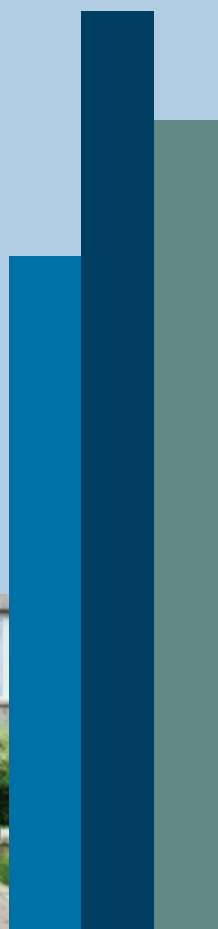


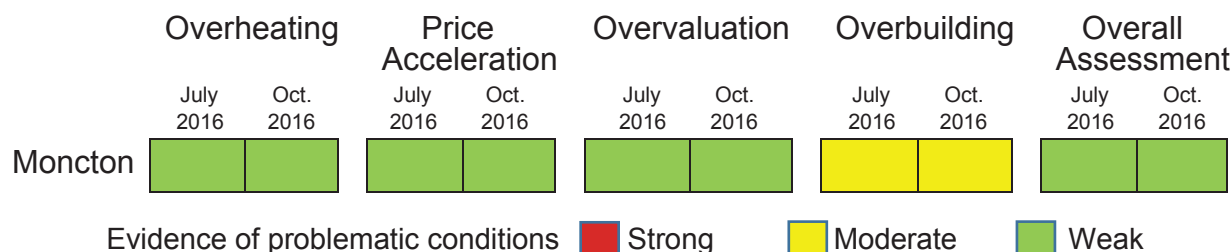
# HOUSING MARKET ASSESSMENT Moncton CMA

Date Released: Fourth Quarter 2016



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## Highlights



- Overall, we detect weak evidence of problematic conditions for the Moncton CMA.<sup>1</sup>
- With a vacancy rate of 7.4 per cent, our measure of overbuilding in the Moncton CMA remains above its problematic threshold.
- An ample supply of homes on the resale market has helped keep the other components of the framework below their problematic thresholds.
- 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 Overview<sup>2</sup>

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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<sup>1</sup> 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.

<sup>2</sup> A detailed description of the framework is available in the appendix of the [National edition](#).

## In Detail

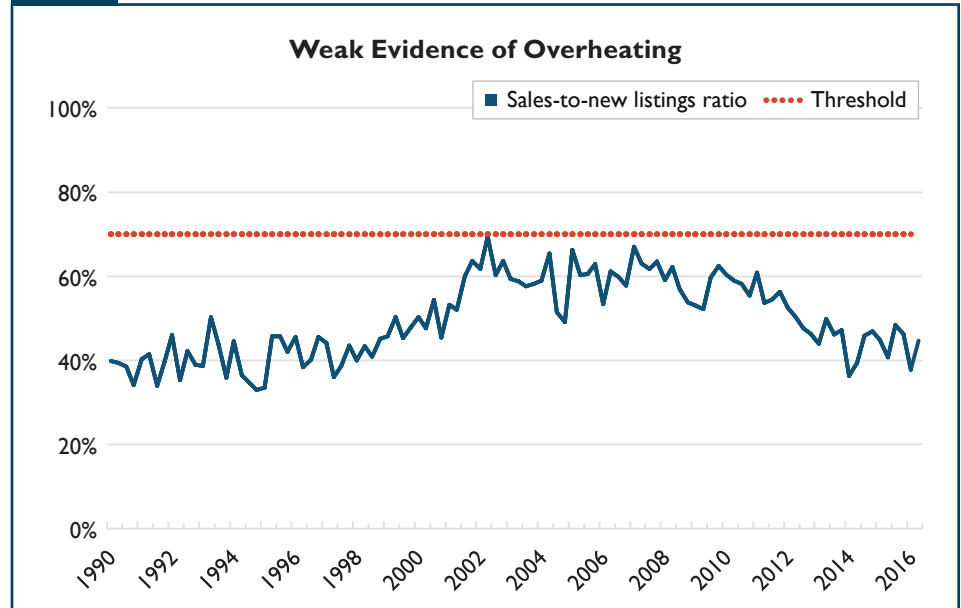
### Overheating

The sales-to-new-listings ratio increased slightly during the second quarter of 2016, however at 44.65 per cent it remains well below the 70 per cent threshold used to indicate overheating. The slight uptick during the second quarter resulted from a slowdown in existing home sales that was smaller than the slowdown in new listings. The sales-to-new-listings ratio for the Moncton region has been trending down for several years as existing home sales have slowed and new listings have remained relatively high.

### Price Acceleration

We detect weak evidence of price acceleration in Moncton's resale market. Despite a drop in existing home sales so far this year, the average resale price is up slightly. On a seasonally adjusted quarter-over-quarter basis, the average sale price of an existing home

Figure 1



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

increased 3.2 per cent during in the first quarter of 2016 and 2.7 per cent during the second quarter. The MLS Home Price Index Benchmark Price, an alternate measure of house prices, grew by 0.7 per cent during the second quarter of 2016 after remaining unchanged in the first quarter.

### Overvaluation

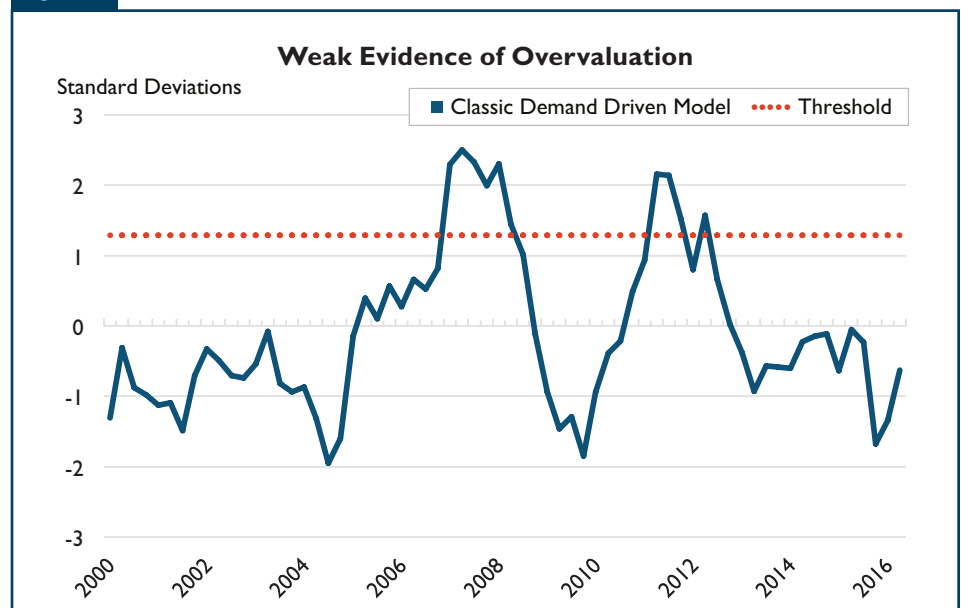
We detect weak evidence of overvaluation in the Moncton housing market. Relatively slow price growth has helped to keep the HMA's demand driven model of overvaluation well below its problematic threshold.

*"A persistently high vacancy rate means that we continue to detect moderate evidence of overbuilding in the Moncton CMA".*



Michael Edwards  
Senior Market Analyst (NB and PEI)

Figure 2



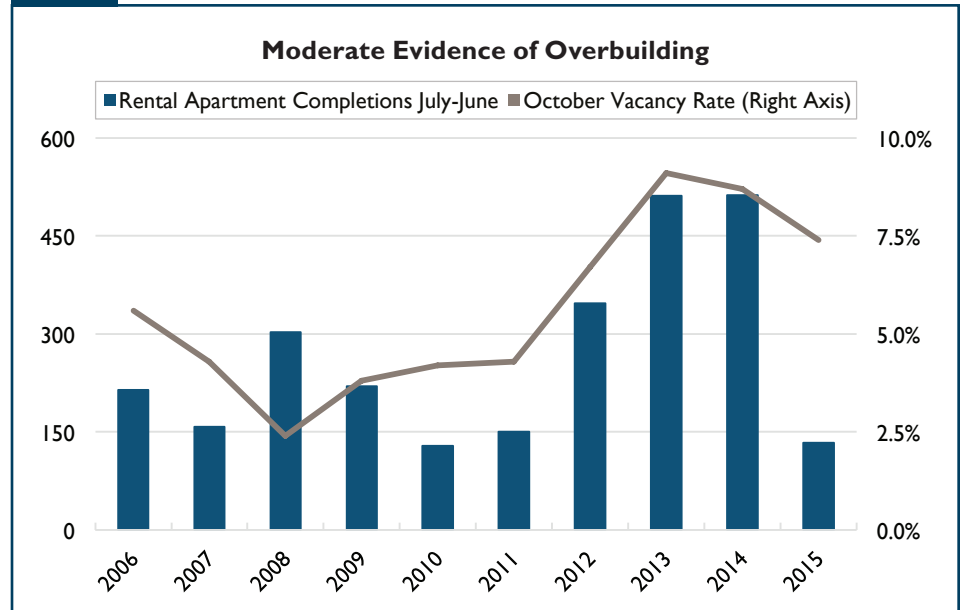
Source: CREA, Statistics Canada and calculations by CMHC. Last data point: 2016 Q2.

Population and employment growth have helped sustain demand fundamentals. After growing 2.4 per cent in 2015, employment is up slightly year-to-date on a seasonally adjusted basis. Gains were particularly strong for full time employment, which was up 2 per cent year-over-year in August. Population growth from international and interprovincial migration has helped maintain the population of 25-44 year olds in the province's largest CMA. Despite the increase in employment, growth in weekly earnings was essentially flat through the first two quarters of 2016.

## Overbuilding

A persistently high vacancy rate means that we continue to detect moderate evidence of overbuilding in the Moncton CMA. The October 2015 vacancy rate of rental apartments was 7.4 per cent, just above the problematic threshold of 6.9 per cent. Fewer completions of rental apartments over the past

Figure 3



Source: CMHC. Last data point: 2015.

several years has helped to shift the vacancy rate down from its high point of 9.1 per cent in 2013.

While overall we detect moderate evidence of overbuilding in the Moncton CMA, the homeowner and condo segments continue to only

exhibit weak evidence of problematic conditions. Inventories of completed and unsold units have fallen over the past several years as builders responded to a change in the demand for new homes in the Moncton CMA.

## 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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