

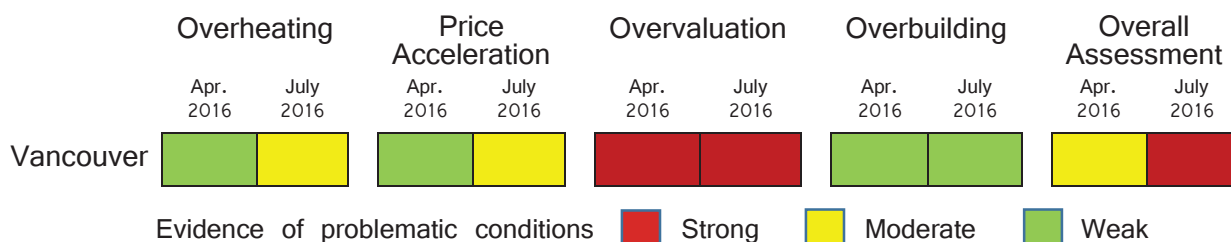
HOUSING MARKET ASSESSMENT Vancouver CMA

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Highlights



- Overall, the results of CMHC's first quarter 2016 Housing Market Assessment (HMA) framework point to strong evidence of problematic conditions¹ for the Vancouver Census Metropolitan Area (CMA) housing market, a change from the previous quarter when the indicators suggested moderate evidence of problematic conditions.
- The overall assessment changed from the previous quarter because Vancouver is now showing moderate evidence of both overheating and price acceleration, an adjustment from the previous assessment of weak evidence of problematic conditions. The framework also continues to detect strong evidence of overvaluation, indicating that home prices are above the level supported by financial, economic and demographic fundamentals.
- Our framework continues to show weak 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 7 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 development 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 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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¹ 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.

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

In Detail

Overheating

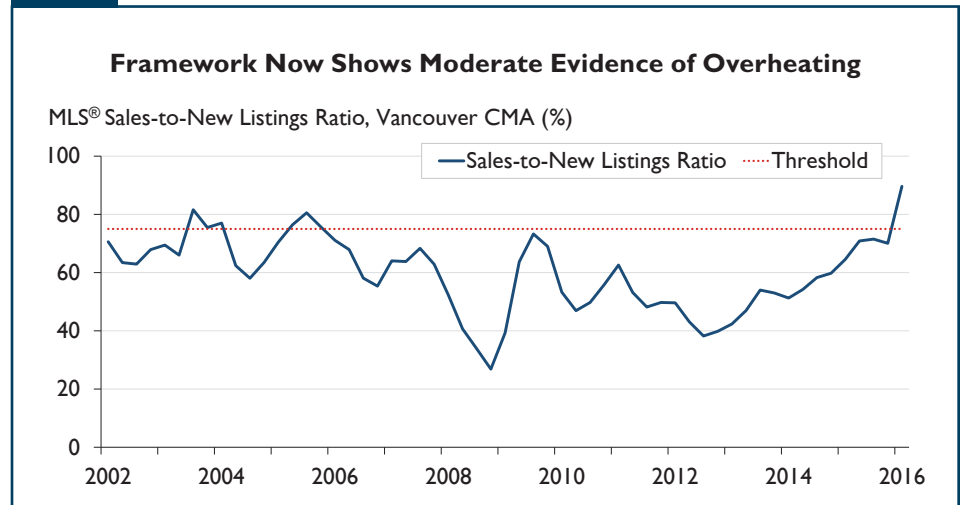
The HMA framework detects moderate evidence of overheating in the Vancouver CMA housing market during the first quarter of 2016. It is worth noting that the sales-to-new listings ratio (a proxy for housing demand and supply) has only been above the threshold for overheating for one quarter (Figure I). Although one additional quarter of evidence is normally required to move this indicator from green to yellow, sustained high levels of MLS® sales and minimal increases in the supply of new listings have continued into the second quarter, warranting an advance move of this indicator. See Table I for a complete breakdown

“Overall, the results of the HMA framework suggest strong evidence of problematic conditions in the first quarter for the Metro Vancouver housing market, a change from moderate evidence in the previous quarter. A shift from weak to moderate evidence of overheating and price acceleration, along with a second quarter of strong evidence of home price overvaluation, contributed to the change in the overall assessment.”



Robyn Adamache
Principal, Market Analyst (Vancouver)

Figure I



Sources: Real Estate Board of Greater Vancouver and Fraser Valley Real Estate Board, calculations (threshold) by CMHC. Last data point: 2016Q1. MLS is a registered trademark of the Canadian Real Estate Association.

Table I Sales-to-New Listings Ratio (May 2016)

	All Home Types	Single-Detached	Town House	Apartment	Condo (Attached + Apartment)
Burnaby	70%	44%	77%	93%	
Coquitlam	83%	71%	104%	92%	
Delta	65%	74%	33%	78%	
New Westminster	78%	55%	76%	91%	
North Vancouver	69%	57%	109%	72%	
Port Coquitlam	89%	75%	106%	103%	
Port Moody	86%	67%	89%	102%	
Richmond	67%	51%	56%	92%	
M Ridge P Meadows	90%	86%	71%	135%	
Squamish	84%	69%	106%	92%	
Vancouver East	74%	71%	73%	78%	
Vancouver West	77%	63%	81%	83%	
West Vancouver	57%	48%	63%	121%	
REBGV	76%	63%	80%	89%	
Abbotsford-Mission CMA	91%	89%			95%
Langley	95%	94%			95%
Surrey	77%	65%			95%
White Rock	87%	69%			111%
FVREB	83%	75%			95%
Vancouver CMA	80%	63%			87%

Sources: REBGV, FVREB

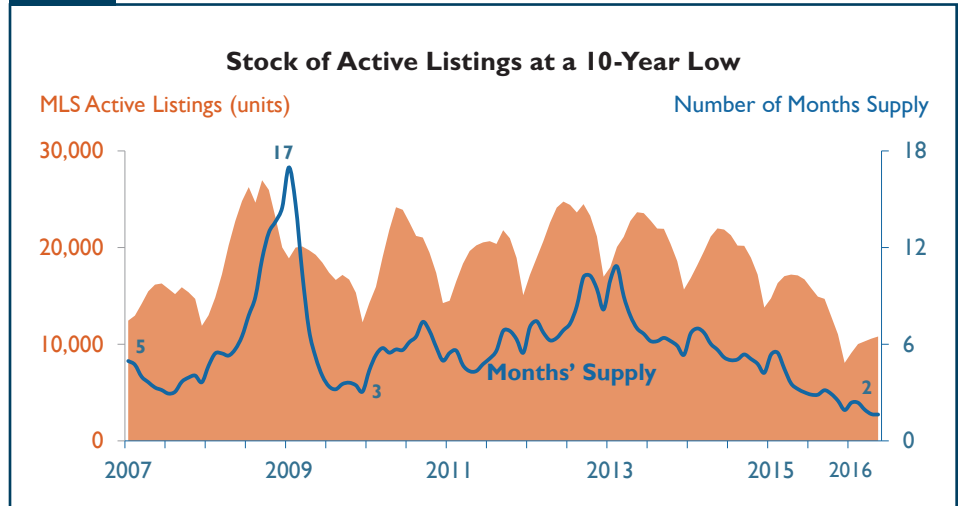
of sales-to-new listings ratios for each municipality within the CMA and for each home type as of May 2016³. The results show that the single-detached market has cooled somewhat in some of the more expensive locales including Burnaby, Richmond, the West Side of Vancouver and West Vancouver. In all municipalities, multi-family (town house and apartment) sales-to-new listings ratios are higher than those for detached homes, illustrating strong demand for these more affordable home types.

Home buyer demand has outpaced additions to the supply of resale listings, gradually depleting the stock of active listings since the second quarter of 2014. First quarter 2016 MLS^{®4} sales were up 30 per cent compared to the same period a year earlier, while the number of new listings increased by just three per cent. As a result, the stock of active listings has continued to dwindle. As of May 2016, there was just a two-month supply of homes on the market (Figure 2), which may, in turn, exacerbate the shortage by deterring potential sellers from listing their homes if they are unsure that they will be able to find their next home.

Price Acceleration

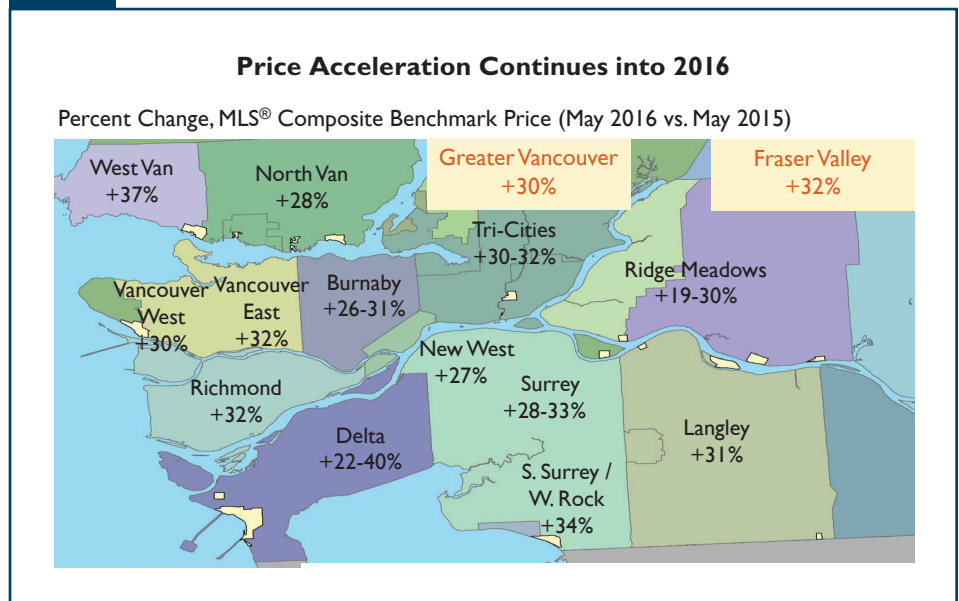
According to the CMHC HMA framework, the Metro Vancouver housing market is now assessed as showing moderate evidence of price acceleration. The brisk pace of resale activity has pushed the rate of price growth on a steepening upward trend in 2016. As of May 2016, the composite (for all home types

Figure 2



Source: REBGV, FVREB, Months Supply calculation CMHC:
Active Listings / (3 month average sales). Last data point: May 2016

Figure 3



Sources: Real Estate Board of Greater Vancouver; Fraser Valley Real Estate Board.

combined) MLS HPI benchmark price⁵ was up 30 per cent and 32 per cent in the Greater Vancouver and Fraser Valley Real Estate Board areas, respectively (Figure 3).

Across the Vancouver CMA, single-detached home prices continued to rise at a faster pace (23-48 per cent) than town home (12-31 per cent) and apartment prices

³ Note that May data is actual (not seasonally adjusted) while the data used in the HMA framework is seasonally adjusted.

⁴ MLS is a registered trademark of the Canadian Real Estate Association (CREA).

⁵ This measure tracks the price of homes with common features, and is therefore not subject to the limitations of average prices which can be skewed by prices on the low or high end of the spectrum. In markets like Vancouver, where the range in prices by area and by type is very wide, average prices can give a misleading view of overall housing market conditions.

(7-38 per cent), however, the gap between single-detached and multi-family home price growth has been narrowing in many areas. This is due to a pick-up in the pace of apartment price growth, especially in areas with comparatively higher overall home prices such as the West Side of Vancouver, West Vancouver, Port Moody and White Rock, which are leading this trend. While the pace of single-detached home price growth has yet to slow in these higher-priced areas, the detached sales-to-new listings ratio has been gradually declining during the first five months of the year. More listings have been added in response to steep house price growth in these same areas, while sales growth is slowing. A continuation of these trends going forward could signal a dampening of the pace of detached home price growth in these higher-priced locales.

Overvaluation

First quarter 2016 results of the HMA framework continue to point to strong evidence of overvaluation in the Vancouver housing market, indicating that home prices are above levels supported by financial, economic and demographic fundamentals. This is only the second quarter since 1990 in which the framework indicated strong evidence of overvaluation in Vancouver, despite robust and sustained house price gains since 2012 and price levels that have consistently been among the highest in the country. However, housing demand fundamentals have been particularly robust in the region, including a growing population and a diversified economy that has led the province in job creation. In addition, low mortgage

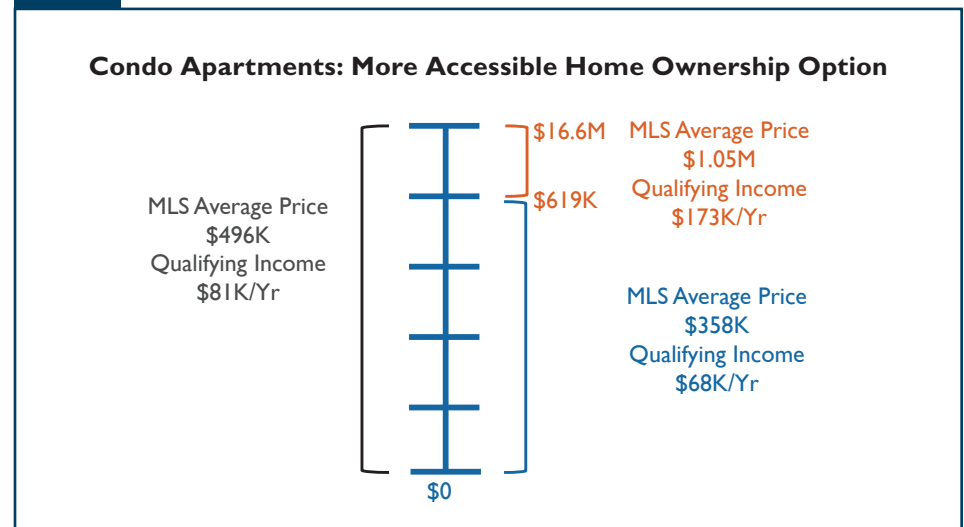
interest rates have kept monthly mortgage payments relatively manageable in inflation-adjusted terms, particularly for repeat buyers with a larger equity stake. In spite of these supportive fundamentals, exceptionally strong price growth during the last two quarters has elevated prices above the threshold for overvaluation.

While Vancouver CMA home prices are high, aggregate price measures obscure the range of home ownership options available to buyers across different locations and home types. Approximately 60 per cent of MLS sale transactions and 80 per cent of new homes built in the CMA are town homes and apartments. The most affordable ownership option, condominium apartments in suburban locations, will continue to appeal to first-time home buyers and repeat buyers with limited equity in their current home. The difference between single-detached and multi-family home prices may also attract retirees, or other down-sizers, looking to release equity from their current

house and move into a town home or apartment. Figure 4 illustrates the range in prices for the most affordable home ownership option, condo apartments, within the REBGV area. Within the top quintile of all apartments sold in the first quarter, the average price was over one million dollars. However, the average price of the remaining four-fifths of sales was just shy of \$360,000, which is \$100,000 below the overall average price of nearly \$500,000.

Strong demand for housing, combined with low resale home inventories and a limited supply of land for new development, have kept single detached home prices higher than those warranted by economic and demographic fundamentals. Single-detached homes, particularly those in central locations, will continue to attract high net worth buyers, both local and off-shore, and those who have built up significant equity in their home from sustained annual price gains. The region's geographical restrictions on land supply⁶ and the resulting high cost of land mean that most detached

Figure 4



Source: REBGV, CMHC Calculations, Q1 2016

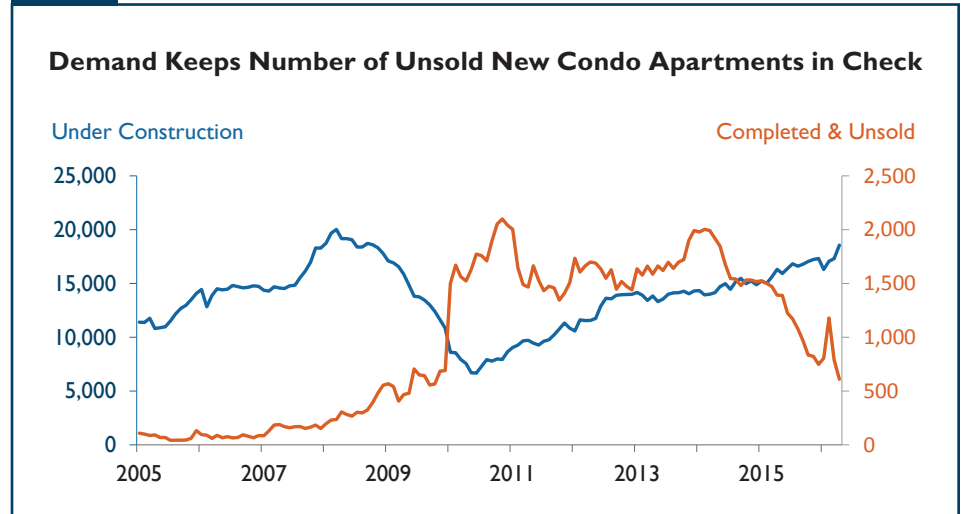
⁶ Mountains to the north, the Strait of Georgia to the west, the U.S. border to the south and 22 per cent of the region's land supply dedicated to the Agricultural Land Reserve (ALR).

homes constructed in centres such as the City of Vancouver, Burnaby and North Vancouver add new supply through rezoning or infill, which has resulted in upward pressure on prices. Price growth in single-detached homes can be partially attributed to developers building larger new detached homes, often incorporating one or more secondary suites and/or laneway homes, in order to maximize the return on investment in an environment of high land costs, particularly in central locales that are zoned only for single-detached homes. As a result, detached home prices have moved up and in turn impacted aggregate price measures.

Overbuilding

According to the HMA framework, evidence of overbuilding in the Vancouver CMA housing market remains weak. Inventories of completed and unsold new homes declined in the first quarter and this trend has continued into the second quarter of 2016. Strong demand for new homes coupled with spillover demand from a listings-constrained resale market have pushed the stock of completed and unsold single-detached homes, town homes and apartments down 30 per cent, 75 per cent and 46 per cent year-over-year, respectively, as at the end of the first quarter. In response to

Figure 5



Source: CMHC Starts and Completions and Market Absorption Surveys.

these declines, builders ramped up new construction in the first quarter to a new record level of more than 7,000 starts, however, nearly two-thirds of single-detached houses and more than eight in ten new condo apartment units were absorbed upon completion during the same time frame. In the case of condominium apartments, strong demand from a variety of buyers has kept unsold inventories declining, even as the number of units under construction grows (Figure 5).

Low rental vacancies also contribute to CMHC's assessment of weak evidence of overbuilding. Strong demand for rental housing has

kept vacancy rates for both purpose-built and secondary rental apartments at or below one per cent since 2014⁷. Almost all municipalities in the Vancouver CMA recorded lower vacancy rates in 2015 than in the previous year. Secondary rental units, such as investor-held condominium apartments, have added to the rental housing supply in the region, contributing 14,829 additional units over the past five years, compared to 2,488 purpose-built rental apartments added to the stock during the same period⁸.

⁷ CMHC Rental Market Survey, Condominium Vacancy Survey.

⁸ CMHC Rental Market Survey, Condominium Vacancy Survey.

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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