

# HOUSING MARKET ASSESSMENT

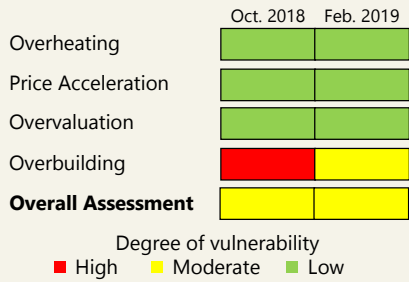
Saskatoon CMA

Date Released: First Quarter 2019



## Highlights

### Results Overview Saskatoon CMA



- The overall market assessment is unchanged from the previous quarter.<sup>1</sup>
- The overvaluation rating was maintained as house prices continued their downward trend.
- No change to the ratings on overheating and house price acceleration.
- Evidence of overbuilding in Saskatoon’s market eased from high to moderate in Q3 2018.

## HMA Overview<sup>2</sup>

As Canada’s authority on housing, CMHC contributes to market stability by providing information on potential imbalances that could affect housing markets. With the Housing Market Assessment (HMA), CMHC offers information and analysis that can help Canadians make more informed decisions and contribute to an orderly adjustment of housing market imbalances.

The HMA is an analytical framework that provides a comprehensive view of housing market vulnerabilities. It should be noted that it intends to identify short-term imbalances in the housing market. As such, it is not aimed at being a framework to identify long-term fundamental affordability challenges. It considers

four main factors: overheating, price acceleration, overvaluation and overbuilding. Overheating is detected when sales greatly outpace new listings in the market for existing homes. Price acceleration is signaled when the growth rate of house prices increases rapidly. Overvaluation indicates that house prices are elevated compared to price levels supported by personal disposable income, population, interest rates, and other fundamentals<sup>3</sup>. Overbuilding is flagged when the rental apartment vacancy rate and/or inventory of newly built and unsold housing units are higher than normal.

The HMA combines the results from a technical framework with insights gained through CMHC’s Market Analysts’ knowledge of local market conditions. These insights position

CMHC to provide additional context and interpretation to the results of the HMA framework.

Colour codes indicate the degree of market vulnerability. The HMA is a comprehensive framework that considers both the intensity (magnitude) and the persistence of signals of imbalances. Generally, low intensity and persistence are associated with low evidence of vulnerability. As the number of intense and persistent signals increases, the associated degree of vulnerability becomes higher.

<sup>1</sup> Results are based on data as of the end of September 2018 (the annual rental apartment vacancy rates are from October 2018) and local market intelligence up to the end of December 2018. CMHC continuously monitors market developments and will issue HMA updates on a quarterly basis.

<sup>2</sup> A detailed description of the framework is available in the appendix of the [National edition](#).

<sup>3</sup> Other fundamental factors include mortgage-borrowing capacity of households, required minimum down payment, and labor productivity.

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## In Detail

### The overheating rating is unchanged

The signal for overheating was maintained in Q3 2018. Sales outpaced new listings in the existing home market, nudging the seasonally adjusted sales-to-new-listings ratio (SNLR) up to 41% in Q3 2018 from 37% in Q2 2018. Despite the increase, the SNLR remained significantly below the framework's threshold for overheating of 85%. Overall, market balance continued to be more favourable to buyers than to sellers as demand for resale homes in 2018 has been hampered by rising mortgage carrying costs and weaker economic growth.

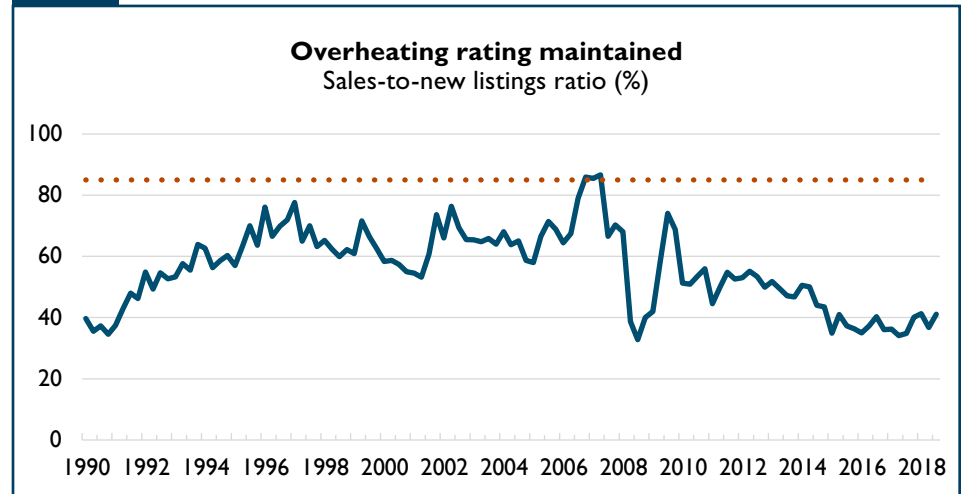
### No change to price acceleration rating

The rating on price acceleration is unchanged from the prior quarter. Buyer's market conditions continued to weigh down house prices during the third quarter of 2018. The seasonally

adjusted average MLS® price declined to \$319,636 in Q3 2018 from \$327,952 in Q2 2018. While Saskatoon's MLS® HPI composite benchmark price<sup>4</sup>

rose slightly to \$294,300 in the third quarter from \$293,800 in the second quarter of 2018, it was down 2.1% from a year earlier.

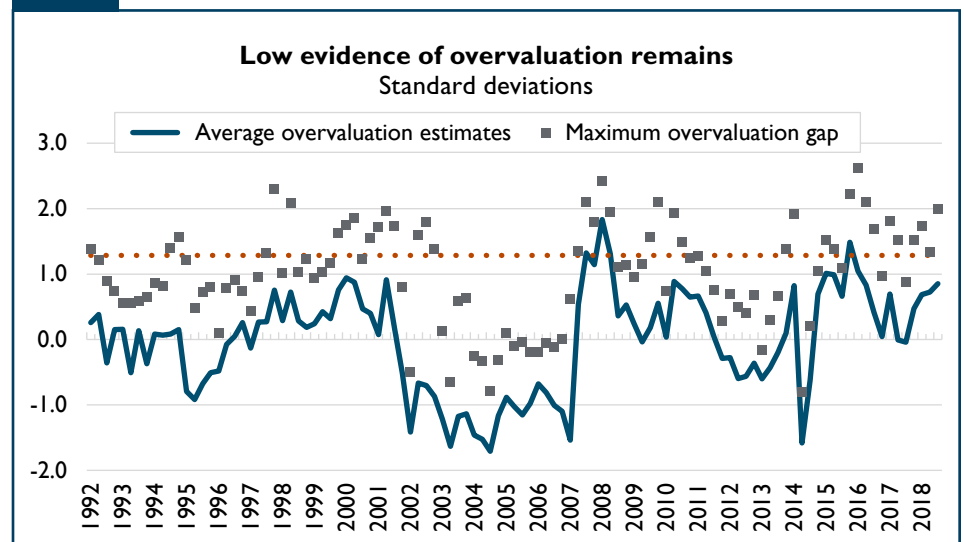
Figure 1



Last data point: 2018Q3

Sources: CREA (seasonally adjusted) and calculations (threshold) by CMHC

Figure 2



Last data point: 2018Q3

Sources: CREA, Statistics Canada and calculations by CMHC

Note: The average estimate of overvaluation is the average gap between actual house prices and price levels estimated from a group of selected models. Baseline models include demand, supply, hybrid, and affordability models, each of which is estimated using four measures of house prices to generate sixteen unique estimates of overvaluation. The selection of models is conducted with a set of cointegration tests, and the selected models are estimated with Dynamic Ordinary Least Squares (DOLS). The maximum overvaluation gap is obtained from the model that has the largest gap between the actual price and the estimated price. The threshold is fixed at a critical value of 1.29 for a confidence level of 80%. Overvaluation is signaled when overvaluation estimates lie above the threshold.



Goodson Mwale  
Senior Analyst  
Economics

*“Overall, there continues to be a moderate degree of vulnerability in Saskatoon’s market. While the annual rental vacancy rate remained above the framework’s threshold, the inventory of completed and unsold units has stayed below the threshold over the past three quarters. Therefore, evidence of overbuilding has been changed from high to moderate in the current release.”*

<sup>4</sup> Source: CREA. The MLS® HPI is based on a hybrid model that merges repeat-sales and hedonic price approaches, and reflects the contribution made by various quantitative and qualitative housing features toward the home price.

Among individual categories, the MLS® HPI benchmark price for single-family units edged higher in Q3 2018 from Q2 2018, but was down marginally on a year-over-year basis. The benchmark prices for row and apartment units declined in the third quarter of 2018 from the preceding quarter, and were down significantly compared to the same quarter one year prior.

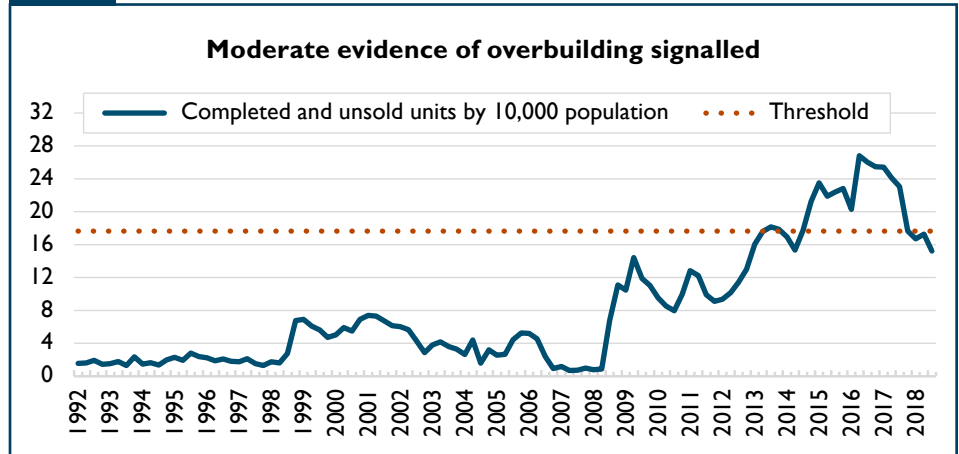
### Overvaluation rating is maintained

We continue to see a mixed performance in fundamentals as the weakness in real personal disposable income is being countered by gains in the young adult population. In addition, persistent buyer's market conditions perpetuated a downward trend in several house price measures during the third quarter of 2018. As such, the assessment of low evidence of overvaluation in house prices was maintained. This result is confirmed by the average estimate of overvaluation obtained from a group of selected models, which remained below the framework's critical threshold in Q3 2018.

### Overbuilding eases on declining inventory

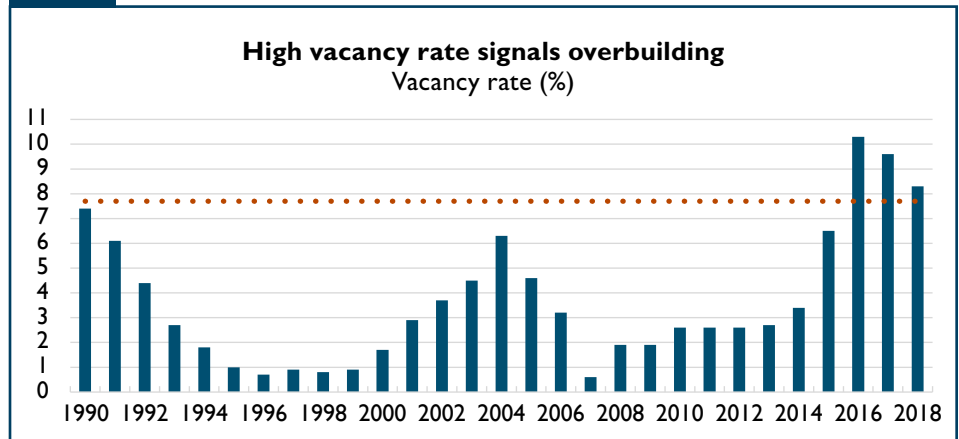
According to the HMA framework, evidence of overbuilding eased during the third quarter of 2018. The drawdown of new housing inventory, particularly in Saskatoon's multi-family sector, has continued throughout much of 2018. Given that the inventory of completed and unsold units per 10,000 population has stayed below the framework's threshold for the past three quarters, we have changed our assessment of overbuilding from high to moderate in the current release.

Figure 3



Last data point: 2018Q3  
Sources: Statistics Canada and CMHC

Figure 4



Last data point: 2018Q3  
Sources: CMHC, calculations (threshold) by CMHC

Saskatoon's annual rental apartment vacancy rate declined by 0.7 percentage points to 8.3% in 2018 from 9.6% in 2017. Despite this decline, the rental vacancy rate was above its threshold of 7.69% in Q3 2018 and has been above that critical level since 2016.

## Overview of the Housing Market Assessment Analytical Framework

To obtain an accurate picture of the overall state of the housing market, it is important to consider multiple data points and lines of evidence. The Housing Market Assessment (HMA) analytical framework provides a comprehensive and integrated view that relies on a combination of signals from several indicators to detect imbalances in housing markets.

Specifically, the framework considers four main factors that may provide an early indication of vulnerability in the housing market: (1) overheating when demand outpaces supply in the existing home market; (2) sustained acceleration in house prices meaning that the rate of increase in prices is itself increasing; (3) overvaluation of

house prices in comparison to levels that can be supported by housing market fundamentals (listed below); and, (4) overbuilding when the inventory of available housing units is elevated.

For each factor, the framework tests for the intensity (magnitude) and the persistence of signals. Generally, a situation in which we detect few signals with low intensity or lack of persistence is associated with a low degree of vulnerability. Conversely, as the number, intensity, and/or persistence of the signals increases, so does the evidence of imbalances in the housing market.

The framework takes into account demographic, economic, and financial determinants of the housing market

such as population, personal disposable income, and interest rates to detect vulnerability. The framework also takes into account recent developments in both resale and residential construction markets.

The framework was developed on the basis of its ability to detect vulnerable housing market conditions in historical data, such as the house price bubble Toronto experienced in the late 1980s and early 1990s. The ability of the HMA to detect vulnerabilities relies on the assumption that historical relationships between prices and fundamental drivers of housing markets have not changed.

## Housing Market Assessment Factors

### Overheating

Overheating is caused by demand significantly and persistently outpacing the supply of housing in the resale market. The sales-to-new listings ratio is used as an indicator to assess possible overheating conditions. To identify signs of overheating, the framework compares the sales-to-new listings ratio to thresholds. When demand is strong relative to supply, house prices typically grow at a faster rate. Sustained overheating on the existing home market may lead to acceleration in house prices for existing and new homes.

### Acceleration in House Prices

House price acceleration occurs when the growth rate in house prices continuously increases. Acceleration in house prices over an extended period would

lead prices to unsustainable levels, hence increasing housing market vulnerability. To assess acceleration in house prices, the HMA framework uses a statistical test\* that was developed to identify periods of accelerating growth in asset prices.

### Overvaluation

Overvaluation is detected when house prices remain significantly above the levels warranted by fundamental drivers of housing markets such as income, population, and actual and expected financing costs. The HMA framework uses combinations of different house price measures and models—based on economic theory—to estimate house price levels warranted by fundamental drivers. The difference between observed house prices and their estimated levels consistent with housing market fundamentals

allows for an estimation of the degree of over- and undervaluation. The use of different price measures and models improves the reliability of results.

### Overbuilding

Overbuilding is detected when the supply of readily available housing units significantly exceeds demand. In such a context, downward pressure on house prices would occur until the excess supply is eventually absorbed. To assess signs of overbuilding in the housing market, the HMA framework uses two indicators that relate to the supply of readily available housing units: the rental apartment vacancy rate, and the inventory of completed and unsold housing units per 10,000 population. The HMA framework compares the current levels and recent trends in these indicators with thresholds.

**Note 1:** Colour codes indicate the degree of market vulnerability. Overheating and price acceleration are measured by single indicator. Colour scales for these factors vary between green and yellow only. Overvaluation and overbuilding are measured by multiple indicators. Their colour scales, as well as the colour scale for the overall assessment, change among green, yellow and red to reflect different degrees of imbalances.

**Note 2:** Results at the CMA level are not segmented by housing type or neighbourhood. They represent an assessment of the entire CMA. However, specific CMA reports provide further detailed analysis of these markets.

**Note 3:** To ensure the framework is as current as possible, on a regular basis, we undertake a model selection process whereby our house price models for overvaluation are tested for statistical significance at the national and CMA level. The result of this process may change the number of indicators showing vulnerability from the previous assessment.

\* See Phillips, Wu and Yu (2008) "Explosive Behaviour in the 1990s NASDAQ: When Did Exuberance Escalate Asset Values?" for further details on the methodology.

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