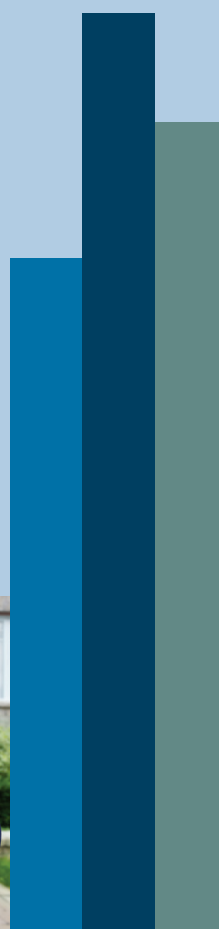


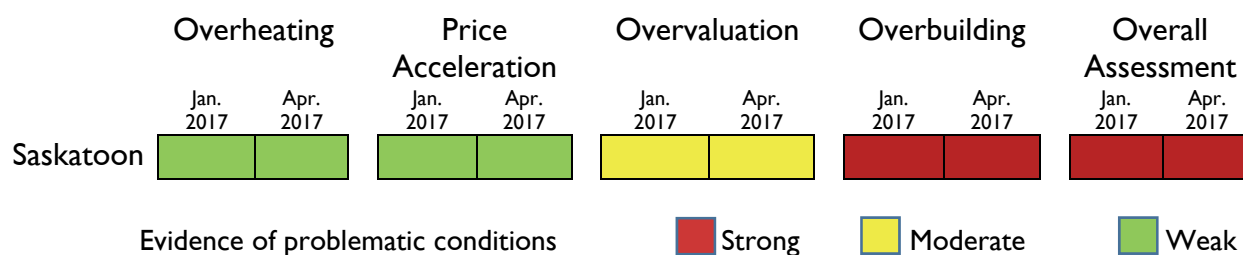
HOUSING MARKET ASSESSMENT Saskatoon CMA

Date Released: Second Quarter 2017



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Highlights



- The framework's overall assessment of Saskatoon's housing market continued to show strong evidence of problematic conditions.¹
- Declining price trends and increased demographic growth have lowered the degree of overvaluation, but not sufficiently to warrant a change in assessment.
- Factors such as overheating and acceleration in the growth of house prices continued to show weak evidence of problematic conditions.
- Strong evidence of overbuilding continued to be detected. High levels of new housing inventory, particularly in the multi-family sector, remained above the long-term threshold. As well, the rental vacancy rate is above the critical threshold.
- 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 Overview²

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.

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¹ Results are based on data as of the end of December 2016 and local market intelligence up to end of March 2017. CMHC continuously monitors market developments and will issue HMA updates on a quarterly basis.

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

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.

In detail

Weak evidence of overheating

CMHC's HMA framework continued to show weak evidence of overheating in the Saskatoon housing market.

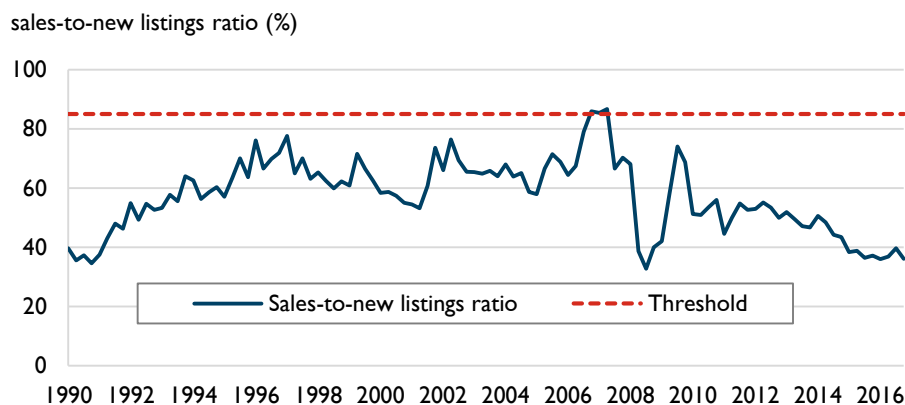
"The overall assessment of the Saskatoon housing market remains unchanged. Moderate evidence of overvaluation was detected in the fourth quarter of 2016. The framework also continued to detect strong evidence of overbuilding, in large part due to the multiples sector. Saskatoon's rental vacancy rate was also above the critical threshold."



Goodson Mwale
Senior Market Analyst
(Saskatchewan)

Figure 1

Evidence of overheating in the Saskatoon housing market remains weak



Source: CREA (seasonally adjusted), calculations (threshold) by CMHC
Last data point: 2016Q4

The seasonally adjusted sales-to-new-listings ratio (SNLR), which compares the number of units being sold to new listings entering the market, declined to 36 per cent in the fourth quarter of 2016, from 40 per cent in the third quarter. The SNLR was also significantly below the threshold consistent with an overheating market, which is at 85 per cent.

Seasonally adjusted sales remained relatively stable compared to the previous quarter, as the weakened economic environment continued to impact housing demand throughout 2016. On the other hand, seasonally adjusted new listings increased from the previous quarter. All told, resale market conditions in Saskatoon's broader market continued to favour buyers in the fourth quarter of 2016.

Weak evidence of price acceleration

There continued to be weak evidence of price acceleration in the Saskatoon housing market. After posting gains in the previous quarter, the seasonally adjusted average MLS^{®3} price declined 2.8 per cent to \$335,463 in the fourth quarter of 2016. Additionally, the MLS[®] HPI composite benchmark price⁴ for Saskatoon moved lower in the fourth quarter to \$302,000 from the preceding quarter. This also represented a 1.3 per cent decrease from the same period one year prior. While the average of Statistics Canada's total New Housing Price Index⁵ was relatively unchanged from the third quarter, it was down 1.8 per cent in the final quarter of 2016 from the same period a year earlier.

² MLS[®] is a registered trademark of the Canadian Real Estate Association (CREA).

³ Source: CREA. The MLS[®] HPI is based on a hybrid model that merges Repeat-Sales and Hedonic Price approaches, and reflects the contribution made by various quantitative and qualitative housing features toward the home price.

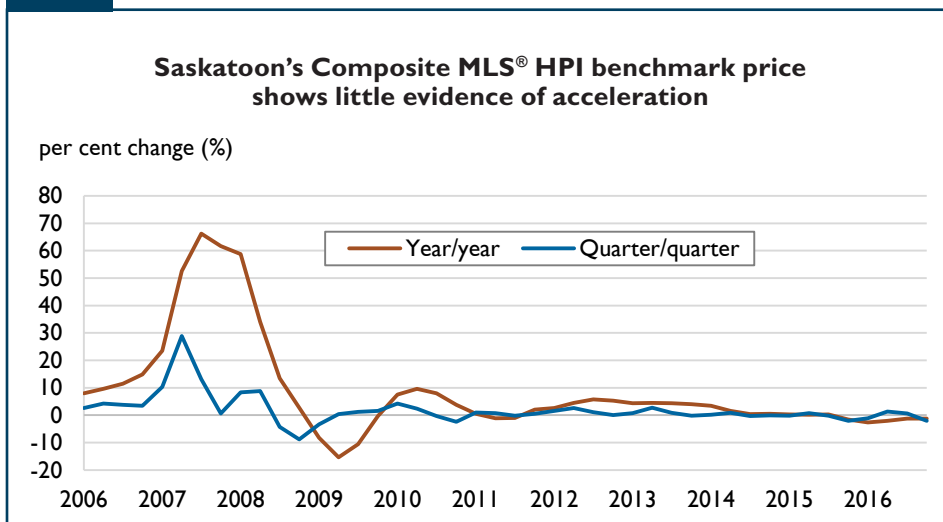
⁵ Source: Statistics Canada, CANSIM, table 327-0046.

Within the MLS® HPI benchmark price sub-categories, townhouses represented the largest quarterly decrease, down three per cent to \$257,100 in the fourth quarter. Despite the decrease, townhouses were the only sub-category to show a year-over-year gain in the benchmark price in Q4 2016. Meanwhile, single detached and apartment units saw their MLS® HPI benchmark prices decrease to \$319,800 and \$201,800, respectively, in the fourth quarter from the third quarter. Benchmark prices for both categories were also down on year-over-year basis.

Moderate evidence of overvaluation

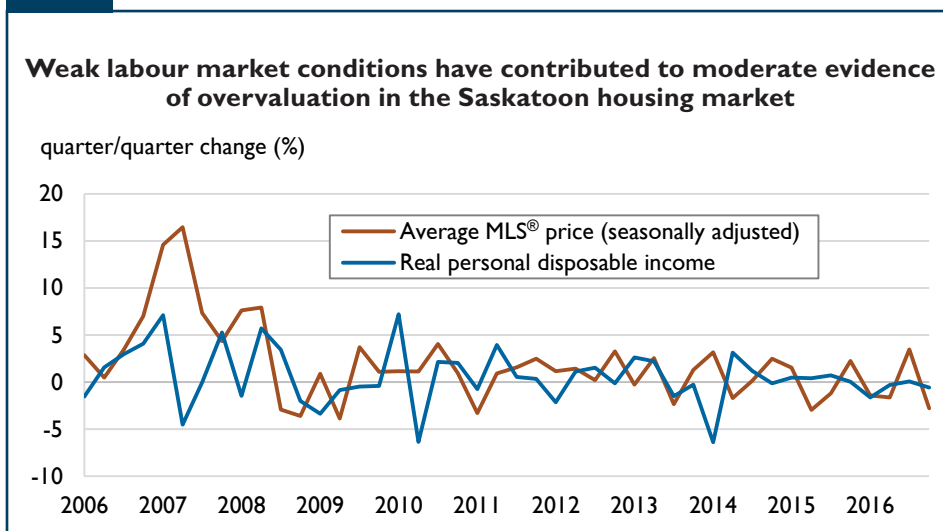
The combination of strong demographic growth and declining price trends has lowered the degree of overvaluation, but not by enough to warrant a change in assessment. Saskatoon's young adult population, aged 25-34, increased in the fourth quarter from the third quarter, and was 5.1 per cent higher than in Q4 2015. However, the increase in population was mitigated by declines in employment during the fourth quarter, which brought the total number of jobs lost in 2016 to 1,400 positions. In addition, the further decline in real disposable income in Q4 2016 was reflective of continued weakness in Saskatoon's labour market conditions. As such, moderate evidence of overvaluation was maintained in the current release.

Figure 2



Source: CREA
Last data point: 2016Q4

Figure 3

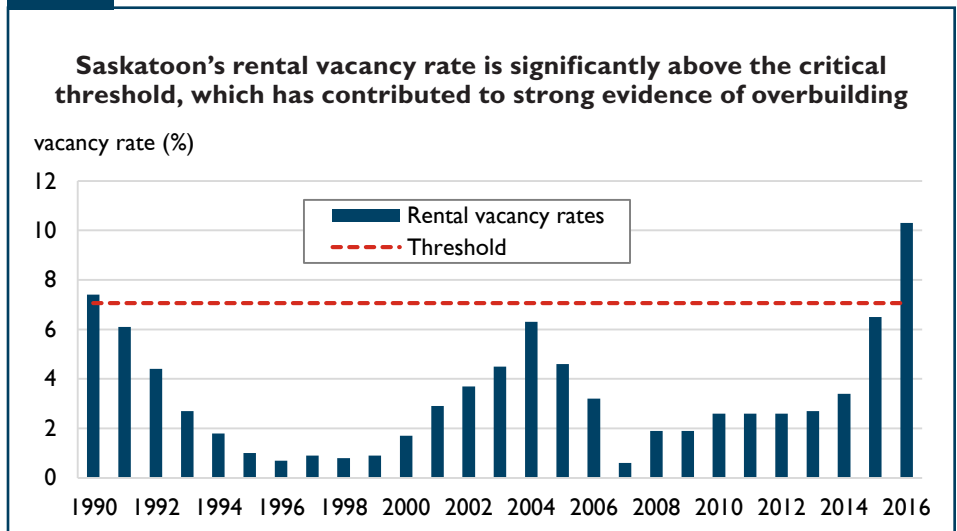


Source: CREA, The Conference Board of Canada, CMHC calculations
Last data point: 2016Q4

Strong evidence of overbuilding

The framework continued to detect strong evidence of overbuilding in Saskatoon's housing market. For one, the apartment vacancy rate, at 10.3 per cent in October 2016, is well above the long-term threshold of 7.1 per cent.⁶ As well, the number of completed and unabsorbed units per 10,000 people was above historical averages. As in previous quarters, much of the unsold inventory continues to be accumulated in the multi-family sector, primarily in row housing and condominium apartments.

Figure 4



Source: CMHC
Last data point: 2016

⁶ 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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