HOUSING MARKET ASSESSMENT
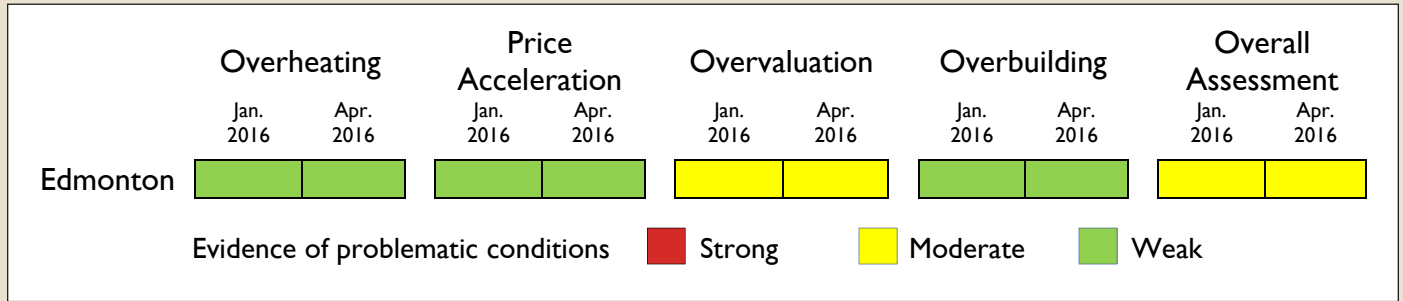## Edmonton CMA

Date Released: Second Quarter 2016

Housing market intelligence you can count on

Canada

CMHC ◆ SCHL

Highlights

	Overheating		Price Acceleration		Overvaluation		Overbuilding		Overall Assessment	
	Jan. 2016	Apr. 2016	Jan. 2016	Apr. 2016	Jan. 2016	Apr. 2016	Jan. 2016	Apr. 2016	Jan. 2016	Apr. 2016
Edmonton	🟩	🟩	🟩	🟩	🟨	🟨	🟩	🟩	🟨	🟨

Evidence of problematic conditions — 🟥 Strong 🟨 Moderate 🟩 Weak

- We detect moderate evidence of problematic conditions in Edmonton's housing market.[1]

- Factors such as overheating and price acceleration continue to show weak evidence of problematic conditions.

- A slowdown of economic fundamentals has contributed to moderate evidence of overvaluation.

- While we detected weak evidence of overbuilding, an elevated number of units under construction could lead to an increase in inventory of unsold units in 2016.

- 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 6 of this report.

HMA Overview[2]

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 local market intelligence up to 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

We continue to detect weak evidence of overheating in Edmonton. The sale-to-new listings ratio has declined year-over-year in each quarter since the second quarter of 2014, and remains below the threshold. The market has tilted in favour of the buyer as active listings on the market have increased while sales have declined. This has led to an increase in the average number of days on market and stagnant price growth.

The seasonally adjusted sales-to-new listings ratio in the fourth quarter was 47 per cent, compared to 52 per cent in the previous quarter. The decline was a result of both an increase in new listings and fewer sales in the fourth quarter. Following a sharp reduction in the first quarter, sales rebounded somewhat in the second quarter and the third quarter of 2015, before moving lower in the final quarter of the year. New listings have trended higher

Figure 1

Slower sales and higher listings push ratio lower
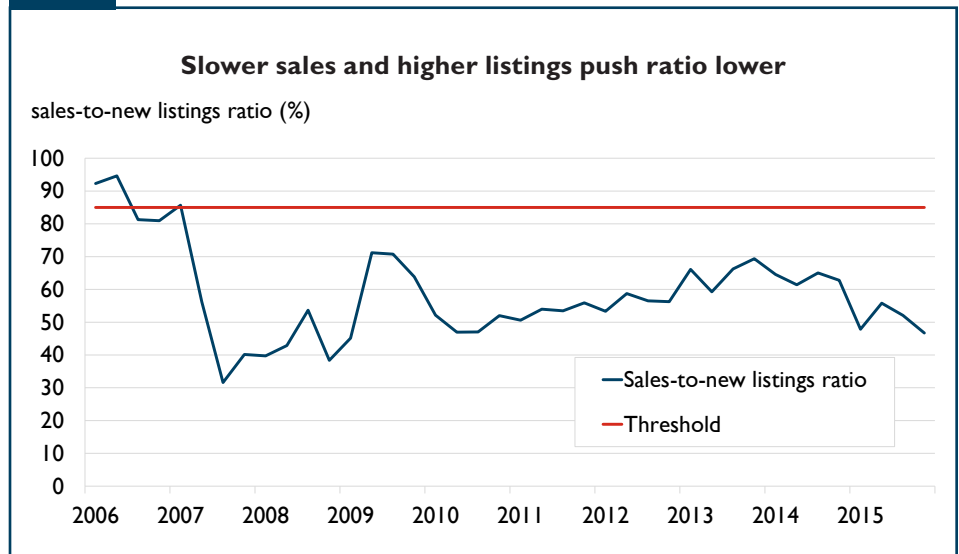
Source: CREA (seasonally adjusted), calculations (threshold) by CMHC
Last data point: 2015Q4

in the past year, and as of the third quarter of 2015, seasonally adjusted new listings were at their highest level since 2008. On an annual basis, the sales-to-new listings ratio averaged 47 per cent for condominium units, including apartments, in Edmonton in 2015 compared to 53 per cent for single-detached homes. Sales of

condominium units posted larger declines than sales of single-detached homes in 2015.

Price Acceleration

We detect weak evidence of price acceleration in Edmonton. Price growth moved lower in 2015 as demand slowed while the number of

"The relatively high number of units under construction is an area of concern, as it could lead to higher inventory as units reach completion over the next year."

Christina Butchart
Principal, Market Analysis
(Edmonton)

Figure 2

Average MLS® Price Growth slows in 2015
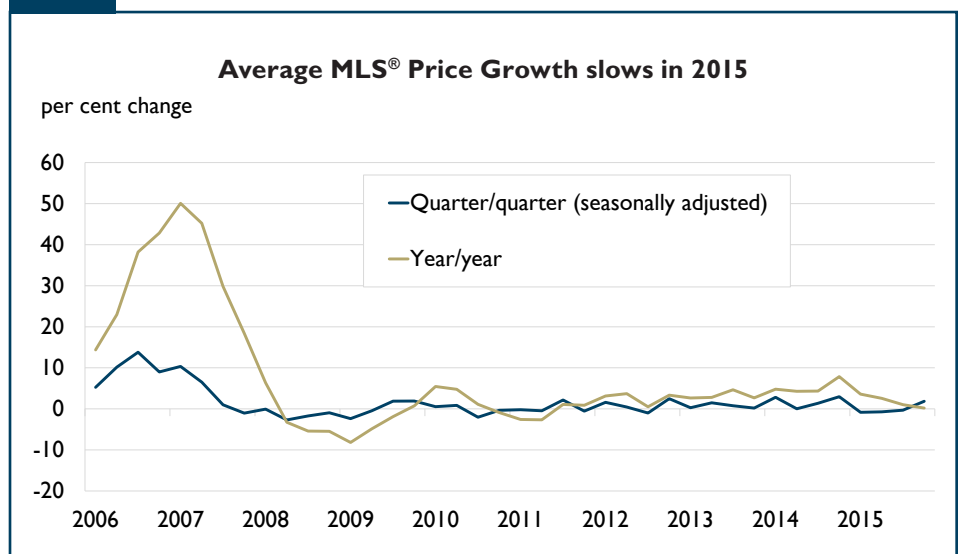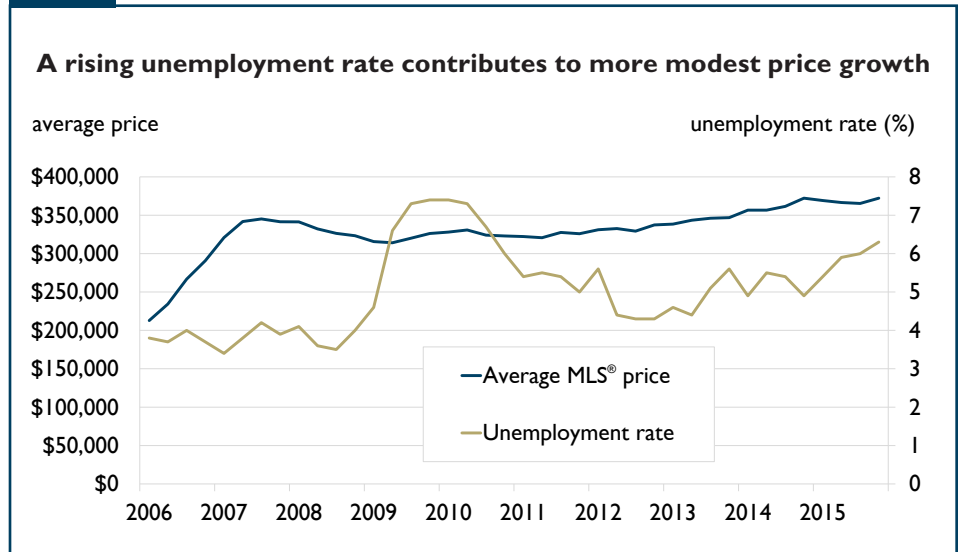
Source: CREA
Last data point: 2015Q4

homes on the market has increased. Slower employment growth, reduced consumer confidence and lower migration have tempered demand for homes in Edmonton. At the same time, more households have chosen to list their homes. Together these factors have led to slower price growth.

The seasonally adjusted MLS® price increased in the fourth quarter, following three consecutive quarters of declines. The average MLS® price was $372,161 in the fourth quarter of 2015, compared to $365,359 in the third quarter. While actual prices were up 1.9 per cent in 2015, price growth slowed in the second half of the year. Price growth for townhouses has been below that of other segments of the market. Median townhouse prices recorded year-over-year declines in seven of the eight months from May to December 2015.

Overvaluation

There was moderate evidence of overvaluation detected as house prices gains in the last couple of years outpaced the growth of economic and demographic fundamentals. Lower oil prices have slowed employment growth and led to a decline in migration. The seasonally adjusted unemployment rate in Edmonton averaged 6.3 per cent in the fourth quarter of 2015, up from 6.0 per cent in the third quarter. The rise in the unemployment rate has reduced pressure on wages and also contributed to a decline in net migration. While resale price gains were relatively modest in Edmonton in recent months, the moderate evidence of overvaluation is primarily due to a deterioration in economic fundamentals.

Figure 2

A rising unemployment rate contributes to more modest price growth

Source: CREA, Statistics Canada (seasonally adjusted)
Last data point: 2015Q4

Overbuilding

The weak evidence of overbuilding detected was unchanged from the previous quarter. There is, however, an elevated number of units under construction in Edmonton and inventory of completed and unsold units has begun to rise. Although inventory is currently below the threshold, the relatively high number of units under construction is an area of concern, as it could lead to higher inventory as units reach completion over the next year. Multi-family units, particularly apartments, account for over half of all units under construction. This could put upward pressure on inventory and the rental vacancy rate

Figure 4

New home inventories are rising but below threshold level
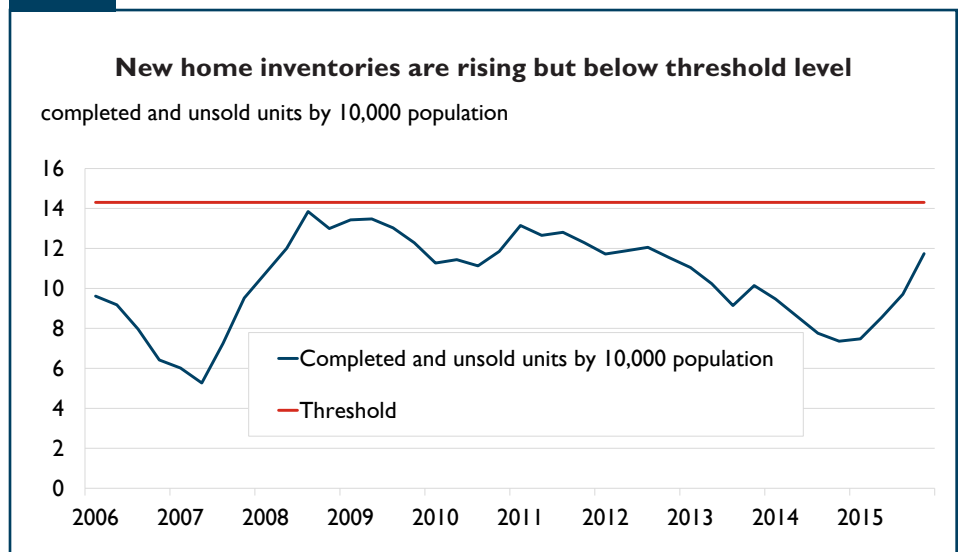
Source: CMHC, calculations (threshold) by CMHC, Statistics Canada
Last data point: 2015Q4

when units complete. In the single-detached segment of the market, the number of units under construction has started to pull back. However, inventory has increased, with the number of units 48 per cent higher in December 2015 than in the same month one year prior. As such, there is additional potential for single-detached inventories to rise in the coming months.

The apartment vacancy rate in Edmonton increased to 4.2 per cent in October 2015 up from 1.7 per cent in the same month one year prior. The increase was attributable to both a slower pace of growth in the demand for units, and an expanding number of units in the primary rental market. Although the vacancy rate moved higher, it did not exceed the threshold level. However, there remains an elevated number of rental apartments under construction in Edmonton, which could lead to additional upward pressure on the vacancy rate.

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.

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* 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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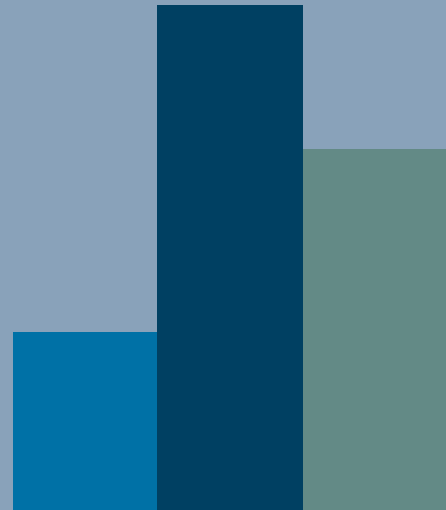
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