

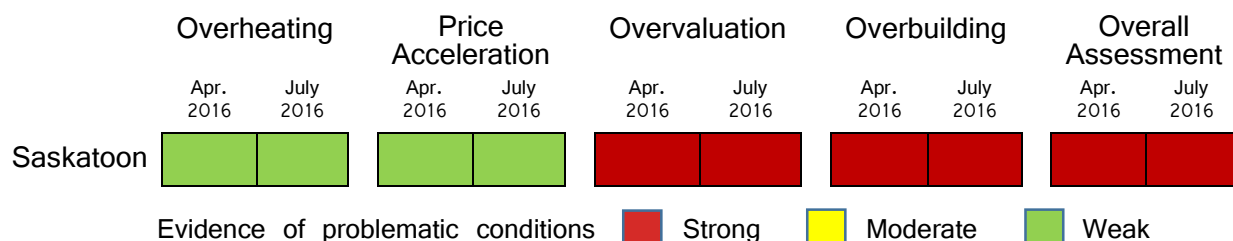
# HOUSING MARKET ASSESSMENT Saskatoon CMA

Date Released: Third Quarter 2016



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## Highlights



- The overall assessment of strong evidence of problematic conditions<sup>1</sup> remains unchanged from the previous release.
- We continue to detect weak evidence of overheating and price acceleration.
- Despite downward pressure on prices, slower growth in personal disposable income and population has resulted in continued strong evidence of overvaluation.
- Elevated inventory of new housing units relative to population and a high rental vacancy rate continued 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 Overview<sup>2</sup>

As Canada's authority on housing, CMHC contributes to the stability of housing markets 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 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 either by increasing demand as a result of improving economic conditions or an adjustment in house prices.

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

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

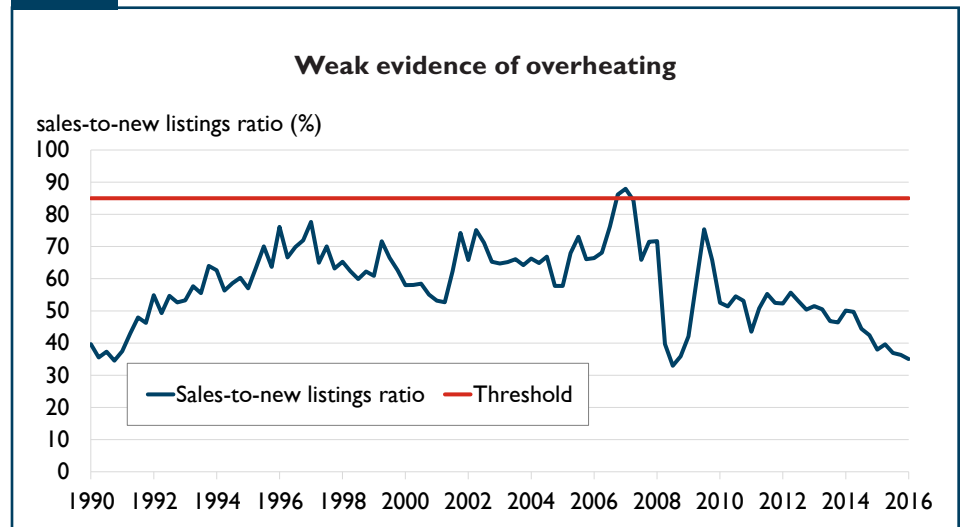
<sup>2</sup> A detailed description of the framework is available in the appendix of the [National edition](#).

## In Detail

### Overheating

The HMA framework continued to detect weak evidence of overheating in the Saskatoon housing market in 2016Q1. Buyer's market conditions persisted in the first quarter of this year as existing home sales continued to lag supply. The seasonally adjusted sales-to-new listings ratio (SNLR) edged lower from the previous quarter to average 35 per cent, while remaining significantly below the threshold of 85 per cent that

Figure 1



Source: CREA (seasonally adjusted), calculations (threshold) by CMHC  
Last data point: 2016Q1

*"The overall assessment of strong evidence of problematic conditions is unchanged from the previous release. Downward price adjustments in the first quarter of 2016 have reduced overvaluation in house prices, but not sufficiently to close the gap between observed and estimated house prices based on fundamentals such as population and income growth. The combination of elevated new home inventory relative to population and a high rental vacancy rate continued to reflect strong evidence of overbuilding."*



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would be consistent with evidence of overheating. During the first quarter of 2016, unit sales declined 7.5 per cent from the same quarter of 2015, while active listings were up eight per cent under the same comparison. Accordingly, this provides little concern of an overheating market.

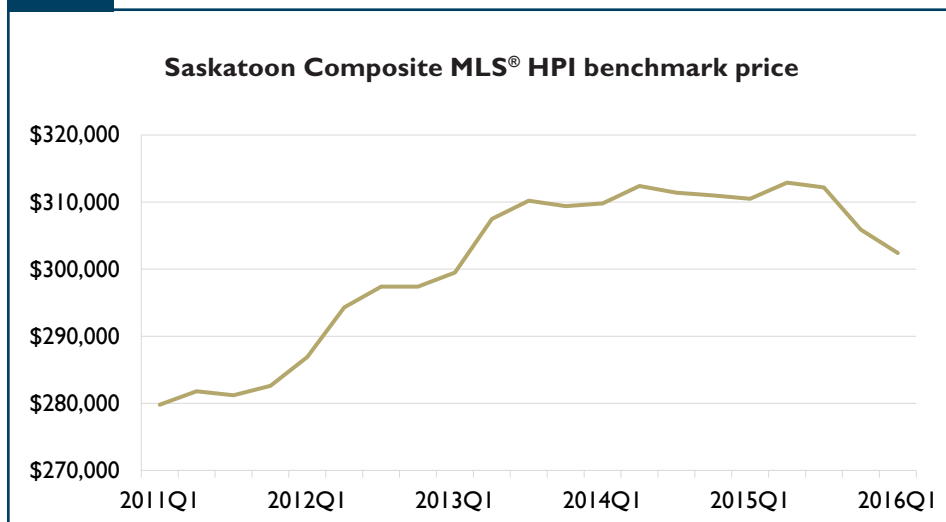
Resale supply stayed ahead of demand in sub-markets among different housing types within Saskatoon's geographic areas 1-5<sup>3</sup>. Unit sales of single-detached homes in the City of Saskatoon were down 2.6 per cent in the first quarter of 2016, as weak economic conditions characterized by a contraction in full-time job growth and an increasing unemployment rate continued to weigh on resale demand. On the supply side, average active listings increased five per cent in the same quarter from a year earlier. In the condominium market, sales declined nearly 20 per cent during 2016Q1 from the same period of 2015, while average active condo listings were up by the same magnitude under the same comparison.

### Price Acceleration

We continue to detect weak evidence of price acceleration in Saskatoon's housing market. Downward price adjustments have continued in the overall market, with supply remaining ahead of demand. Under these conditions, buyers have had more time to make a purchase decision and to potentially negotiate a lower price, as evidenced by most purchases occurring below the asking price. The average MLS® price in Saskatoon and area declined 3.1 per cent in 2016Q1 to \$334,381 from \$344,976 in 2015Q1. On a seasonally-adjusted basis, the average MLS® price in Saskatoon's overall market trended lower in the first quarter of 2016 from the fourth quarter of 2015. Correspondingly, the composite MLS® HPI benchmark price, which is adjusted for inflation and tracks four benchmark home types in Saskatoon's real estate board, was down 2.7 per cent in March 2016, compared to the previous 12-month period.

<sup>3</sup> The City of Saskatoon is divided into five quadrants on the Saskatoon Multiple Listing Service. All Saskatoon homes and real estate listings in the city are located within one of the five quadrants, described as areas one through five.

Figure 2



Source: CREA, residential  
Last data point: 2016Q1

Downward price adjustments have continued in Saskatoon's sub-markets as well. With resale demand declining sharply while supply increased, the average resale price for a single-detached home in the City of Saskatoon declined 2.8 per cent to \$378,951 in the first quarter of this year from \$390,037 in 2015Q1. In the condominium market, the average price in the City of Saskatoon was relatively flat in 2016Q1, compared to the previous year. This follows year-over-year declines in the preceding two quarters. Given that condo supply was up sharply in the quarter compared to the previous year, and that demand declined by equal magnitude, price composition likely had an impact on the average condo price remaining stable in 2016Q1.

## Overvaluation

Persistent buyer's market conditions and the subsequent decline in average resale prices in 2016Q1 have reduced the overvaluation in house prices, but not sufficiently to close the gap between observed and estimated house prices based on fundamentals such as population and income,

whose growth has slowed. As a result, the framework's assessment of strong evidence of overvaluation was maintained in the current release. Notwithstanding, this imbalance could be resolved either by further declines in home prices or an improvement in economic fundamentals such as a pickup in income and population growth, or a combination of both. Since the end of 2016Q1, downward price adjustments in Saskatoon's

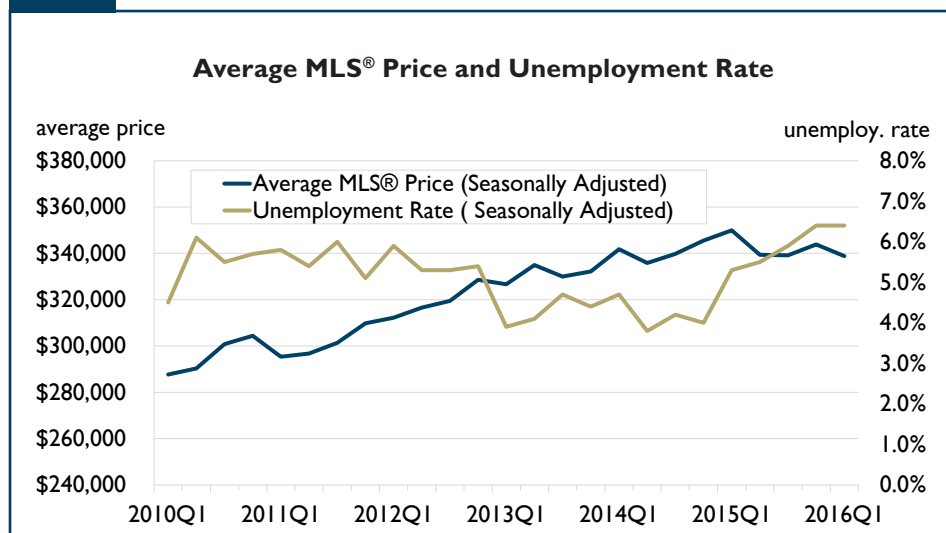
overall market have continued, which could result in further improvement in the overvaluation assessment.

That being said, employment growth in the Saskatoon CMA declined 0.7 per cent, year-over-year, in first quarter of 2016, following the loss of 1,200 positions. With the labour force expanding while employment contracted, Saskatoon's seasonally-adjusted unemployment rate increased to average 6.4 per cent in the first quarter of 2016 from 5.8 per cent in the fourth quarter of 2015. Weaker labour market conditions contributed to a 32 per cent decline in total net migration to the Saskatoon CMA in 2015, which has contributed to the moderation in population growth.

## Overbuilding

The framework continued to detect strong evidence of overbuilding in the current release. A moderation in 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. This resulted in a

Figure 3

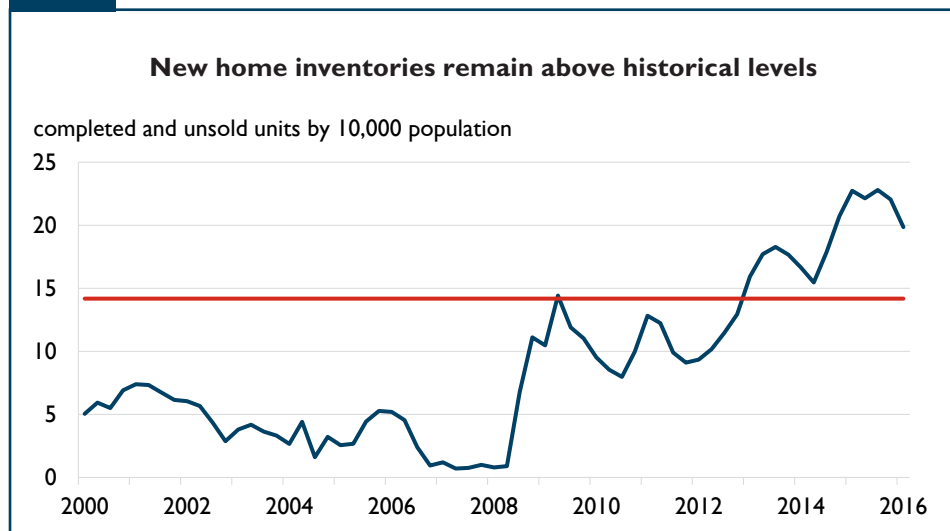


Sources: Statistics Canada and CREA  
Last data point: 2016Q1

37 per cent decline in total housing starts in the Saskatoon CMA in 2016Q1. Nonetheless, the inventory of new housing units relative to population, particularly among row housing and apartment units, remained above its historical average in the first quarter of 2016 despite some improvement from the preceding quarter.

Additionally, the rental apartment vacancy rate for the Saskatoon CMA increased to 6.5 per in October 2015 from 3.4 per cent in October 2014. Rental demand in Saskatoon moderated in 2015 as employment growth and net migration slowed. On the other hand, supply increased with the completion of new purpose-built rental apartments initiated in preceding years. Between July 2015 and March 2016, there were 216 rental apartment completions in the Saskatoon CMA, which will likely keep upward pressure on the vacancy rate. Based on the HMA framework, therefore, the combination of elevated inventory of new units and a high vacancy rate reflects strong evidence of overbuilding.

Figure 4



Source: CMHC, calculations (threshold) by CMHC, Statistics Canada  
Last data point: 2016Q1

## 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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