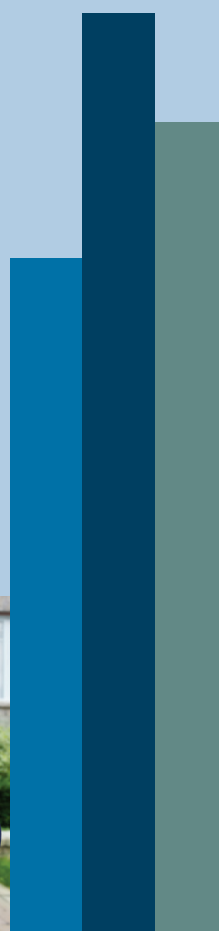


HOUSING MARKET ASSESSMENT

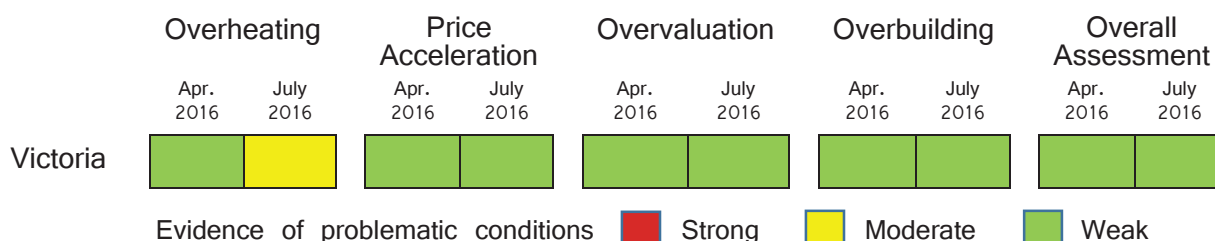
Victoria CMA

Date Released: Third Quarter 2016



Housing market intelligence you can count on

Highlights



- Overall, the framework indicates weak evidence of problematic housing market conditions in the Victoria CMA.¹
- The Housing Market Assessment (HMA) framework detects moderate evidence of overheating as demand significantly outpaced the supply of housing in the first quarter of 2016 and this trend continued into the second quarter, pushing the sales-to-new-listings ratio of existing homes above the threshold.
- Price acceleration, overvaluation and overbuilding in the housing market show weak evidence of problematic conditions.
- 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 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 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 December 2015 and market intelligence as of the end of March 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

Moderate evidence of overheating was detected in the Victoria CMA housing market. This assessment is reflected in the seasonally-adjusted sales-to-new listings ratio, which remained above the threshold used to identify evidence of overheating in the first quarter of 2016 and this trend continued into the second quarter (Figure 1). In 2015, the balance between housing supply and demand shifted in favour of sellers resulting in positive price growth. This price growth has continued since the first quarter of 2015, and over the past two quarters, the rate of price growth has demonstrated an upward trend. New listings remained relatively unchanged in the region compared to year-ago levels while sales went up by over 40 per cent for all types of homes. As a result, average MLS® prices were up by 12 per cent compared to last year.

“Moderate evidence of overheating was detected in the Victoria CMA housing market based on information up to the second quarter of 2016”



Taylor Pardy
Senior Market Analyst

Price Acceleration

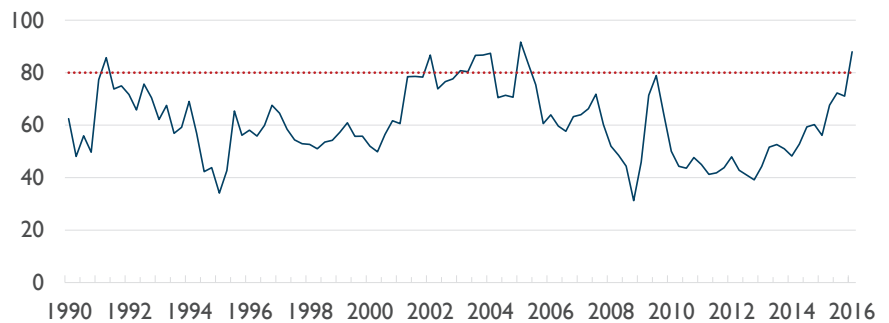
The HMA framework indicated weak evidence of price acceleration in the Victoria CMA. Starting in the first quarter of 2015, average MLS® prices have been on an upward trajectory after 5 years of stagnation since 2010

(Figure 2). On a year-over-year basis, seasonally-adjusted prices increased by 12 per cent in the first quarter of 2016 to \$559,715³. This compares to year-over-year price growth of 9 per cent in the fourth quarter of 2015.

Figure 1

Sales-to-New-Listings-Ratio Moves Above the Threshold in Victoria

Sales-to-new listings ratio (%)

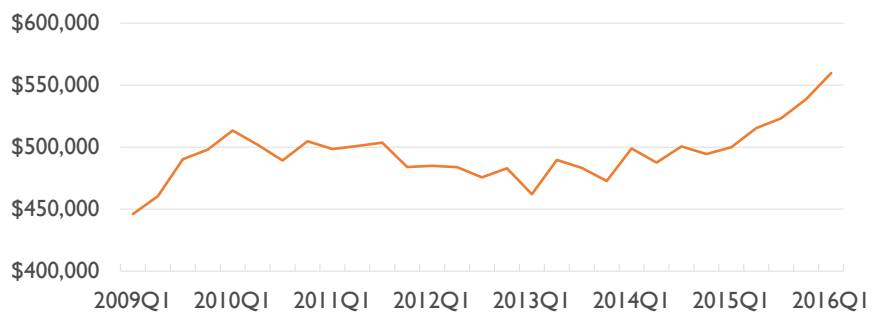


Sources: CREA and calculations (threshold) by CMHC
Last data point: 2016Q1

Figure 2

Average MLS® Prices Trend Up in Victoria

Seasonally Adjusted Average MLS® Prices



Sources: CREA
Last data point: 2016Q1

³ Source: CREA

Average MLS® prices varied among housing types and submarkets within the Victoria CMA year-over-year. Compared to the first five months of last year, more homes were sold in the Urban Core, which has the highest price tags for all types of homes, pushing up average MLS® prices (Figure 3). In addition, from January to May, single-detached home sales, which accounted for 59 per cent of total sales, were the main driver of increases in the average MLS® price, with prices varying across the region:

Overvaluation

The HMA framework detected weak evidence of overvaluation in the Victoria CMA in the first quarter of 2016, indicating that observed house price levels continue to be supported by fundamentals such as historical low mortgage rates and population growth. In addition, part-time and full-time employment in the first five months of the year was higher than the same period last year, supporting housing demand. However, the high pace of price growth is keeping overvaluation levels near the threshold and will be closely monitored over the coming quarters (Figure 4).

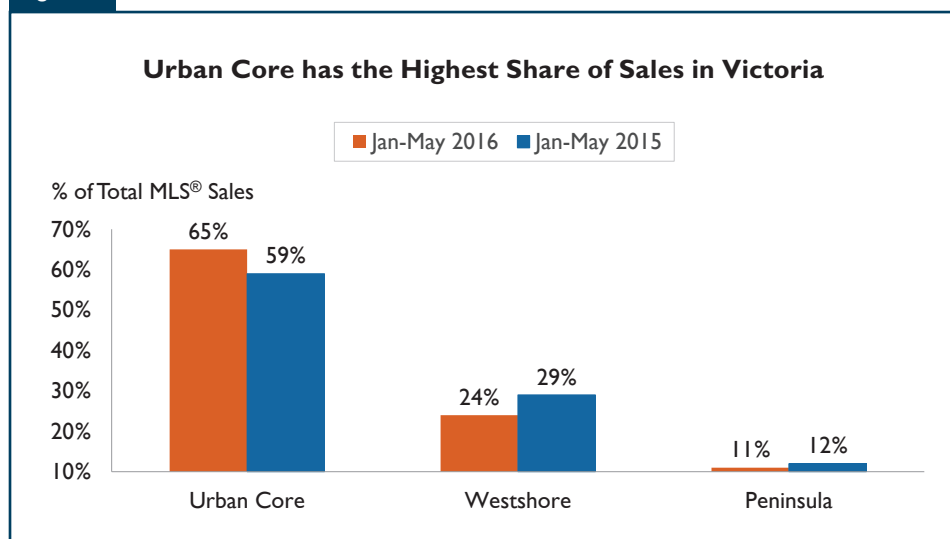
Single-Detached Homes			
Area	Average MLS® Price*	% Change from Jan-May 2015	% of Total Single-Detached MLS® Sales
Urban Core	\$804,000	22.1%	58%
West Shore	\$522,000	8.2%	30%
Saanich Peninsula	\$714,000	19.1%	12%
Victoria CMA	\$709,000	17.9%	-

Source: VREB

*Waterfront single-detached homes are not included in calculating the average MLS® price. Average MLS® prices are rounded up to the nearest thousand. Benchmark Prices for single-detached homes in the Core, West Shore and Peninsula were \$706,500, \$460,500 and \$646,800, respectively.

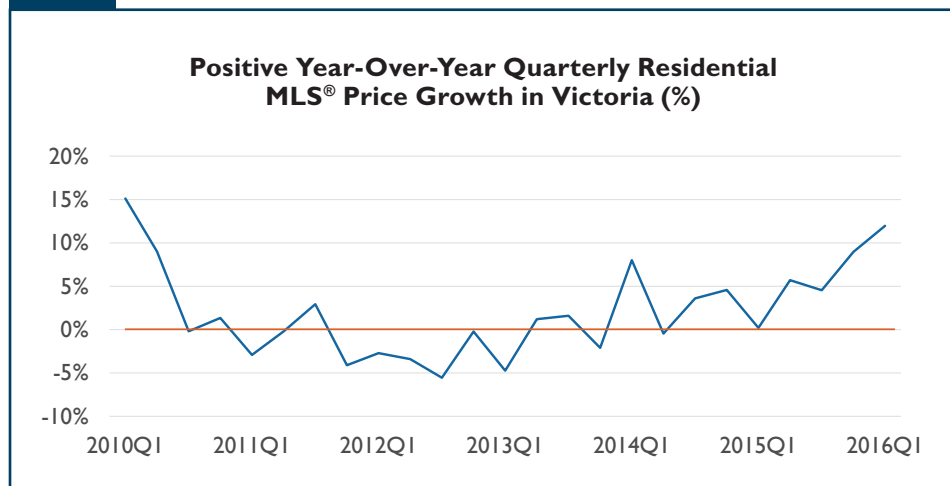
Note: Urban Core includes Victoria, Victoria West, Esquimalt, Oak Bay, View Royal and urban Saanich (Saanich East/Saanich West); West Shore includes Sooke, Langford, Colwood, Metchosin, Highlands; Saanich Peninsula includes Sidney, Central Saanich, and North Saanich

Figure 3



Source: CMHC, adapted from VREB

Figure 4

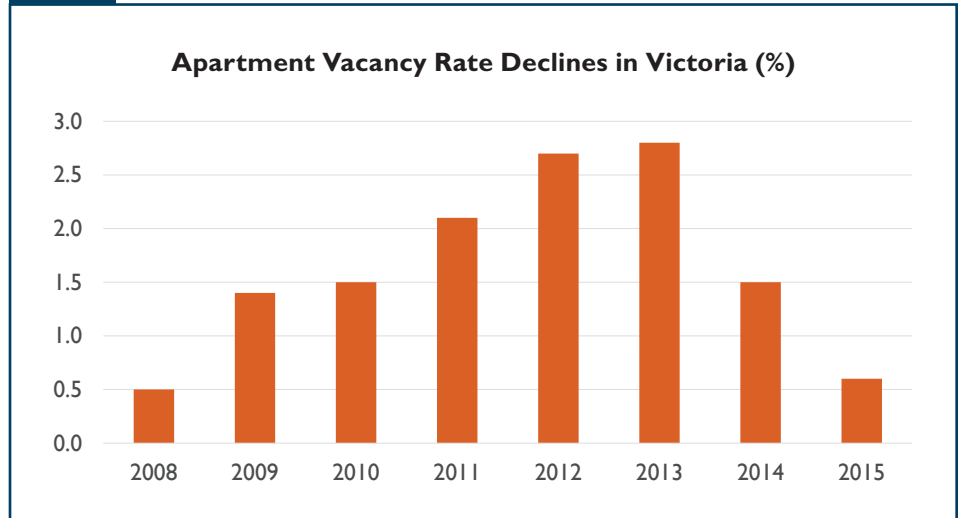


Sources: CREA, last data point: 2016Q1

Overbuilding

The HMA framework detected weak evidence of overbuilding in the Victoria CMA's housing market in the first quarter of 2016, 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 May 2016, the number of completed and unsold homes declined for the fourth month since January, bringing the inventory of new homes to 121 units. Rental apartment vacancy rates also declined for the second consecutive year to 0.7 per cent in 2015, indicating higher demand for rental units (Figure 5). Lower level of new inventory together with a decline in vacancy rate suggest an absence of overbuilding in the CMA.

Figure 5



Sources: CMHC, Rental Market 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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