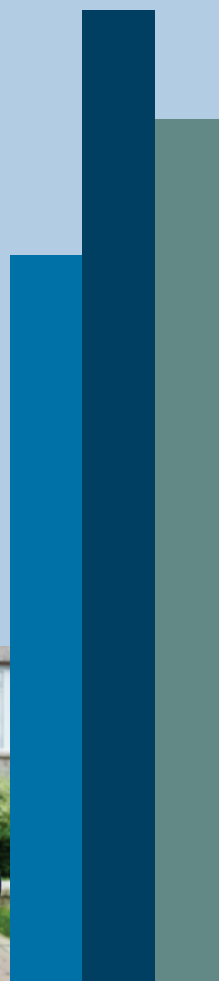


HOUSING MARKET ASSESSMENT Canada

Date Released: Fourth Quarter 2015



Housing market intelligence you can count on

Highlights

- This quarterly release¹ of the Housing Market Assessment (HMA) provides updated results² that evaluate the extent to which there is evidence of problematic housing market conditions in 15 Census Metropolitan Areas (CMAs).
- The HMA³ 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. The appendix of the first release, published in November 2014 in a special edition of Housing Now, contains a detailed description of the framework. A brief summary of it is presented on page 3 of this report.
- The analytical framework detects strong evidence of problematic conditions in Toronto, Winnipeg, Saskatoon, and Regina.
- The overall level of evidence of problematic conditions detected by our framework for Toronto remains strong due to the detection of price acceleration and overvaluation.
- Since the previous assessment, the overall level of evidence of problematic conditions detected by our framework has moved from moderate to strong for Saskatoon due to the detection of overvaluation and overbuilding.
- In Winnipeg and Regina, there remains strong evidence of problematic conditions, reflecting detection of overvaluation and overbuilding.
- The analytical framework detects moderate evidence of problematic conditions in Montréal, Ottawa and Québec.
- Nationally, there remains moderate evidence of overvaluation⁴, reflective of a variety of price conditions across the country with some CMAs showing more signs of overvaluation than others. Notably, evidence of overvaluation is now detected in Toronto, Vancouver, Montréal, Edmonton, and Saskatoon. CMHC's framework also detects evidence of other problematic conditions such as overheating, acceleration in house prices, and overbuilding of varying degrees across CMAs.

¹ The first release of the HMA results was in the first supplement of Housing Now in November 2014 with results for 8 CMAs: Vancouver, Calgary, Edmonton, Toronto, Ottawa, Montréal, Québec and Halifax. Saskatoon, Regina, Winnipeg and St.John's (NL) were added in the second supplement, released in April 2015. Victoria, Hamilton and Moncton were added in the third supplement, released in August 2015.

² The presentation has now been simplified to show the direct comparison between the current and the previous assessment.

³ Formerly known as the HPAA.

⁴ Results are based on data as of the end of June 2015 and market intelligence as of the end of September 2015. CMHC continuously monitors market developments and will issue HMA updates on a quarterly basis

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Overview of the HMA 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 HMA analytical framework provides a comprehensive and integrated view that relies on a combination of signals to assess housing market conditions.

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 different is the signal from its historical average or how consistent they are with known or suspected house price bubbles, such as for Toronto in the late 1980's early 1990's and; (3) the persistence of signals over time.

Generally, a lower number of signals, and low intensity or lack of persistence of the signals are associated with weaker evidence of problematic conditions. Conversely, as the intensity, number, or persistence of the signals increases, the likelihood of a factor becoming problematic increases.

Specifically, the framework considers the incidence, intensity and persistence of four main factors that may provide an early indication of potentially problematic housing market conditions: (1) overheating of demand in the existing home market (i.e. demand significantly outpacing supply); (2) acceleration in the growth rate of house prices; (3) overvaluation in the level of house prices; and, (4) overbuilding of the housing market (i.e. supply significantly outpacing

demand, which can reflect excess new construction and/or a decline in demand for existing homes). It also considers oversupply in the rental market using the vacancy rate as an indicator.

The framework takes into account demographic, economic, and financial factors such as population growth, changes in personal disposable income, and interest rates. The framework also takes into account developments in both the resale market and the residential construction market.

As previously mentioned, 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.

Although it has also captured other periods of suspected problematic market conditions, the framework may not accurately assess current market conditions if these relationships were to unfold differently from past experience.

HMA Results

National Overview: Weak evidence of problematic conditions

At the national level, moderate overvaluation is still observed, meaning house prices are higher than levels consistent with personal disposable income, population growth and other factors. The inventory of completed and unsold units has trended higher and is above its historical average in large part because of the multi-unit segment. Among other factors, inventory management by builders is required so that demand is channeled towards

these units. Overheating and acceleration in house prices are not a concern at this time.

Vancouver: Weak evidence of problematic conditions

There is weak evidence of problematic conditions in Vancouver. The indicator for overheating is below its threshold in the second quarter despite resale market conditions favoring sellers. An increase in the number of listings, as well as the number of homes under construction, has helped to meet rising buyer demand. There is moderate evidence of overvaluation in the second quarter due to continued strong price growth.

Victoria: Weak evidence of problematic conditions

While the pace of existing home sales trended higher in the second quarter of 2015, particularly in the single-detached segment, the available supply of a wide range of housing types continues to provide choice for home buyers at all price points. Home price growth has been moderate so far in 2015 and is being supported by population growth. Demand for new homes has been well-matched by builders, and both the number of units under construction and the inventory of completed and unsold units are within historical norms.

Calgary: Weak evidence of problematic conditions

There is moderate evidence of overvaluation detected as house prices posted robust gains in the last couple of years while growth in personal disposable income has recently slowed down. Due to low oil prices, economic conditions have moderated, which has limited growth

in employment and income, as well as reduced net migration.

Edmonton: Weak evidence of problematic conditions

There is moderate evidence of overvaluation as house price growth has outpaced the gains in personal disposable income in recent months. Softer economic conditions brought on by low oil prices are leading to slower employment growth and lower migration.

Saskatoon: Strong evidence of problematic conditions

Despite downward pressure in prices, fundamental factors do not fully support the level of observed prices in Saskatoon which has increased the level of evidence of overvaluation to a moderate level. The inventory of new housing units is elevated and reflects overbuilding as does the units under construction which are also elevated relative to population. The reduction of housing starts that is occurring this year is beginning to address overbuilding.

Regina: Strong evidence of problematic conditions

Resale market conditions continue to be characterized by a high level of supply relative to demand creating conditions that favor the buyer. As a result, the level of evidence of house price acceleration has been downgraded from moderate to low. Moderate evidence of overvaluation continues to reflect house prices that are high relative to economic and demographic fundamentals. The inventory of newly completed housing units, especially condominium apartment units relative to population, remains elevated. However, lower housing starts

this year are beginning to address overbuilding.

Winnipeg: Strong evidence of problematic conditions

There continues to be moderate evidence of overvaluation though recent balanced market conditions have tempered price increases and employment and earnings are on the rise. The level of evidence of overvaluation reflects the continued effect of past conditions where house prices rose more quickly than economic and demographic fundamentals. Also, the number of units under construction and the number of unsold units are high. Continued upward pressure in inventory is expected to be more pronounced in the multi-unit sector where builders will likely proceed with projects in the planning stages over the next year. As such, inventory management is required so that demand is channeled towards these unsold units.

Toronto: Strong evidence of problematic conditions

Continued price acceleration in the first half of 2015 reflects an increased share of sales of single detached homes and stronger price growth at higher price levels. Inventories of both new and existing single-detached homes have been declining, which has contributed to rapid price growth in this segment. The continued rise in house prices has not been matched by growth in economic and demographic fundamentals giving rise to strong evidence of overvaluation.

The number of completed and unsold units has remained stable but high from the last quarter and continues to be above its historical average. However, the number of condominium apartment units under construction has continued to decline

due to rising completions. The widening price differential between low rise and high rise units and a low average vacancy rate in the rental market suggest that unsold inventory could be steadily absorbed provided that builders manage inventories well.

Hamilton: Weak evidence of problematic conditions

The number of existing home sales grew faster than the number of new listings in the second quarter, pushing the sales-to-new-listings ratio up. There remains weak evidence of problematic housing conditions in Hamilton. Strengthening employment so far in 2015 continues to support homeownership demand in Hamilton.

Ottawa: Moderate evidence of problematic conditions

Despite moderation in house price growth, the moderate evidence of overvaluation reflects the combination of strong growth in house prices in the last few years and modest gains in underlying fundamentals. The number of apartment units under construction in the second quarter remained steady compared to the first quarter, while the number of completed and unsold apartment units moderated slightly over the same period. However, both numbers have gone up since the end of the second quarter, highlighting the need for builders to manage their inventories, particularly with new inventory at its highest level relative to recent year activity

Montréal: Moderate evidence of problematic conditions

The strong evidence of overvaluation reflects slower growth in first time home buyer demand combined with relatively modest growth in personal

disposable income. Condominium units completed and unsold have risen significantly over the past two years. Inventory management is necessary to make sure that the currently elevated number of condominium units under construction does not remain unsold upon completion.

Québec: Moderate evidence of problematic conditions

The strong evidence of overvaluation reflects slower growth in first time home buyer demand since 2012 combined with relatively modest growth in personal disposable income. After reaching a peak in 2013, completed and unsold condominiums are increasingly being absorbed in the market. Nonetheless, the inventory of condominiums on the resale market remains high.

Moncton: Weak evidence of problematic conditions

Evidence of overbuilding remains at a moderate level as higher than average vacancy rates persist and the number of new rental units currently under construction remains elevated. Meanwhile multi-unit housing starts have slowed significantly this year as weaker employment and population growth continue to dampen the demand for housing.

Halifax: Weak evidence of problematic conditions

Rising population levels and improving employment conditions beginning in late 2014 are catching up to house prices and thus reducing the evidence of overvaluation of the housing market in Halifax. The evidence of overbuilding remains low, but the inventory of unsold multi-units is trending upward.

St. John's: Weak evidence of problematic conditions

House prices have moderated since 2012, removing previous evidence associated with price acceleration. The number of unsold units has increased, leading to a moderate evidence of overbuilding. Inventory management is required to ensure that these new units are sold.

Table I

Comparisons between August and October 2015

	Overheating		Price Acceleration		Overvaluation		Overbuilding		Overall Assessment	
	Previous	Current	Previous	Current	Previous	Current	Previous	Current	Previous	Current
Canada										
Victoria										
Vancouver										
Calgary										
Edmonton										
Saskatoon										
Regina										
Winnipeg										
Hamilton										
Toronto										
Ottawa										
Montréal										
Québec										
Moncton										
Halifax										
St. John's										

Evidence of problematic conditions

Weak

Moderate

Strong

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 signal is from its historical average) and the persistence of signals over time. Generally, low intensity and persistence are associated with a lower potential of evolving into a problematic condition. As the number of persistent signals increases, the associated 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.

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.

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