

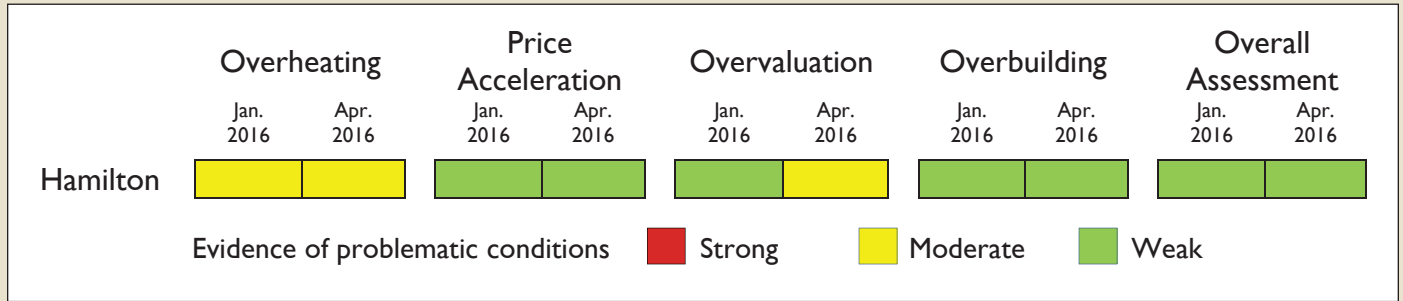
HOUSING MARKET ASSESSMENT Hamilton CMA

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Highlights



- The overall assessment¹ for the Hamilton Census Metropolitan Area (CMA) shows weak evidence of problematic conditions in Q4 2015, based on CMHC criteria.
- The sales-to-new-listings² ratio remained above the 75 per cent threshold used to determine evidence of overheating.
- We detect weak evidence of price acceleration in Q4 2015.
- In the Hamilton CMA, we detect moderate evidence of overvaluation in Q4 2015 due to strong price growth for single-detached homes.
- We detect weak evidence of overbuilding in Q4 2015.
- 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 Overview³

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

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 sales-to-new-listings ratio above 60 per cent is associated with sellers' market. In a sellers' market, home prices generally rise more rapidly than overall inflation. A sales-to-new-listings ratio below 40 per cent has historically accompanied prices that are rising at rates less than inflation, a situation known as buyers' market. When the sales-to-new-listings ratio is between these two boundaries, the market is said to be balanced. New listings are a gauge of the supply of existing homes coming onto the market, while sales are a proxy for demand.

³ A detailed description of the framework is available in the appendix of the [National edition](#).

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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

“The result of the Housing Market Assessment for the Hamilton Census Metropolitan Area (CMA) indicates moderate evidence of overheating and overvaluation in the fourth quarter of 2015. The overheating assessment was due to the number of sales increasing faster than the number of new listings, pushing up the sales-to-new-listings ratio. This trend is partly supported by buyers coming from elsewhere and as such, add to sales but not listings. The overvaluation assessment was due to price growth for single-detached homes that had been stronger than warranted by increases in fundamental factors such as population, employment, and income growth.”



Abdul K. Kargbo
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evidence of problematic conditions. As the number of intense and persistent signals increases, the associated evidence of a problematic conditions becomes stronger.

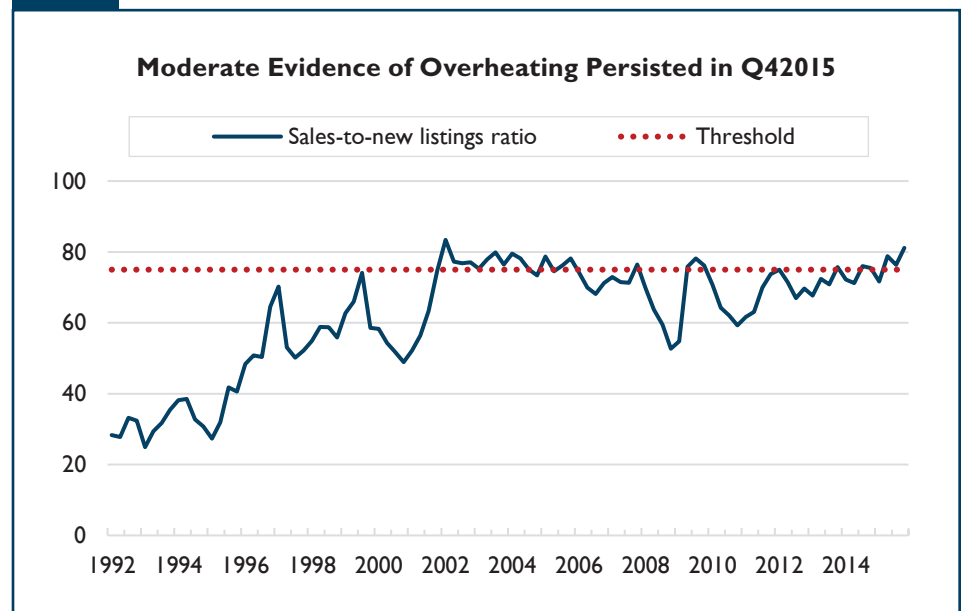
In Detail

Moderate Evidence of Overheating

The sales-to-new-listings ratio remained above the 75 per cent threshold used to identify evidence of overheating. A sales-to-new-listings ratio above 60 per cent is associated with sellers’ market condition, a situation where home prices generally rise more rapidly than overall inflation. The sales-to-new listings ratio tends to be high in Hamilton because many buyers come from elsewhere and as such, add to sales but not listings even when they are repeat buyers. This helps explain why housing market conditions in Hamilton have been consistently in favour of sellers, which in turn puts upward pressure on house prices.

According to our framework, this level of the sales-to-new-listings ratio is associated with a moderate evidence of overheating in Q4 2015, unchanged from the previous quarter’s assessment. Specifically, the sales-to-new-listings ratio (SNLR) was 81 per cent in Q4 2015, up from 76 per cent in Q3 2015 as the number of existing home sales remained relatively unchanged while the number of new listings declined by five per cent on a seasonally adjusted basis. Townhouses experienced the tightest market condition with a sales-to-new-listings ratio of 86 per cent in 2015. Strong first-time buyer demand continued to support townhouse sales. Semi-detached homes, condominium apartments and single-detached homes exhibited sellers’ market conditions with sales-to-new-listings ratio of 83 per cent, 80 per cent and 75 per cent respectively in 2015. The SNLR has been above 70 per cent since Q2 2013, indicating persistent sellers’ market conditions in the Hamilton CMA.

Figure 1



Source: CREA, CMHC analysis Last data point: 2015Q4

Weak Evidence of Price Acceleration

The indicator of house price acceleration remained below the critical threshold in Q4 2015. As a result, we continue to detect weak evidence of price acceleration in Hamilton’s housing market. However, strong sellers’ market conditions have prevailed since Q1 2011 allowing the rate of change in the average house price to move closer to the critical threshold.

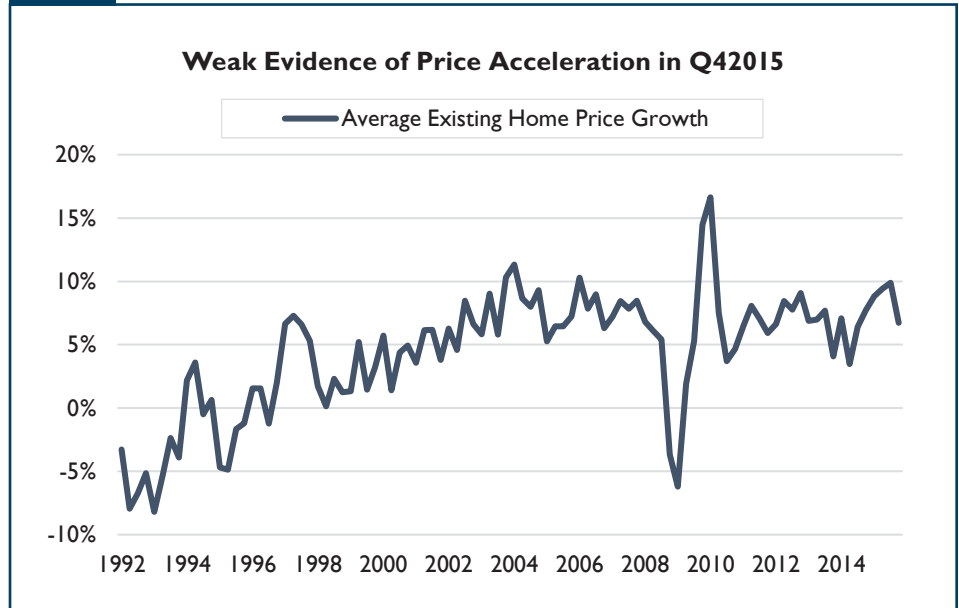
On a seasonally adjusted basis, the average existing home price was \$445,492 in Q4 2015, down one per cent from Q3 2015. However, on a year-over-year basis, the average existing home price was up 6.7 per cent in Q4 2015 compared to Q4 2014.

The seasonally unadjusted New House Price Index (NHPI) was up 3.2 per cent in December 2015 compared to the same month a year earlier. The Teranet⁴ – National Bank National Composite House Price Index™ was up 8.8 in December 2015 compared to December 2014. Given the strength of house price growth in 2015, CMHC will continue to monitor the housing market in Hamilton for any signs of price acceleration.

Moderate Evidence of Overvaluation

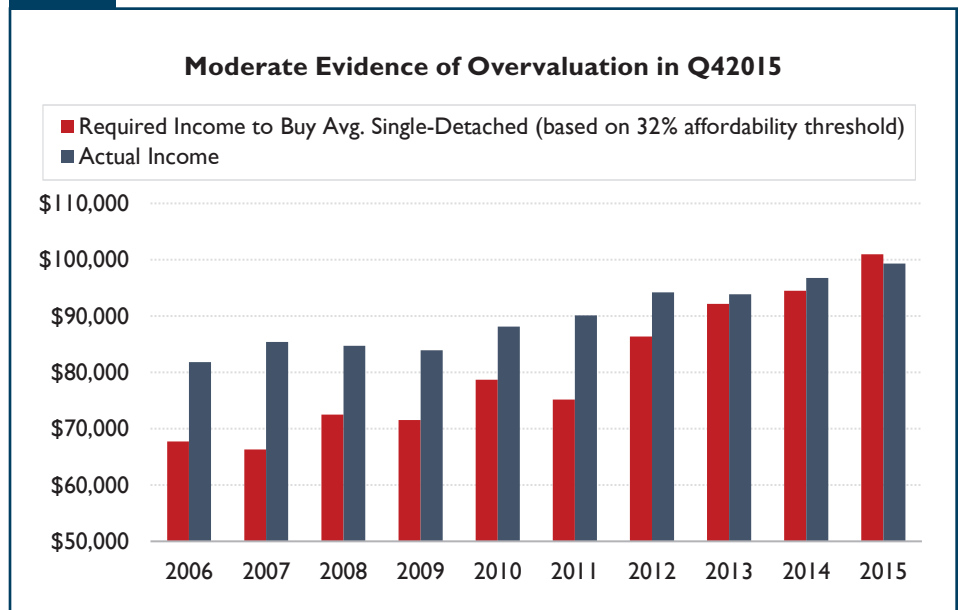
In the Hamilton CMA, we detect moderate evidence of overvaluation in Q4 2015 due to strong price growth for single-detached homes. Price growth for single-detached homes had been stronger than warranted

Figure 2



Source: CREA, CMHC analysis Last data point: 2015Q4

Figure 3



Source: Statistics Canada, CREA, CMHC calculation Last data point: 2015Q4

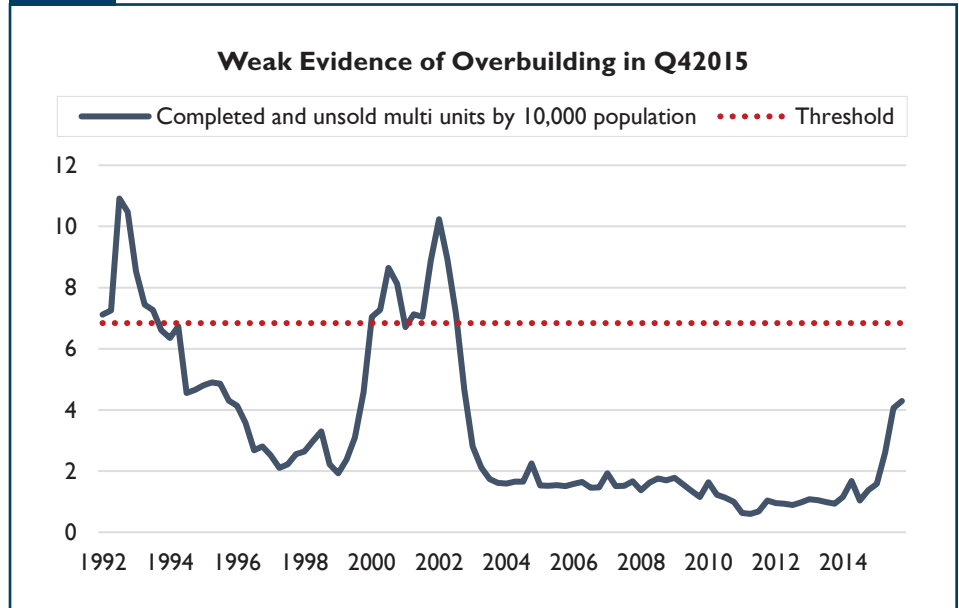
⁴ The Teranet–National Bank National Composite House Price Index™ is an independent representation of the rate of change of Canadian single-family home prices. The measurements are based on the property sales records of public land registries. The monthly indices currently cover Victoria, Vancouver, Calgary, Edmonton, Winnipeg, Hamilton, Toronto, Ottawa-Gatineau, Montréal, Québec City and Halifax, which are then combined to form a coast-to-coast composite index.

by increases in fundamental factors such as population, employment, and income growth. At 9.2 per cent in 2015, growth in the average price for single-detached homes was the strongest among all types of existing homes. The average price for existing townhouses, semi-detached homes and condominium apartments increased by 8.9 per cent, 7.5 per cent and 1.7 per cent respectively in 2015 compared to the previous year.

The inflow of buyers from the Greater Toronto Area (GTA) moving into Hamilton has translated to strong demand for single-detached homes across Hamilton, as there has been limited supply of low rise homes in the GTA. Consequently, the income required⁵ to buy a single-detached home in the Hamilton CMA surpassed the actual income of the average household in 2015, according to the latest CMHC calculations. The growth in average weekly earnings slowed in the fourth quarter, reflecting weak employment growth.

According to Statistics Canada's migration estimates, the number of people that left other communities within Ontario to live in the Hamilton CMA, which is referred as net intra-provincial migration, was 3,219 in the year ending June 30, 2015 down from the peak level of 3,614 in the year ending June 30, 2012. The decline in intra-provincial migration coupled with strong price growth may result in fewer existing home sales in the next two years.

Figure 4



Source: CMHC Last data point: 2015Q4

Weak Evidence of Overbuilding

We continue to detect weak evidence of overbuilding in Hamilton's housing market. The number of completed and unsold units has trended upward since Q4 2014, driven primarily by the multi-unit housing segment. However, the inventory level remained below the threshold at which it would detect evidence of overbuilding.

Similarly, the rental vacancy rate indicator remained below the threshold which identifies evidence of overbuilding, despite the average

rental vacancy rate increasing to 3.4 per cent in October 2015, from 2.2 per cent in October 2014. A key factor that exerted upward pressure on vacancy rates in October 2015 was an increase in first-time homebuyer demand. More renters shifted from renting to owning a home as mortgage rates remained at relatively low levels.

⁵ Required Income is mortgage carrying costs divided by 0.32 to reflect the usual 32 per cent gross debt service ratio. Mortgage carrying costs are calculated on the average MLS® price, a five per cent down payment, the fixed five-year mortgage rate and the longest available amortization.

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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