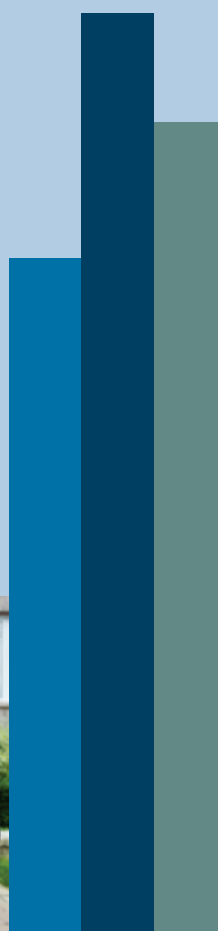


HOUSING MARKET ASSESSMENT

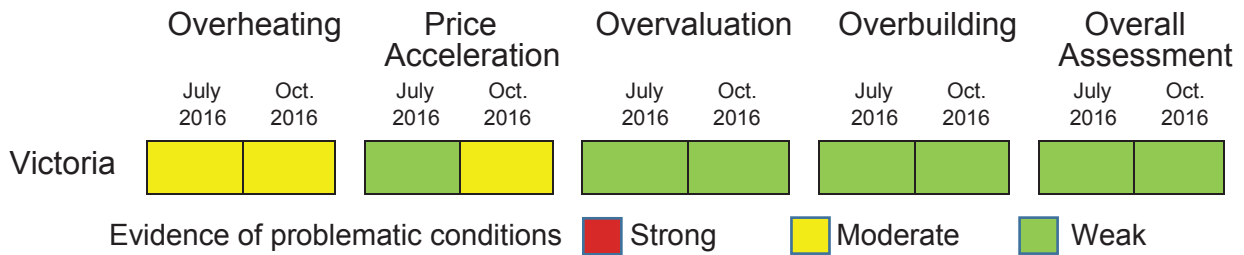
Victoria CMA

Date Released: Fourth Quarter 2016



Housing market intelligence you can count on

Highlights



- Overall, the framework indicates weak evidence of problematic housing market conditions in the Victoria CMA¹.
- Moderate evidence of overheating was detected as sales continued to outpace new listings in the resale market.
- Moderate evidence of price acceleration was detected. Fewer available homes for buyers led to increased competition between buyers, allowing sellers to command higher prices.
- The framework indicates weak evidence of overvaluation as the level of observed prices was in line with fundamentals, despite the presence of overheating and price acceleration.
- As well, there was weak evidence of overbuilding in the Victoria housing market.
- 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 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

Overheating

Moderate evidence of overheating was detected in the Victoria CMA. In the second quarter, the seasonally-adjusted sales-to-new-listings ratio (SNLR) was 90 per cent while the threshold for overheating is 80 per cent (Figure 1). The high SNLR ratio is the result of a nearly unchanged level of new listings despite considerable growth in sales. Compared with 2015, the total count of new listings added to the market increased by 47 year-to-date while 1,758 additional sales took place over the same period. As of August, new listings increased and sales declined as the market cooled off into the third quarter, with the SNLR declining to 88 per cent. However, even if this indicator moves below the threshold for overheating in the third quarter, it is expected to remain above 65 per cent, which is indicative of sellers' market conditions, and continued price growth would be expected.

"Demand for housing in the Victoria CMA outstripped supply, causing a run-down in the number of homes for sale per buyer. The overheated market meant competition among buyers, which led to price acceleration."



Braden Batch
Acting Senior Market Analyst (Victoria)

Price Acceleration

The HMA framework detected moderate evidence of price acceleration in the Victoria CMA.

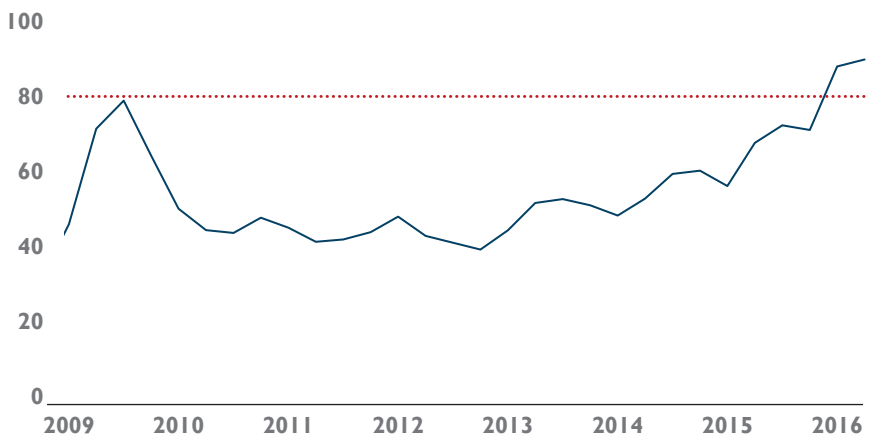
The average MLS® price began to rise in the first quarter of 2015 following an extended period of stability/flat

prices (Figure 2). Price growth coincided with the point in time that the SNLR exceeded a range typical of balanced market conditions. This meant that there was a relatively larger number of buyers for each home on the market, and in turn, this increased the bargaining power

Figure 1

Sales-to-New-Listings-Ratio Remains Above the Threshold in Victoria in Q2 2016

Sales-to-new listings ratio (%)

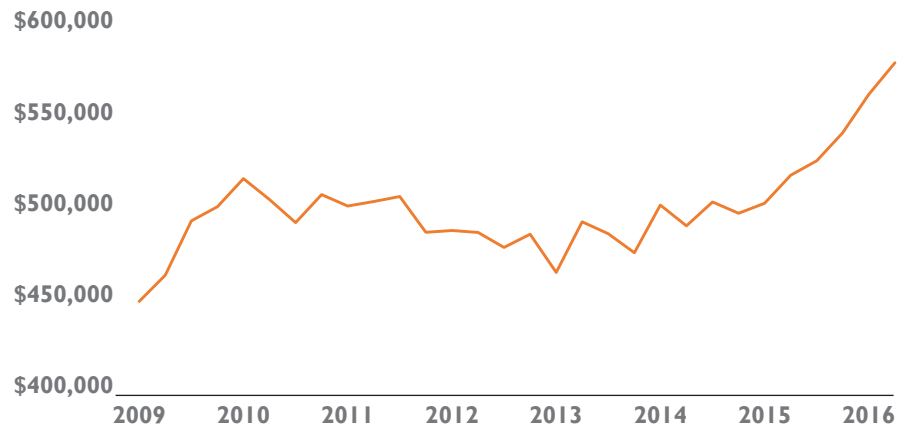


Sources: CREA and calculations (threshold) by CMHC
Last data point: 2016Q2

Figure 2

Average MLS® Prices Trend Up in Victoria

Seasonally Adjusted Average MLS® Prices

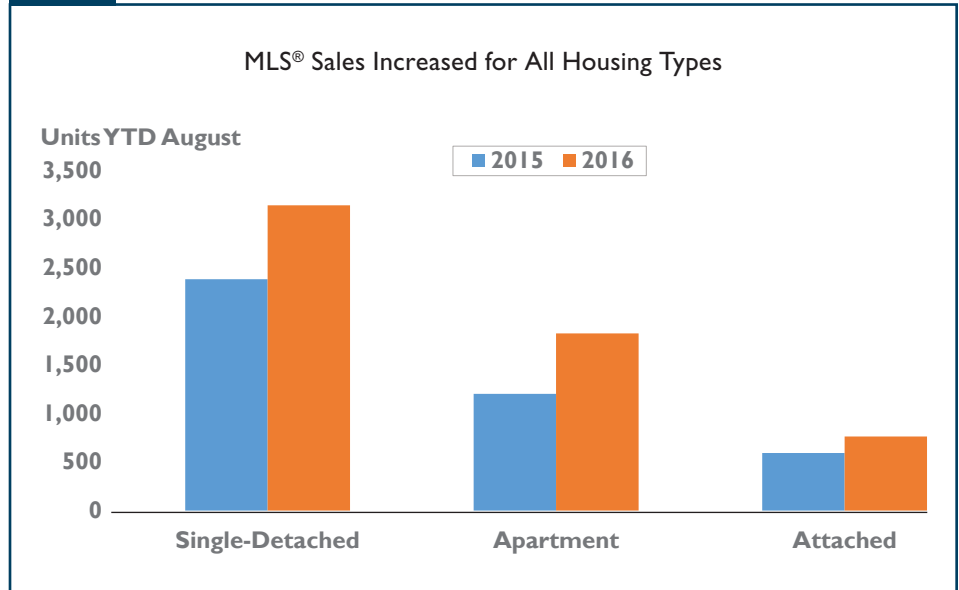


Sources: CREA
Last data point: 2016Q1

of sellers and led to accelerated price growth. In the second quarter of 2016, the SNLR had already exceeded the threshold for an overheated market for one full quarter, and real price growth became escalated according to the test for price acceleration. As of the second quarter 2016, the average MLS® price was up 12 per cent year-over-year.

Price growth has been most pronounced in single-detached homes. Taking the average price from January to August, single-detached homes increased 15 per cent, townhomes and semi-detached homes grew by 11 per cent, and apartments rose six per cent compared with the same period in 2015. Single detached units made up the majority of sales year-to-date (Figure 3), and a breakdown of different regions within the Victoria CMA shows a split in average price between the West Shore and the rest of the CMA (see table).

Figure 3



Sources: VREB

Single-Detached Homes				
Area	Average MLS® Price*	% Change from	% of Total Single-Detached MLS® Sales	
	Jan-Aug 2016	Jan-Aug 2015	Jan-Aug 2015	Jan-Aug 2016
Urban Core	\$808,000	19%	58%	57%
West Shore	\$537,000	12%	29%	32%
Saanich Peninsula	\$740,000	21%	13%	12%
Victoria CMA	\$691,000	15%	-	

Source: VREB, CMHC calculations

*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 746,900, \$482,300 and \$666,100, 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

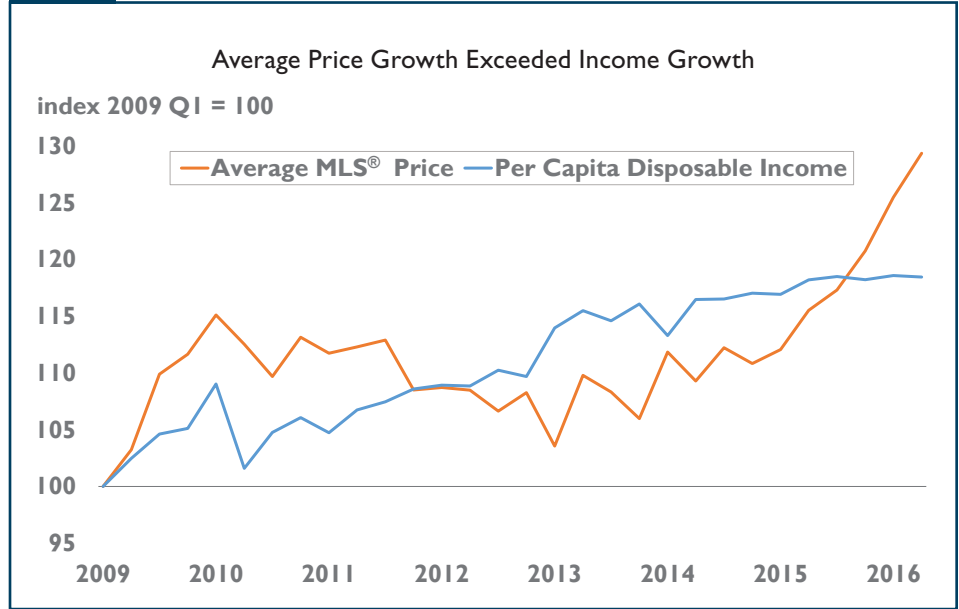
Overvaluation

The HMA framework detected weak evidence of overvaluation in the Victoria CMA in the second quarter of 2016. Despite market conditions driving average prices higher, the price level remains within a range that is consistent with fundamentals. In other words, job creation, population growth, higher disposable income (Figure 4), and historically low interest rates can statistically explain the prices that were observed in the market. The overvaluation indicator moved closer to the threshold that the framework uses to determine the presence of overvaluation in the market, but it did not cross it in the second quarter of 2016.

Overbuilding

The HMA framework detected weak evidence of overbuilding in the Victoria CMA's housing market in the second quarter of 2016. Supply levels in the new home market were low by historical standards. Complete and unsold units numbered just 88 at the end of the second quarter while the five-year average was 445 units (Figure 5), as of August the number stood at 72 units. In the rental market, a similar low supply level is indicated by the 0.7 per cent vacancy rate, which lies well below the threshold associated with overbuilding.

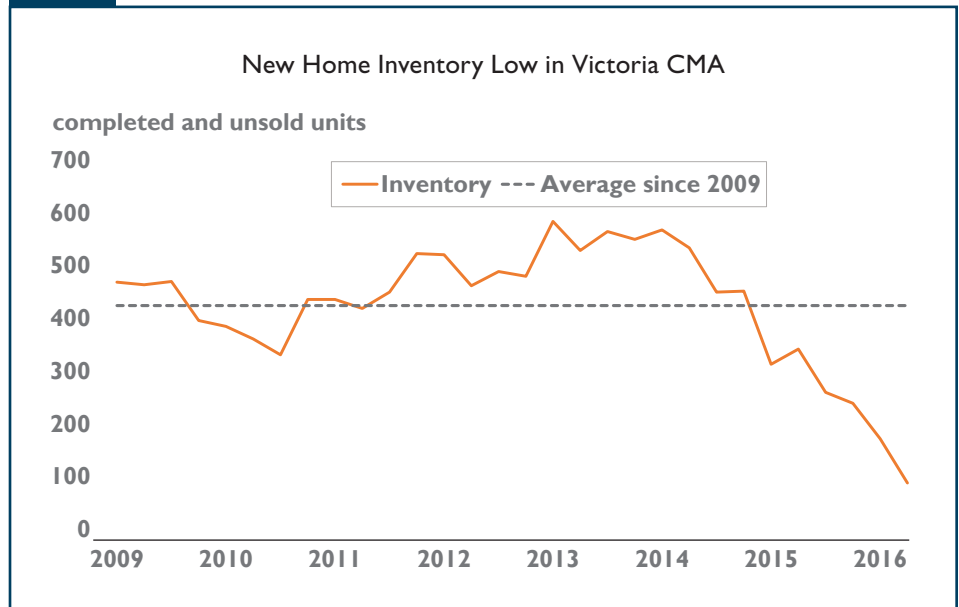
Figure 4



Sources: CREA, Conference Board of Canada

Last data point: 2016 Q2

Figure 5



Sources: CMHC

Last data point: 2016 Q2

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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