

# HOUSING MARKET ASSESSMENT

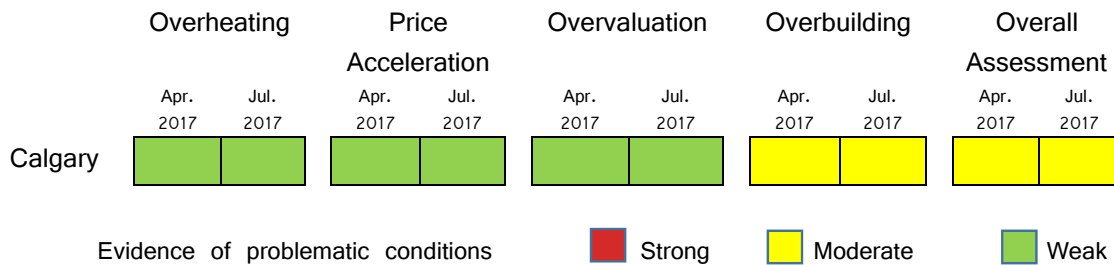
## Calgary CMA

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## Highlights



- The overall assessment for Calgary remained unchanged from the previous assessment remaining at moderate evidence of problematic conditions<sup>1</sup>.
- There was moderate evidence of overbuilding due to a rise in the number of complete and unsold units in inventory, and an elevated apartment rental vacancy rate.
- The assessment for overheating, price acceleration and overvaluation remained at weak evidence of problematic conditions.
- The Housing Market Assessment (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. A brief summary of the framework is presented on page 6 of this report.

## HMA Overview<sup>2</sup>

As Canada's authority on housing, CMHC contributes to market stability by providing information on potential imbalances that could affect housing markets. With the Housing Market Assessment (HMA), CMHC offers information and analysis that can help Canadians make more informed decisions.

The HMA combines the results from a technical framework with insights gained through CMHC's Market Analysts' knowledge of local market conditions. These insights position CMHC to provide additional context and interpretation to the results of the HMA framework.

The HMA framework detects problematic market conditions in local housing markets by identifying imbalances. An example would be the detection of overbuilding, a situation in which the inventory of unsold new homes accumulates due to supply outpacing demand. Such an imbalance could be resolved by an adjustment in house prices. As an example, lower prices would help resolving an excess supply imbalance by supporting stronger demand and/or reducing supply. However, other unexpected developments that do not originate from the housing market could accentuate or reduce an imbalance.

Colour codes indicate the level of evidence of problematic conditions. The HMA is a comprehensive

framework that considers the intensity of signals of imbalances (that is, how far the indicator is from its historical average), and the persistence over time. Generally, low intensity and persistence are associated with potentially weaker evidence of problematic conditions. As the number of intense and persistent signals increases, the associated evidence of problematic conditions becomes stronger.

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<sup>1</sup> Results are based on data as of the end of March 2017 and local market intelligence up to end of June 2017. CMHC continuously monitors market developments and will issue HMA updates on a quarterly basis.

<sup>2</sup> A detailed description of the framework is available in the appendix of the [National edition](#).

## In Detail

### Overheating

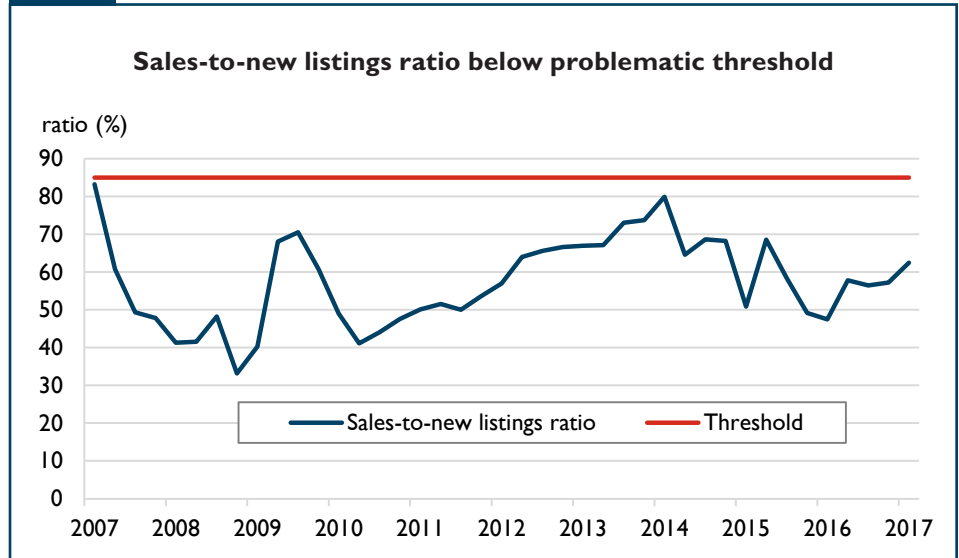
CMHC's HMA framework continued to detect weak evidence of problematic conditions for overheating. The seasonally adjusted sales-to-new listings ratio was 63% in the first quarter of 2017 compared to 57% a quarter earlier. The modest increase in the sales-to-new listings ratio was due to a lift in sales and a decline in new listings. Improvements in consumer confidence and labour market conditions have supported housing demand. MLS® sales on a seasonally adjusted basis reached 6,246 in the first quarter, an 8% increase from 5,775 in the previous quarter. Conversely, seasonally adjusted new listings in the first

*"There continues to be moderate evidence of problematic conditions for overbuilding in Calgary. While the apartment vacancy rate has been elevated, new home inventories per capita have also increased above the problematic threshold. The pace of new home supply entering the market, especially for condominium apartments, has outpaced demand. As a result, inventories have steadily increased over the last couple of years."*



**Richard Cho**  
Principal, Market Analysis (Calgary)  
Prairie and Territories Region

Figure 1



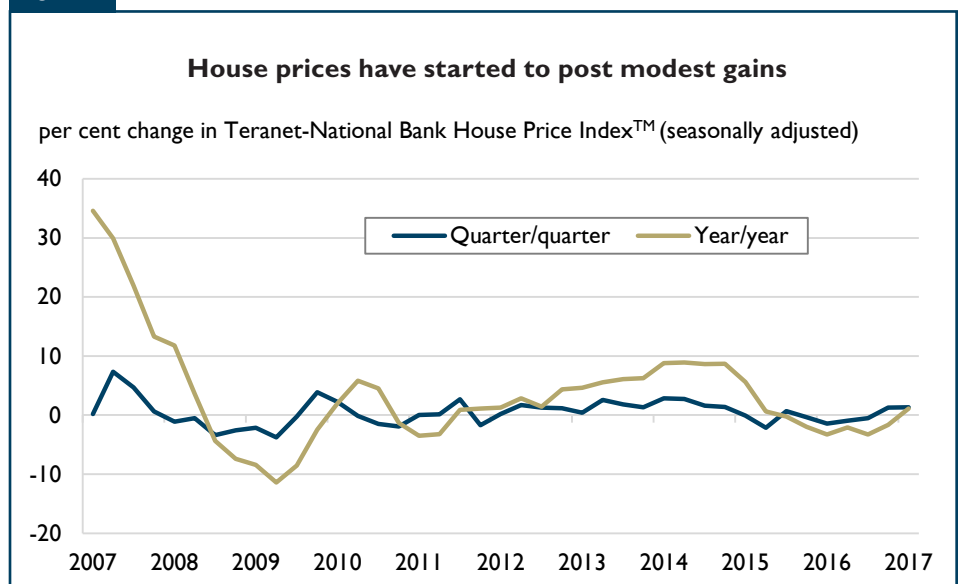
Source: CREA, calculations (threshold) by CMHC  
Last data point: 2017Q1

quarter declined slightly from 10,098 in the fourth quarter of 2016 to 9,993 in the first quarter of 2017. Price growth in Calgary has been relatively weak for the last couple of years as the market largely favoured the buyer. As such, many homeowners have not seen significant equity gains in recent years, affecting the pace of new listings added to the market.

### Price Acceleration

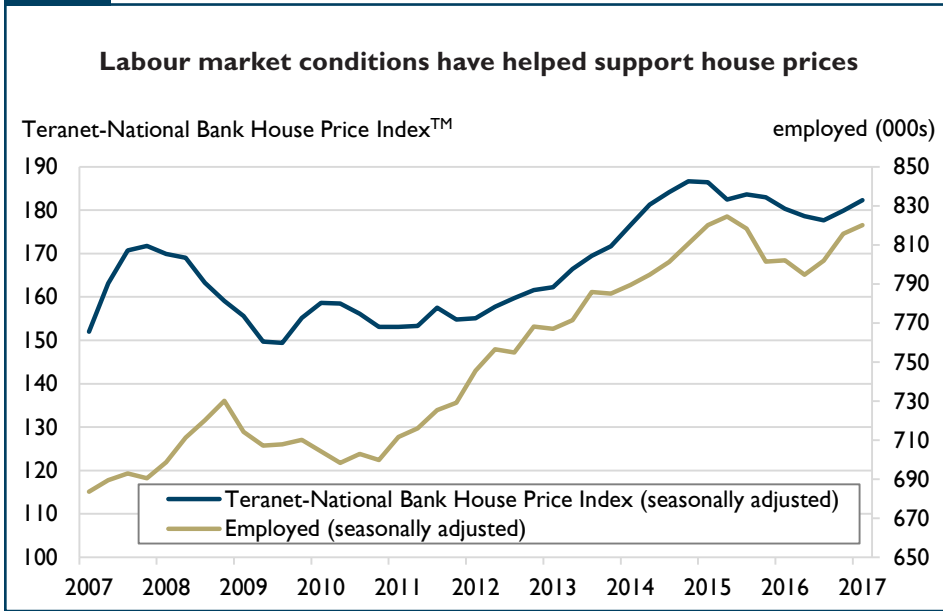
The assessment for price acceleration continued to remain weak in Calgary. The housing market has been gradually shifting closer to balanced conditions, as sales have been trending higher. In addition, the slowdown in new listings has contributed to a decline in supply in the resale market.

Figure 2



Source: Teranet and National Bank, CMHC calculations  
Last data point: 2017Q1

Figure 3



Source: Teranet and National Bank, Statistics Canada  
Last data point: 2017Q1

In the first quarter of 2017, the seasonally adjusted Teranet-National Bank House Price Index™ increased 1.3% from the fourth quarter of 2016. This is the second consecutive quarter where the index increased on a quarterly basis. While prices have started to stabilize for single-detached homes, the demand-supply balance is weaker among apartments due to an elevated inventory in the new home market. House prices in the single-family market, where supply levels have not increased substantially, will start to make positive gains before the row and apartment segments.

## Overvaluation

In CMHC's HMA Framework, there is weak evidence of problematic conditions for overvaluation. Labour market conditions have been gradually improving, supporting the modest uptick in housing demand. In the first quarter, employment on a seasonally adjusted basis increased from the previous quarter and was up 2% from the same period a year earlier. The increase in employment has

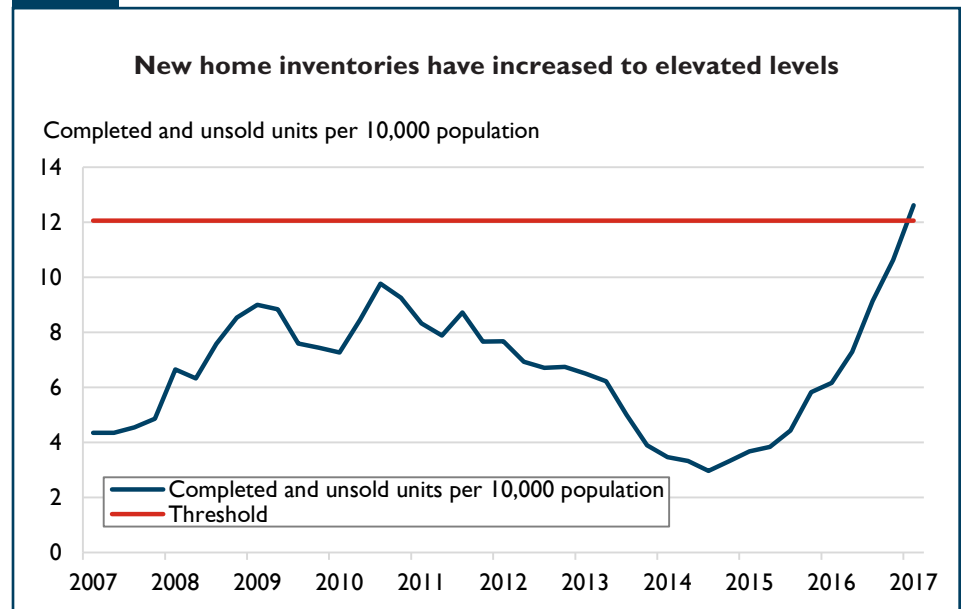
also put some downward pressure on the unemployment rate. The seasonally adjusted unemployment rate in the first quarter of 2017 was 9.3% compared to 10.1% in the fourth quarter of 2016. While elevated unemployment rates have put a lid on

income growth, income levels have managed to hold their ground and were up slightly from 2016.

## Overbuilding

The number of complete and unsold units in inventory per capita, and the rental apartment vacancy rate have surpassed the problematic threshold in Calgary. New home inventories exceeded 2,000 units in March 2017, well above the 2007-2016 monthly average of 831 units. While inventories increased in all dwelling types, the most pronounced gain was in the apartment segment. In March 2017, apartment inventories (ownership tenure) reached 1,184 units, compared to 322 units in the same month a year earlier. Prior to the economic slowdown, numerous apartment projects had broken ground, pushing the number of units under construction up to elevated levels. Many of the spec units that were completed during the last couple of years were left unsold as housing demand was impacted by weaker economic conditions.

Figure 4



Source: Statistics Canada and CMHC  
Last data point: 2017Q1

The rental apartment vacancy rate in October 2016 increased to 7%, up from 5.3% in October 2015.

The rental apartment universe in the purpose-built market rose nearly 1,300 units contributing to the rise in the vacancy rate.

Furthermore, investor owned rental units in the secondary rental market continued to expand as more apartment condominiums completed construction.

## Overview of the Housing Market Assessment 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 Housing Market Assessment (HMA) analytical framework provides a comprehensive and integrated view that relies on a combination of signals from several indicators to assess housing market conditions.

Specifically, the framework considers four main factors that may provide an early indication of potentially problematic housing market conditions: (1) overheating when demand outpaces supply; (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 inventory of available housing units is elevated.

For each factor, 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 their magnitude compares with their historical average or how consistent they are with known or suspected house price bubbles, such as for Toronto in the late 1980s and early 1990s; and, (3) the persistence of signals over time.

Generally, a situation in which we detect 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.

The framework takes into account demographic, economic, and financial determinants of the housing market such as population, personal disposable income, and interest rates to detect potentially problematic housing market conditions. 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 have not changed.



## Housing Market Assessment Factors

### Overheating

Overheating is caused by demand significantly and persistently outpacing the supply of housing. The sales-to-new listings ratio is used as an indicator to assess possible overheating conditions in the existing home market. To identify problematic overheating conditions, the framework compares the sales-to-new listings ratio to thresholds. When demand is strong relative to supply, house prices typically grow at a faster rate. Sustained overheating conditions on the existing home market may lead to acceleration in house prices for existing and new homes. However, as supply and demand begin to balance out, indicators of overheating (and acceleration) would begin to soften and house prices would gradually moderate.

### Acceleration in House Prices

Under balanced market conditions, house prices are expected to increase over time, in line with increases in households' cost of

living. House price acceleration occurs when the growth in house prices strengthens over time on a persistent basis. Acceleration in house prices over an extended period can cause their pace of increase to depart from the overall price inflation and eventually lead to overvaluation.

To assess acceleration in house prices, the HMA framework uses a statistical test\* that was developed to identify periods of accelerating asset prices.

### Overvaluation

Overvaluation is detected when house prices remain significantly above the levels warranted by fundamental drivers of housing markets such as income, population, and actual and expected financing costs.

The HMA framework uses combinations of different house price measures and models to estimate house price levels warranted by fundamental drivers.

The difference between observed house prices and their estimated levels consistent with housing market fundamentals allows for an estimation of the degree of over- and undervaluation. The use of different price measures and models improves the reliability of results.

### Overbuilding

Overbuilding is detected when the supply of readily available housing units significantly exceeds demand. In such a context, downward pressure on house prices would occur until the excess supply is eventually absorbed.

To assess overbuilding conditions in the housing market, the HMA framework uses two indicators that relate to the supply of readily available housing units: the rental vacancy rate, and the inventory of completed and unsold housing units per 10,000 population. The HMA framework compares the current level and recent trends in these indicators with thresholds.

**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.

\* See Phillips, Wu and Yu (2008) "Explosive Behaviour in the 1990s NASDAQ When Did Exuberance Escalate Asset Values?" for further details on the methodology.

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