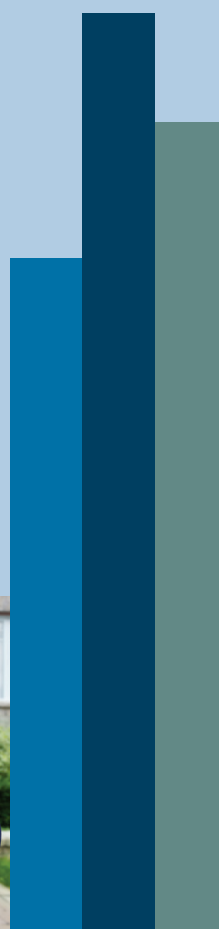


# HOUSING MARKET ASSESSMENT

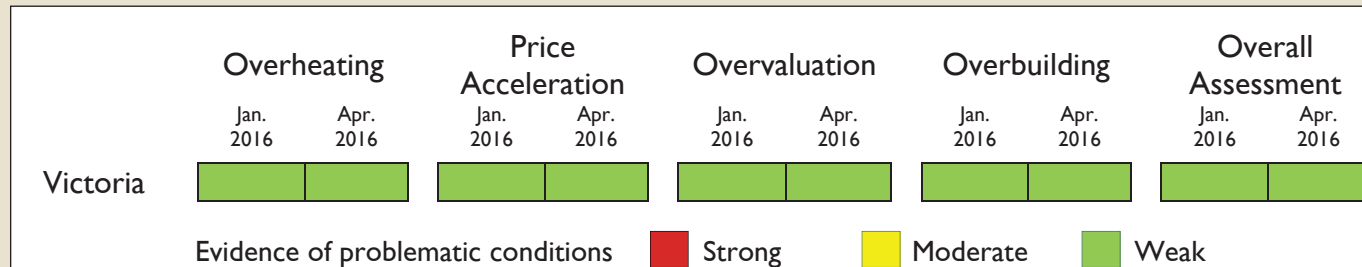
## Victoria CMA

Date Released: Second Quarter 2016



*Housing market intelligence you can count on*

## Highlights



- Overall, the result from the framework indicates weak evidence of problematic housing market conditions in the Victoria CMA.<sup>1</sup>
- Overheating, price acceleration and overvaluation in the housing market show weak evidence of problematic conditions.
- We detect weak evidence of overbuilding as newly completed homes were sold and rental vacancy rates remained low.
- 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 5 of this report.

## HMA Overview<sup>2</sup>

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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<sup>1</sup> 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.

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

## In Detail

### Weak Evidence of Overheating

In the fourth quarter of 2015, the key indicator for overheating remained below the threshold that would be considered indicative of problematic conditions in the market. Our assessment of weak evidence of overheating is reflected in the seasonally-adjusted sales-to-new listings ratio, which remained stable at 71 per cent in the fourth quarter after climbing in the second and third quarter of 2015 (Figure 1). The balance between housing supply and demand in 2015 shifted further in favour of sellers: new listings for single-detached, townhouses and apartments remained stable in the region while sales went up by double digits compared to year-ago levels; signalling that demand is running ahead of supply. Despite these trends, the sales-to-new listings ratio for each housing type in the fourth quarter of 2015 and in the first quarter of

*“Overall, the result from the framework indicates weak evidence of problematic housing market conditions in the Victoria CMA.”*



Aida Niavarani Zadeh  
Senior Market Analyst

2016 remained below the 80 per cent threshold that would signal moderate evidence of overheating.

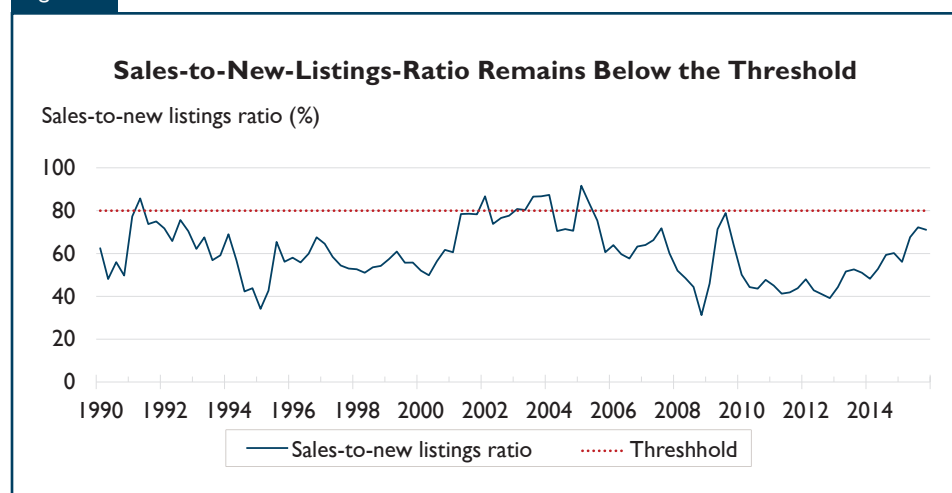
### Weak Evidence of Price Acceleration

We continue to detect weak evidence of price acceleration in the Victoria CMA. However, the region is experiencing market conditions which favour sellers. The current financing environment, with low interest rates in addition to employment and population growth, has increased

homeownership demand. A tightening resale market, with demand outpacing supply, led to positive year-over-year median MLS® price growth in the fourth quarter of 2015, which varied across municipalities the Victoria CMA (Figure 2).

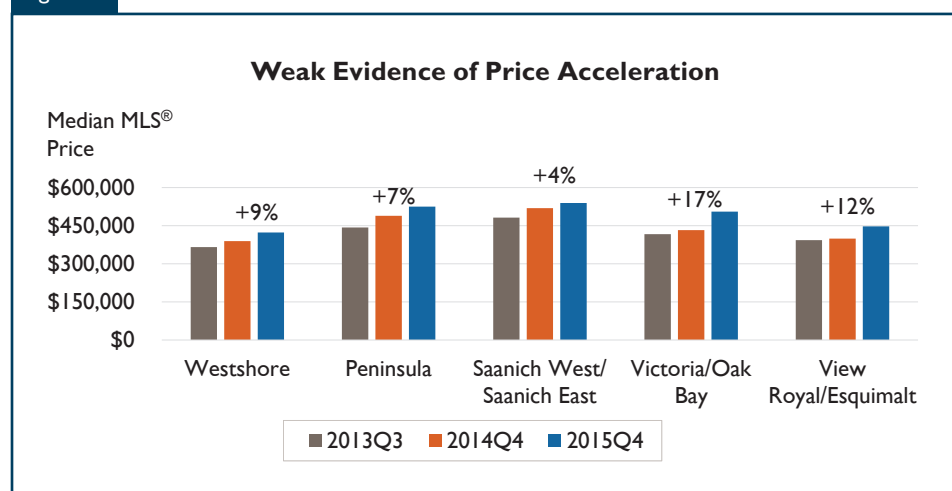
In the fourth quarter of 2015, the seasonally-adjusted median MLS® price for all home types, at \$468,985 was up by 3.5 per cent compared to the third quarter, and 6.2 per cent higher compared to a year earlier. The largest year-over-year increase in median price in the fourth quarter

Figure 1



Sources: CREA and calculations (threshold) by CMHC  
Last data point: 2015 Q4

Figure 2



Sources: CREA and calculations (percentage change) by CMHC  
Last data point: 2015 Q4

was recorded in the single-detached home segment which made up over 55 per cent of total sales in that quarter and for the year as a whole. However, by the end of February 2016, close to half of the units under construction for purchase were single-detached homes which may alleviate some of the price pressure on existing single-detached homes. As these new units come to completion, they will provide homebuyers options across different price points in the region.

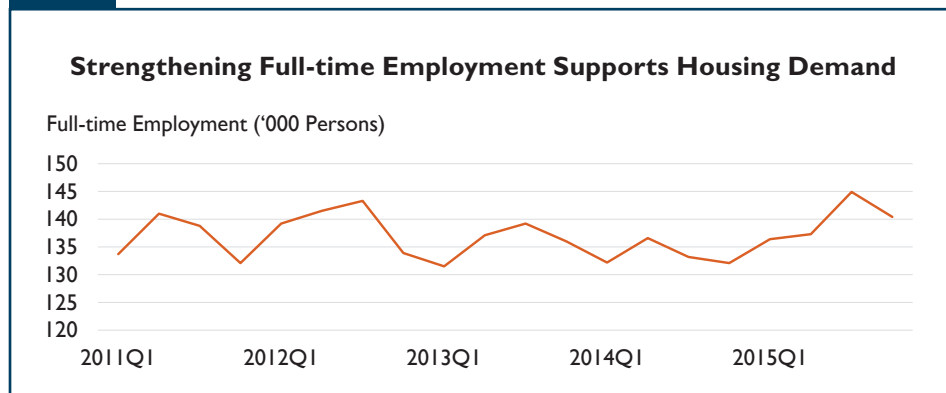
## Weak Evidence of Overvaluation

In the fourth quarter of 2015, we still detect weak evidence of overvaluation for the Victoria CMA indicating that observed house price levels are supported by fundamentals such as historical low mortgage rates and population growth. In addition, full-time employment has been rising in Victoria (Figure 3). These fundamentals support home price valuations.

## Weak Evidence of Overbuilding

According to our framework, there is weak evidence of overbuilding in the fourth quarter of 2015 as the two key indicators - the number of new completed and unsold units per 10,000 population and the rental vacancy rate - remained below thresholds which would be associated with evidence of problematic conditions. As of the end of February 2016, the number of units under construction remained stable while inventories declined as new units were sold at completion. A low and declining October rental apartment vacancy rate, from 1.5 per cent in 2014 to 0.7 per cent in 2015, indicates higher demand for rental units and suggests an absence of overbuilding in the CMA.

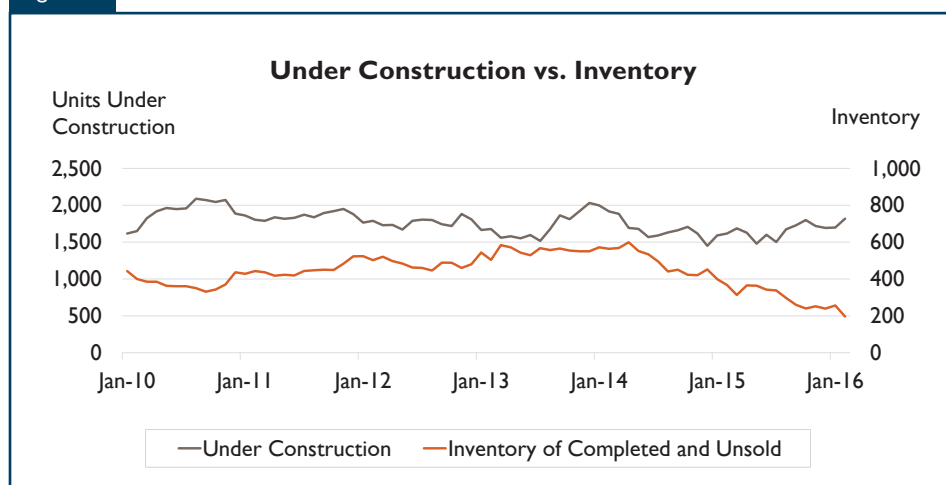
Figure 3



Sources: Statistics Canada, Labour Force Survey

Last data point: December 2015

Figure 4



Sources: CMHC

Last data point: February 2016

## 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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