

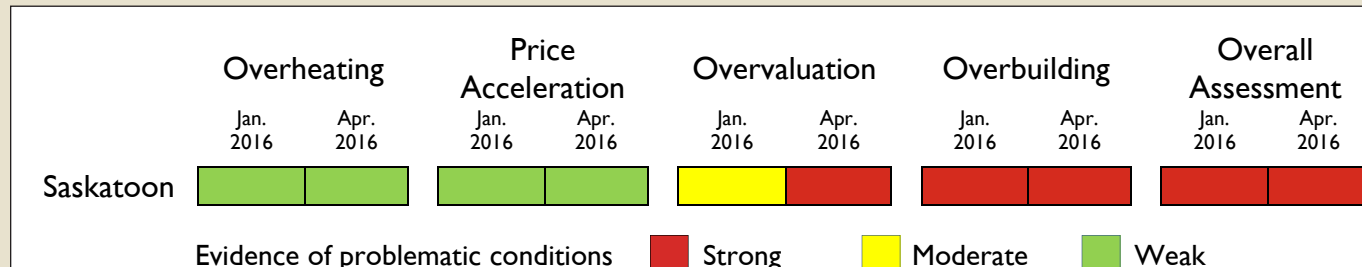
HOUSING MARKET ASSESSMENT Saskatoon CMA

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Highlights



- Overall, results from the Housing Market Assessment (HMA) indicate strong evidence of problematic conditions.¹
- The framework continues to detect weak evidence of overheating and price acceleration.
- Downward revisions to population data for recent quarters contributed to the shift from moderate to strong evidence of overvaluation in the fourth quarter.
- Elevated inventory of new housing units relative to population and a higher rental vacancy rate continue to reflect strong evidence of overbuilding.
- The Housing Market Assessment (HMA) analytical framework considers four factors to assess the evidence of problematic housing market conditions: overheating; acceleration in the growth of house prices; overvaluation; and, overbuilding. A brief summary of the framework is presented on page 6 of this report.

HMA Overview²

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.

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.

The HMA framework detects problematic market conditions in local housing markets by identifying imbalances. An example would be the detection of overbuilding, a situation in which the inventory of unsold new homes accumulates due to supply outpacing demand. Such an imbalance could be resolved by an adjustment in house prices. As an example, lower prices would help resolving an excess supply imbalance by supporting stronger demand and/or reducing

supply. However, other unexpected developments that do not originate from the housing market could accentuate or reduce an imbalance.

Colour codes indicate the level of evidence of problematic conditions. The HMA is a comprehensive framework that considers the intensity of signals of imbalances (that is, how far the indicator is from its historical average), and the persistence over time. Generally, low intensity and persistence are

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¹ Results are based on data as of the end of December 2015 and local market intelligence up to end of March 2016. CMHC continuously monitors market developments and will issue HMA updates on a quarterly basis.

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

associated with potentially weaker evidence of problematic conditions. As the number of intense and persistent signals increases, the associated evidence of problematic conditions becomes stronger.

In Detail

Overheating

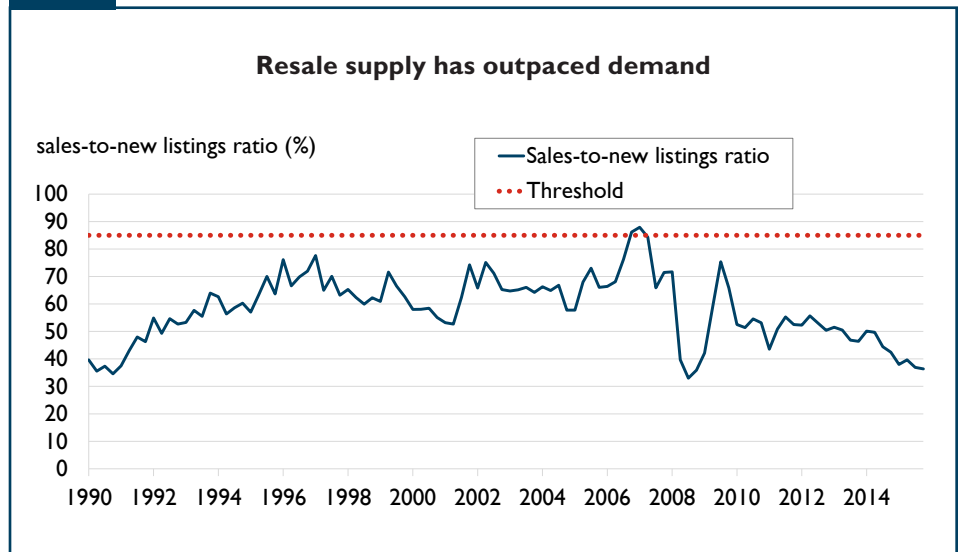
We continue to detect weak evidence of overheating in the Saskatoon housing market. Demand for existing homes continued to lag supply in the fourth quarter of 2015, which shifted market balance further in favour of buyers. As a result, the sales-to-new listings ratio (SNLR) averaged 36.3 per cent and remained significantly below the threshold of 85 per cent that would be consistent with evidence of overheating. With unit sales down 13 per cent over the twelve months of 2015 and active listings up 15 per cent in the

“Overall, we detect strong evidence of problematic conditions. Downward revisions to population data for recent quarters contributed to the shift from moderate to strong evidence of overvaluation. The framework also continued to detect strong evidence of overbuilding.”



Goodson Mwale
Senior Market Analyst
(Saskatchewan)

Figure 1



Source: CREA, calculations (threshold) by CMHC
Last data point: 2015Q4

same period from the previous year, there is weak evidence of an overheating market.

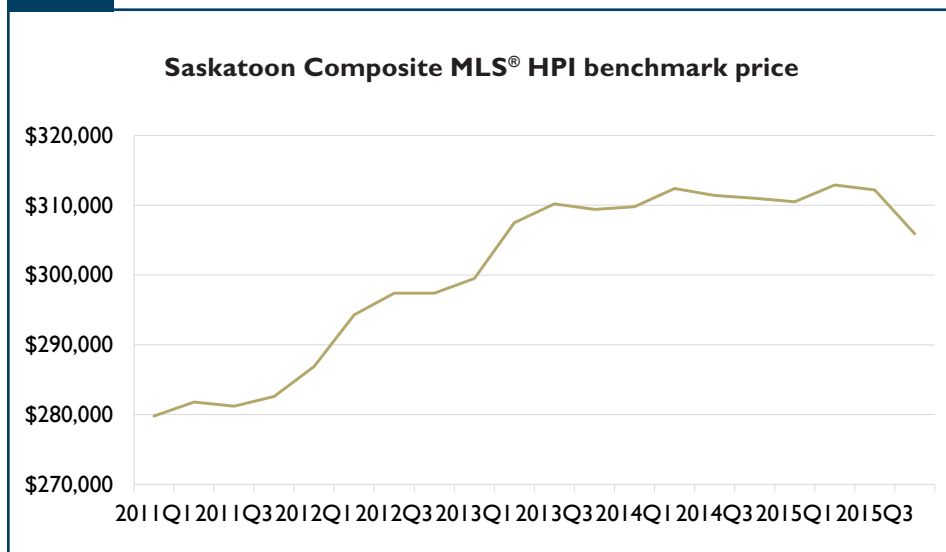
Buyer's market conditions were also reflected in sub-markets among different housing types in Saskatoon. Weaker economic conditions characterized by a contraction in full-time job growth and an increasing unemployment rate have resulted in softer resale demand. Unit sales of single-detached homes in geographic areas 1-5³ within city limits declined by 8.5 per cent in the fourth quarter, while active listings were up 19.2 per cent from the same quarter a year earlier. In the condominium market, unit sales were down nearly 25 per cent during the last three months of 2015. Meanwhile, supply of condominium apartments rose in the fourth quarter, with active condo listings up 39 per cent from the fourth quarter of 2014. In both these two segments of the market, supply has risen faster than demand, thus alleviating any overheating evidence.

Price Acceleration

The framework continues to detect weak evidence of price acceleration in Saskatoon's housing market. With supply outpacing demand in the overall market, buyers have had more time to make a purchase decision and potentially negotiate a lower price. This has continued to put downward pressure on home prices, as evidenced by most purchases occurring below the asking price. After contracting in the final quarter of the year, the average MLS® price was up by a modest 0.5 per cent in 2015 over the previous year, partly due to composition. On a seasonally-adjusted basis, the average MLS® price in Saskatoon's overall market trended lower in the fourth quarter from the previous quarter. Correspondingly, the composite MLS® HPI benchmark price, which tracks four benchmark home types in Saskatoon's real estate board, was down 1.7 per cent in December 2015, compared to the previous 12 months.

³ On Saskatoon's Multiple Listing Service, the city of Saskatoon is divided into five large geographic areas, described as areas one through five.

Figure 2



Source: CREA, residential

Last data point: 2015Q4

The slowdown in economic activity due to lower oil and potash prices has resulted in a higher unemployment rate and has softened housing demand in Saskatoon. With supply staying ahead of demand, residential prices have continued to come down in most neighbourhoods and among different housing types. In the single family the market, the average price of a home within areas 1-5 of the city declined nearly two per cent in the fourth quarter from the same period of 2014, while the average price of a condominium apartment was down one per cent, under the same comparison.

Overvaluation

Despite downward pressure on house prices, the evidence of overvaluation has increased from moderate to strong in the current assessment. This is due to downward revisions to population data for recent quarters. This imbalance could be resolved either by further slowdown in price growth, an improvement in economic fundamentals such as a pickup in income and population growth, or a combination of both.

During the current economic downturn, full-time employment has declined significantly, which has slowed income growth in Saskatoon. A total of 1,700 full-time positions were lost in the Saskatoon CMA in 2015. As a result, the seasonally adjusted unemployment rate rose to 6.4 per cent in the fourth quarter from 5.9 per cent in the previous quarter. The rise in the

unemployment rate has resulted in fewer net migrants coming to Saskatoon, which has also tempered the pace of population growth. While house prices have continued to come down during the first two months of 2016, the continued weakness in economic and demographic variables warrants close monitoring.

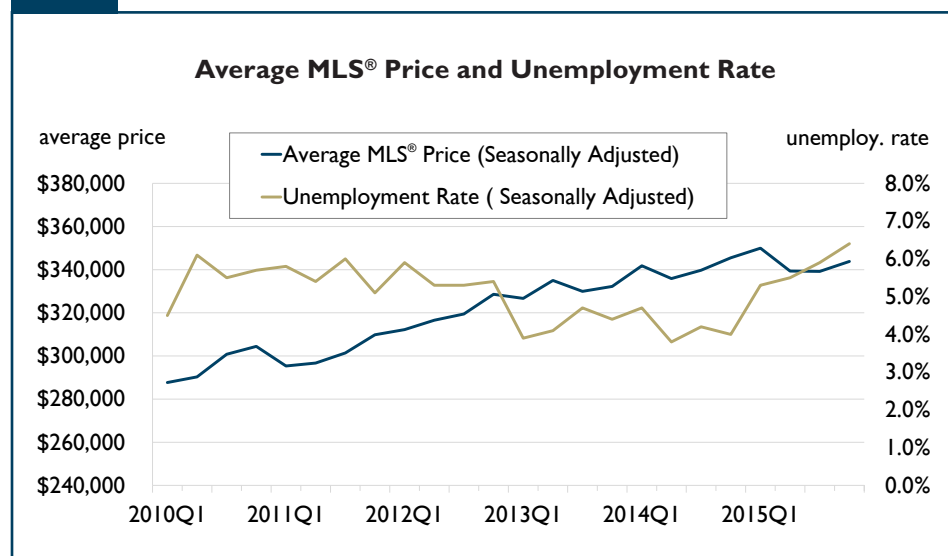
Overbuilding

Strong evidence of overbuilding was unchanged in the fourth quarter. Softer housing demand and increased resale supply have prompted builders to be more diligent in the current economic downturn by channeling new demand towards their inventory of complete and unsold units.

As a result, total housing starts in the Saskatoon CMA declined 35 per cent, year-over-year, to 2,293 units in 2015. Despite this reduction, the inventory of new housing units relative to population remained above the threshold in the fourth quarter, in large part due to single-detached and row (townhouse) units.

In addition, the rental apartment vacancy rate for the Saskatoon CMA increased to 6.5 per in October 2015

Figure 3

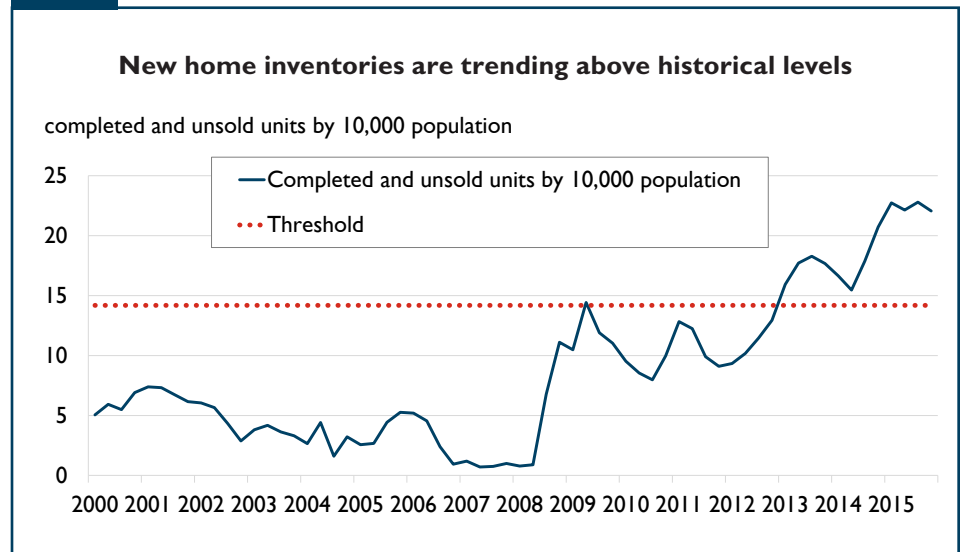


Sources: Statistics Canada and CREA

Last data point: 2015Q4

from 3.4 per cent in the previous year. Weaker economic conditions moderated rental demand in Saskatoon in 2015 as employment growth and net migration slowed. At the same time, rental supply increased with the completion of purpose-built rental apartments initiated over the past few years. Additionally, the movement of some renter households into homeownership via the condominium market and increased competition from Saskatoon's secondary rental market have put upward pressure on apartment vacancies. Therefore, the combination of elevated inventory of new units and a higher rental apartment vacancy rate continued to support strong evidence of overbuilding in Saskatoon.

Figure 4



Source: CMHC, calculations (threshold) by CMHC, Statistics Canada
Last data point: 2015Q4

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 rather than relying on just one measure or indicator.

The Housing Market Assessment (HMA) analytical framework provides a comprehensive and integrated view that relies on a combination of signals from several indicators to assess housing market conditions.

Specifically, the framework considers four main factors that may provide an early indication of potentially problematic housing market conditions: (1) overheating when demand outpaces supply; (2) sustained acceleration in house prices; (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: (1) the presence or incidence of signals of potentially problematic conditions, but also considers; (2) the intensity of the signals, i.e. how their magnitude compares with their historical average or how consistent they are with known or suspected house price bubbles, such as for Toronto in the late 1980s and early 1990s; and, (3) the persistence of signals over time.

Generally, a situation in which we detect few signals with low intensity or lack of persistence is associated with weak evidence of problematic conditions. Conversely, as the intensity, number, and/or persistence of the signals increases, the likelihood of a factor becoming problematic increases.

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 potentially problematic housing market conditions. The framework also takes into account developments in both resale and residential construction markets.

The framework was developed on the basis of its ability to detect problematic 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 current problematic conditions 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. The sales-to-new listings ratio is used as an indicator to assess possible overheating conditions in the existing home market. To identify problematic overheating conditions, 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 conditions on the existing home market may lead to acceleration in house prices for existing and new homes. However, as supply and demand begin to balance out, indicators of overheating (and acceleration) would begin to soften and house prices would gradually moderate.

Acceleration in House Prices

Under balanced market conditions, house prices are expected to increase over time, in line with increases in households' cost of

living. House price acceleration occurs when the growth in house prices strengthens over time on a persistent basis. Acceleration in house prices over an extended period can cause their pace of increase to depart from the overall price inflation and eventually lead to overvaluation.

To assess acceleration in house prices, the HMA framework uses a statistical test* that was developed to identify periods of accelerating 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 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 overbuilding conditions in the housing market, the HMA framework uses two indicators that relate to the supply of readily available housing units: the rental vacancy rate, and the inventory of completed and unsold housing units per 10,000 population. The HMA framework compares the current level and recent trends in these indicators with thresholds.

Note 1: Colour codes indicate the level of evidence of problematic conditions. The HMA reflects a comprehensive framework that not only tests for the presence or incidence of signals of potentially problematic conditions, but also considers the intensity of signals (that is, how far the indicator is from its historical average) and the persistence of signals over time. Generally, low intensity and persistence are associated with a lower potential of upcoming problematic conditions. As the number of persistent signals increases, the evidence of a problematic condition developing increases.

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: The colour scale extends to red only for those factors that have multiple indicators signaling significant incidence, intensity and persistence of potentially problematic conditions. As a result, only overvaluation and overbuilding can receive a red rating, since they are assessed using more than one indicator.

Note 4: 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 of a problematic condition 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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