

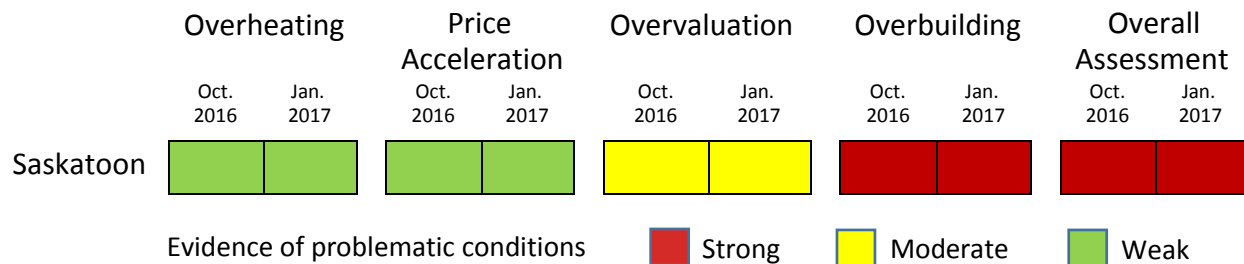
# HOUSING MARKET ASSESSMENT Saskatoon CMA

Date Released: First Quarter 2017



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## Highlights



- CMHC's Housing Market Assessment (HMA) framework continued to detect strong evidence of problematic conditions for the Saskatoon Census Metropolitan Area (CMA) housing market.<sup>1</sup>
- Moderate overvaluation was detected as observed house prices in the Saskatoon CMA remain higher than warranted by fundamental factors such as employment and income growth.
- A record high rental vacancy rate contributed to strong evidence of overbuilding. As well, the inventory of completed and unsold units remained significantly above its historical threshold, in large part due to the multiples sector.
- Evidence of overheating and price acceleration remained weak and unchanged from the previous assessment.
- 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. 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 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

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<sup>1</sup> Results are based on data as of the end of September 2016 and local market intelligence up to end of December 2016. 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](#).

(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.

## In detail

### Evidence of overheating remains weak

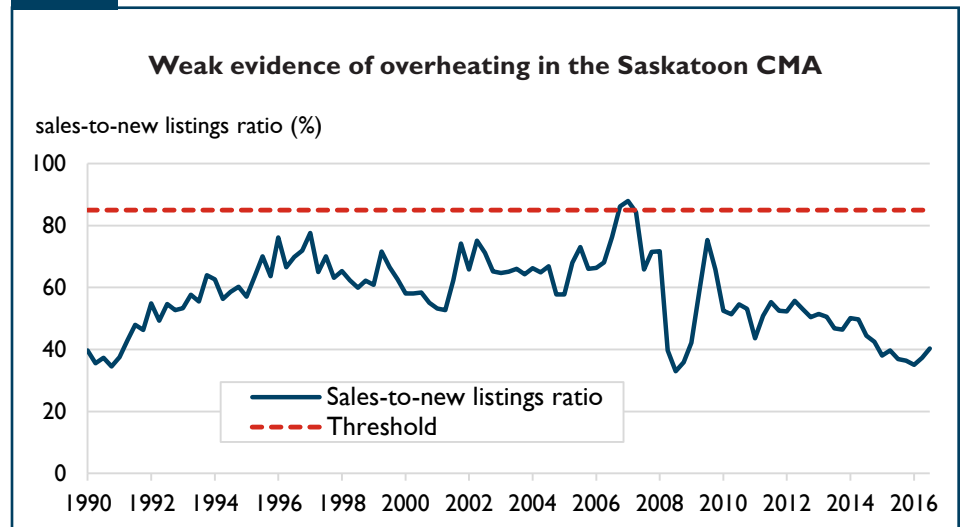
The HMA framework continued to detect weak evidence of overheating in Saskatoon's housing market. Slowing economic activity, job losses and a high unemployment rate have significantly reduced housing demand.

*"The evidence of overvaluation was unchanged in the Saskatoon housing market. Recent downward price adjustments have been countered by weak economic and labour market conditions, including a decline in personal disposable income. Strong evidence of overbuilding continued to be detected due to a record high rental vacancy rate and elevated new home inventory, particularly within the multi-family sector."*



**Goodson Mwale**  
Senior Market Analyst  
(Saskatchewan)

Figure 1



Source: CREA (seasonally adjusted), calculations (threshold) by CMHC  
Last data point: 2016Q3

The seasonally-adjusted sales-to-new listings ratio (SNLR) moved up slightly in Q3 2016 to 40 per cent from 37 per cent in Q2 2016, after new listings declined faster than sales. Recent house price declines and the current weak economic environment have prompted some sellers to delayed listing their homes until market conditions improve. All told, the third quarter SNLR was significantly below the framework's problematic threshold of 85 per cent (figure 1).

Single-detached home sales in geographic areas 1-5<sup>3</sup> were much lower in the third quarter than in the second quarter of 2016. Inventories of existing single-family homes for sale moved higher to nearly five months of supply from just over four months in the previous quarter. In the condominium segment, market

balance continued to favour buyers. Inventories of condominium units for sale on the Multiple Listing Service® (MLS®) stood at nine months of supply in Q3 2016, relatively unchanged from Q2 2016.

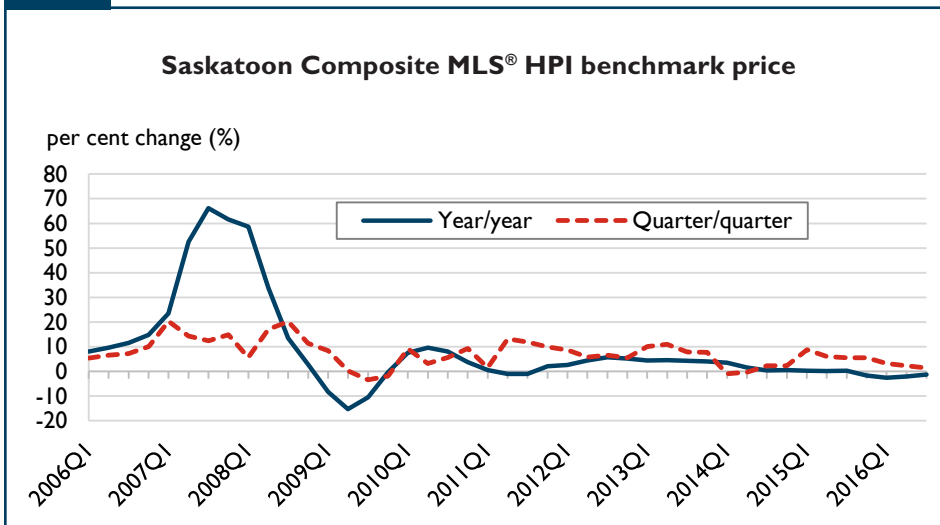
### Weak evidence of acceleration in the growth of house prices

As in the previous assessment, Saskatoon's housing market continued to show weak evidence of acceleration in the growth of house prices. Saskatoon's seasonally-adjusted average MLS® price moved up slightly to just over \$340,000 in Q3 2016 from the previous quarter. Similarly, the composite MLS® HPI benchmark price<sup>4</sup> edged up to \$308,300 in Q3 2016 from \$306,500 in Q2 2016, but was still down

<sup>3</sup> The Saskatoon residential market is divided into five geographic areas on the Multiple Listing Service®. All home sales and listings in the City of Saskatoon are located within these areas one through five.

<sup>4</sup> This measure tracks the price of homes with common features, and is therefore is not subject to the limitations of average prices which can be skewed by extreme high or low values.

Figure 2



Source: CREA  
Last data point: 2016Q3

1.25 per cent from the same quarter a year ago. On a year-over-year basis, the benchmark price has declined in every quarter since Q4 2015 (figure 2).

In Q3 2016, the MLS® HPI benchmark price for both single-detached and condominium apartment units also increased marginally from the previous quarter but decreased 0.5 and 6.4 per cent from Q3 2015, respectively. This represented the fourth consecutive quarter during which prices in both segments of the market have declined on a year-over-year basis.

## Moderate evidence of overvaluation

The HMA framework continues to detect moderate evidence of overvaluation in Saskatoon's housing market. Recent downward price adjustments have been offset by a decline in employment and personal disposable income. On a seasonally-adjusted basis, Saskatoon's labour market lost a total of 1,200 jobs across various industries from January

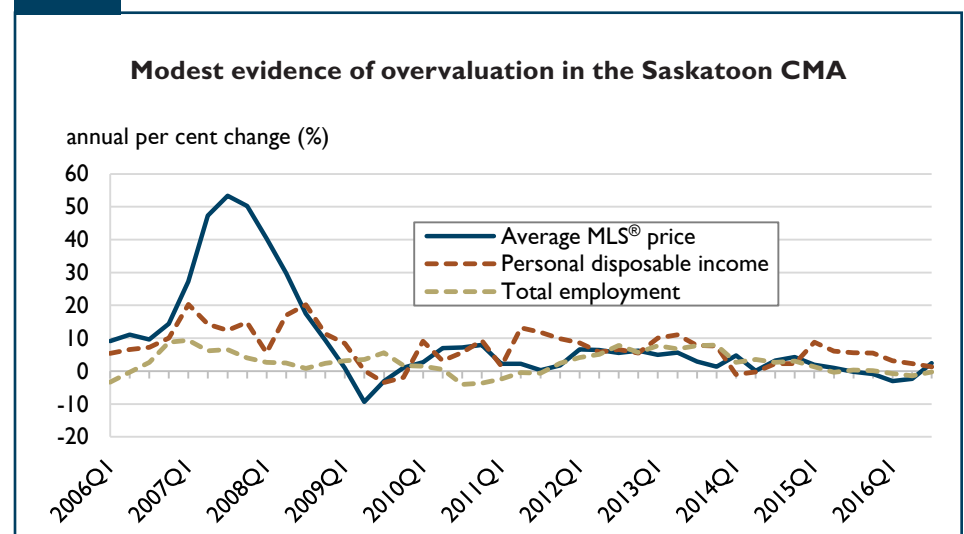
through September 2016. In the third quarter, the seasonally-adjusted unemployment rate was around 6.9 per cent, while real personal disposable income declined for a second consecutive quarter, and was down 2.23 per cent from the same quarter one year prior.

Apart from the 2006-2008 period when house prices in Saskatoon increased significantly, they have in more recent years remained relatively stable to lower. On the other hand, the current economic downturn has resulted in a decline in total employment over the past couple of years, while growth in personal disposable income has continued to slow since Q1 2015. Moving forward, the assessment of moderate overvaluation could be resolved either by further slowdown in price growth or a pickup in employment and income, or a combination of both (figure 3).

## Strong evidence of overbuilding

The assessment for overbuilding examines both the apartment vacancy rate and the number of completed and unsold units relative to population. The HMA framework continued to detect strong evidence of overbuilding in the Saskatoon housing market. In October 2016,

Figure 3

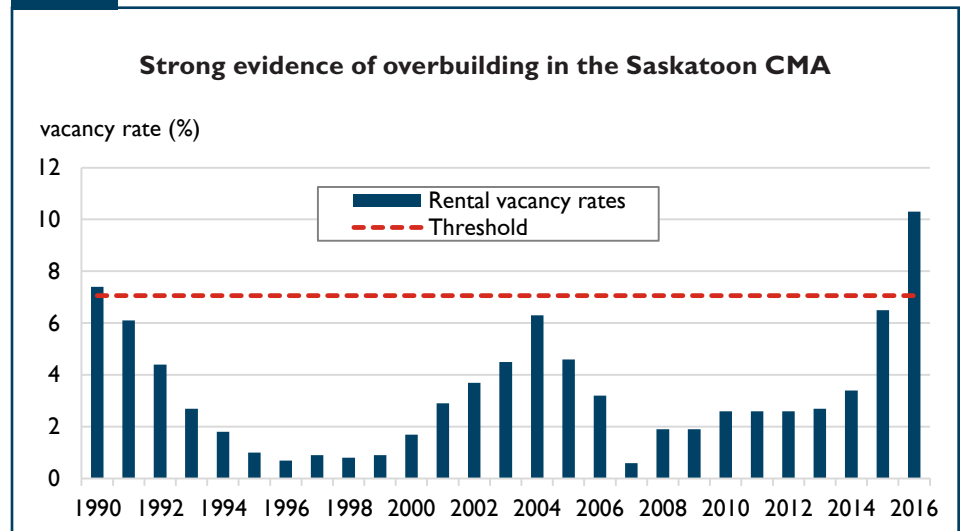


Source: CREA, The Conference Board of Canada, Statistics Canada  
Last data point: 2016Q3

the apartment rental vacancy rate in the Saskatoon CMA rose to a record 10.3 per cent, significantly above the long-term vacancy rate threshold of 7.1 per cent for overbuilding.<sup>5</sup> A combination of weaker rental demand and an increase in rental supply pushed the vacancy rate higher in 2016 (figure 4).

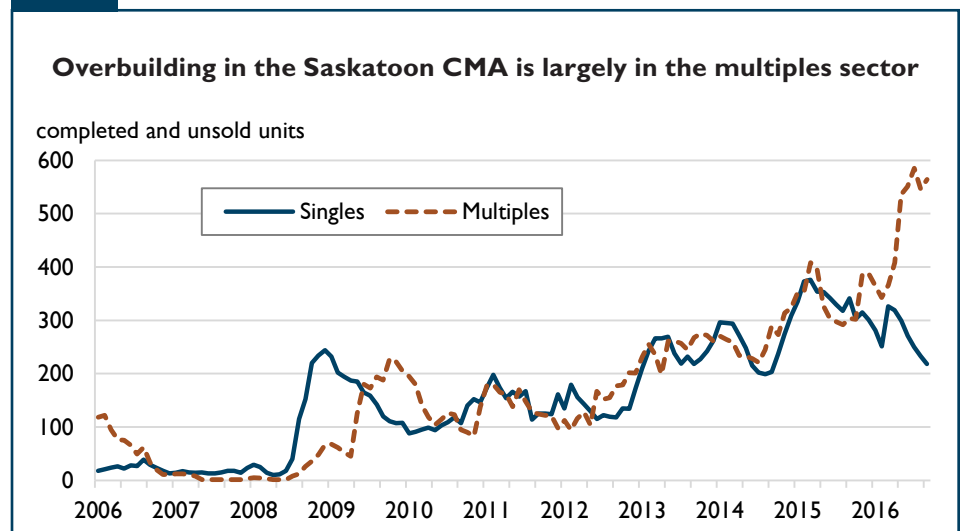
In addition, the number of total completed and unsold units relative to population remained significantly above the HMA framework's long-term overbuilding threshold in Q3 2016. This reflects a market where demand has not kept pace with supply due to weak economic and labour market conditions. Much of this overbuilding is in the multiples sector where a large portion of row housing and apartment condominiums were yet to be absorbed by the market. This is particularly the case in neighbourhoods to the northeast of the City of Saskatoon. Meanwhile, single-detached inventory continued to decline in Q3 2016 from the previous quarter, having peaked in early 2015 (figure 5).

Figure 4



Source: CMHC  
Last data point: 2016

Figure 5



Source: CMHC  
Last data point: September 2016

<sup>5</sup> The threshold is fixed at the 90th percentile of the empirical distribution of vacancy rate or of a normally distributed vacancy rate. Therefore, every time a new vacancy rate is added to the sample, the threshold would also change.

## 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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