HOUSING MARKET INFORMATION

HOUSING NOW
Canada

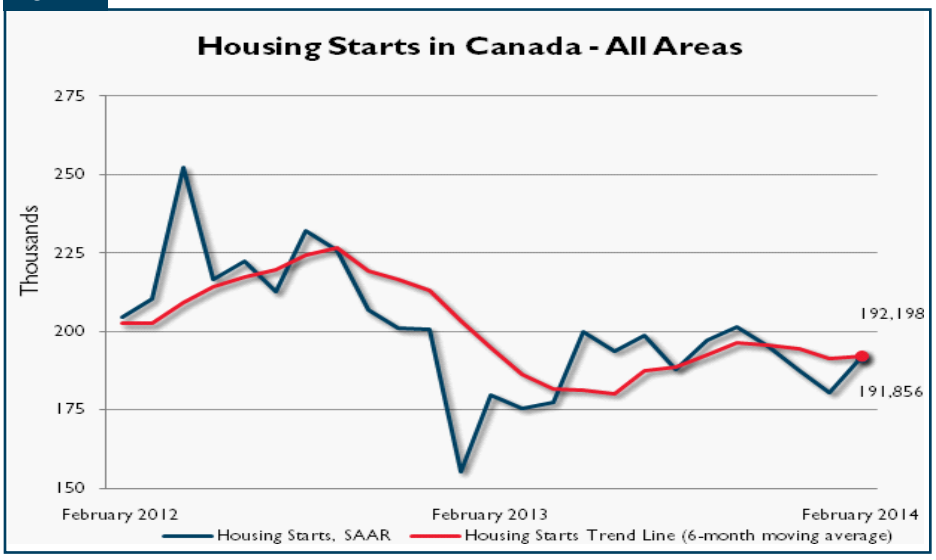

CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: March 2014

Highlights

- Housing starts were trending[1] at 192,198 units in February, stable from 191,516 units in January. This was the seventh consecutive month of stability in the housing starts trend.
- The stand-alone monthly SAAR[2] was 191,856 units in February, up from 180,496 units in January.
- The increase in February SAAR data was attributable to a 13.1 per cent increase of multi-unit starts in urban areas, while single-detached starts decreased by 2.5 per cent.

Figure 1



Source: CMHC; seasonally adjusted at annual rates (SAAR).

[1]The trend is a six-month moving average of the monthly seasonally adjusted annual rates (SAAR) of housing starts. CMHC uses the trend measure as a complement to the monthly SAAR of housing starts to account for considerable swings in monthly estimates and obtain a more complete picture of the state of the housing market. In some situations, analyzing only SAAR data can be misleading, as they are largely driven by the multiples segment, which can be quite volatile.

[2]All starts figures in this report, other than actual starts and the trend estimate, are seasonally adjusted annual rates (SAAR) — that is, monthly figures are adjusted to remove normal seasonal variation and multiplied by 12 to reflect annual levels. By removing seasonal ups and downs, seasonal adjustment makes it possible to highlight the fundamental trends of a series. Reporting monthly figures at annual rates indicates the annual level of starts that would be obtained if the monthly pace was maintained for 12 months. This facilitates comparison of the current pace of activity to annual forecasts as well as to historical annual levels.

Table of Contents

New Home Market

Housing starts in Canada were trending at 192,198 units in February, compared to 191,516 in January. The trend in housing starts remained stable in February for the seventh consecutive month. Since August 2013, the trend has essentially remained in the 185,000 to 195,000 range, with month-to-month variations generally of two per cent or less. This is consistent with CMHC's outlook calling for a stable housing market in 2014.

Multi-unit starts increased while single-detached starts decreased

In Canada's urban centres[3], the seasonally adjusted annual rate of housing starts was 175,344 units in February, a 7.3 per cent increase from 163,374 units in January. Month-to-month increases in Quebec and Atlantic Canada were responsible for the overall gain in February.

In Quebec, the increase was attributable to the starts of major condominium structures. Starts of large multi-unit structures can generate sizeable monthly variations, but multi-unit starts in Quebec should remain close to 2013 levels. In Atlantic Canada, the uptick in multi-family housing starts was essentially concentrated in the purpose-built rental market segment. Poor weather conditions in January pushed building activity forward into February. Nevertheless, the current year-to-date level of starts remains consistent with CMHC's outlook.

The seasonally adjusted annual rate of urban single-detached starts in Canada decreased by 2.5 per cent to 59,083 units in February, while multi-unit starts in urban areas increased by 13.1 per cent to 116,261 units.

In rural areas, the estimated seasonally adjusted annual rate of housing starts decreased by 3.6 per cent to 16,512 units in February compared to 17,122 units in January.

Inventory of new and unabsorbed housing units declined in February

The inventory of new and unabsorbed housing units[4] was 17,500 units in February 2014, down 3.2 per cent from 18,070 units in February 2013. This was the second consecutive year-over-year decrease of inventories after 39 straight monthly year-over-year increases.

The level posted in February was above the historical monthly average of 13,500 units that has prevailed since 1992. However, the inventory has moderated in recent months after the recent peak of 18,208 units reached in March 2013.

At 7,379 units, the actual inventory of single- and semi-detached units was 2.5 per cent above the year-ago level in February. On the other hand, the actual level of 10,121 newly completed and unoccupied units of row and apartment structures was 6.9 per cent below the level recorded a year ago. For row and apartments units, this third consecutive decline from year ago levels is consistent with expectations that builders will continue to adjust activity in order to manage their inventory levels.

Quarterly data on the ratio of inventory of new and unabsorbed units to population, which is a simple gauge of potential overbuilding, will be released in the next edition of Housing Now.

Construction intentions[5] increased

The seasonally adjusted value of residential building permits issued for all dwelling types increased by 26.3 per cent from December 2013 to January 2014. The increase posted in January followed two consecutive monthly decreases.

From December 2013 to January 2014, the seasonally adjusted value of multi-family building permits increased by 42.8 per cent. For the same period, the value of single-family[6] building permits increased by 15.0 per cent.

[3] Urban centres are defined as centres with a population of at least 10,000. CMHC surveys urban centres with 10,000 to 49,999 inhabitants at the end of every quarter. Months that are not at the end of a quarter are estimates. Urban centres with 50,000 inhabitants and more are surveyed on a monthly basis.

[4]The level of inventories discussed here is for urban centres with a population of 50,000 and over. The inventory of housing units is defined as a snapshot of the level of completed and unabsorbed units at a specific time. A unit is defined as "absorbed" when an agreement is made to buy the dwelling. The definition of this concept was recently updated. Prior to 2013, a unit was defined as "absorbed" when an agreement was made to buy or rent the dwelling. However, data on absorption for multiple dwelling units intended for rent was not always available. Supply conditions in the owner and rental markets are now collected under separate, dedicated surveys (see CMHC's *Rental Market Survey* for rented accommodation and CMHC's *Starts and Completions Survey* for owned accommodation). In addition, the series' name was changed from "newly completed and unoccupied" to "newly completed and unabsorbed" as a result of the move towards counts based on the existence of a binding contract.

[5]Statistics Canada conducts a building permits survey among 2,400 municipalities. These permits measure construction intentions and can serve as indicators of future starts. a conducts a building permits survey among 2,400 municipalities. These permits measure construction intentions and can serve as indicators of future starts.

[6]Statistics Canada's definition of the "single-family" category includes the following types of dwellings: single-detached, mobile home and cottage.

On a year-over-year basis, the total value of residential building permits was up 22.2 per cent in January. This was largely due to a 38.1 per cent year-over-year increase in the value of multi-family permits. The value of single-family permits posted a 11.5 per cent increase from the year-ago value.

In January, Canadian municipalities approved permits for the construction of 220,392 new dwellings (seasonally adjusted annual rate), up 17.4 per cent from December. The increase was lead by multi-family permits, which posted a gain of 20.9 per cent to 138,900 units. The single-family permits increased by 11.8 per cent in January to 81,400 units.

New Housing Price Index (NHPI) posted the largest increase since May 2012 on a year-over-year basis

The NHPI registered an increase of 0.3 per cent between December 2013 and January 2014, the largest gain since May 2012. This gain followed a 0.1 per cent increase between November and December 2013 and was mainly attributable to a strong increase in the Prairie region.

On a year-over-year basis, the NHPI rose by 1.5 per cent in January when compared to the same month in 2013. The year-over-year increase stood at 1.3 per cent in December 2013. The year-over-year increase was also mainly supported by gains in the Prairie region.

Existing Home Market

Multiple Listing Service® (MLS®)[7] sales stabilized in February after declining in January, while prices increased. Overall market conditions are still close to the threshold between balanced and sellers' markets.

MLS® sales remained relatively stable, while new listings increased slightly in February

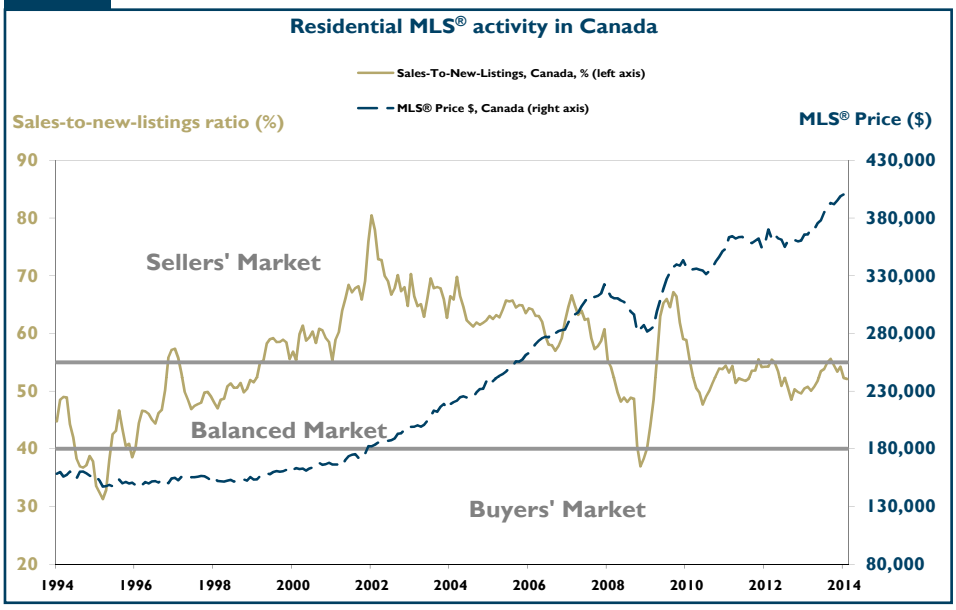
The seasonally adjusted annual rate of MLS® sales remained relatively stable in February. This follows five consecutive monthly declines of MLS® sales. In February, the annualized level of sales reached 438,876 units, compared to 437,484 units in January. The annualized sales level has gradually declined from the 10-year average of 464,400 units.

Meanwhile, the seasonally adjusted annual rate of MLS® new listings increased by 0.6 per cent in February to reach 842,376 units from 837,252 units in January. The annualized level of new listings remained above the 10-year monthly average level of 816,700 units.

Market conditions remained close to the threshold between balanced and sellers' markets

An indicator of price pressure in the existing home market is the sales-to-new listings ratio[8]. New listings are a gauge of the supply of existing homes, whereas MLS® sales are a proxy for demand. In February, the slight increase of new listings combined with the stability of MLS® sales brought down the sales-to-new listings ratio to 52.1 per cent from 52.3 per cent in January (see figure 2).

Figure 2



Data are seasonally adjusted and annualized, and cover Canada's major markets
Sources: CMHC, Canadian Real Estate Association (CREA), MLS®
Last data point: February 2014

[7]Multiple Listing Service (MLS®) is a registered trademark owned by the Canadian Real Estate Association.

[8]Taking the Canadian MLS® market as a whole, a sales-to-new-listings ratio below 40 per cent has historically accompanied prices that are rising at a rate that is less than inflation, a situation known as a buyers' market. A sales-to-new-listings ratio above 55 per cent is associated with a sellers' market. In a sellers' market, home prices generally rise more rapidly than overall inflation. When the sales-to-new-listings ratio is between these thresholds, the market is said to be balanced.

For a third consecutive month, the sales-to-new listings ratio trended down, but remained relatively close to the 55.0 per cent threshold between balanced and sellers' markets. The sales-to-new listings ratio has remained at or very close to balanced market conditions since roughly mid-2010.

Resale market prices increased

The national seasonally adjusted average MLS® price changed by 0.5 per cent in Feruary to $402,516 from $400,604 in January, a fourth consecutive gain following a decline between September and October.

In February, the actual average MLS® price increased by 10.1 per cent to $406,372 from $369,066 a year ago. The year-over-year increases in the average MLS® price observed in recent months largely reflect higher sales activity in some of Canada's higher-priced markets, which contributed to boost the average national MLS® price.

The MLS® Home Price Index[9], which uses statistical techniques to control for changes over time in the composition of the types and quality of homes sold, increased by 5.1 per cent in February 2014 compared to February 2013. The year-over-year increase noted in February was due to two-storey and one-storey single-detached homes increasing by 5.8 and 5.4 per cent, respectively. The February increase follows a year-over-year gain of 4.8 per cent the previous month.

On a month-to-month basis, the MLS® Home Price Index registered an increase of 0.9 per cent between January and February 2014, following a decrease in the previous month.

Teranet-National Bank House Price Index increased

The Teranet–National Bank House Price Index™[10], which also uses statistical techniques to control for changes in the types and quality of homes sold over time, posted a 5.0 per cent increase in February, over the same month in 2013. While this represents the strongest year-over-year increase since June 2012, it was mainly attributable to gains above the national average in some Western markets. The increase posted in February followed year-over-year gain of 4.5 per cent in January.

The Teranet–National Bank House Price Index™ increased by 0.3 per cent between January and February 2014, following an increase of 0.4 per cent between December 2013 and January 2014.

Economic conditions

Employment was up by 0.5 per cent in February when compared to the same month in 2013, according to Statistics Canada, representing an increase of 94,700. Full-time employment recorded an increase of 0.5 per cent when compared to the same month a year before, a gain of 69,600. Part-time employment saw a year-over-year increase of 0.8 per cent, a gain of 25,100.[11]

Meanwhile, Statistics Canada's Consumer Price Index rose by 1.1 per cent year-over-year in February, following a 1.5 per cent increase in January. Core inflation, which excludes the eight most volatile items and the effect of changes in indirect taxes, rose by 1.2 per cent year-over-year in February, following an increase of 1.4 per cent in January. This latter measure is used as a predictor of future overall inflation.

On March 5, the Bank of Canada announced that it would maintain the target for the overnight rate unchanged at one per cent, where it has stood since the announcement made on September 8, 2010[12].

The next interest rate announcement of the Governing Council of the Bank of Canada is scheduled to take place on April 16, 2014. The next *Monetary Policy Report* will be published at the same time.

The average five-year mortgage interest rate offered by chartered banks was at 5.24 per cent in February for a second consecutive month. The February value is within the range of 5.14 per cent to 5.34 per cent, posted since May 2012.

[9]The MLS® Home Price Index is based on single-family, townhouse/row, and apartment unit sales activity in Greater Vancouver, the Fraser Valley, Calgary, Regina, Greater Toronto and Greater Montréal. CREA's definition of the "single-family" category includes the following types of dwellings: one- and two-story single-detached and semi-detached homes.

[10] The Teranet-National Bank House Price Index™ is based on single-family, townhouse/row, and condominium unit sales activity in Vancouver, Calgary, Toronto, Ottawa, Montréal and Halifax. Teranet-National Bank's definition of the "single-family" category includes the following types of dwellings: single-detached and semi-detached homes.

[11]The sum of part-time and full-time employment may not equal total employment due to rounding.

[12]For the full text of the press release announcing the Bank of Canada's March 5, 2014 target for the overnight rate, see http://www.bankofcanada.ca/2014/03/fad-press-release-2014-03-05/.

A Primer on House Price Ratios

This is the third in a series of articles on the different measures available to analyze house prices.

The first two articles, published in the September 2013 and December 2013 editions of Housing Now Canada[13], discussed the differences between price measures and how these differences can lead to different conclusions with respect to the analysis of price growth[14]. A key theme of these two articles was that the analysis of house price conditions benefits from considering the range of analytical insights available from different price measures, as opposed to relying on any single measure.

This article discusses some of the alternative indicators in order to highlight their different strengths in assessing problematic house price conditions. The indicators examined include ratios of home price-to-rent, price-to-income, mortgage payment-to-income and price-to-average mortgage borrowing capacity.

Typically, in order to derive an assessment of the potential for problematic house price conditions, the current level of prices is often compared to a simple benchmark. The benchmark considered here is the historical average value of house price-based ratios.

A large part of the differences among indicators reflects differences in the benchmarks used. In particular, indicators that incorporate elements of the financing environment - especially the impact of mortgage rates on the financial accessibility of homeownership - tend to show a different assessment of the potential for problematic house price conditions than indicators that do not account for the financing environment. This is found to hold true under the most widely referenced house price measures that exist in Canada.

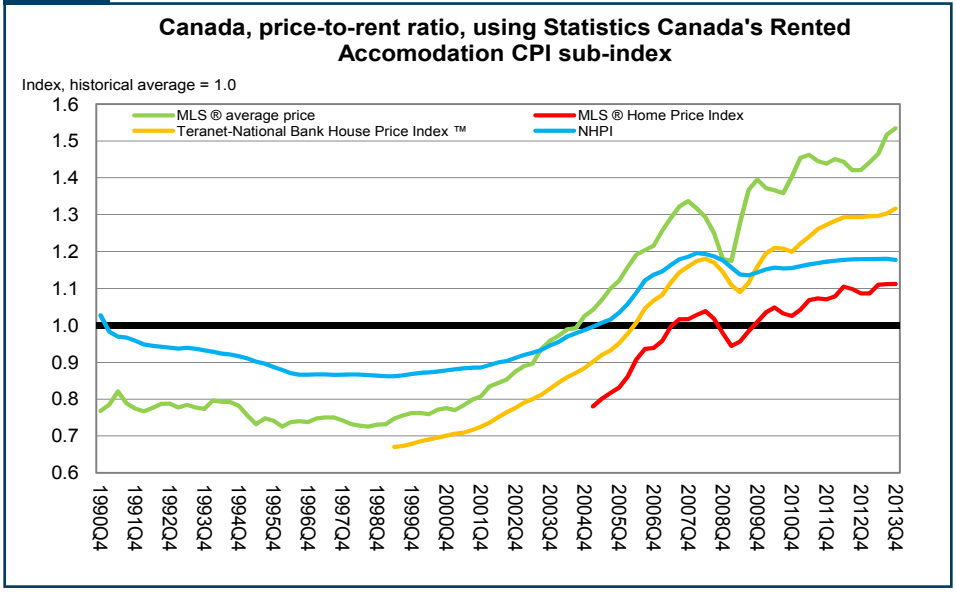
As a result, it is important to rely on more than one indicator of potentially problematic house price conditions, and to be aware of their differences.

House price-to-rent ratio

Figure 3 shows the house price-to-rent ratio. The use of this ratio is based on the premise that households have the option of both rented and owned accomodation in the housing market. As a result, the relative costs of renting versus buying a home should logically impact the decision to rent or buy.

If house prices were to diverge from levels that would be consistent with underlying economic fundamentals, the house price-to-rent ratio could also be expected to diverge from its typical, long-run relationship. This also assumes that the long-run average value of the price-to-rent indicator reflects the equilibrium of demand and supply between the rented and owned accommodation markets. Given this assumption, values above the historical value of the ratio may be interpreted by some observers as a signal of the emergence of potentially problematic house price conditions.

Figure 3



Note: Values above 1.0 indicate that the ratio is above its long run average. For example, a value of 1.10 suggests that the ratio is 10 per cent above the historical average ratio.
Last data point: 2013Q4.
Sources: Canadian Real Estate Association MLS® , Statistics Canada, Teranet-National Bank House Price Index™. Calculations by CMHC.

[13] Previous editions of Housing Now, Canada are available at http://www.cmhc.ca/housingmarketinformation/.

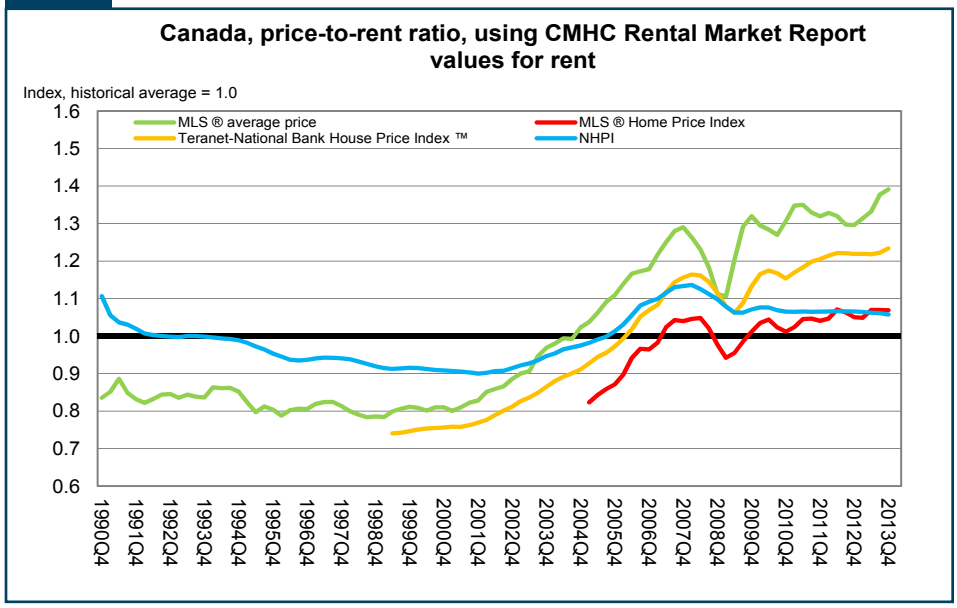
[14] The price measures discussed include: the average Multiple Listing Service price (MLS® average price); the MLS® Home Price Index (MLS® HPI); the Teranet-National Bank House Price Index™; the Royal LePage House Price Survey; and Statistics Canada's New Housing Price Index (NHPI).

Figure 3 illustrates that the price-to-rent ratio is sensitive to the price measure used. In the fourth quarter of 2013, depending on the price measure used, estimates of the price-to-rent ratio ranged from 11 per cent above its long-run average under the MLS® home price index to as high as 53 per cent above its long run average under the MLS® average price. When measured using Statistics Canada's New Housing Price Index (NHPI) or the Teranet-National Bank House Price Index™, the price-to-rent ratio is calculated at 18 per cent and 32 per cent above the respective long-run average.

As discussed in the previous feature articles on price measures, the MLS® average home price does not control for changes in the mix of quality, type or location of homes sold. The other price measures considered do control for such effects. Figure 3 suggests that not controlling for these effects leads to larger estimates of the divergence between current conditions and the long run relationship of home prices to rents.

Figure 4 illustrates another complication that arises when using the price-to-rent ratio to gauge housing market conditions: sensitivity to the measure of rents. Figure 3 uses a measure of rents based on Statistics Canada's rented accommodation component of the Consumer Price Index, while Figure 4 is based on the measure of rents from CMHC's Rental Market Survey. The latter measure estimates a generally more rapid pace of growth of rents over time than is estimated from Statistics Canada's rented accommodation measure. As a result, the range of estimates of the gap between the price-to-rent ratio in the latest data and the historical average ratio in Figure 4 is narrowed, relative to Figure 3. In particular, the level of

Figure 4



Note: Values above 1.0 indicate that the ratio is above its long run average. For example, a value of 1.10 suggests that the ratio is 10 per cent above the historical average ratio.
Last data point: 2013Q4.
Sources: Canadian Real Estate Association MLS®, Statistics Canada, Teranet-National Bank House Price Index™, CMHC. Calculations by CMHC.

the price-to-rent ratio in the fourth quarter of 2013 is closer to its long run average for each price measure. However, the MLS® average price continues to generate larger estimates of the distance from historical conditions than do other price measures that control for changes in the quality, type and location of homes sold.

Under the MLS® average price, the gap with respect to the historical average price-to-rent ratio calculated on the basis of CMHC's Rental Market Survey estimates of rent falls to 39 per cent in Figure 4 from 53 per cent in Figure 3, while the MLS® House Price Index falls to 7 per cent above the long-run average from 11 per cent. Similarly, the Teranet-National Bank House Price Index™ gap falls to 23 per cent from 32 per cent, while the NHPI gap falls to 6 per cent from 18 per cent.

A key drawback of the price-to-rent ratio is the difficulty in accounting for the differing market forces on rents and prices[15]. Therefore, changes in the relationship between home prices and rents may not simply be capturing the equilibrium of supply and demand in the rented and owned accommodation markets. More generally, house prices are not directly comparable to rents. Prices are typically amortized over a long period with regular principal and interest payments. In addition, costs like condominium fees and utilities may need to be considered to allow for a comparison to rent.

[15] The rental market, in some housing markets, can be subject to regulations that limit the growth of rent in certain specific circumstances, the details of which vary across Canada.

House price-to-income ratio

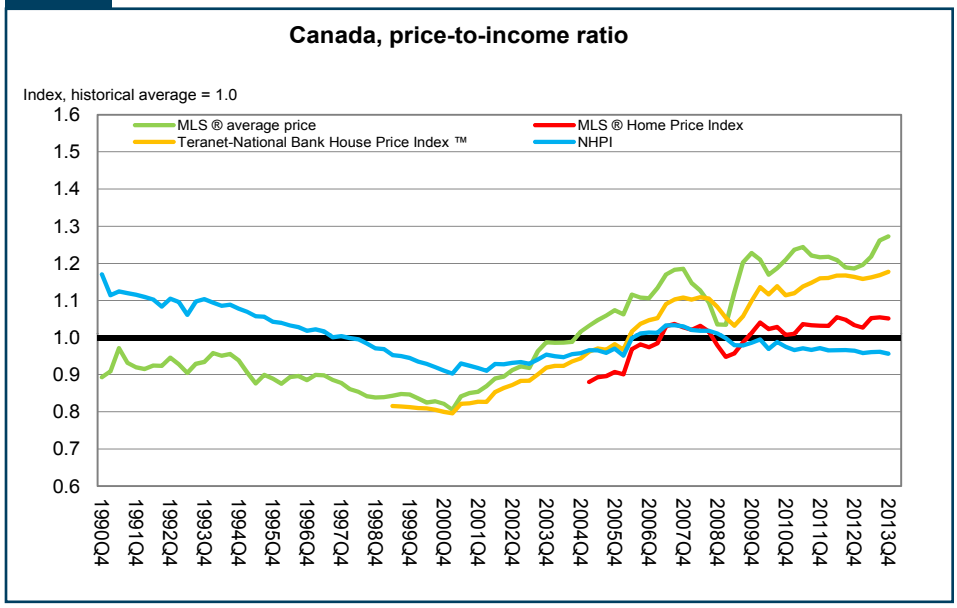
A second type of measure that is often used to assess the potential for problematic house price conditions is the house price-to-income ratio. This ratio is based on the assumption that house prices are constrained by financial accessibility. In particular, if house prices diverge from underlying economic fundamentals like income growth, the ratio of house prices to income would also be expected to diverge from its historical, long run value. This may be interpreted by some analysts as a signal of the emergence of potentially problematic house price conditions.

Figure 5 illustrates the price-to-income indicator by taking per capita personal disposable income as its measure of income under various measures of home prices.

As was the case for the price-to-rent indicator, the price-to-income indicator is also very sensistive to the choice of price measure. In both cases, the largest gap between the level of the ratio in the latest quarterly data (the fourth quarter of 2013) and the historical average ratio is found when the MLS® average price measure is used, while the MLS® home price index generates much lower estimates of divergence from the long run average. This further illustrates that price measures that do not control for changes in the quality or mix of house-types sold are likelier to suggest greater divergence from historically typical conditions than price measures that control for such effects.

The price-to-income measure suggests a broad range of values for the gap between the value of the ratio in the fourth quarter of 2013 and its historical average. In particular, the MLS® average price to income measure was 27 per cent above its historical average,

Figure 5



Note: Values above 1.0 indicate that the ratio is above its long run average. For example, a value of 1.10 suggests that the ratio is 10 per cent above the historical average ratio.
Last data point: 2013Q4.
Sources: Canadian Real Estate Association MLS®, Statistics Canada, Teranet-National Bank House Price Index™. Calculations by CMHC.

followed by the Teranet-National Bank House Price Index™ at 18 per cent and the MLS® HPI at 5 per cent. The lowest estimate stems from the NHPI, which showed a price-to-income ratio at the end of 2013 that was actually 4 per cent below its long-run average.

Beyond the sensitivity of the price-to-income ratio to the choice of price measure, a more critical weakness of the ratio is that its simplicity can lead to misrepresentations of the true state of financial accessibility of housing. As is the case with price-to-rent comparisons, the price-to-income indicator takes no account of the amount of time a homebuyer would have to pay off the price of their purchase (i.e. mortgage amortization) or the cost of mortgage-financing (i.e. mortgage rates). These additional factors matter greatly in determining the size of mortgage payments. For example, the same mortgage liability spread out over a longer period of repayment will likely increase the overall cost of a mortgage by increasing the total interest paid over the lifetime of the mortgage, but can also lower the size of each mortgage payment in a way that would not be apparent under a simple price-to-income analysis. Similarly, the level of mortgage rates directly determines the size of mortgage payments and, hence, the financial capacity to make such payments.

As a result, the price-to-income measure is not sufficient, by itself, to determine the financial accessibility of housing because a given price-to-income ratio can generate a range of mortgage payment scenarios, from relatively light to relatively burdensome, depending on the financing terms. This suggests the need to consider additional income-based indicators that incorporate the financing context in order to qualify the results of assessments of house price conditions based solely on the price-to-income ratio.

Other income-based ratios

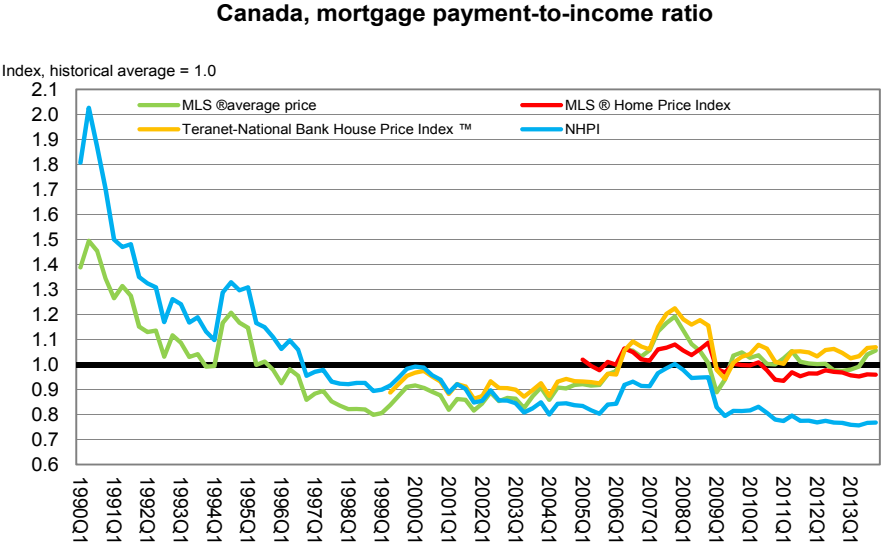
Figure 6 shows the mortgage payment-to-income ratio under alternative price measures. As in Figure 5, the measure of income in Figure 6 is the level of per capita disposable income. However, the indicator in Figure 6 takes into account the financing context in order to estimate the size of a typical mortgage payment as a share of income[16].

Figure 6 illustrates that the financial accessibility of housing, as measured by the mortgage payment-to-income ratio, has generally stabilized at levels that are close to the long-run average under most house price measures since roughly the first quarter of 2011. The marked exception is Statistics Canada's New Housing Price Index, which has trended further below its long run average mortgage payment-to-income ratio over the same period.

The main factor keeping the level of mortgage payments-to-income in line with the long-run ratio, despite increasing house prices, is the low level of mortgage interest rates when compared to historical experience. More generally, the long-run trend towards lower interest rates over the period depicted in Figure 6 largely explains the long-run trend of declining mortgage payment-to-income ratios since the early 1990s.

Figure 7 shows an indicator that captures most of the elements of the mortgage-payment-to-income ratio, while maintaining the familiar price-based ratio framework of the indicators discussed earlier: the price-to-borrowing capacity indicator.

Figure 6



Note: Values above 1.0 indicate that the ratio is above its long run average. For example, a value of 1.10 suggests that the ratio is 10 per cent above the historical average ratio.
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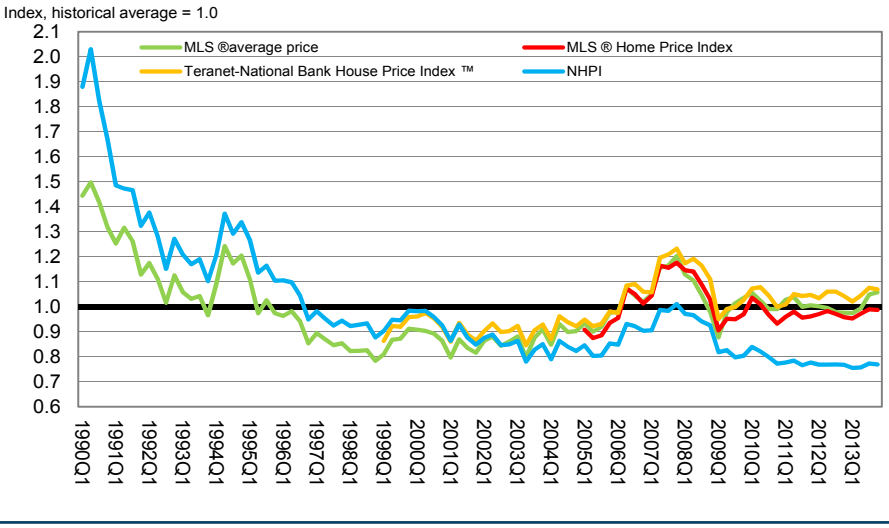
Figure 7



Note: Values above 1.0 indicate that the ratio is above its long run average. For example, a value of 1.10 suggests that the ratio is 10 per cent above the historical average ratio.
Last data point: 2013Q4.
Sources: Canadian Real Estate Association MLS®, Statistics Canada, Teranet-National Bank House Price Index™. Calculations by CMHC.

[16] Figure 6 assumes a 20 per cent downpayment on the purchase of a home, with the remainder amortized over twenty-five years, with interest determined by the five-year mortgage interest rate offered by chartered banks.

The price-to-borrowing capacity indicator assumes that households face a mortgage "borrowing capacity" constraint that is equal to 30 per cent of their income[17]. The actual level of the mortgage is further determined from the same assumptions regarding the amorization period as in Figure 6, and from the 5-year mortgage rate. The indicator thus captures some key factors of the financing context, particularly the level of mortgage rates.

If house prices were to diverge from levels that are consistent with the state of economic fundamentals, the price-to-borrowing capacity ratio would be likely to diverge from its long run average value. However, since the price-to-borrowing capacity indicator takes into account the impact of mortgage rates on mortgage costs, this indicator reveals that financial accessibility is in line with historical experience because mortgage rates are relatively low. On the other hand, indicators like the price-to-rent and price-to-income ratios that do not account for the offseting impact of relatively low mortgage rates on the costs of homeownership will tend to find that current conditions diverge greatly from historical experience. This holds true under the most widely referenced house price measures that exist in Canada.

Table 1 summarizes the key points that arise from a comparison of alternative ratios across price measures. In particular, the price-to-rent ratio consistently finds the highest disparity between price conditions in 2013Q4 and the historical average, across all price measures considered. On the other hand, the low end of the range is generated by the mortgage-payment-to-income ratio, which was actually slightly below its long run average value in 2013Q4 for some house price measures. The price-to-income and price-to-borrowing capacity ratios were above their long-run average values for most price measures, but overall are closer to the results found under the mortgage-payment-to-income ratio than to the results of the price-to-rent ratio.

Table 1 also demonstrates that using the MLS® average price measure leads to the largest discrepancies between conditions in 2013Q4 and historical averages for most ratios. On the other hand, the MLS® HPI price measure shows much lower divergence across all ratios. The difference between the two measures is marked. The MLS® average price generates ratio values for 2013Q4 that ranged from 6 per cent to more than 50 per cent above the long run values, depending on the ratio, while the MLS® HPI generates a more compact and lower range of values, from about 25 per cent below to less than 10 per cent above long run values, depending on the ratio. As mentioned earlier, this shows that price measures that do not control for changes in the quality, type and location of housing tend to signal the largest discrepancies between current and historical conditions.

Table 1 : Summary of Ratio Values by House Price Measures

	Value of Ratio in 2013Q4 (average historical ratio = 1.0)*				
House Price Measure	**Price-to-rent (CPI)****	**Price-to-rent (RMR)****	**Price-to-income**	**Mortgage-payment-to-income**	**Price-to-borrowing capacity**
MLS® average price, actual	1.53	1.39	1.27	1.06	1.06
MLS® HPI	1.11	1.07	1.05	0.96	0.99
Teranet-National Bank House Price Index™	1.32	1.23	1.18	1.07	1.07
NHPI	1.18	1.06	0.96	0.77	0.77

*Values above 1.0 indicate that the ratio is above its long run average. For example, a value of 1.10 means the ratio was 10 per cent above the historical average ratio.

**The first price-to-rent column (CPI) measures rents using Statistics Canada's rented accommodation index, which is a sub-component of the Consumer Price Index. The second price-to-rent column (RMR) measures rents using data from CMHC's Rental Market Reports.

[17] Typically, a measure of gross household income would be used to estimate households' borrowing capacity, but for the sake of consistency with the other indicators discussed, the measure of income used in Figure 7 is per capita personal disposable income.

Conclusion

Several alternative indicators of the potential for problematic house price conditions exist to examine this issue in the Canadian context. While the relative simplicity and appealing intuition of the price-to-rent and price-to-income ratios compels their frequent use in the analysis of house prices, these indicators are also very sensitive to the price measure being evaluated and disregard important factors in the financing environment. It is important to keep these caveats in mind when using such indicators to assess the potential for problematic house price conditions, and to supplement such analysis with complementary indicators that take the financing environment into explicit account.

In addition to incorporating the financing environment, the impact of other fundamental factors should also be considered. Fundamentals may include construction costs, the availability of land, as well as employment conditions and various demographic factors.

This article has examined issues at the national level to illustrate the over-arching themes. Subsequent articles will consider specific local housing markets in more detail. ■

This Month's Housing Data (SAAR)

Housing starts, units, 000s

	2013	Q2:13	Q3:13	Q4:13	M12:13	M01:14	M02:14
Canada. Total. All areas	**187.9**	**187.9**	**191.6**	**197.4**	**187.2**	**180.5**	**191.9**
Per cent change from previous period	-12.5	7.7	2.0	3.0	-4.1	-3.6	6.3
Canada. Total. Rural areas	**17.8**	**17.2**	**18.3**	**18.6**	**19.4**	**17.1**	**16.5**
Per cent change from previous period	-16.3	2.1	6.5	1.2	6.0	-11.7	-3.6
Canada. Total. Urban areas	**170.1**	**170.6**	**173.3**	**178.9**	**167.8**	**163.4**	**175.3**
Per cent change from previous period	-12.1	8.3	1.5	3.2	-5.2	-2.6	7.3
Canada. Single. Urban areas	**63.1**	**62.7**	**62.8**	**64.0**	**58.9**	**60.6**	**59.1**
Per cent change from previous period	-6.0	-0.9	0.2	1.8	-7.4	2.9	-2.5
Canada. Multiple. Urban areas	**107.0**	**107.9**	**110.4**	**114.9**	**108.9**	**102.8**	**116.3**
Per cent change from previous period	-15.4	14.5	2.3	4.0	-4.0	-5.6	13.1
Newfoundland. Total. All areas	**2.9**	**3.0**	**2.6**	**3.2**	**2.5**	**2.6**	**4.8**
Per cent change from previous period	-26.3	13.8	-15.4	23.6	-27.7	3.5	84.3
Prince Edward Island. Total. All areas	**0.6**	**0.7**	**0.5**	**0.4**	**0.7**	**0.6**	**0.3**
Per cent change from previous period	-32.4	-18.9	-36.9	-6.0	100.0	-21.8	-48.2
Nova Scotia. Total. All areas	**3.9**	**3.5**	**4.0**	**3.5**	**2.9**	**2.5**	**1.9**
Per cent change from previous period	-13.3	-25.0	15.9	-12.5	18.3	-14.1	-23.5
New Brunswick. Total. All areas	**2.8**	**2.8**	**2.8**	**3.2**	**3.1**	**1.9**	**3.3**
Per cent change from previous period	-13.8	-14.9	-0.1	14.0	0.8	-37.9	68.6
Quebec. Total. All areas	**37.8**	**38.9**	**36.6**	**38.9**	**39.7**	**33.1**	**51.4**
Per cent change from previous period	-20.3	9.8	-6.0	6.2	4.7	-16.8	55.4
Ontario. Total. All areas	**61.1**	**58.4**	**65.0**	**63.4**	**56.7**	**60.0**	**60.2**
Per cent change from previous period	-20.4	2.8	11.4	-2.6	-5.7	5.9	0.2
Manitoba. Total. All areas	**7.5**	**7.4**	**8.4**	**7.4**	**6.2**	**4.8**	**4.8**
Per cent change from previous period	3.1	9.0	13.7	-11.6	-28.7	-23.0	-0.4
Saskatchewan. Total. All areas	**8.3**	**7.6**	**10.8**	**8.2**	**6.8**	**8.3**	**5.3**
Per cent change from previous period	-16.8	12.2	42.9	-24.0	1.1	22.6	-36.4
Alberta. Total. All areas	**36.0**	**39.2**	**32.2**	**39.5**	**36.2**	**39.4**	**35.7**
Per cent change from previous period	7.8	16.6	-17.9	22.8	-17.4	8.7	-9.3
British Columbia. Total. All areas	**27.1**	**26.4**	**28.7**	**29.7**	**32.3**	**27.3**	**24.3**
Per cent change from previous period	-1.5	12.0	8.8	3.5	13.2	-15.5	-11.1

SOURCE: CMHC, Starts and Completions Survey. All data are seasonally adjusted and annualized. This seasonally adjusted data goes through stages of revision at different times through the yearly cycle resulting in finalization of preliminary data. These revisions take place at the end of each month, quarter and year.

This Month's Housing Data, continued (SAAR)*

Housing starts, units, 000s

	2013	Q2:13	Q3:13	Q4:13	M12:13	M01:14	M02:14
Canada. Total. Urban areas	**170.1**	**170.6**	**173.3**	**178.9**	**167.8**	**163.4**	**175.3**
Newfoundland. Total. Urban areas	**2.0**	**2.0**	**1.8**	**2.4**	**1.9**	**1.6**	**4.0**
Prince Edward Island. Total. Urban areas	**0.5**	**0.5**	**0.3**	**0.4**	**0.7**	**0.3**	**0.2**
Nova Scotia. Total. Urban areas	**3.3**	**3.0**	**3.6**	**2.4**	**1.4**	**1.7**	**1.6**
New Brunswick. Total. Urban areas	**2.1**	**2.1**	**1.7**	**2.6**	**2.4**	**1.3**	**2.2**
Quebec. Total. Urban areas	**31.8**	**32.3**	**30.6**	**33.4**	**34.2**	**27.4**	**46.1**
Ontario. Total. Urban areas	**58.6**	**56.4**	**62.1**	**60.6**	**53.6**	**57.8**	**58.1**
Manitoba. Total. Urban areas	**5.9**	**5.9**	**6.8**	**5.8**	**4.6**	**3.3**	**3.4**
Saskatchewan. Total. Urban areas	**7.3**	**6.5**	**9.9**	**7.0**	**5.6**	**7.3**	**4.0**
Alberta. Total. Urban areas	**33.0**	**36.8**	**29.2**	**36.0**	**32.6**	**36.9**	**32.9**
British Columbia. Total. Urban areas	**25.7**	**25.2**	**27.3**	**28.3**	**30.9**	**25.8**	**22.7**

SOURCE: CMHC, Starts & Completions Survey. All quarterly and monthly data are seasonally adjusted and annualized.This seasonally adjusted data goes through stages of revision at different times through the yearly cycle resulting in finalization of preliminary data. These revisions take place at the end of each month, quarter and year.

This Month's Major Housing Indicators

New Housing

	2013	Q2:13	Q3:13	Q4:13	M12:13	M01:14	M02:14
New & unabsorbed singles & semis, units 000s	**7.1**	**7.0**	**7.0**	**7.1**	**7.1**	**7.1**	**7.4**
Per cent change from same period previous year	6.4	24.7	15.6	6.4	6.4	1.4	2.5
New & unabsorbed row & apartments, units 000s	**10.6**	**10.4**	**10.0**	**10.6**	**10.6**	**10.2**	**10.1**
Per cent change from same period previous year	-1.6	9.9	3.2	-1.6	-1.6	-8.8	-6.9
New House Price Index, 2007=100	**109.9**	**109.7**	**109.7**	**110.3**	**110.4**	**110.7**	**n.a.**
Per cent change from same period previous year	1.8	1.8	1.7	1.4	1.3	1.5	n.a.

Existing Housing

MLS® resales*, units 000s	**457.8**	**454.8**	**478.6**	**462.7**	**454.8**	**437.5**	**438.9**
Per cent change from same period previous year	0.8	-3.2	9.6	8.3	7.5	-0.1	1.9
MLS® average resale price, 000s**	**382.6**	**374.6**	**389.3**	**395.4**	**398.9**	**400.6**	**402.5**
Per cent change from same period previous year	5.3	3.1	8.5	9.7	10.7	9.5	10.0

Mortgage Market

Posted 1-Year Mortgage Rate, % (period average)	**3.08**	**3.05**	**3.14**	**3.14**	**3.14**	**3.14**	**3.14**
Posted 5-Year Mortgage Rate, % (period average)	**5.24**	**5.14**	**5.27**	**5.34**	**5.34**	**5.24**	**5.24**

SOURCE: CMHC, Statistics Canada, Bank of Canada, Canadian Real Estate Association.

n.a. Figures not available.

* Annual data is actual. Quarterly and monthly data are seasonally adjusted and annualized (SAAR).

** Annual data is actual. Quarterly and monthly data are seasonally adjusted.

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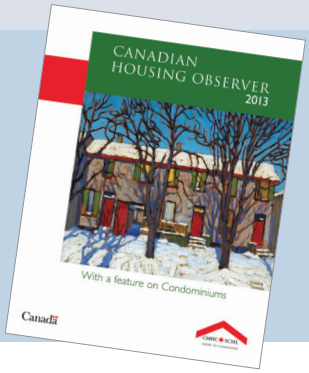

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