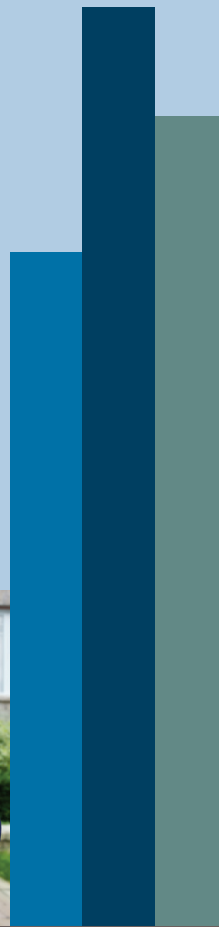


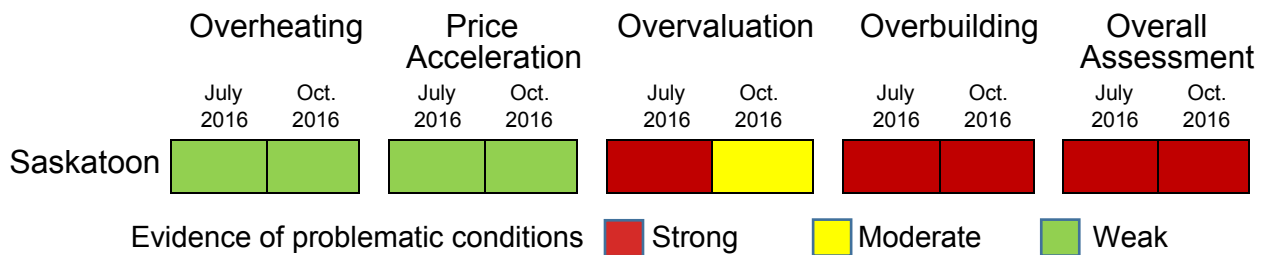
HOUSING MARKET ASSESSMENT Saskatoon CMA

Date Released: Fourth Quarter 2016



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Highlights



- There was no change in the overall assessment of strong evidence of problematic conditions¹ due to moderate overvaluation and strong evidence of overbuilding.
- Evidence of overheating and price acceleration remained weak in the current release.
- Buyer's market conditions resulted in further downward price adjustments in 2016 Q2, which reduced overvaluation in house prices from strong to moderate.
- The framework continued to detect strong evidence of overbuilding. Despite fewer housing starts, the inventory of complete and unsold units relative to population increased in 2016 Q2 and was significantly above the historical threshold.
- 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

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¹ Results are based on data as of the end of June 2016 and local market intelligence up to end of September 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](#).

from its historical average), and the persistence over time. Generally, low intensity and persistence are 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

Evidence of overheating remains weak

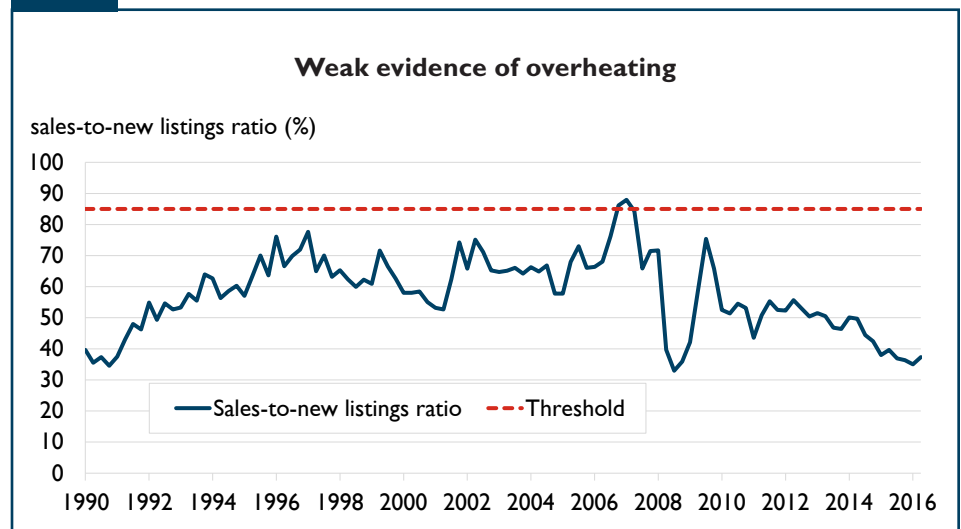
Evidence of an overheating market remained weak in 2016 Q2 as resale demand in Saskatoon and area market continued to lag supply. Home sales in and around Saskatoon were down 11.3 per cent in the second quarter of 2016, representing six consecutive quarters of decline. On a trend basis, sales also declined in the second quarter from the first quarter of this year. Meanwhile, active listings were up marginally in 2016 Q2, tempered

“Downward price adjustments in 2016 Q2 have caused the framework’s assessment of overvaluation in house prices to change from strong to moderate. However, strong evidence of overbuilding is unchanged from the previous release.”



Goodson Mwale
Senior Market Analyst
(Saskatchewan)

Figure 1



Source: CREA (seasonally adjusted), calculations (threshold) by CMHC
Last data point: 2016Q2

by a five per cent decline in new listings as some sellers delayed listing their homes until market conditions improve. On a seasonally-adjusted basis, the sales-to-new listings ratio (SNLR) edged up from the previous quarter to average 36 per cent in 2016 Q2, but remained significantly below the framework’s estimated threshold of 85 per cent that would be consistent with an overheating market.

The gap between supply and demand was evident across Saskatoon’s various market segments. Single-family home sales in geographic areas 1-5 decreased 6.8 per cent in 2016 Q2 from the same period a year earlier. The decline in sales was most pronounced in homes priced between \$400K and \$500K, which contributed to a downward adjustment in the average price from the previous year. Meanwhile, a 10 per cent decline in new listings contributed to a marginal reduction in active listings in the second quarter. In the condominium segment, total sales in areas 1-5

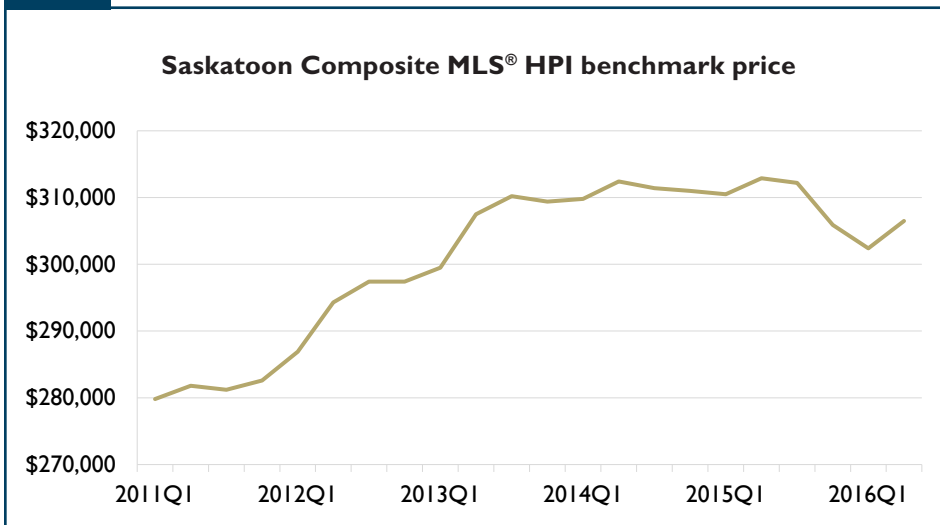
declined by 10 per cent in 2016 Q2 from the previous year, having declined sharply during the preceding five consecutive quarters. By contrast, new listings rose 11 per cent, which contributed to sharp gains in average active listings over the second quarter of 2015.

Weak evidence of acceleration in the growth of house prices

The HMA framework continued to detect weak evidence of acceleration in the growth of house prices in 2016 Q2. Buyers’ market conditions resulted in further downward pressure on house prices in Saskatoon’s overall market during the second quarter of 2016. On a seasonally-adjusted basis, Saskatoon’s average MLS® price trended down in the second quarter from the first quarter of this year. In addition, the composite MLS® HPI benchmark price, which tracks four benchmark home types in Saskatoon’s real estate

³ 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: 2016Q2

market, was down 1.4 per cent in June 2016 from the previous 12-month period. This followed a 2.7 per cent, year-over-year decline in the index in March 2016.

Market conditions were favourable to buyers in various segments of the metropolitan area. The average MLS® price of a single-family home in geographic areas 1-5 declined 1.9 per cent in the second quarter of 2016 from the same quarter a year ago. On a cumulative basis, the price of a single-family home was down 2.2 per cent, year-over-year, during the first half of this year. In Saskatoon's condominium segment, the average sale price declined by 4.8 per cent in 2016 Q2 from the same period of 2015, mirroring the persistent buyer's market conditions in Saskatoon's overall market.

Change in evidence of overvaluation from strong to moderate

Persistent buyers' market conditions contributed to continued downward price adjustments in 2016 Q2, which reduced evidence of overvaluation

in Saskatoon's house prices from strong to moderate, according to the HMA. Despite this improvement in assessment, the price level in Saskatoon remains higher than what is expected from fundamentals such as growth in personal disposable income and population aged from 25 to 34, both of which slowed in the second quarter of 2016. Nonetheless, this imbalance could be resolved

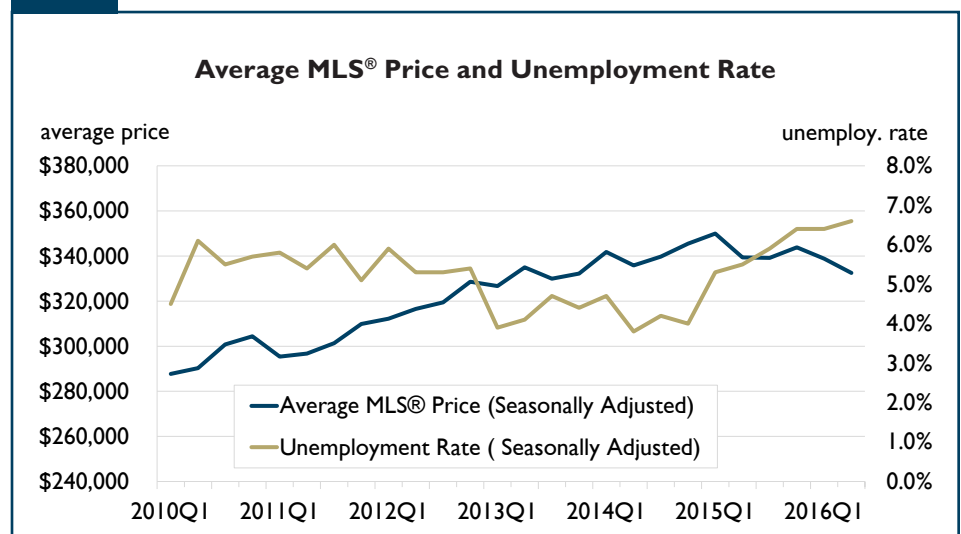
either by further slowdown in price growth, a pickup in income and population growth, or a combination of both.

Saskatoon's economy continues to face headwinds precipitated by prolonged weakness in the price of oil and lower potash prices, which have moderated employment growth and housing demand. Total employment contracted further in the second quarter from the first quarter of 2016, while the seasonally-adjusted unemployment rate was averaging 6.5 per cent from 6.4 per cent in the first quarter of 2016. As well, slower growth in personal disposable income and the population aged 25 to 34 in 2016 Q2 likely had a moderating effect on housing demand in the Saskatoon market.

Strong evidence of overbuilding

Saskatoon's total housing starts declined 35 per cent in 2015 and by a further 22 per cent during the first half of 2016, compared to the previous year. Notwithstanding, the number of completed and unsold

Figure 3



Sources: Statistics Canada and CREA
Last data point: 2016Q2

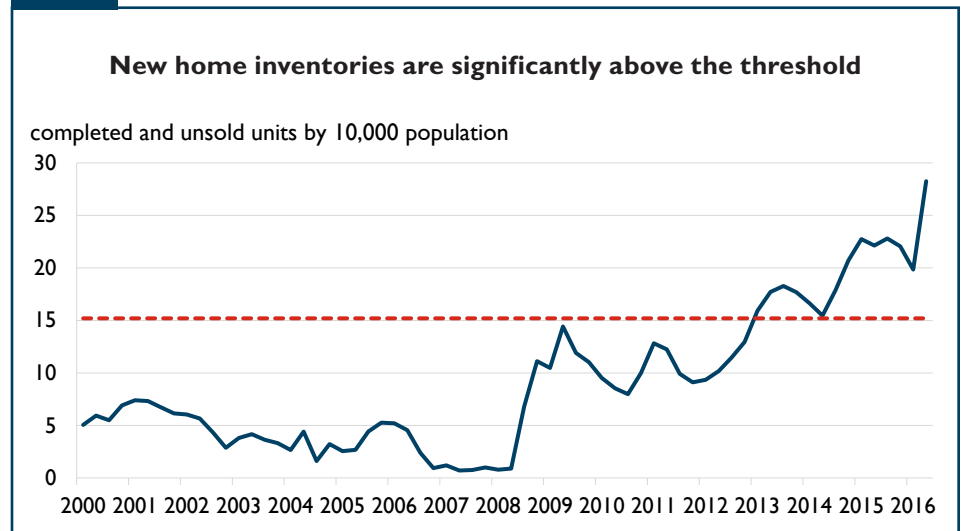
units per 10,000 population rose sharply in the second quarter of 2016 to nearly double the value of the HMA framework's long-term overbuilding threshold.

This is symptomatic of a market where weak economic conditions have greatly reduced the absorption of new housing units upon completion and from existing inventory.

This is particularly the case with condominium apartments and row houses where inventory levels were significantly higher in June 2016 than in June 2015.

Additionally, the rental apartment vacancy rate for the Saskatoon CMA increased to 6.5 per cent in October 2015 from 3.4 per cent in October 2014. Based on the HMA framework, the combination of elevated inventory of new housing units and a high rental apartment vacancy rate reflects strong evidence of overbuilding. The long-term threshold for Saskatoon's rental vacancy rate that would be consistent with overbuilding is 6.5 per cent.

Figure 4



Source: CMHC, calculations (threshold) by CMHC, Statistics Canada

Last data point: 2016Q2

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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