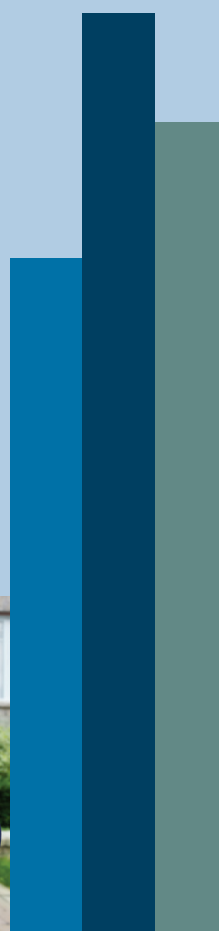


HOUSING MARKET ASSESSMENT

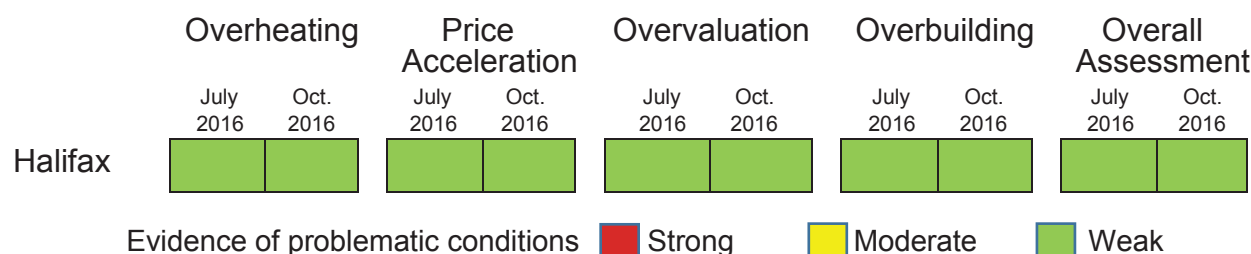
Halifax CMA

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Highlights



- Overall, we detect weak evidence of problematic conditions in the Halifax CMA.¹
- Despite declining per capita income, strong international migration gains in Nova Scotia combined with population growth in Halifax mitigated the signs of overvaluation this quarter.
- Year-over-year average prices grew by 2.3 per cent in the second quarter.
- Stable absorption of rental and homeownership units maintain the overbuilding factor below its problematic threshold.
- 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 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](#).

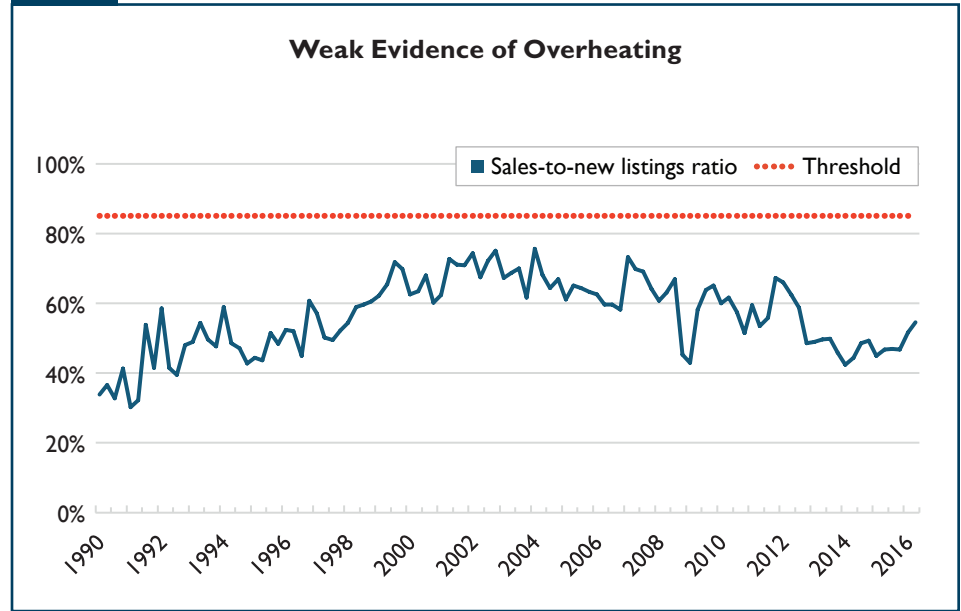
In Detail

Overheating

Weak evidence of overheating is detected in Halifax. The sales-to-new-listings ratio increased to 54 per cent this quarter. This is the first time since 2012 that the sales-to-new-listings ratio crosses the 50 per cent mark. The housing market is converging toward balanced conditions and remains below the threshold of problematic conditions. Sales volumes remained on par on a seasonally adjusted basis with the previous quarter while days on market decreased by 18 per cent. Both new listings and total active listings recorded declines in this quarter with active listings dropping to 4,078 in June.

Aside from Dartmouth City, actual sales up to the second quarter showed significant increases in a year-over-year comparison of all of the Halifax CMA's submarkets. During this time frame, private

Figure 1



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

real estate investment such as the construction of over 300 rental units on the Peninsula and a one-million-square foot convention centre, coupled with public improvement expenditures has pushed consumer preferences to these areas of the city.

Price Acceleration

After weak price growth in 2014, average MLS® prices increased in 2015, especially in the final two quarters. In the second quarter of 2016, seasonally adjusted prices

"Migration gains to the Halifax CMA mitigated evidence of problematic conditions in the residential housing market despite a quarterly decline in real disposable income per capita."



Guillaume Neault
Principal, Market Analysis (Halifax)

Figure 2



Source: CREA.

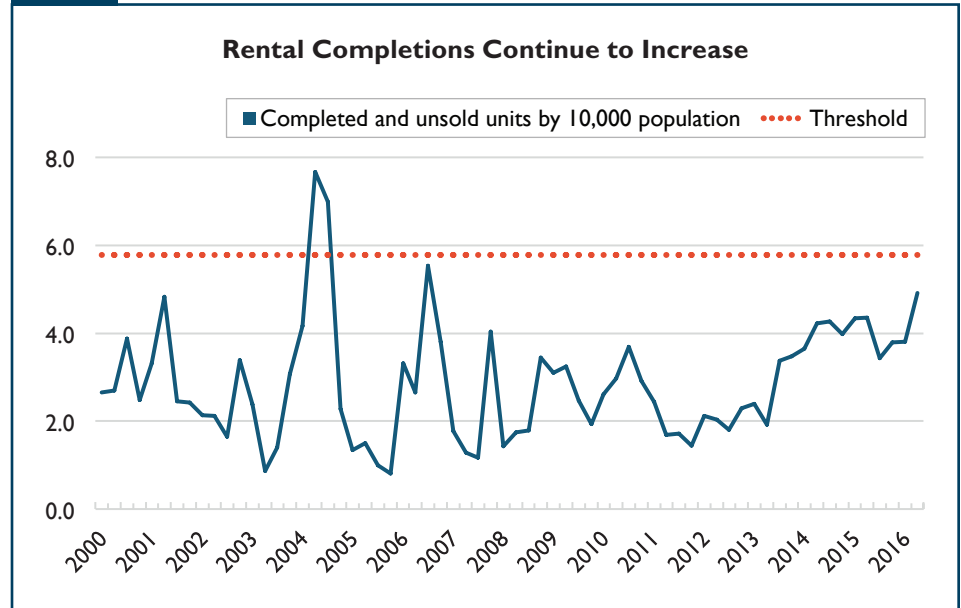
³ Canadian Real Estate Association (CREA)

increased by 2.3 per cent to \$283,728³. Although price growth has slowed over the past two quarters, prices are expected to rise moderately to the end of 2016. As a result of the recent pullback in prices, we 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 in 2015. To the end of June 2016, prices in Halifax City have declined 3.0 per cent despite a 17 per cent increase in sales and a 15.5 per cent decline in days on market. Bedford-Hammonds Plains, which is the second most expensive submarket also recorded a 10.4 per cent increase in sales and a 1.4 per cent price growth.

Overvaluation

Despite declines in real disposable income per capita, we detect weak evidence of overvaluation in the Halifax CMA for two key reasons. First, concerns of overvaluation have been mitigated by international migration gains totalling over 3,400 so far in 2016. Second, interprovincial outmigration is weaker than in previous years, resulting in a more stable demand for homeownership. The population of the Halifax CMA and seasonally adjusted employment levels have climbed steadily for the past six months. Seasonally adjusted employment levels in Halifax are currently at their highest levels ever with a month-over-month growth of 3.1 per cent as of the end of June. Despite moderately strong employment growth, average earnings have not grown to the same tune. Nonetheless, price growth in the Halifax CMA must be monitored

Figure 3



Source: Statistics Canada and CMHC. Last data point: 2016 Q2.

closely over the next few quarters to ensure growth remains consistent with current economic fundamentals.

Overbuilding

Despite strong levels of rental apartment completions, weak evidence of overbuilding is detected in the Halifax CMA. With 345 rental apartment completions occurring in the first half of 2016 compared to 238 single completions during the same time frame, the apartment segment is a strong driver of activity in the Halifax CMA. At the end of second quarter of 2016, there were 2,704 rental apartments under construction in Halifax, 60 per cent of which are located in Halifax City. In contrast, there are 438 ground-based homeowner units under construction as of the end of the second quarter, the majority of which is located in Bedford-Hammonds Plains. 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 declined in the first quarter before increasing by 21 per cent in the second quarter on a year-over-year comparison. 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.

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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