HOUSING MARKET INSIGHT
Halifax CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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"A sellers' market typically exhibits a core set of characteristics that can be observed throughout most, if not all, neighbourhoods. Sales volume increases, prices grow, days on market fall, and the number of active listings remain below historical average."

Guillaume Neault,
Principal, Market Analysis (Halifax)

Tracking Neighbourhood Changes in Halifax

Tracking Neighbourhood Changes in Halifax explores the underpinnings of market classification through a technical analysis of price indices, employment levels among first-time homebuyers, and real estate transactions. One key finding is that while consumer preferences show little change over the last fifteen year period in most of Halifax, households' borrowing capacity eroded first in neighbourhoods where price growth was strongest, reducing the number of entrants and pushing prospective homebuyers to change their preferences.

Market classification is a common measure to synthesize housing analysis, as it aggregates key macroeconomic and financial variables to depict market conditions in a defined geographic scale. Over the last fifteen years, the housing market in Halifax experienced at least one full cycle: market classification shifted from sellers' to buyers' and remained balanced for much of the period following the financial crisis of 2008. While it is common for housing experts to report on market classification at the city scale, in Halifax, much less attention has been paid to neighbourhood dynamics affecting the city's overall market classification.

A sellers' market for instance typically exhibits a core set of characteristics that can be observed throughout most, if not all, neighbourhoods. Sales volume increases, prices grow, days on market fall, and the number of active listings remain below historical average. A buyers' market is more complex, as it tends to exhibit a plurality of contrasting characteristics. Thus, it is not inconceivable for some neighbourhoods to record sales increase and price growth, while other neighbourhoods record price stability or declining sales, for example. In other words, at the neighbourhood level both buyers' and sellers' market classifications can co-exist in a buyers' market; it is the dominance of indicators over the many neighbourhoods that would ultimately define the city's overall classification.

Sellers' Conditions Lift All Indicators

Between 2001 and 2008, the market for existing homes in Halifax recorded its strongest sales volume and annual nominal price growth amid a market moving back and forth between balanced and sellers' conditions.

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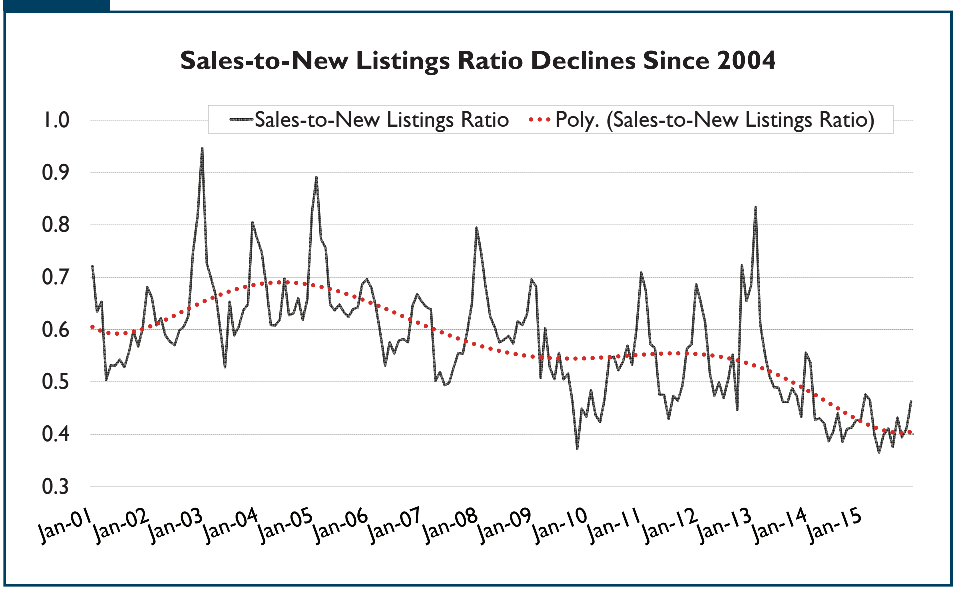
The new home market fed off that dynamism as well with residential construction peaking at an all-time high of 1,865 units in 2002[1]. The synergies existing between the resale market and new home market sustained the level of growth for extended periods of time. And, as a result, the price growth of a new single-detached home exceeded the price growth of the resale market for the entire period quoted above.

The sales-to-new listings ratio, which serves as a barometer to gauge market dynamics, hovered between 50 per cent and nearly 94 per cent every quarter with active listing ranging between 2,200 and 3,000[2]. Such a high ratio often indicates that prospective homebuyers may not be able to purchase their first choice property. Prices grew steadily too where year-over year quarterly changes rarely dipped below the five percent mark on an inflation-adjusted basis.

This portrait of the Halifax market is in fact the reflection of the sum of all neighbourhoods across the city. While total sales volume ranged between 6,000 and 6,900 units annually[3] between 2000 and 2008, representing a historically above average activity, total sales by neighbourhood increased in similar proportions. Furthermore, the real price growth increased in each neighbourhood. Like the adage says a

Figure 1



Source: CREA, CMHC Calculations

[1] CMHC, Housing Market Information Portal. Data retrieved on March 9, 2016.
[2] MLS is a registered trademark of CREA (Canadian Real Estate Association).
[3] Ibid

rising tide lifts all boats—the sellers' market in Halifax benefitted a wide range of housing market participants.

Rise in Real Income and Decline in Interest Rate Increases Borrowing Capacity

Of particular interest for the Halifax market, however, is the conditions buttressing the sellers' market. Mutually reinforcing effects were in play: the rise in real personal income and the decline in the posted five-year interest rate between 2001 and 2008 overlapped. This combined effect increased households' borrowing capacity, enabling price growth and a rise in construction activity.

In Halifax, personal income adjusted for inflation grew steadily between 2001 and 2010, with a nearly continuous ascent between 2002 and 2009. Save for the recessionary period of 2001-2002, growth in personal income stimulated the housing market; where real quarterly gains often exceeded 1.5 per cent on a year-over-year basis[4]. This level of growth was further supported by

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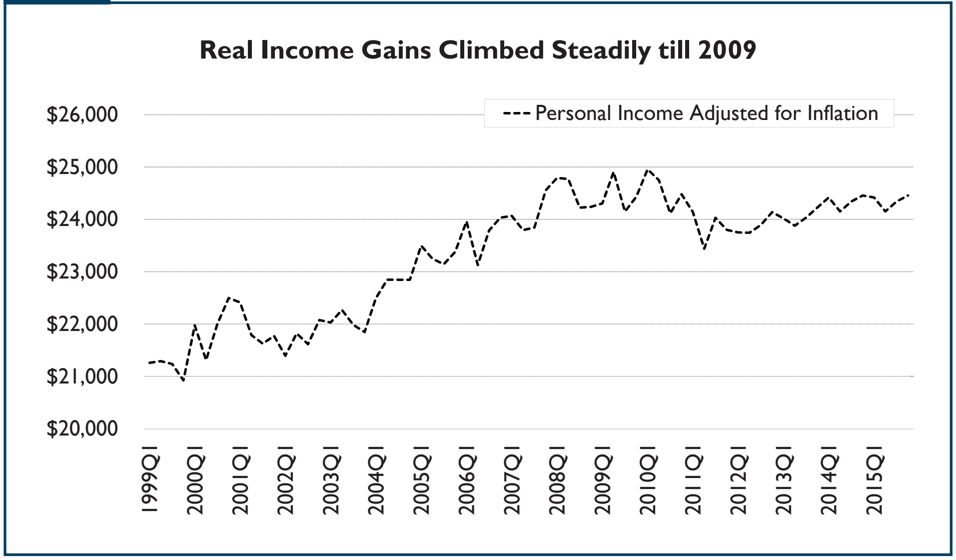
Figure 2



Source: Conference Board of Canada, CMHC Calculations

a decrease in the five year posted interest rate which declined from seven to four per cent from 2000 to 2006[5]. The increase in borrowing capacity benefited most those aged between 25-34, as homeownership rates remained stable over the census of 1991, 2001, and 2011[6]. During that period, the supply side response was evident: single-detached starts rarely dipped below 1,200 and the average price of a new home grew faster than the average MLS® price.

In contrast, the housing market between 2006 and 2013 can only be characterized as erratic. While the global financial crisis cooled off employment levels in Halifax, the announcement of the shipbuilding contract in fall 2011 created speculative price pressure to a homeownership market that was already showing signs of buyers' conditions. These two events marked a directional turn in the market prospective buyers and sellers hadn't faced over the previous six years. Thus, although interest rates were at their lowest point in the decade, housing demand remained weak.

Looking in the rearview mirror sheds some light on key directional turns on changing market conditions. CMHC's *Housing Market Assessment* framework examines four key indicators—overvaluation, overbuilding, price acceleration and overheating—and reports on potential market imbalances[7]. Models designated the market in Halifax as overvalued, commencing in 2004, which entailed that price gains outpaced growth in disposable income and considerably reduced the gains realized by the low interest rate. In other words, households' borrowing capacity eroded. On top of that, employment levels for younger generations experienced negative shocks, further stressing the homeownership market in Halifax.

[4] Conference Board of Canada, CMHC Calculations
[5] Bank of Canada and Statistics Office V122495
[6] http://globalnews.ca/news/1854709/home-ownership-for-millennials-are-they-dreaming/ url retrieved on March 9, 2016.
[7] CMHC's Housing Market Information Portal. Report retrieved on March 9, 2016.

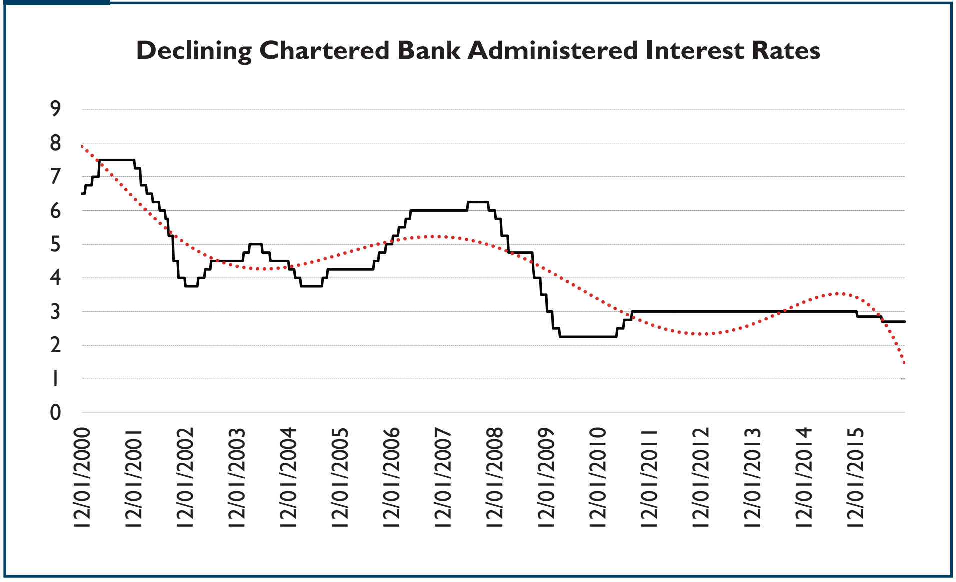
Local Labour Market Conditions Never Fully Recovered from Recessions

Very few disagree that the financial crisis of 2008 and 2009 impacted negatively younger generations to greater extent than older ones. The labour market in Nova Scotia was not immune from economic downturn. The majority of job losses for generations typically associated with first-time homeownership and repeat buyers saw their employment levels plunge from 50,000 to 40,000 in less than ten years. At end of 2015, employment levels had still not approached the averages recorded early in the 2000's, despite a recovery in the rest of Canada. Households in the 30-34 age group experienced sustained unemployment in 2008. Evidence suggests unemployment pushed these households to relocate elsewhere in Canada. The employment levels of younger generations, aged 25-29, (often referred to as the first time homebuyers) have yet to recover from the recession of 2001, which saw their employment levels declined from 47,000 to 38,000[8].

With both generations experiencing stagnant labour market conditions throughout the decade, real estate transactions and construction were bound to decelerate from the peaks of the early 2000's. Less total income in the local economy, fewer first time homebuyers, and tightening borrowing conditions in 2008 onwards short-circuited demand for homes by pushing households to withhold accessing homeownership or to change their consumer preferences.

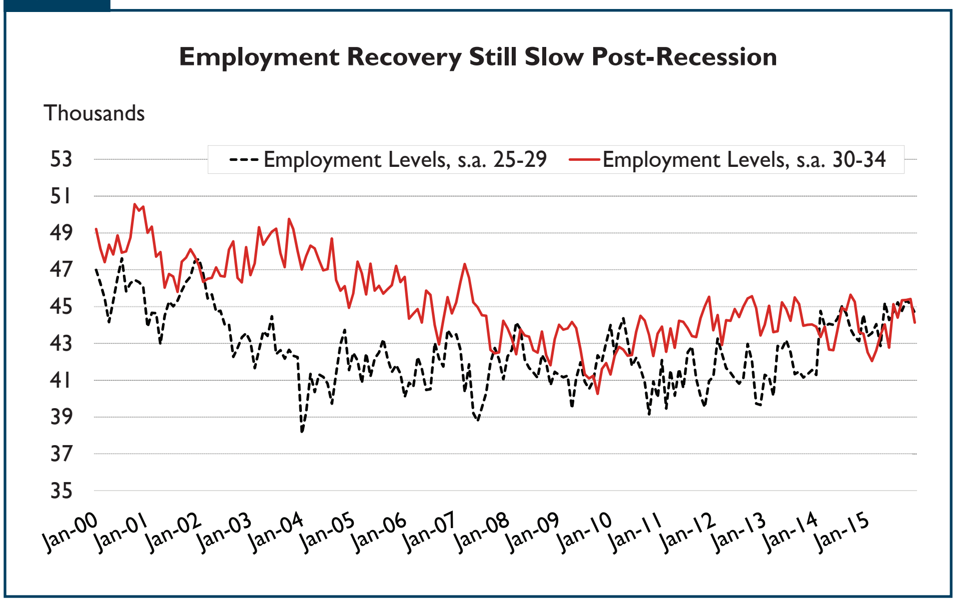
While the resale market is showing some signs of balanced conditions, the unsold stock of new homes priced in $300,000 – $399,999 and $400,000 – $499,999 underscores the challenges of the homeownership market since 2013[9]. The number of market participants in the age groups most akin to homeownership is slowly improving, yet tightening borrowing conditions and an aging population lessen demand for homeownership overall.

Figure 3



Source: Bank of Canada and Statistics Office V122495

Figure 4



Source: Statistics Canada, CMHC calculations

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[8] Statistics Canada Table 282-0001 Labour force survey estimates (LFS), by sex and detailed age group, unadjusted for seasonality, monthly, CMHC calculations of seasonal adjustment.

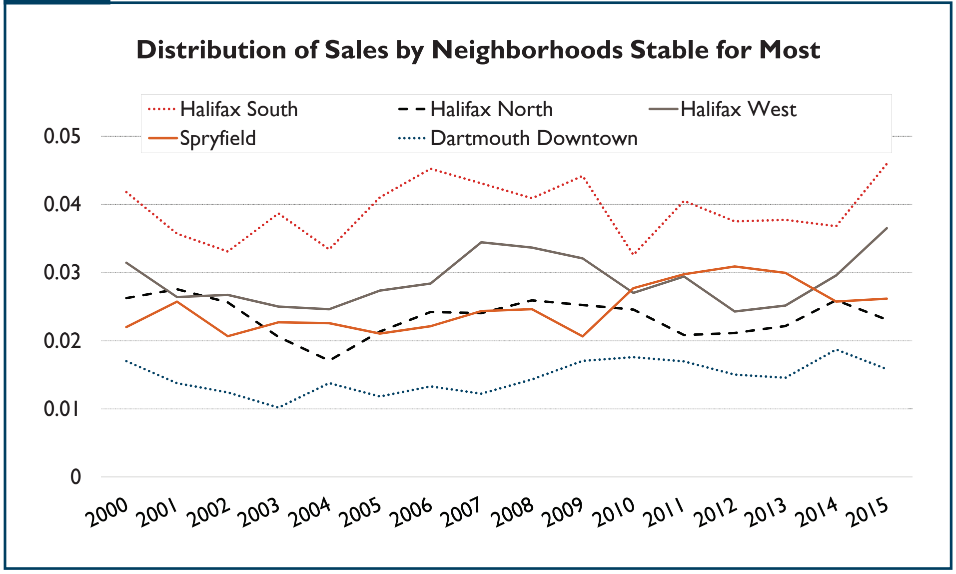
[9] CMHC, Housing Market Information Portal. Data retrieved on March 9, 2016.

Transitioning to Balanced and then to Buyers' Market

The distribution of sales by neighbourhood across Halifax provides insights on consumer choice because real estate transactions ultimately measure preference for place but also measure budgetary constraints[10]. The latter observation is important because neighbourhoods where price appreciation is strongest should see its sales declining as less households have the financial ability to get in. In the case of Halifax, the distribution of sales by neighbourhood remained stable over time. Two trends stand out, however. Both the South End and West End recorded a decline in their sales ratio during the 2000 and 2004 period when price growth was strongest in the last decade. These two neighbourhoods recorded annual nominal price growth of 8.5 per cent each year over that period. It is not until 2014 that the sales ratio increased again to its levels recorded between 2004 and 2008. Both neighbourhoods also showed a decline in the sales ratio during the period of the global financial recession of 2009. These observations must be understood in light of the fact that these two neighbourhoods have historically been the two most expensive on the Peninsula of Halifax and also among the most expensive of the entire Halifax Census Metropolitan Area.

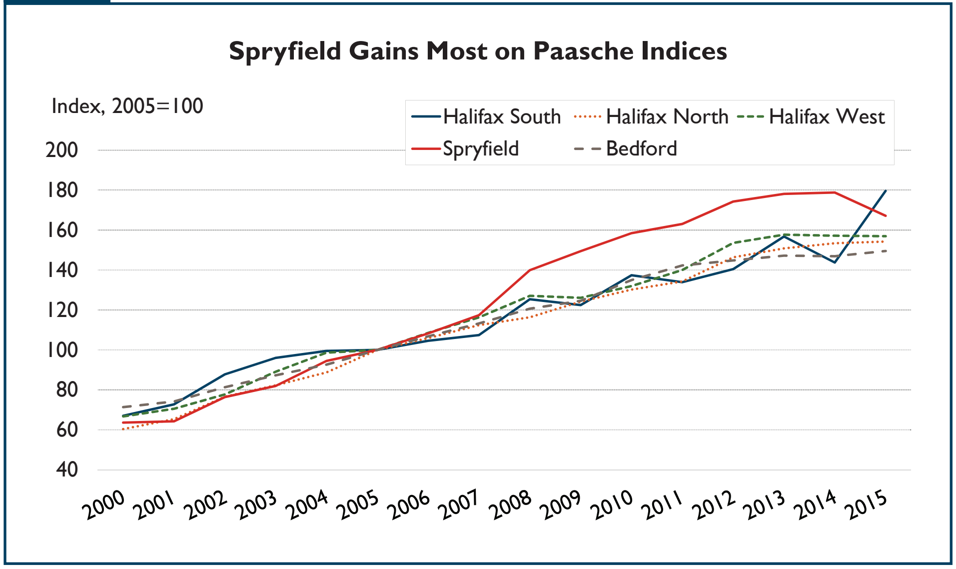
Evidence of declining sales ratios in times of strong price gains and increasing sales ratios in times of price stability overlapped with changes in real income, suggesting households' borrowing capacity shrunk, leading to overvaluation in the homeownership market. But, more importantly, it points to households being priced out of these markets when price growth was accelerating. The changing conditions of the South End and the West End are also the first areas where we observed the indicators creeping into balanced and buyers' conditions.

Figure 5



Source: MLS is a registered trademark of CREA (Canadian Real Estate Association)

Figure 6



Source: MLS is a registered trademark of CREA (Canadian Real Estate Association), CMHC calculations

[10] MLS is a registered trademark of CREA (Canadian Real Estate Association)

A second key observation is an extension and reversal of the first one. The neighbourhood of Spryfield, which has historically been one of the most affordable of the Halifax market, had a sales ratio that remained stable between 2000 and 2009. The rising borrowing capacity during that same period did not materialize in price growth exceeding market averages. Prices increased in Spryfield too, but not to the same extent as in other areas. Not until 2008 did Spryfield show outperformance in both price and sales ratio compared to all neighbourhoods in Halifax. While most of Halifax had been in a buyers' market, growth in Spryfield continued apace, thereby contributing to closing the gap. As a result, while the market as a whole showed growing signs of overvaluation, Spryfield remained relatively undervalued until 2008.

While the change in sales ratio in both the South End and West End heralded the beginning of the balanced market, this coincided with a lift off in Spryfield where prices continued to grow and where sellers' condition took root.

Conclusion

Tracking Neighbourhood Changes in Halifax discusses the neighbourhood dynamics shaping the housing cycle in the city over the last fifteen years. In some respect, the observations made here reflect the maturity of the housing market in many mid-sized Canadian cities, where balanced and buyers' conditions become more prevalent. In the case of Halifax, two considerable shocks to the labour market contributed heavily to the deceleration of real estate transactions and activity in new home construction. Employment levels have been gradually increasing since 2009 which has coincided with the stability of the market. In the short-term, buyers' and balanced conditions are likely to remain dominant, as real gains in personal income show marginal gains.

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