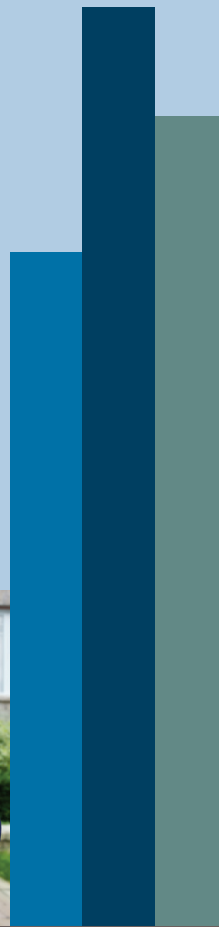


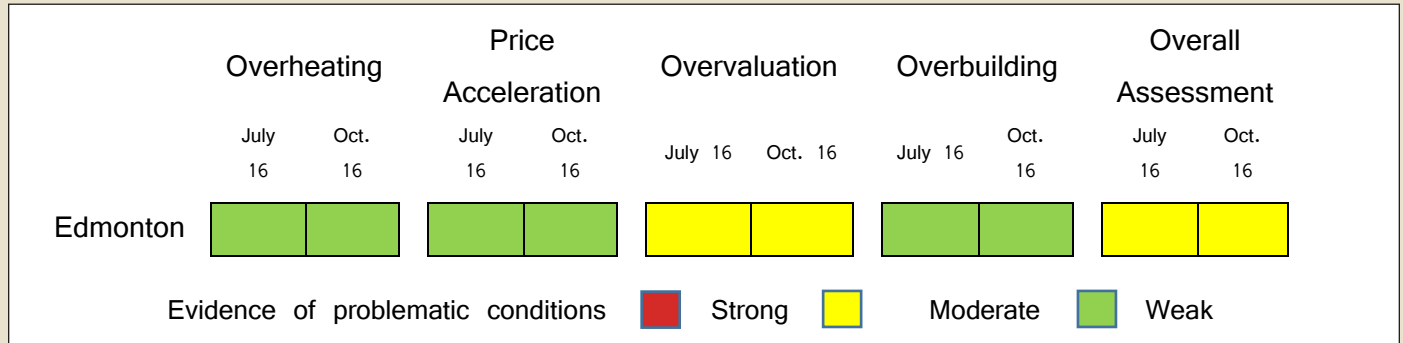
HOUSING MARKET ASSESSMENT Edmonton CMA

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Highlights



- Overall, moderate evidence of problematic conditions was detected in Edmonton's housing market, unchanged from the previous assessment.¹
- Factors such as overheating and price acceleration continue to show weak evidence of problematic conditions.
- Moderate evidence of overvaluation was detected as a result of weaker economic and demographic conditions.
- While weak evidence of overbuilding was detected, the number of newly completed and unsold units in inventory continued to move higher.
- 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 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 developments 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,

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

low intensity and persistence are associated with potentially weaker evidence of problematic conditions. As the number of intense and persistent signals increases, the associated evidence of problematic conditions becomes stronger.

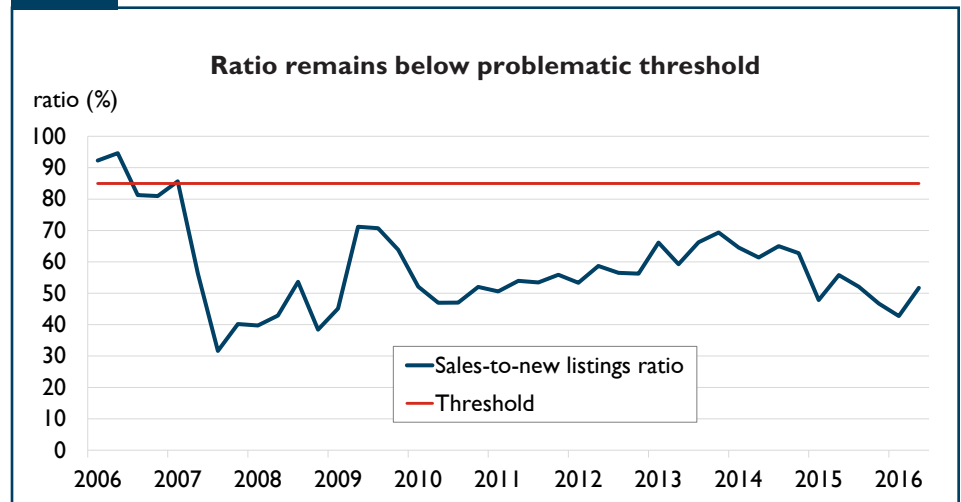
In Detail

Overheating

We continue to detect weak evidence of overheating in Edmonton. While new listings have come down from peak levels, the market remains well-supplied. Sales moved higher in the second quarter; however, slower economic conditions in Edmonton continued to keep sales below historical norms. This has led to longer selling times and kept market balance in favour of the buyer.

The seasonally adjusted sales-to-new listings ratio averaged 52 per cent in the second quarter of 2016, up from 43 per cent in the first three months of 2016. Despite the increase, the ratio remained well below the

Figure 1



threshold of 85 per cent that would suggest evidence of overheating. The increase in the ratio was a result of both higher sales and lower new listings.

Price Acceleration

There continues to be weak evidence of price acceleration in Edmonton. The average resale price was \$367,324 in the second quarter of 2016, up 2.1 per cent from the first

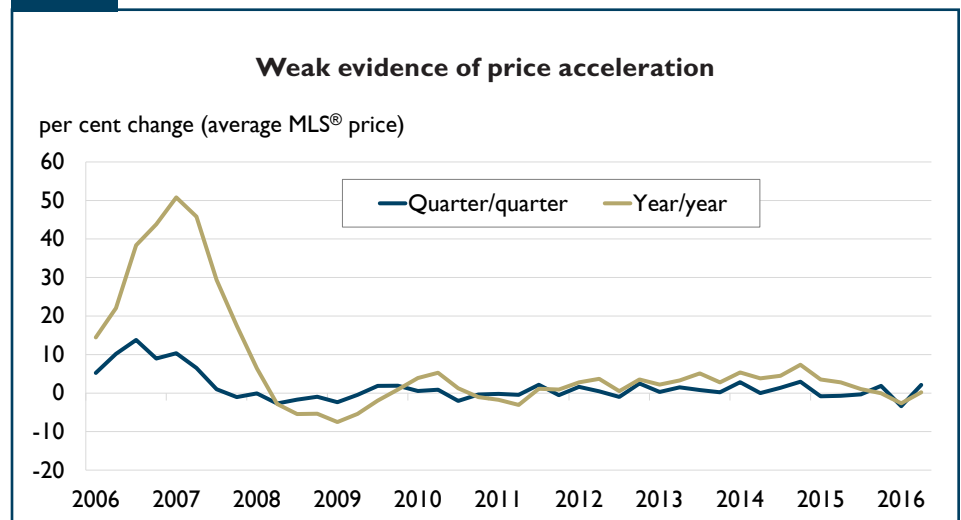
quarter. Despite the increase, which may have been driven by changes in composition rather than market movements, the resale market in Edmonton is favouring the buyer. The Teranet Composite House Price Index declined by 1.6 per cent year-over-year in the second quarter. An elevated supply of listings, coupled with slower sales, have led to longer selling times and put downward pressure on prices. The median MLS® price of single-detached,

"A decline in employment, slower income growth and easing migration contributed to the moderate evidence of overvaluation detected in the Edmonton CMA."



Christina Butchart
Principal, Market Analysis
(Edmonton)

Figure 2



semi-detached and apartment categories all declined on a year-over-year basis in the second quarter of 2016. The market for single-detached homes posted the largest decline, falling 2.2 per cent over the same time period.

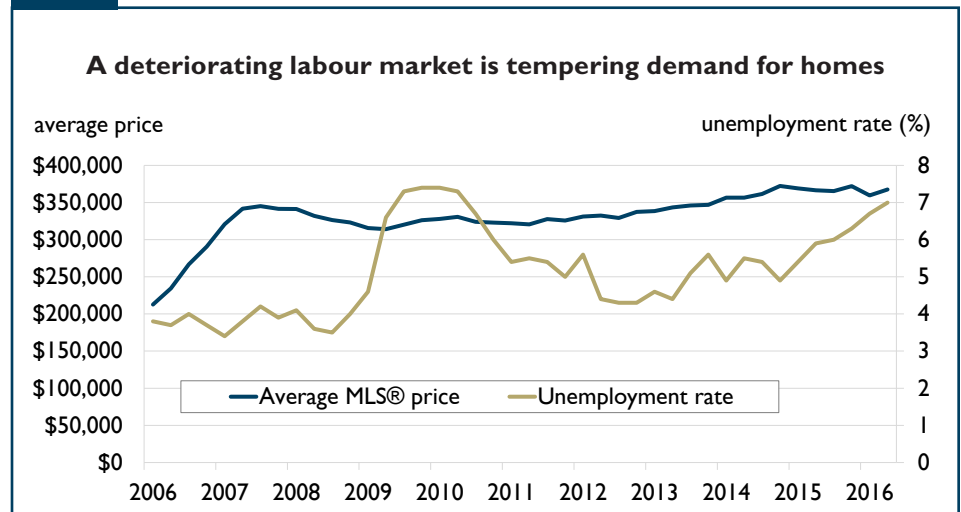
Overvaluation

Moderate evidence of overvaluation continued to be detected in the Edmonton CMA. The seasonally adjusted average MLS® price increased 2.1 per in the second quarter of 2016 from the first quarter even though economic and demographic fundamentals weakened. Employment declined by 1.2 per cent compared to the first quarter, with the economy shedding 9,700 positions. This pushed the seasonally adjusted unemployment rate up to 7.0 per cent. The weaker labour market has lowered the pace of income growth in the Edmonton CMA, and led to a slowdown in migration. Edmonton's population growth rates, particularly among young adults, have also moderated. Together, these factors tempered demand for housing and contributed to the moderate evidence of overvaluation.

Overbuilding

There continues to be weak evidence of overbuilding detected. However, the number of newly completed and unabsorbed units in the Edmonton CMA is moving higher. There is potential for the number of units to surpass a problematic threshold in the coming months. As of June 2016, there were 1,867 newly completed and unsold units in ownership inventory, 62 per cent higher than in the same month a year prior. Single-detached inventory has started to decline and the number of units under construction has fallen below

Figure 3

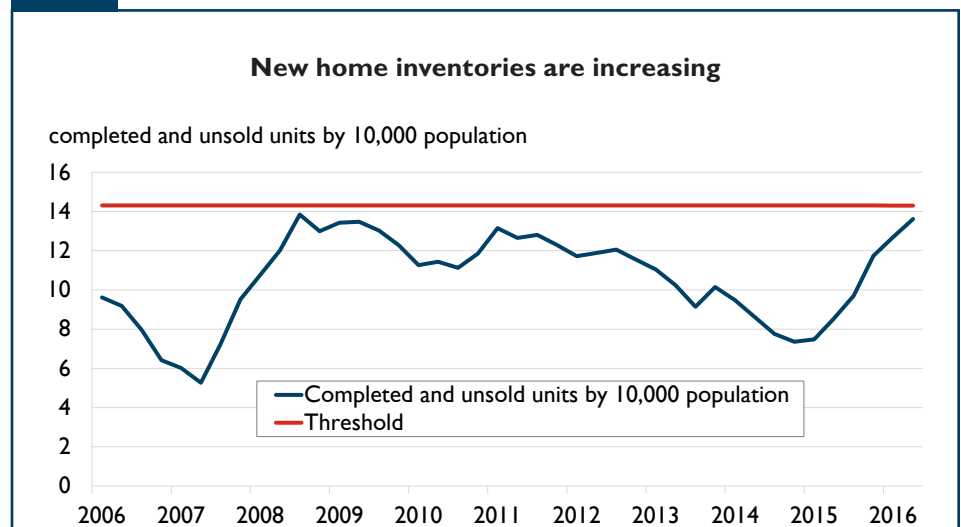


Source: CREA, Statistics Canada (seasonally adjusted)
Last data point: 2016Q2

historical norms. This should prevent a further buildup of inventory moving forward. In contrast, multi-family ownership inventory continued to move higher in the second quarter, and as of June 2016 was at 1,067 units, almost double the amount of units in inventory a year prior. There were also an additional 9,591 multi-family units under construction in June 2016, with almost 70 per cent slated for the ownership market.

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 a problematic threshold level. However, recent job losses and slower migration

Figure 4



Source: CMHC, calculations (threshold) by CMHC, Statistics Canada
Last data point: 2016Q2

are moderating the demand for rental housing in Edmonton. At the same time, the rental market is expanding. There were 3,193 rental units completed from June 2015 to June 2016. The combination of moderating demand and increasing supply is expected to put 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.

* 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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