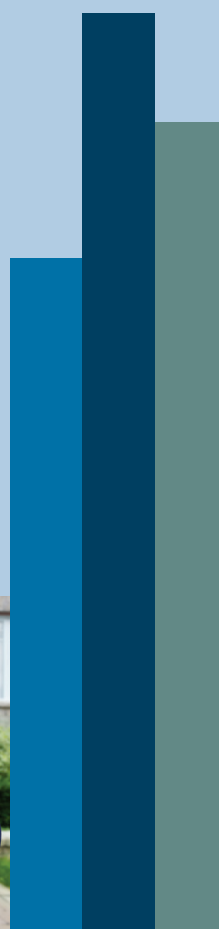


# HOUSING MARKET ASSESSMENT Canada

Date Released: Fourth Quarter 2016



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## Highlights

- This quarterly release of the *Housing Market Assessment* (HMA) provides updated results<sup>1</sup> to evaluate the evidence of problematic housing market conditions at the national level, and in 15 Census Metropolitan Areas (CMAs)<sup>2</sup>. For each of these CMAs, CMHC also issues a local report with more information and analysis<sup>3</sup>.
- 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 strong from moderate. In addition to strong evidence of overvaluation, CMHC detected moderate evidence of price acceleration for Canada as a whole.
- The rapid growth in house prices was both concentrated and intensified within the provinces of British Columbia and Ontario, spreading from Vancouver and Toronto to other cities, contrasting with the picture in the rest of Canada.
- Across Canada:
  1. Vancouver and Toronto continue to show strong evidence of problematic conditions. The evidence for Vancouver is unchanged with the detection of overheating, price acceleration, and overvaluation. For Toronto, in addition to price acceleration and overvaluation, overheating now is detected.
  2. The acceleration in house prices is detected in Victoria and Hamilton. Victoria is now showing price acceleration and overheating. Overvaluation is not detected this time for Victoria, but it could be a concern if the growth of house prices continues to outpace the growth of fundamentals. The overall assessment of problematic conditions is raised from moderate to strong for Hamilton where we detect a combination of price acceleration, overheating, and overvaluation.
  3. The prolonged period of low energy prices continues to impose challenges to housing markets in oil-dependent provinces. The ratings of strong evidence of problematic market conditions in the overall assessments for Calgary, Saskatoon, and Regina remain unchanged reflecting the joint impact of overbuilding and relatively weaker fundamentals. The rating of overvaluation for Saskatoon is reduced from strong to moderate, but the inventory of completed and unsold units continues to increase.
  4. Elsewhere, the analytical framework detects moderate evidence of problematic conditions in Winnipeg, Montréal, and Québec. The overall level of evidence for problematic conditions in the Maritimes remains weak.

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

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

<sup>3</sup> Please use 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 whole<sup>4</sup>.

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 moderate level of evidence of problematic conditions to strong. The increased level of evidence for the overall assessment is driven by the combination of strong evidence of overvaluation and moderate evidence of price acceleration for Canada as a whole. Continuing growth in house prices has pushed house prices to levels that exceed the fundamentals supporting the housing market. The fundamental factors include changes in income, population, and mortgage rates. Intensity of price growth is spreading to other areas within the provinces of Ontario and British Columbia. This pattern has deepened the contrast with other provinces.

In the oil-dependent provinces of Newfoundland & Labrador, Saskatchewan and Alberta, the prolonged period of low oil prices continues to generate adverse effects on the fundamentals that support housing markets.

In other markets, prices continue to fluctuate moderately around levels supported by the fundamentals, although there is some evidence of imbalances.

To summarize, our change in the overall assessment for Canada as a whole from moderate to strong evidence of problematic conditions reflects two effects. Firstly, there is increased evidence of growth in house prices and its intensification for cities within Ontario and British Columbia, as foreshadowed in last quarter's HMA. Secondly, it reflects the continuing challenges to housing markets in oil-dependent provinces of the prolonged period of low oil prices.

## 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 developments. 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.

<sup>4</sup> The data for Canada includes areas beyond the core 15 metropolitan areas.

## HMA Results

### Canada: Strong evidence of problematic conditions

For Canada as a whole, the growth in house prices remains elevated. After adjusting for inflation, house prices climbed 11 per cent in the second quarter of 2016 from a year ago, slightly less than the 14 per-cent growth between the first quarter of 2015 and the first quarter of 2016. Since the price growth has broadened across other areas within the provinces Ontario and British Columbia, there is now sufficient evidence to raise the level of price acceleration to moderate. In combination with the existing evidence of overvaluation, the overall assessment for Canada is thus raised from moderate to strong evidence of problematic conditions.

Price growth remains elevated in Vancouver and continues to strengthen in Victoria, Abbotsford, and Kelowna. After accounting for inflation, house prices increased by 15 per cent in Vancouver in the second quarter of 2016 from a year ago, by 28 per cent in Abbotsford, 16 per cent in Kelowna, and 10 per cent in Victoria.

The growth in house prices continues in Toronto and is spreading to more adjacent cities. After accounting for inflation, house prices increased by 13 per cent in Toronto in the second quarter of 2016 from a year ago, higher than 12 per cent between the first quarter of 2015 and the first quarter of 2016. Meanwhile, house prices climbed 11 per cent in Hamilton, 16 per cent in Oshawa, and 13 per cent in Barrie.

The intensification in house prices for cities within British Columbia and Ontario affects the metric used

for Canada as a whole. Had Toronto and Vancouver been excluded from the price metric used, then the annual growth in house prices (after adjusting for inflation) would have been only 6 per cent in the second quarter, rather than 11 per cent. If Ontario and British Columbia had been excluded, then house prices would have decreased by 3 per cent in the second quarter.

CMHC continues to assess that there is 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 widespread price growth in British Columbia and Ontario, the overall level of evidence for problematic conditions in the housing market across Canada is raised to strong. However, the rating reflects more the concentration and intensification in house price growth within British Columbia and Ontario than the general picture of Canada as a whole.

### Victoria: Weak evidence of problematic conditions

Moderate evidence of both overheating and price acceleration were detected for the second quarter of 2016 in the Victoria CMA. Sales continued to outpace new listings in the resale market, and reduced the total supply of homes for sale in the market. Fewer available homes per buyer increased competition between buyers and hastened the rate of year-over-year price growth. While price growth was most pronounced for single-detached homes, all segments of the housing market experienced strong price growth in the second quarter. There

was no evidence of overbuilding as inventories of complete and unsold units reached historic lows, and tests for overvaluation concluded that housing prices remained in line with fundamentals.

### Vancouver: Strong evidence of problematic conditions

Vancouver continues to be assessed as showing moderate evidence of overheating and price acceleration, in addition to strong evidence of overvaluation. High levels of MLS® sales combined with minimal increases in the supply of new listings and low new home inventories continued to fuel steep price gains in the second quarter of this year. Single-detached home prices continue to be at levels higher than those consistent with financial, economic and demographic fundamentals, however average prices have begun moderating since the spring. Inventories of new and resale homes remain low, and rental vacancy rates across the region are below one per cent in most areas, indicating weak evidence of overbuilding. Considering all factors, the overall assessment for Vancouver indicates strong evidence of problematic conditions.

### Edmonton: Moderate evidence of problematic conditions

Moderate evidence of overvaluation was detected in Edmonton. Economic and demographic fundamentals have weakened in recent months as low oil prices temper economic growth. The number of newly completed and unsold units in inventory has also moved higher and is expected to continue rising as more multi-family units move into completion.



## **Calgary: Strong evidence of problematic conditions**

In Calgary, moderate evidence of overbuilding was detected, due to a rise in the apartment vacancy rate in the traditional rental market. Supply in the traditional and secondary rental markets have increased while slower economic activity has impacted demand, pushing the vacancy rate up to levels seldom seen. Reduced investments in the energy industry have contributed to job losses across the region, and high unemployment rates have slowed down migration and income growth. As economic and demographic fundamentals have weakened, house prices have not been fully supported, and moderate evidence of overvaluation was detected.

## **Saskatoon: Strong evidence of problematic conditions**

Market conditions that favoured buyers over sellers resulted in further downward price adjustments in the second quarter of 2016, which reduced overvaluation in house prices from strong to moderate. Despite fewer housing starts, weaker economic conditions have slowed the market's ability to quickly absorb newly completed units. As a result, the combination of elevated new inventory and a higher rental vacancy rate continued to reflect strong evidence of overbuilding.

## **Regina: Strong evidence of problematic conditions**

House prices in Regina continued to stabilize in the second quarter of 2016 despite slower growth in economic fundamentals such as personal disposable income and young adult population. As a result, the HMA framework maintained the result of

moderate evidence of overvaluation. While the number of completed and unsold units per 10,000 population moved lower in the second quarter of 2016, it remains at levels regarded traditionally as high. Therefore, the combination of elevated inventory of new housing units and a higher rental vacancy rate continued to reflect strong evidence of overbuilding in the current release.

## **Winnipeg: Moderate evidence of problematic conditions**

The Housing Market Assessment framework continued to detect moderate evidence of problematic housing market conditions in Winnipeg. This was primarily due to the inventory of unsold units being above its problematic threshold. However, inventory levels have declined substantially since the beginning of 2016 and are trending lower as absorptions of new homes in Winnipeg have increased. In the resale market, the sales-to-new listing ratio remained in the range indicative of balanced market conditions and there was no change to the assessment from the last update for overheating, price acceleration or overvaluation.

## **Hamilton: Strong evidence of problematic conditions**

In the Hamilton CMA, the average home price continued to grow faster than what would be consistent with the growth in fundamental drivers such as population, employment and income. As a result, there was strong evidence of overvaluation in the second quarter of 2016. Our analysis also shows moderate evidence of price acceleration in the second quarter of 2016. House price growth remained elevated

among all dwelling types. The average price for an existing single-detached home increased by 12 per cent; semi-detached home price increased by nine per cent; townhouse price increased by 14 per cent; and condominium apartment price increased by six per cent in the first eight months of 2016, compared to the same period in 2015.

The sales-to-new-listings ratio continued its upward trend, reaching 86 per cent in the second quarter of 2016, 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. 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. Out-of-town buyers coming to Hamilton mostly in search of more affordable property, continued to compete with local buyers for the limited listings. Another factor restraining listings in Hamilton is the impact of aging and rising transaction costs on mobility. Listings are still off the peak reached in the fourth quarter of 2010.

## **Toronto: Strong evidence of problematic conditions**

Two consecutive quarters of the sales-to-new listings ratio being above the threshold of 0.70 (from 0.71 in the first quarter of 2016 to 0.75 in the second quarter of 2016) has led to an overheating rating. Continued strong price acceleration throughout last year and so far in 2016 reflects a growing share of higher priced low rise home sales, particularly in single-detached homes. Fewer launches of new single-detached projects in recent years has meant that 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 giving rise to strong evidence of overvaluation.

The number of completed and unsold units moved higher in the second quarter of 2016 and remains above its 10-year historical average. Unsold units are still off the highs reached in recent years however. Rapid price growth for low rise homes continues to shift demand towards condominium apartments resulting in their average sales to new listings ratio to move 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 higher during the second quarter of 2016 from the previous quarter 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. Although the number of completed and unsold condominium units has come down from a peak in February, the number still remains significant per 10,000 population. Even though the number of condominium apartment units under construction have been trending lower since last fall, inventory management is important until the unsold condominium apartment units are absorbed by the market. Rising vacancy rates in purpose-built and condominium rental markets have also pointed to softer demand conditions.

### **Montréal: Moderate evidence of problematic conditions**

Our framework detected moderate evidence of overvaluation, which indicates that housing prices remain above the levels supported by the fundamental factors of economy and demography. These fundamental factors reflect a weak decrease in personal disposable income per person and in the population growth among young adults that likely become first-time home buyers. The inventory of completed and unsold condominium units is decreasing but remains elevated. A sound management of inventory is required so that the number of condominium units under construction does not remain unsold upon completion.

### **Québec: Moderate evidence of problematic conditions**

Though the metric of overvaluation remains high, the situation tends to improve. We also note price adjustments, especially for the segment of condominium units for which the supply of both newly built and existing ones remains important.

### **Moncton: Weak evidence of problematic conditions**

Despite a drop in apartments starts last year, we continue to detect moderate evidence of overbuilding in the Moncton CMA related to an elevated rental vacancy rate of 7.4 per cent. However, the inventory of unsold homes per 10,000 people remains well below its problematic threshold. Growth in earnings have remained positive as has growth in the population of 25-34 year olds.

These factors have helped to keep the measures of problematic overheating, price acceleration, and overvaluation below their problematic thresholds.

### **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 second quarter of 2016, prices have stabilized, up just over one per cent year-over-year. Price stability combined with a marginal decline in real personal disposable income per capita of 0.73 per cent in the second quarter of 2016 and growth in the young adult population have caused the overvaluation indicators to trend down 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. Overbuilding has subsided, with the inventory of completed and unsold units relative to the population now slightly lower than the threshold. Inventory has declined moderately over the three previous quarters. The October 2015 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, all of which are linked to the year-to-date decline in prices.

Table I

## Comparisons between the July 2016 and October 2016 reports

	Overheating		Price Acceleration		Overvaluation		Overbuilding		Overall Assessment	
	July 2016	Oct. 2016	July 2016	Oct. 2016	July 2016	Oct. 2016	July 2016	Oct. 2016	July 2016	Oct. 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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