

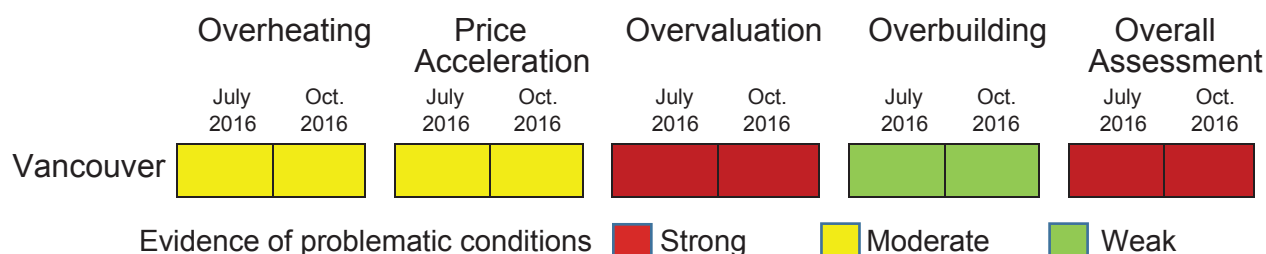
HOUSING MARKET ASSESSMENT Vancouver CMA

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Highlights



- The results of CMHC's second quarter 2016 Housing Market Assessment (HMA) framework continue to point to overall strong evidence of problematic conditions for the Vancouver Census Metropolitan Area (CMA) housing market.¹
- The overall assessment is based on moderate evidence of both overheating and price acceleration in addition to strong evidence of overvaluation. This is unchanged from the previous assessment.
- There remains weak evidence of overbuilding.
- The 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 problematic conditions becomes stronger.

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

In Detail

Moderate Evidence of Overheating

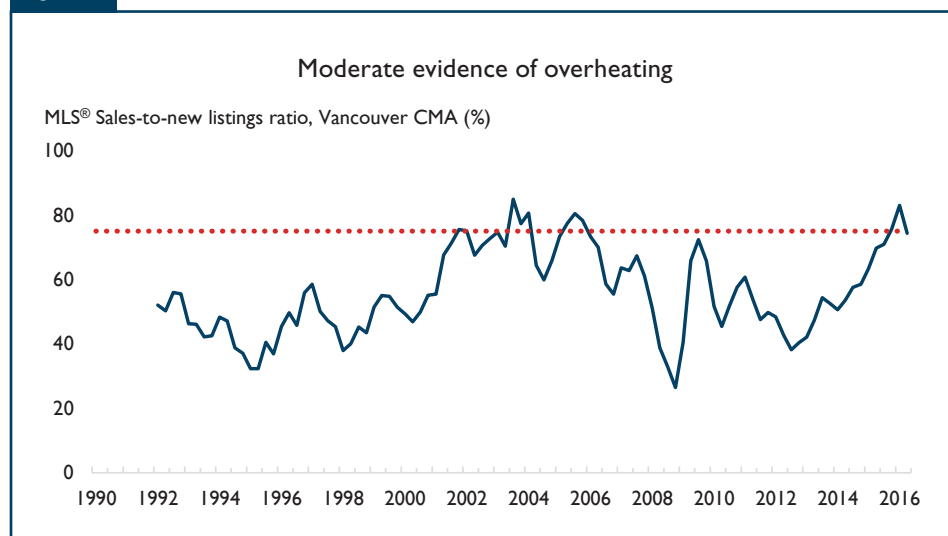
The HMA framework detects moderate evidence of overheating in the Vancouver CMA housing market during the second quarter of 2016. While the sales-to-new listings ratio eased back below its threshold in the second quarter, further evidence of balancing in the market is necessary to confirm conditions are normalizing around historical trends (Figure 1). The sales-to-new-listings ratio has moderated since the last Vancouver CMA HMA, however there are large differences in market conditions across areas, housing types and price points. Table 1 shows a detailed breakdown of sales-to-new listings ratios for each municipality within the CMA, and for each home type

“Strong employment growth and migration are supporting housing demand but cannot account for current price levels by themselves. In addition, there is moderate evidence of overheating and price acceleration. As a result, the HMA framework continues to suggest strong evidence of problematic conditions in the second quarter for the Metro Vancouver housing market.”



Robyn Adamache
Principal, Market Analysis (Vancouver)

Figure 1



Sources: Real Estate Board of Greater Vancouver and Fraser Valley Real Estate Board, calculations (threshold) by CMHC. Last data point 2016Q2. MLS® is a registered trademark of the Canadian Real Estate Association.

Table 1: Sales-to-New Listings Ratio (August 2016)

	All Home Types	Single-Detached	Town House	Apartment	Condo (Attached + Apartment)
Burnaby	50%	25%	49%	67%	
Coquitlam	61%	40%	65%	82%	
Delta	35%	25%	19%	100%	
New Westminster	76%	35%	100%	88%	
North Vancouver	61%	52%	54%	73%	
Port Coquitlam	48%	30%	35%	74%	
Port Moody	67%	39%	84%	78%	
Richmond	55%	25%	60%	83%	
M Ridge P Meadows	79%	64%	107%	100%	
Vancouver East	47%	32%	48%	70%	
Vancouver West	58%	33%	68%	65%	
West Vancouver	46%	33%	100%	120%	
REBGV	58%	39%	66%	74%	
Langley	69%	60%			77%
Surrey	61%	40%			84%
White Rock	50%	33%			72%
FVREB	62%	48%			79%
Vancouver CMA	55%	39%			67%

Sources: Real Estate Board of Greater Vancouver and Fraser Valley Real Estate Board

as of August 2016.^{3,4} This data shows that the single-detached market has cooled considerably since the last HMA, with the most recent sales-to-listings ratio indicating a balanced market. More expensive single-detached areas, such as the west side of Vancouver, Burnaby and West Vancouver moved into buyers' market territory in August. On the other hand, pockets of limited supply and ongoing demand have kept the sales-to-listings ratios for all home types elevated in areas such as Maple Ridge/ Pitt Meadows and for townhomes and apartments in many areas of the CMA.

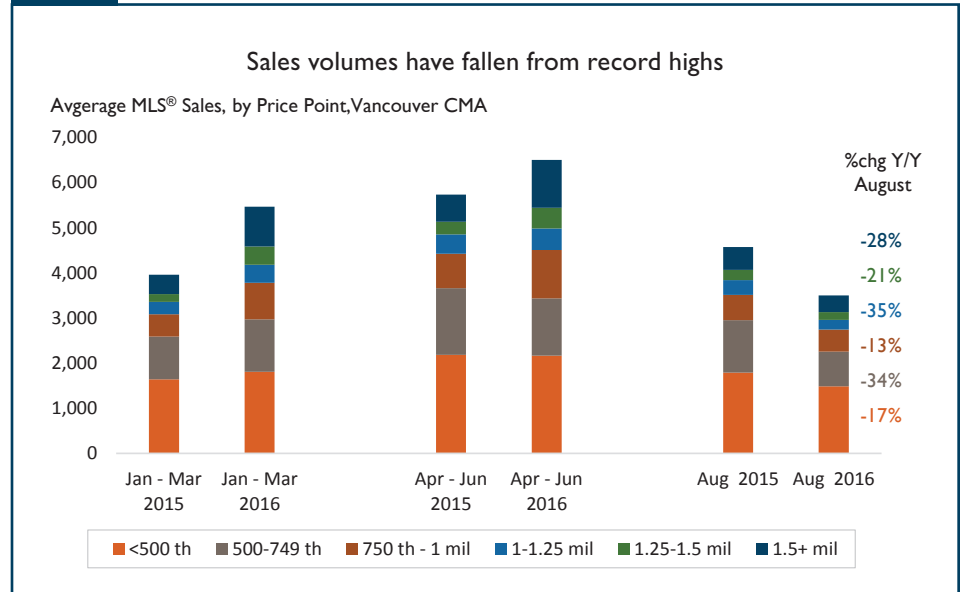
In the Vancouver CMA, total seasonally-adjusted sales of all home types peaked in February 2016 and have been falling every month since. The introduction of the 15 per cent foreign buyers tax in August has further consolidated this trend (Figure 2). However, a longer time period is required to assess the impact the tax will have on sales activity and home prices.

While total sales have been declining, inventories of existing homes for sale remain low with approximately three month's supply available in August. A continued decline in sales coupled with the continuing trend of increasing listings should lead to growing inventory and more balanced sales-to-listings ratios that will moderate price growth in the Vancouver CMA going forward.

Moderate Evidence of Price Acceleration

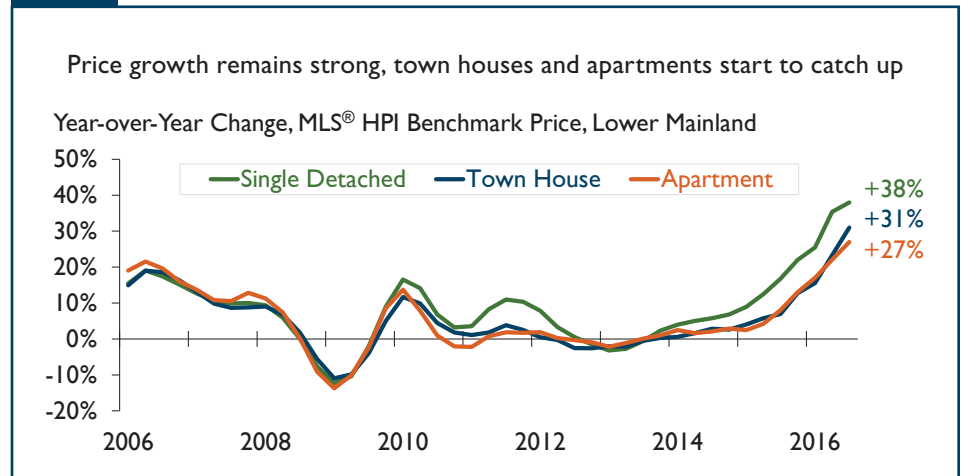
As in the previous assessment, the Vancouver CMA housing market is showing moderate evidence of price acceleration. Persistently low

Figure 2



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

Figure 3



Sources: Real Estate Board of Greater Vancouver and Fraser Valley Real Estate Board. Last data point June - August 2016. MLS® is a registered trademark of the Canadian Real Estate Association.

listings and new home inventories in the second quarter of 2016 further increased the pace of price growth from the first quarter of the year. In August 2016, the MLS® HPI benchmark price⁵ for single-detached, town house and apartment properties

increased 38, 31 and 27 per cent over August of the previous year, respectively (Figure 3).

Following trends observed in the previous HMA, strong demand for town houses and apartments has

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

⁴ All HMA models use data from up to 2016Q2. Additional data up to August 2016 is included for further insight.

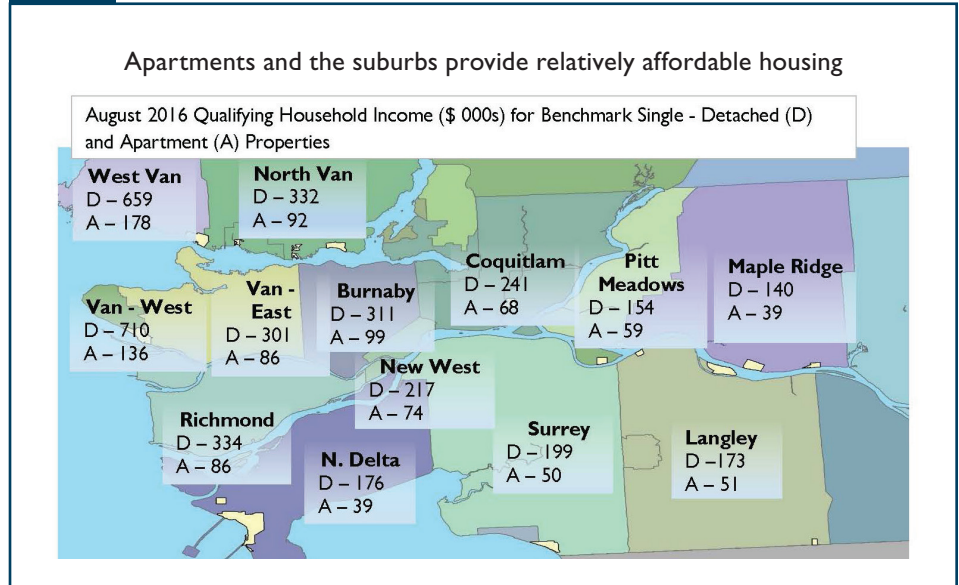
continued to narrow the price gap between multi-family and single-detached home prices in recent months. The three-month average MLS® HPI indices for condominium apartments and town homes were up 28 and 24 per cent respectively compared to 17 per cent for single-detached homes in August. Recent months' declining sales-to-new listings ratios are expected to temper price growth in the coming months.

Strong Evidence of Overvaluation

The HMA framework points to strong evidence of overvaluation in the Vancouver housing market for the third consecutive quarter. Demand fundamentals remain comparatively strong in the Vancouver CMA compared to the rest of British Columbia and Canada. The region's diversified economy led nationally in employment growth, at 6.3 per cent in August, and continues to be a driver of in-migration. In addition, the ongoing low interest rate environment and equity gains for existing homeowners have supported repeat buyer activity.

While economic, demographic and financial fundamentals have been strong, they alone cannot account for current price levels. The underlying models used in the HMA framework detect strong evidence of overvaluation of home prices compared to fundamentals. Explaining high valuations over fundamentals in the Vancouver CMA remains difficult. Current low levels of speculative activity (as measured by homes that change hands twice within 12 months) for both single-detached

Figure 4



Sources: MLS® HPI Benchmarks - Real Estate Board of Greater Vancouver and Fraser Valley Real Estate Board. Bank of Canada August 2016 posted 5-year mortgage rate (4.64%). Calculations by CMHC. Assumptions: 20 per cent down payment, 25 year amortization, 0.5 per cent property tax, 30 per cent gross debt service ratio.

homes and condo apartments suggest ongoing demand is not speculator-driven.⁶ Several new policy actions by the federal and provincial governments over the summer and fall of 2016, including the introduction of a 15 per cent foreign buyers tax, will likely slow price growth by reducing demand and altering the future expectations of buyers and sellers, although it is too soon to definitively determine the impact of the new tax.

It is also important to note that high aggregate price measures can obscure the range in price points of multi-family and single-detached properties available within the region. Figure 4 shows the relative affordability of apartments and suburban properties by showing the pre-tax household income required to purchase single-

detached and apartment properties in select Vancouver CMA areas. Reflective of these differences in affordability, approximately 60 per cent of MLS® sale transactions and 80 per cent of new homes built in the CMA are town homes and apartments.

Weak Evidence of Overbuilding

According to the HMA framework, evidence of overbuilding in the Vancouver CMA housing market remains weak. Inventories of completed and unsold new homes remained low in the second quarter. In the case of town houses and condominium apartments, strong demand from a variety of buyers has kept unsold inventories low

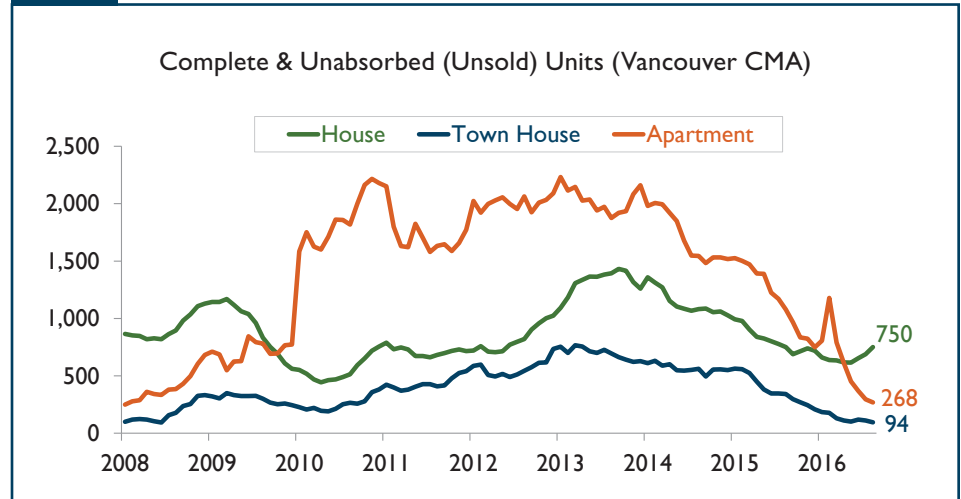
⁵ This measure tracks the price of homes with common features, and is therefore not subject to the limitations of average prices which can be skewed by prices on the low or high end of the spectrum. In markets like Vancouver, where the range in prices by area and by type is very wide, average prices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

⁶ BC Paired Sales Analysis – Prepared by Landcor on behalf of the BC Ministry of Finance

(Figure 5). In response to strong demand and falling inventories of new homes, builders increased new construction in the second quarter to an all-time high of more than 7,750 starts, with 34,020 units under construction as of August 2016.

Very low rental vacancies also contribute to the assessment of weak evidence of overbuilding. Strong demand for rental housing, partially supported by renters facing high price levels for home purchases, has led to vacancy rates for both purpose-built and secondary rental apartments at or below one per cent since 2014⁷. Rising rents and municipal incentive programs have contributed to more than twice as many purpose-built rental starts in the past few years. However, given strong demand and few completions of new rental units for most of the last decade, it is unlikely newly completed purpose-built rental units will raise the vacancy rate to levels consistent with overbuilding in the near to medium term.

Figure 5



Source: CMHC. Last Data Point August 2016.

⁷ 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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