

HOUSING MARKET ASSESSMENT Canada

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Highlights

- This quarterly release of the *Housing Market Assessment* (HMA) provides updated results¹ to evaluate the evidence of problematic housing market conditions at the national level, and in 15 Census Metropolitan Areas (CMAs)². For each of these CMAs, CMHC also issues a local report with more information and analysis³.
- To establish evidence on whether there are problematic conditions in the housing market, the HMA analytical framework looks at: overheating; acceleration of house prices; overvaluation; and overbuilding.
- In CMHC's overall assessment of the housing market in Canada, the level of evidence of problematic conditions is raised to moderate from weak. In particular, CMHC now detects strong evidence of overvaluation for Canada as a whole. This national picture, however, reflects divergent patterns across the country.
- Growth in house prices has accelerated, but this growth is concentrated in the provinces of British Columbia and Ontario. This effect is only partially counter-balanced by weaknesses in the oil-dependent provinces of Alberta, Saskatchewan and Newfoundland & Labrador. By the time of the next HMA in October, growth in home prices in parts of British Columbia and Ontario may have been sufficient to provide strong evidence of problematic conditions for Canada overall.
- Across Canada:
 1. Vancouver and Toronto now both show strong evidence of problematic conditions. The level of evidence of problematic conditions for Vancouver has been raised to strong from moderate where we detect a combination of overheating, price acceleration, and overvaluation. The evidence for Toronto is unchanged with the strong evidence of problematic market conditions driven by price acceleration and overvaluation. Hamilton is also now showing strong evidence of overvaluation, resulting in the overall assessment of problematic conditions for Hamilton being raised to moderate;
 2. Weak energy prices continue to affect housing markets in oil-dependent provinces. Despite house-price adjustments, the overall assessments for Calgary, Saskatoon, and Regina continue to show strong evidence of problematic market conditions because of overbuilding and the impact of weak fundamentals on the assessment of overvaluation;
 3. Elsewhere, the analytical framework detects moderate evidence of problematic conditions in Winnipeg, Montréal, and Québec. The evidence of problematic conditions for Ottawa was lowered from moderate to weak. The overall level of evidence for problematic conditions in the Maritimes remains weak.

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¹ Results are based on data as of the end of March 2016 and market intelligence as of the end of June 2016. CMHC continuously monitors market developments and will issue HMA updates on a quarterly basis.

² CMAs covered in this report are Victoria, Vancouver, Edmonton, Calgary, Saskatoon, Regina, Winnipeg, Hamilton, Toronto, Ottawa, Montréal, Québec, Moncton, Halifax, and St. John's.

³ Consult this [link](#) for all regional reports.

Overview

The Housing Market Assessment (HMA) analytical framework provides a comprehensive and integrated view that relies on a combination of signals from a number of indicators to assess housing market conditions in several metropolitan areas across Canada, and for Canada as a whole⁴. This framework allows a wide range of indicators on housing markets to be captured in a single snapshot. The objective is to identify locations in which there is a heightened vulnerability to housing market stability from the level of house prices or from factors that are known to influence future house prices.

In this HMA, CMHC is raising its overall assessment for Canada from a low level of evidence of problematic conditions to moderate. Driving the increased level of evidence has been increasing growth in housing prices that have pushed house prices to levels that exceed the fundamentals supporting the housing market. These fundamental factors include changes in income and population. Prices have increased relative to fundamentals in Toronto and Vancouver, and are increasing rapidly in some other parts of Ontario and British Columbia. This pattern is not reflected in many other provinces, however. In the oil-dependent provinces of Newfoundland & Labrador, Saskatchewan and Alberta, lower energy prices have affected adversely those fundamentals that support the housing market. Although there is some evidence of imbalances in other markets, prices fluctuate moderately around the levels supported by the fundamentals.

This uneven pattern across Canada means that the level of evidence for problematic conditions is only being raised to moderate rather than to high in this report. But, if the acceleration in prices intensifies in Ontario and British Columbia so as to outweigh challenges in the oil-dependent provinces then there is likely to be sufficient evidence by the time the next HMA is published to detect strong evidence of problematic conditions for Canada overall.

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.

Specifically, the framework considers four main factors that may provide an early indication of potentially problematic housing market conditions: (1) overheating when sales greatly outpace new listings in the market for existing homes; (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 rental market vacancy rate and/or the inventory of newly built housing units that are unsold is elevated.

For each factor, the framework tests for: (1) the number of signals of potentially problematic conditions; (2) the intensity of the signals; and, (3) the persistence of signals over time.

Generally, a situation in which CMHC detects 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. While a market in a metropolitan area may be identified as having weak evidence of problematic conditions, imbalances may exist within some segments of that housing market, or the trend for evidence in that market may be approaching critical thresholds. The framework therefore does not allow for the complete absence of problematic conditions, but identifies the level of evidence as low.

Housing market fundamentals are influenced by demographic, economic, and financial dynamics. To reflect these determinants, data on population, personal disposable income, and interest rates are used to characterize market fundamentals. 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 still hold.

⁴ The data for Canada includes those areas beyond the core 15 metropolitan areas.

HMA Results

Canada: Moderate evidence of problematic conditions

Across Canada as a whole, there has been an increase in price growth. This pace has surpassed the thresholds to indicate that there is a moderate level of price acceleration in the HMA framework. Real prices increased by 14 per cent between the first quarter of 2015 and the first quarter of 2016, compared to an increase of 9 per cent between the last quarter of 2014 and the last quarter of 2015.

As this price acceleration is concentrated within two CMAs, however, CMHC judges that the evidence of price acceleration, at the moment, remains weak across Canada as a whole. Had Toronto and Vancouver been excluded from the price metric used, then the annual growth in real prices would have been only 5.9 per cent in the first quarter, rather than 14 per cent. House prices are also increasing in areas of Ontario and British Columbia beyond Toronto and Vancouver. If the rate of price growth were to continue, then the level of evidence of price acceleration would transition to moderate by the next HMA.

CMHC assesses that there is now strong evidence of overvaluation across Canada: house prices across Canada remain higher than levels consistent with personal disposable income, population growth and other fundamental factors.

To reflect continuing overvaluation, and the threat of price acceleration, the overall level of evidence for problematic conditions in the housing market across Canada is raised

to moderate. If price acceleration continues and broadens, the level of evidence for the overall assessment of the housing market in Canada will likely be raised to high in the next HMA.

Victoria: Weak evidence of problematic conditions

The Victoria housing market is assessed as showing weak overall evidence of problematic conditions. However, there is moderate evidence of overheating as sales significantly outpaced new listings in the first quarter of 2016 and this trend continued into the second quarter, pushing the sales-to-new-listings ratio of existing homes above the threshold used to identify evidence of overheating. This ratio of 90 per cent in the second quarter of 2016 remains above the threshold of 80 per cent, which is required to detect moderate evidence of overheating⁵. As a result, prices are growing at a faster rate in the region. Although the number of newly completed and unsold homes has continued to trend lower, an increase in new construction activity compared to the previous year will alleviate some of the price pressure as new units under construction are brought to completion, giving home buyers more options.

Vancouver: Strong evidence of problematic conditions

Vancouver is now assessed as showing moderate evidence of overheating and price acceleration as well as strong evidence of overvaluation. Sustained high levels of MLS® sales combined with minimal increases in the supply

of new listings have resulted in tight resale market conditions and steep price gains. Single-detached home prices continue to be at levels higher than those consistent with financial, economic and demographic fundamentals. Inventories of new and resale homes continue to decline and rental vacancy rates remain low, indicating weak evidence of overbuilding. Taking all factors into consideration, the overall assessment for Vancouver indicates strong evidence of problematic conditions.

Edmonton: Moderate evidence of problematic conditions

We continue to detect moderate evidence of overvaluation in Edmonton as demographic and economic fundamentals are growing at a slower pace. New home inventories rose relatively quickly in the first quarter of 2016 and the possibility exists for inventories to rise further as additional units under construction move to completion.

Calgary: Strong evidence of problematic conditions

Moderate evidence of overvaluation in Calgary continues to be detected due to weaker economic and demographic fundamentals. Full-time job losses and weaker income growth, along with slower population growth among young adults have impacted housing demand. Rental demand has also moderated while supply in both the purpose-built and secondary rental markets have increased. As such, the vacancy rate has risen well above historical averages leading to moderate evidence of overbuilding.

⁵ Moderate evidence of overheating is detected only if the sales-to-new-listings ratio exceeds its threshold for at least two quarters over a one year period.

Saskatoon: Strong evidence of problematic conditions

Downward price adjustments in the first quarter 2016 have reduced overvaluation in house prices, but not sufficiently to close the gap between observed and estimated house prices based on fundamentals such as population and income, whose growth has slowed. Despite fewer housing starts, the combination of elevated new inventory relative to population, particularly among row housing and apartment units, and a higher rental vacancy rate continued to reflect strong evidence of overbuilding.

Regina: Strong evidence of problematic conditions

After several quarters of declines, house prices in Regina stabilized in the first quarter of 2016 with the reduction in resale supply. Given slower growth in fundamentals such as personal disposable income and young adult population, the framework continued to detect moderate evidence of overvaluation. As well, elevated inventory of new housing units, especially condominium apartments, relative to population, and a higher rental vacancy rate continued to reflect strong evidence of overbuilding.

Winnipeg: Moderate evidence of problematic conditions

Evidence of problematic conditions remains moderate for the Winnipeg CMA. After peaking in the fourth quarter of 2015, the overall inventory of ownership units that were completed and unsold has declined. The decline in inventory was heavily influenced by fewer units reaching completion in the first quarter of 2016. Total units under construction remained elevated, particularly for apartment structures.

Hamilton: Moderate evidence of problematic conditions

In the Hamilton CMA, home prices are higher than fundamental drivers such as population, employment and income would warrant. Consequently, there was strong evidence of overvaluation in the first quarter of 2016. The sales-to-new-listings ratio was 84 per cent, reaching its highest quarterly level on record and significantly above the 75 per cent threshold used to identify evidence of overheating. A high sales-to-new-listings ratio is associated with sellers' market conditions, a situation where home prices generally rise more rapidly than overall inflation. Since the first quarter of 2011, the sales-to-new-listings ratio in Hamilton has consistently indicated that sales are strong at any level of listings, putting upward pressure on house prices. Many home buyers come to Hamilton from elsewhere and as such, add to sales but not to listings even when they are repeat buyers. This helps explain why the sales-to-new-listings ratio has remained high throughout the past five years.

Toronto: Strong evidence of problematic conditions

Continued strong price acceleration throughout last year and so far in 2016 reflects an increased share of higher priced low rise home 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 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 moved lower in the first quarter of 2016 but remains above its 10-year historical average. Rapid price growth for low rise homes continues to shift demand towards condominium units resulting in the average sales-to-new-listings ratio moving higher. 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 slightly higher during the first quarter of 2016 from end of last year indicating that builders will need to continue to monitor inventories.

Ottawa: Weak evidence of problematic conditions

We continue to detect moderate evidence of overbuilding in Ottawa's housing market. The number of completed and unsold condo apartment units per 10,000 population rose steadily until early in the first quarter this year, pointing to moderate evidence of overbuilding. There has, however, been some decline in the number of completed and unsold units in recent months, and the number of apartment units under construction has also been declining since the fourth quarter in 2015. Inventory management remains necessary until the high number of unsold units is absorbed by the market. The high number of unsold units has been accompanied by rising vacancy rates in purpose-built and condominium rental markets pointing to softer demand conditions. Despite sluggish economic activity, moderating prices and continued population growth resulted in weak evidence of overvaluation.

Montréal: Moderate evidence of problematic conditions

Moderate evidence of overvaluation is detected by our framework, indicating that prices remain higher than expected from economic and demographic fundamentals. These fundamentals reflect a recent slowing of growth in income per person, and a reversal in the growth of the population of those likely to be first-time home buyers. The number of condominium units completed and unsold is declining 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

The strong evidence of overvaluation detected by our framework remains the main concern. This rating reflects that house-price adjustments have not been sufficient to close the

gap between the slower growth of young adult population and strong price growth from 2000 to 2013. Although the inventory of completed and unsold condominiums is declining, elevated construction activity requires continuous inventory management

Moncton: Weak evidence of problematic conditions

We detect moderate evidence of problematic overbuilding related to an elevated rental vacancy rate of 7.4 per cent, however, the inventory of completed and unsold homes has remained below the problematic threshold since 2013. The level of new listings on the resale market has remained high, which in turn has limited price growth and acceleration. At this time, there is weak evidence of problematic conditions regarding overheating, price acceleration, or overvaluation in the Moncton CMA.

Halifax: Weak evidence of problematic conditions

Despite a sharp growth in MLS average prices in the fourth quarter of 2015 especially in Halifax City,

as of the first quarter of 2016, prices have stabilized, down 0.3 per cent year-over-year and 3.2 per cent since the fourth quarter of 2015. Price stability combined with strengthening economic fundamentals have caused measures of overvaluation to decline, highlighting weak evidence of overall of problematic conditions for the Halifax CMA.

St. John's: Weak evidence of problematic conditions

House prices continue to remain under pressure. There is moderate evidence of overbuilding due to relatively high inventory of completed and unsold units. However, inventory has declined moderately over the two previous quarters. The October vacancy rate was 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 weaker economic growth, slower growth in the young adult population and declines in real personal disposable income.

Table I

Comparisons between the April 2016 and July 2016 reports

| | Overheating | | Acceleration | | Overvaluation | | Overbuilding | | Assessment | |
|------------|-------------|-----------|--------------|-----------|---------------|-----------|--------------|-----------|------------|-----------|
| | Apr. 2016 | July 2016 | Apr. 2016 | July 2016 | Apr. 2016 | July 2016 | Apr. 2016 | July 2016 | Apr. 2016 | July 2016 |
| Canada | | | | | | | | | | |
| Victoria | | | | | | | | | | |
| Vancouver | | | | | | | | | | |
| Edmonton | | | | | | | | | | |
| Calgary | | | | | | | | | | |
| 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 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.

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