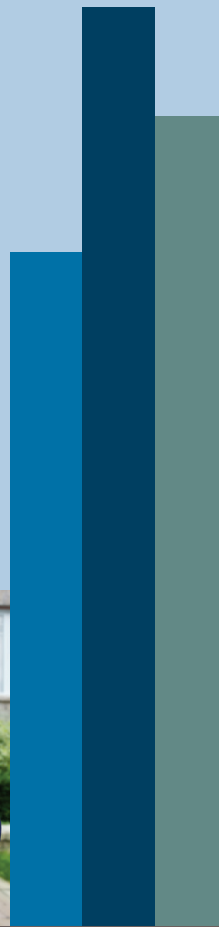


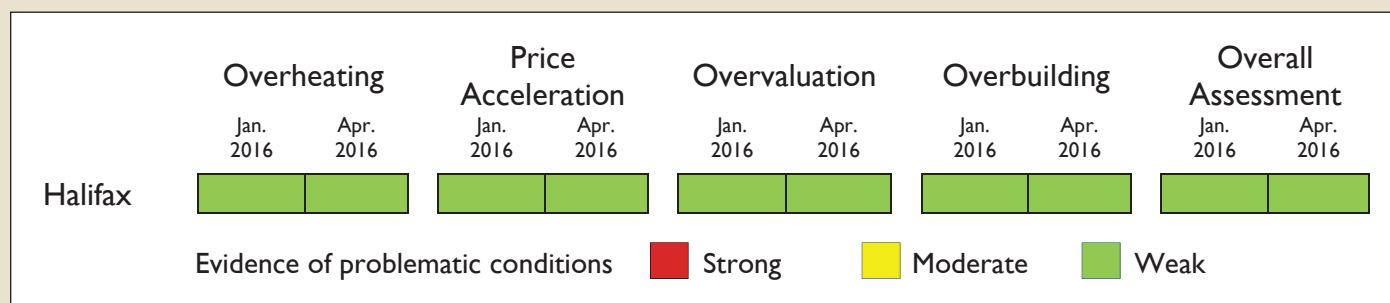
HOUSING MARKET ASSESSMENT Halifax CMA

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Highlights



- Overall, we detect weak evidence of problematic conditions in the Halifax CMA.¹
- Strong international migration gains in the third and fourth quarter of 2015 mitigated the signs of overvaluation despite weak average earnings gains and employment creation.
- Year-over-year average prices have grown by 7.4 per cent in the fourth quarter, with Halifax City driving the increase.
- Below average vacancy rates in Halifax continue to stimulate rental apartment construction.
- 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 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 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

Weak evidence of overheating is detected in Halifax. The sales-to-new-listings ratio remained stable at 47 per cent in the fourth quarter. The housing market exhibits buyers' conditions and is well below the threshold of problematic conditions. Compared to the previous quarter, sales volumes decreased while days on market increased. Sales, however, declined in relation to year-over-year figures. Both new listings and total active listings recorded declines in the fourth quarter with new listings dropping to a low of 320 in December. This trend is not uncommon in the Halifax market with fourth quarter listings in previous years also recording significant declines.

The fourth quarter sales figures in the Halifax CMA's three main submarkets of Halifax City,

"Overall, we detect weak evidence of problematic conditions in the Halifax CMA. However, weakening economic conditions and rising average prices in Halifax City keep overvaluation levels near the problematic threshold."



Guillaume Neault
Principal, Market Analysis (Halifax)

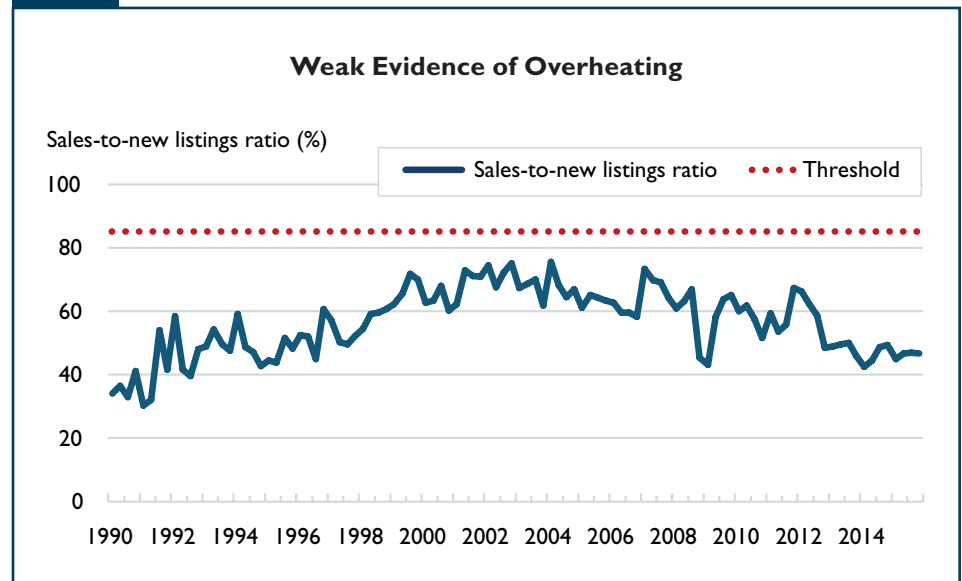
Dartmouth City and Bedford-Hammonds Plains remained either at par or greater than the year-over-year comparison. Private real estate investment such as the construction of over 1,200 rental units on the Peninsula, over 600 in Dartmouth and a one-million-square foot convention centre, coupled with

public improvement expenditures pushed consumer preferences for these areas.

Price Acceleration

After weak price growth in 2014, average MLS® prices have increased in 2015, especially in the final two quarters. Year-over-year seasonally

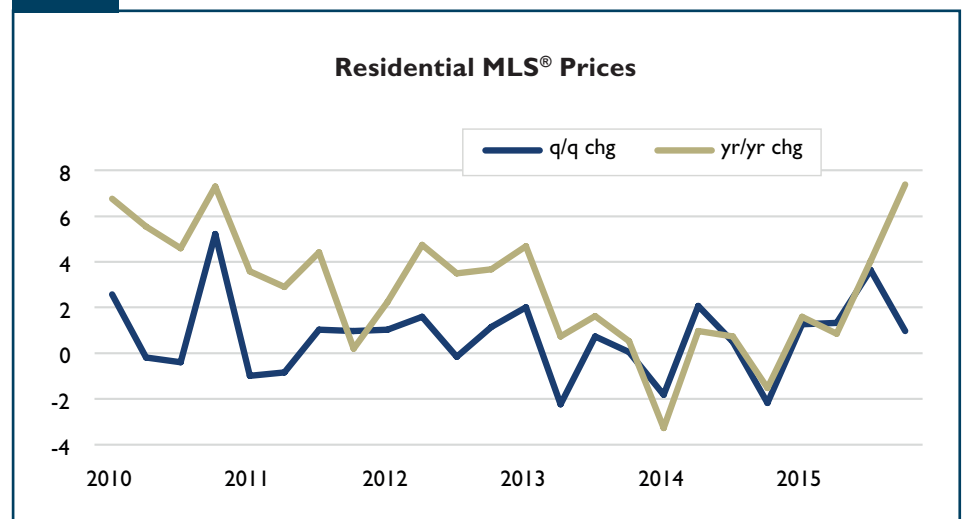
Figure 1



Source: CREA and calculations (threshold) by CMHC

Last data point: 2015 Q4

Figure 2



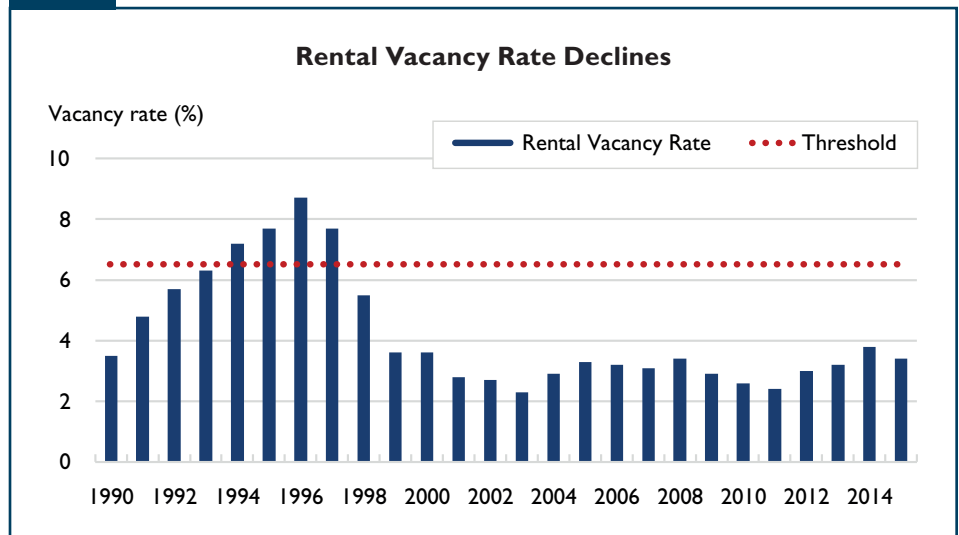
Source: CREA

adjusted prices have grown by 7.4 per cent in the fourth quarter to \$289,539.³ Although price growth has slowed in the fourth quarter in relation to the first three quarters of the year, prices still increased slightly by a modest one per cent quarter-over-quarter. However, despite the rising prices in 2015, we continue to detect weak evidence of price acceleration. Average MLS® prices were varied among housing types and submarkets within the Halifax CMA year-over-year. Halifax City, in particular, was the driver of rising prices, with average MLS® prices rising by 18.2 per cent in the fourth quarter compared to the same period in 2014. This rise in Halifax City was strongly apparent in single family and condominium sales with average prices increasing by 18.2 per cent and 25.4 per cent year-over-year, respectively. In other submarkets, however, average prices have varied, with Dartmouth City for example, recording year-over-year declines in both single family and condominium average prices.

Overvaluation

We detect weak evidence of overvaluation in the Halifax CMA. Strong international migration gains over the last two quarters of 2015 mitigated overvaluation but weak average earnings gains and employment creation keep overvaluation levels near the problematic threshold. While the population of the Halifax CMA climbed steadily throughout 2015, employment levels have not maintained this same upward trend. Seasonally adjusted employment levels in Halifax reached a peak in January 2015, before declining until September. Fourth quarter employment levels declined, sitting at 223,400 as of December 2015.⁴

Figure 3



Source: CMHC
Last data point: 2015

Overall price growth in the Halifax CMA, especially in Halifax City must be monitored closely over the next quarters to ensure growth is consistent with the current economic fundamentals.

Overbuilding

Despite strong levels of rental apartment completions, weak evidence of overbuilding is detected in the Halifax CMA. With 412 rental apartment completions occurring in the second half of 2015 compared to 192 single completions during the same time frame, the apartment segment is a strong driver of activity in the Halifax CMA. In the fourth quarter of 2015 there were 2,305 rental apartments under construction in Halifax, 41.6 per cent of which is located on the Halifax Peninsula. In contrast, there are 305 single homeowner units under construction as of the fourth quarter, the majority of which (66.9 per cent) is located in the remainder of the CMA. With increased rental apartment activity

in the Halifax CMA, the overall apartment vacancy rate for 2015 was forecasted to increase. However, strong population gains exerted downward pressure on the vacancy rate to 3.4 per cent in Fall 2015 from a rate of 3.8 per cent in Fall 2014. This is well below the problematic threshold level of 6.5 per cent, highlighting evidence of sustained demand for rental units.

Inventories of completed and unsold homeowner and condominium units increased in the fourth quarter compared to the third quarter figures but remain slightly lower than the inventories recorded in the first half of 2015. In terms of the apartment market, however, rising under construction levels and an expectation of continued high levels of apartment starts will make inventory management an important undertaking for developers to reduce the amount of time units remain vacant upon completion.

³ Canadian Real Estate Association (CREA)

⁴ Statistics Canada

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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