

HOUSING MARKET ASSESSMENT Canada

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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 conditions³ in 15 Census Metropolitan Areas (CMAs).
- The 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.
- Overvaluation and overbuilding are the most prevalent problematic conditions observed across the 15 centres covered by the HMA. Overvaluation is detected in 8 centres while overbuilding is detected in 7.
- The evidence of overbuilding has increased since the previous assessment in Calgary, Saskatoon, Regina, and Ottawa due to either higher vacancy rates, high inventory of new and unsold units, or a combination of both. As more centres are now showing problematic overbuilding conditions, the necessity of inventory management is more pronounced.
- The analytical framework detects strong evidence of problematic conditions in Toronto, Calgary, Saskatoon, and Regina.
- Since the previous assessment, the overall level of evidence of problematic conditions detected by our framework has moved from moderate to strong for Calgary due to the detection of overvaluation and overbuilding.
- 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.
- In Regina and Saskatoon, there remains strong evidence of problematic conditions, reflecting detection of overvaluation and rising evidence of overbuilding.
- In Winnipeg, the evidence of problematic conditions has been lowered from strong to moderate. This is due to the evidence of overvaluation being reduced with improving economic and demographic fundamentals.
- The analytical framework detects moderate evidence of problematic conditions in Montréal, Edmonton, Ottawa, Winnipeg, and Québec.
- Nationally we detect moderate evidence of overvaluation, reflective of a variety of price conditions across the country with some CMAs showing more signs of overvaluation than others. 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 Results are based on data as of the end of October 2015 and market intelligence as of the end of December 2015. CMHC continuously monitors market developments and will issue HMA updates on a quarterly basis.

³ 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 is presented on page 3 of this report.

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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 which may require a downward adjustment in prices). 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 remain higher than levels consistent with personal disposable income, population growth and other factors.

The inventory of completed and unsold units remains above its historical average in large part because of the multi-unit segment. Inventory management by builders is required to avoid addition that would push inventory levels to problematic thresholds.

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

Victoria: Weak evidence of problematic conditions

Overheating, price acceleration, overvaluation and overbuilding are not detected in the Victoria market at this time. While the pace of existing home sales trended higher in the third 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 was moderate in 2015 and supported by population growth. Demand for new homes continues to be well-matched by builders, and both the number of units under construction and the inventory of completed and unsold units are within historical norms.

Vancouver: Weak evidence of problematic conditions

Moderate evidence of overvaluation was observed in the third quarter, meaning house prices were higher than levels consistent with personal disposable income, population growth and other factors. Single-detached homes have recorded particularly strong price growth due to demand from high net worth and repeat buyers. Demand has been strong in both the homeownership and rental segments of the housing market. Vancouver's apartment and condominium vacancy rates

were both below one per cent in October 2015. Overall, there remains weak evidence of problematic conditions.

Edmonton: Moderate evidence of problematic conditions

Moderate evidence of overvaluation was detected as house price growth has been stronger than economic and demographic fundamentals. A record level of multi-family starts throughout 2015 has led to an elevated number of units under construction. This has resulted in rising concerns of overbuilding in Edmonton as inventory is expected to trend higher as units under construction reach completion.

Calgary: Strong evidence of problematic conditions

There continues to be moderate evidence of overvaluation in Calgary as economic fundamentals have weakened. Low oil prices have weighed down activity in the energy sector, which has slowed employment and income growth in the province. Net migration has been reduced as migrants and job seekers move to regions with more favourable labour market conditions.

The evidence for overbuilding in Calgary has moved to a moderate level. The vacancy rate has risen due to a decline in rental demand and more units added to the purpose-built rental market. This combined with more competition from the secondary rental market, has pushed up the vacancy rate to an elevated level.

Saskatoon: Strong evidence of problematic conditions

Economic and demographic fundamentals remain weak. Continued downward pressure on prices contributed to lessening evidence of overvaluation. Despite fewer starts, the inventory of new housing units relative to population remains elevated. Combined with the increase in the rental vacancy rate, we now detect strong evidence of overbuilding.

Regina: Strong evidence of problematic conditions

Moderate evidence of overvaluation continues to reflect weaker economic and demographic fundamentals that are not fully supporting the level of observed prices in Regina. The inventory of newly completed housing units, especially condominium apartment units relative to population, remains elevated. As well, the increase in the rental vacancy rate has contributed to stronger evidence of overbuilding.

Winnipeg: Moderate evidence of problematic conditions

Evidence of problematic conditions has been lowered from strong to moderate. This is due to the evidence of overvaluation being reduced with improving economic and demographic fundamentals. Full-time employment growth has been rising in Winnipeg, increasing personal disposable income and supporting home price valuations. As well, the pool of first-time home buyers has also increased. On the other hand, there remains moderate evidence of overbuilding as the inventory of completed and unsold units remained above its problematic threshold.

Hamilton: Weak evidence of problematic conditions

The sales-to-new-listings ratio remained elevated in the third quarter of 2015 and continues to show moderate evidence of overheating. Meanwhile, Hamilton's employment continues its upward trajectory. The average weekly earnings has been showing strength and is in line with strong employment growth, which is supportive of housing demand. As a result, there is weak overall evidence of problematic housing conditions in Hamilton.

Toronto: Strong evidence of problematic conditions

Continued strong price acceleration in 2015 reflects an increased share of higher priced low rise home⁴ sales, particularly sales of single-detached homes. Fewer launches of new single-detached projects in recent years meant demand has been increasingly absorbed by the high end resale market. Declining inventories of both new and resale single-detached homes contributed to rapid price growth. The continued rise in house prices has not been matched by growth in personal disposable income and population giving rise to strong evidence of overvaluation.

The number of completed and unsold units has remained high and above its historical average. The widening price differential between low rise and high rise units resulted in seller's market conditions in the condo resale market in 2015. This combined with a low average vacancy rate in the rental market suggest that unsold inventory could be steadily absorbed. Apartment units under construction moved higher during the third quarter indicating that builders will need to continue to monitor inventories.

⁴ Low rise homes include single-detached, semi-detached, and row homes.

Ottawa: Moderate evidence of problematic conditions

Ottawa's housing market showed weakening evidence of overvaluation while showing more evidence of overbuilding. The number of completed and unsold condo apartment units per 10,000 population rose, pointing to moderate evidence of overbuilding. This increase in unsold units was also accompanied by rising vacancy rates in primary and secondary rental markets. Despite a decline in condo apartment units under construction, inventory management is still needed since there is a high number of completed and unsold condo apartment units.

Montréal: Moderate evidence of problematic conditions

The moderate evidence of overvaluation reflects slower growth in first time home buyer demand combined with relatively modest growth in personal disposable income. Price growth on the resale market remains moderate. The number of condominium units completed and unsold has stabilized but remains elevated. 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

Strong evidence of overvaluation remains the main concern. It reflects slower growth in first time home buyer demand since 2012 combined with relatively modest growth in personal disposable income. Also, there remains some concern with respect to high inventories of both new and existing condominiums.

Moncton: Weak evidence of problematic conditions

There is moderate evidence of overbuilding in the Moncton CMA as the October 2015 vacancy rate remained elevated at 7.4 per cent. Growth in the supply of existing homes for sale has kept growth in average prices in line with inflation, providing little evidence of overheating, price acceleration, and overvaluation in the housing market.

Halifax: Weak evidence of problematic conditions

The level of evidence of overvaluation has decreased since the previous assessment as the cooling of the resale and new home markets in 2015 have kept prices in check in most areas of Halifax. However, weak average earnings gains and employment creation keep indicators for overvaluation near its problematic threshold resulting in continued concerns.

St. John's: Weak evidence of problematic conditions

House prices have continued to moderate. The number of unsold units remained high, leading to moderate evidence of overbuilding. The October vacancy rate remains stable at 4.7 per cent and rental demand continues to be supported by retirees exiting homeownership. Weaker overall housing market activity is attributed to a lack of economic growth and depressed oil prices.

Table 1

Comparisons between October 2015 and January 2016

	Overheating		Price Acceleration		Overvaluation		Overbuilding		Overall Assessment	
	Oct. 15	Jan. 16	Oct. 15	Jan. 16	Oct. 15	Jan. 16	Oct. 15	Jan. 16	Oct. 15	Jan. 16
Canada	Weak	Weak	Weak	Weak	Moderate	Moderate	Weak	Weak	Weak	Weak
Victoria	Weak	Weak	Weak	Weak	Weak	Weak	Weak	Weak	Weak	Weak
Vancouver	Weak	Weak	Weak	Weak	Moderate	Moderate	Weak	Weak	Weak	Weak
Edmonton	Weak	Weak	Weak	Weak	Moderate	Moderate	Weak	Weak	Weak	Moderate
Calgary	Weak	Weak	Weak	Weak	Moderate	Moderate	Weak	Moderate	Weak	Strong
Saskatoon	Weak	Weak	Weak	Weak	Moderate	Moderate	Moderate	Strong	Strong	Strong
Regina	Weak	Weak	Weak	Weak	Moderate	Moderate	Moderate	Strong	Strong	Strong
Winnipeg	Weak	Weak	Weak	Weak	Moderate	Weak	Moderate	Moderate	Strong	Moderate
Hamilton	Moderate	Moderate	Weak	Weak	Weak	Weak	Weak	Weak	Weak	Weak
Toronto	Weak	Weak	Moderate	Moderate	Strong	Strong	Weak	Weak	Strong	Strong
Ottawa	Weak	Weak	Weak	Weak	Moderate	Weak	Weak	Moderate	Moderate	Moderate
Montréal	Weak	Weak	Weak	Weak	Strong	Moderate	Weak	Weak	Moderate	Moderate
Québec	Weak	Weak	Weak	Weak	Strong	Strong	Weak	Weak	Moderate	Moderate
Moncton	Weak	Weak	Weak	Weak	Weak	Weak	Moderate	Moderate	Weak	Weak
Halifax	Weak	Weak	Weak	Weak	Moderate	Weak	Weak	Weak	Weak	Weak
St. John's	Weak	Weak	Weak	Weak	Weak	Weak	Moderate	Moderate	Weak	Weak

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 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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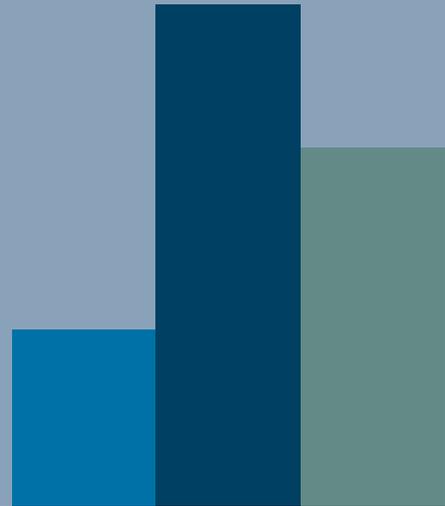
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