made to existing residences, with semi-detached and single detached units representing the next most common new construction permit type. Generally, the development permit numbers echo what we have already seen with building permits.

The breakdown of non-residential permits issued in 2017 by type is examined in **Figure 12**. Again, the trends seen earlier with building permits are evident here, with commercial and industrial improvements comprising the largest percentage of development permit approvals. These permits are largely for tenant improvements and approvals required for new uses.

Development permits for permanent signs increased slightly from 29 permits in 2016 to 30 in 2017. Temporary sign permits increased by a wider margin from 84 to 115 approvals.

OTHER PERMIT ACTIVITY

The City of Spruce Grove provides compliance requests as a service to residents during real estate transactions, as a safeguard for purchasers who want confirmation that the residence conforms to City bylaws. Compliance requests can be used to gauge residential transaction activity in the community. In 2017, there were 626 compliance decisions issued, down 18.4% compared to 2016. Compliance activity has returned to levels considered normal after two years of activity spikes. We can see in **Figure 13** that compliances follow the ramp up and cool down cycle typical of the real estate market in Alberta.

Looking closer at the activity patterns of the past two years **(Figure 14)**, one can see an atypical activity pattern in both 2016 and 2017, being more erratic than usual. In 2016, a sudden drop in July was seen as abnormal, where 2017 saw a large trough in April followed by a spike in activity in May. Generally speaking, staff has noticed more residential activity occurring each spring, which may reflect a new trend for home sales seasonality.

FIGURE 13: COMPLIANCES ISSUED BY YEAR (2008-2017)

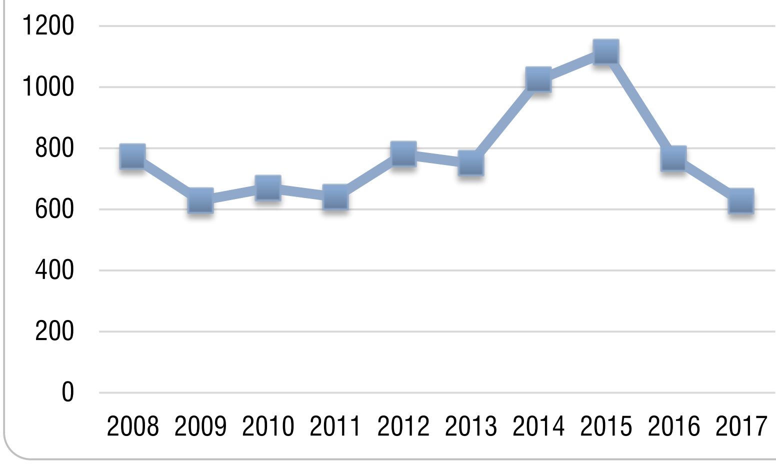
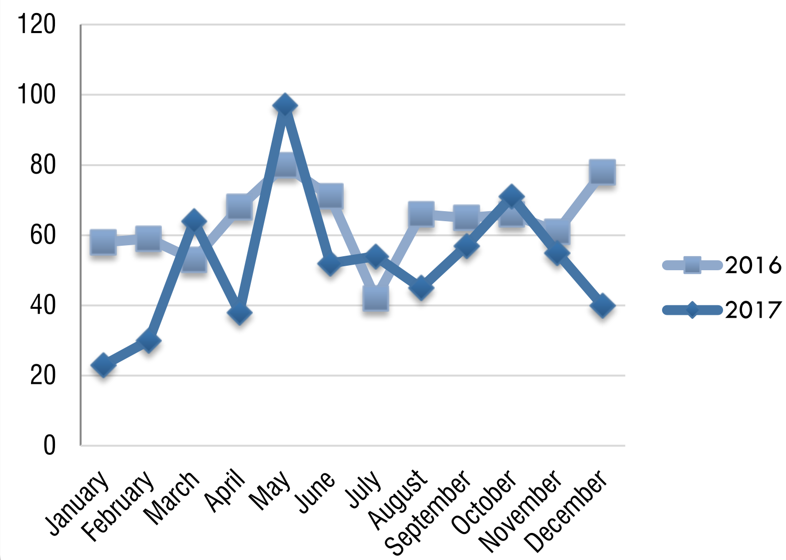
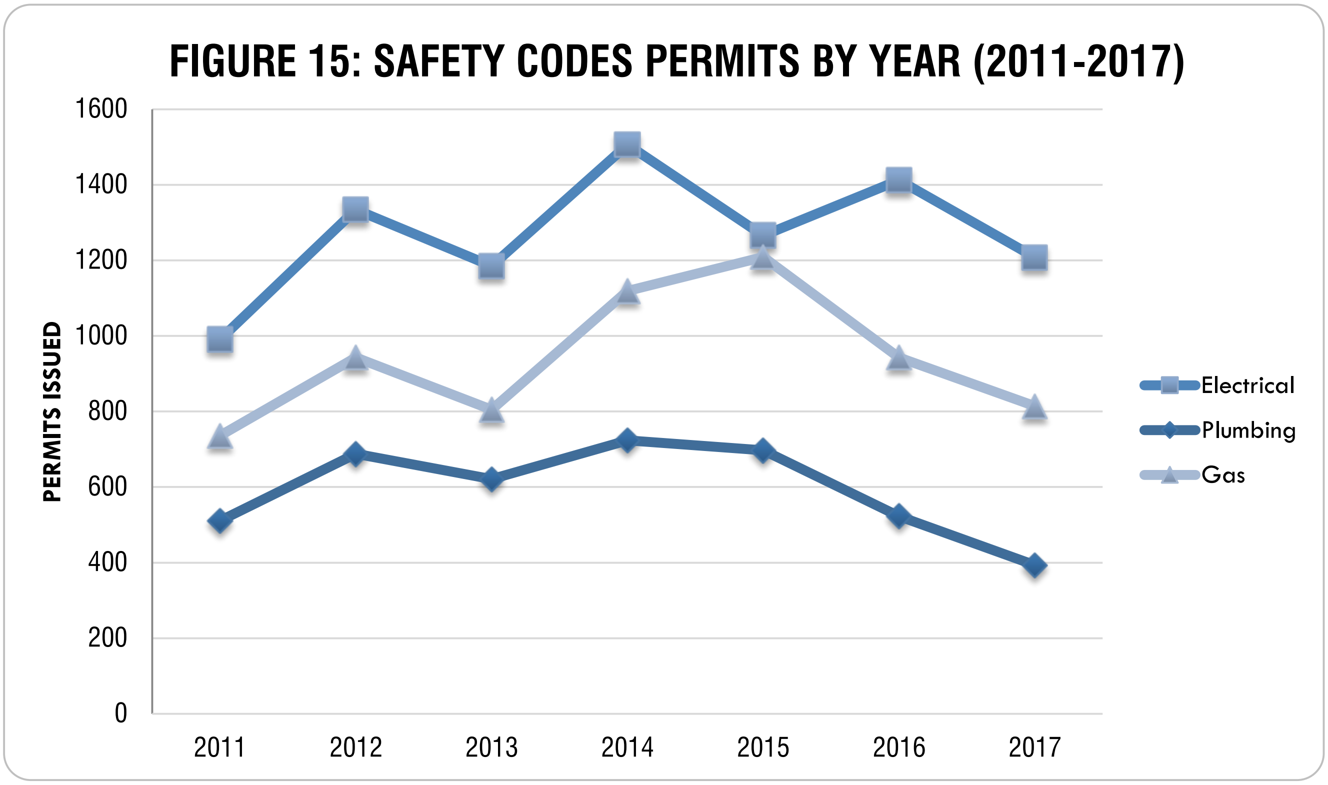


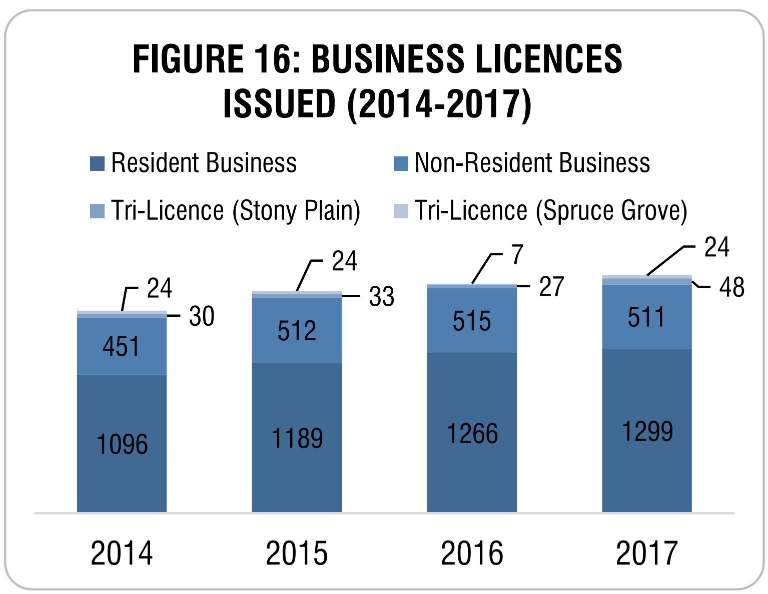
FIGURE 14: COMPLIANCES ISSUED BY MONTH (2016 & 2017)



The Planning and Development Department has been tracking Safety Codes Permits (other than building permits) since 2011, which is depicted in **Figure 15** (next page). We can see in this figure the number of electrical permits is higher than plumbing and gas. This generally occurs because new construction often requires two electrical permits, where only one is required in the other two disciplines. Overall, the City of Spruce Grove issued 2,416 permits in 2017, a 16% decrease over 2016 activity. That said, activity levels remained just above the average permitting levels for the past five years.



While the City has been tracking business licenses for a number of years, a major change was made to the system in 2013, resulting in a new database. As part of the process update, Administration found that data up to 2013 was inaccurate. Therefore, business licence activity in Figure 16 begins in 2014. The City has seen a steady increase in both residential and non-residential active businesses in the past four years. Spruce Grove had a total of 1,882 active businesses operating in the city limits in 2017, of which 1,299 were resident businesses (meaning the business is physically located in Spruce Grove). There were also 511 non-resident businesses, which are businesses located in another municipality that are providing a service within Spruce Grove. Finally there were 72 Tri-Municipal Licensed businesses working within Spruce Grove, which are businesses within Stony Plain or Parkland County that opted for a licence to provide services in all three municipalities.



HOUSING STARTS AND POPULATION

In order to provide some regional context for Spruce Grove's growth, housing data released by the Canada Mortgage and Housing Corporation (CMHC) is reviewed each year and compiled as part of this report. **Figure 17** shows the number of new housing starts in a number of communities in the Capital Region. Housing starts are different than building permits, as housing starts are determined by the pouring of a foundation as inspected by CMHC. As some

FIGURE 17: HOUSING STARTS BY MUNICIPALITIY (2017)

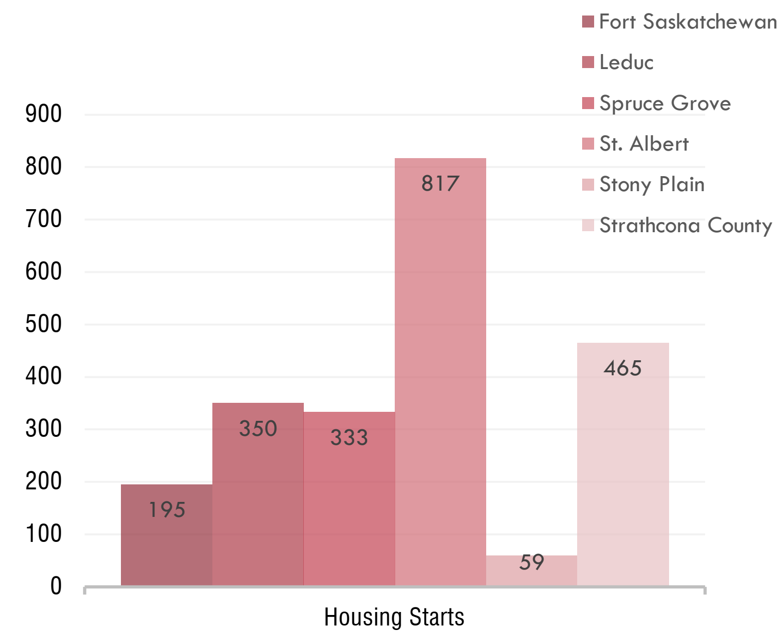
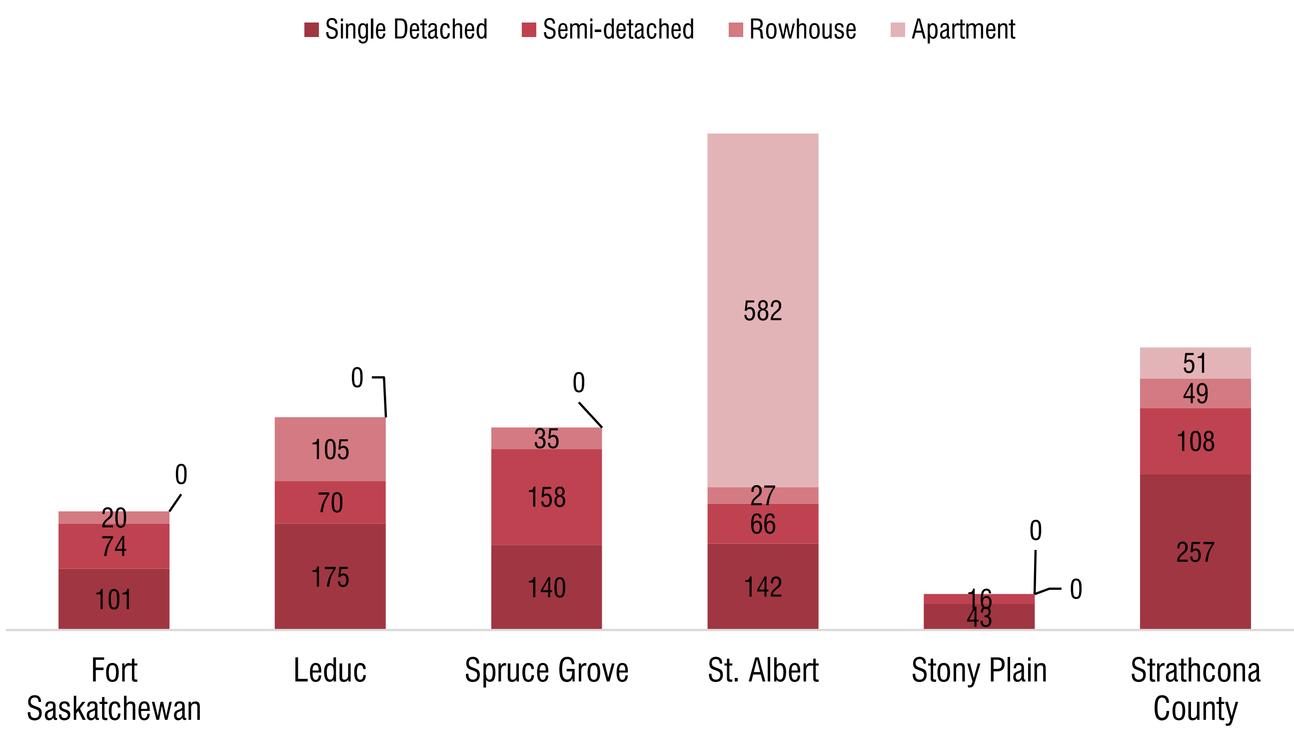
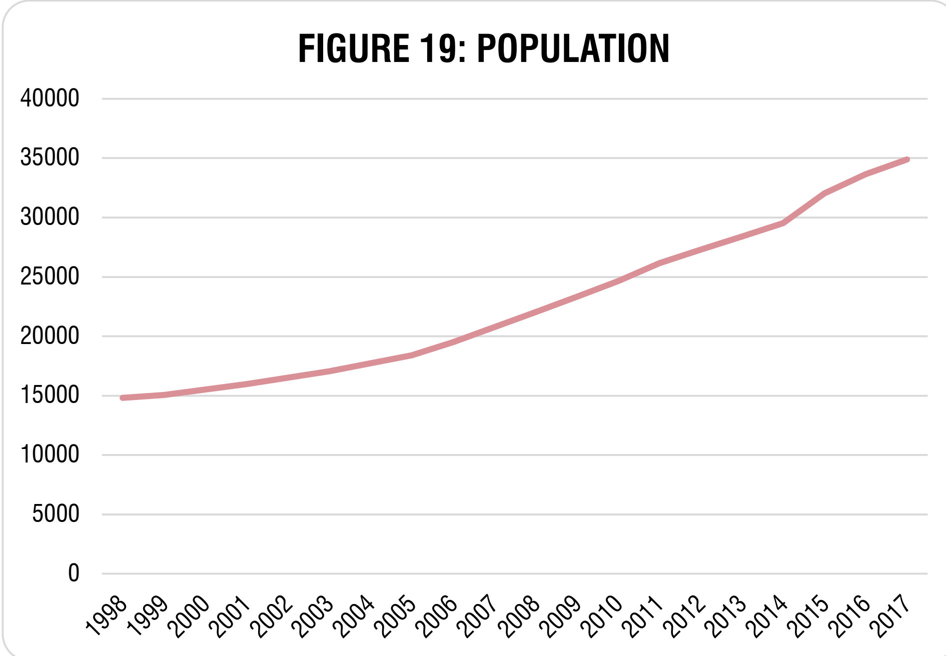


FIGURE 18: REGIONAL HOUSING STARTS BY DWELLING TYPE (2017)



building permits do not result in construction, housing starts are the most dependable information source for growth analysis. In 2017, there were 333 housing starts in Spruce Grove, a 12.4% decrease from 2016. Looking at peer municipalities, the City of Leduc saw an increase in housing starts of 60.6%; the City of Fort Saskatchewan saw a 26.7% decrease; the Town of Stony Plain saw a 43.8% decrease; and Strathcona County saw a 2.4% increase. The City of St. Albert continued their growth spurt from the following year, with a 16.9% increase over the previous year's 197% increase. The incredible growth both years has been due to major apartment style projects.



Looking closer at the composition of the housing starts by reviewing unit types**,** one can see that the decreased number of starts in a number of municipalities, including Fort Saskatchewan, Stony Plain and Spruce Grove is due to the lack of apartment development in 2017 (**Figure 18,** previous page).

The City completed a successful municipal census in 2017, reporting a population of 34,881 in 13,206 occupied residences. The population growth in 2017 was about 3.7%, which is below the average growth rate for the past 20 years **(Figure 19)**.

CONCLUSION AND 2018 OUTLOOK

Residential development activity continued to decline in 2017, including building and safety codes permits and development compliances. The start of development in new commercial areas, such as Westwind, helped buoy non-residential permitting and added to stronger building permit valuations. The reduction in activity levels has been largely due to the unprecedented growth that has occurred from 2014 to 2015, coupled with unabsorbed dwellings on the market. Administration expects residential development activity to remain steady until inventories decrease. Commercial activity is expected to remain steady in 2018 with building continuing in Westwind. Overall construction valuation is expected to reduce slightly due to fewer institutional projects after a few years of major construction activity, unless multifamily residential and non-residential development picks up.