HOUSING MARKET ASSESSMENT
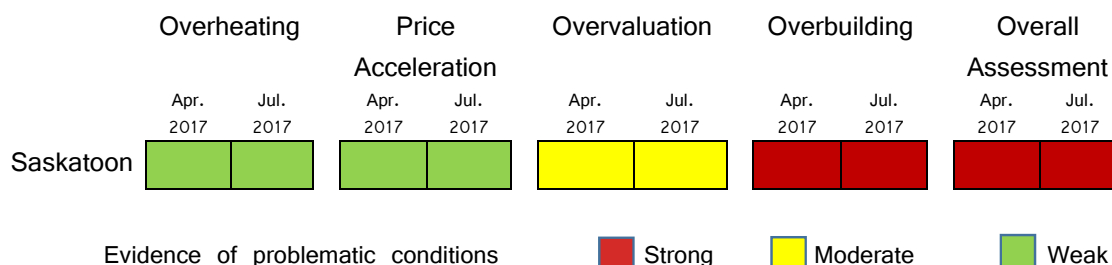## Saskatoon CMA

Date Released: Third Quarter 2017

Housing market intelligence you can count on

Canada

CMHC ❖ SCHL

Highlights

	Overheating		Price Acceleration		Overvaluation		Overbuilding		Overall Assessment	
	Apr. 2017	Jul. 2017	Apr. 2017	Jul. 2017	Apr. 2017	Jul. 2017	Apr. 2017	Jul. 2017	Apr. 2017	Jul. 2017
Saskatoon	Weak	Weak	Weak	Weak	Moderate	Moderate	Strong	Strong	Strong	Strong

Evidence of problematic conditions   ■ Strong   ■ Moderate   ■ Weak

- No change to the overall assessment of strong evidence of problematic conditions in Saskatoon's housing market.[1]

- Moderate evidence of overvaluation was still detected despite recent declines in house prices.

- Factors such as overheating and acceleration in the growth of house prices continued to show weak evidence of problematic conditions.

- The framework's strong evidence of overbuilding was maintained due to elevated inventory of new housing units in the multiples sector and a high rental apartment vacancy rate.

- 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[2]

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 (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.

[1] 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.

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

In detail

Weak evidence of overheating

We continue to detect weak evidence of overheating in the Saskatoon housing market. The seasonally adjusted sales-to-new-listings ratio (SNLR), an indicator of the balance between demand and supply, was unchanged from the previous quarter at 36% in Q1 2017. The level in the SNLR was not only indicative of a market in which the supply of resale homes has outpaced homebuyer demand, but it also remained significantly below the framework's threshold of 85%, consistent with overheating.

> "The assessment of moderate evidence of overvaluation in house prices was maintained. As well, the elevated level of inventory in the multiples sector in the first quarter of 2017 continued to highlight strong evidence of overbuilding in Saskatoon's new home market."

Goodson Mwale
Senior Market Analyst
(Saskatchewan)

Evidence of overheating remains weak

sales-to-new listings ratio (%)
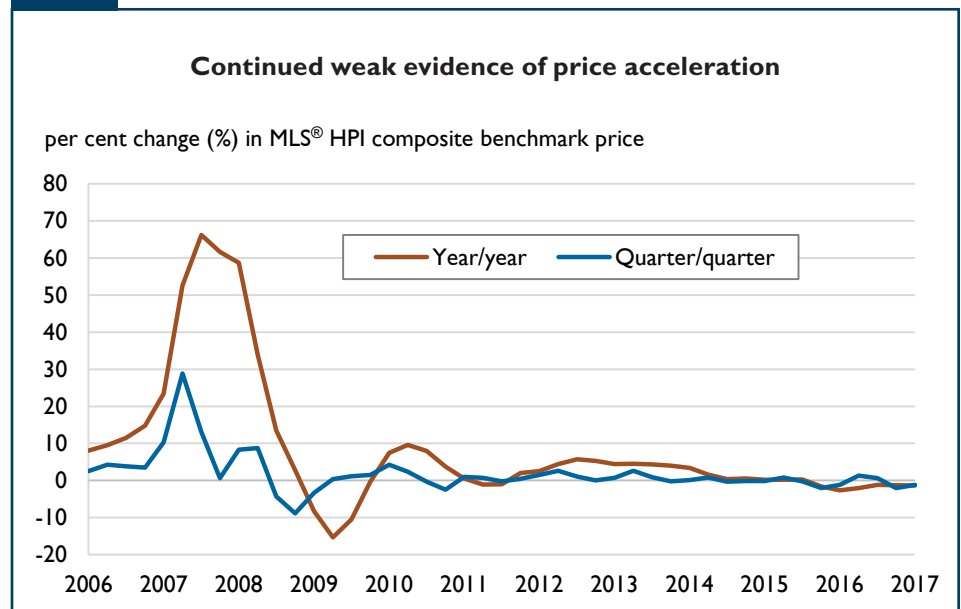

Sales-to-new listings ratio
Threshold
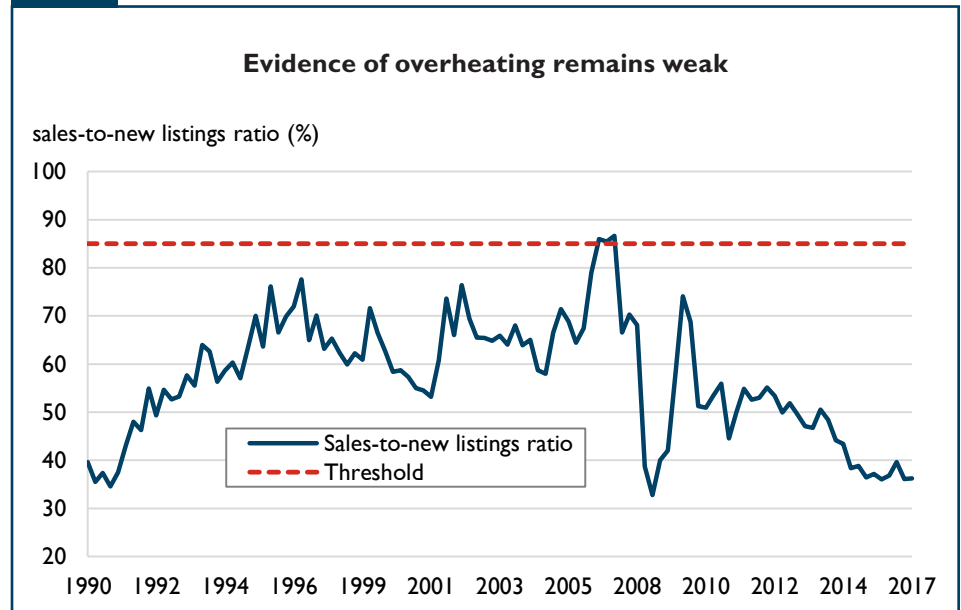
Source: CREA (seasonally adjusted), calculations (threshold) by CMHC
Last data point: 2017Q1

Resale demand in Saskatoon's overall market declined in Q1 2017, with seasonally adjusted MLS®[3] home sales totalling 1,172 units, compared to 1,207 units in the preceding quarter.

Meanwhile, new listings trended higher over the same period, thus prolonging market conditions that were largely in favour of homebuyers.

Figure 2

Continued weak evidence of price acceleration

per cent change (%) in MLS® HPI composite benchmark price

Year/year   Quarter/quarter

Source: CREA, CMHC calculations
Last data point: 2017Q1

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

Weak evidence of price acceleration

The framework continued to detect weak evidence of price acceleration in Saskatoon's resale market. Sustained buyer's market conditions have continued to put downward pressure on home prices. While the seasonally adjusted average MLS® price increased modestly to $338,443 in Q1 2017 from $335,463 in Q4 2016, other measures such as the MLS® HPI composite benchmark price[4] moved lower from the previous quarter. At $298,400, this represented a 1.3% decline from the same period one year prior. In addition, Statistics Canada's seasonally adjusted total New Housing Price Index (NHPI)[5] was unchanged in Q1 2017 from the preceding quarter.
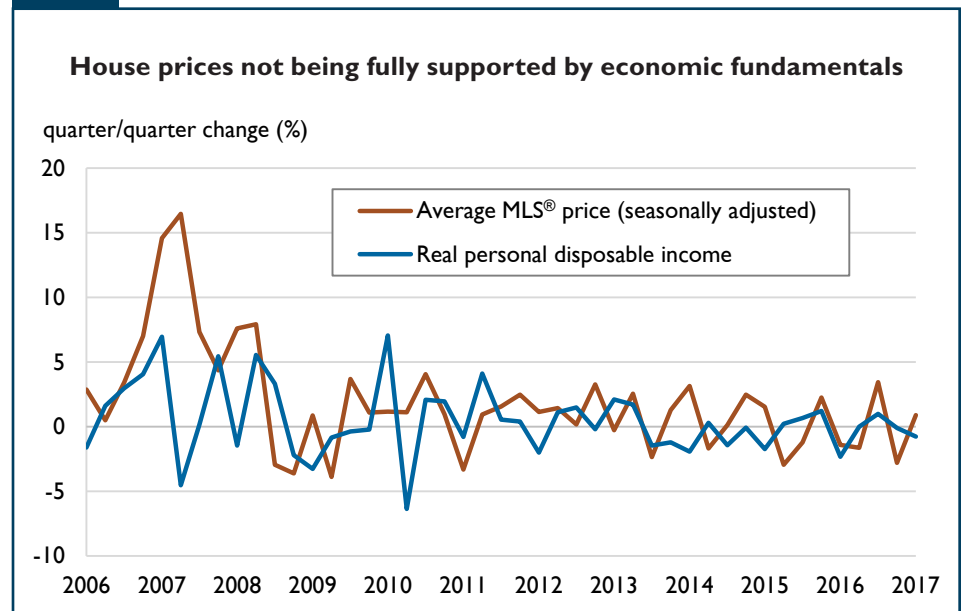
Within sub-categories, the MLS® HPI benchmark prices for single family, townhouses and apartments all declined in Q1 2017 from the preceding quarter and from the same period of 2016. This was the second consecutive quarter that prices declined in all three categories. On a year-over-year basis, resale apartments continued to register the largest price decline due in part to the impact of elevated apartment inventory in the new home market.

Moderate evidence of overvaluation

The assessment of moderate evidence of overvaluation in house prices is unchanged from the previous release. While declining price trends and strong demographic growth have somewhat lowered the degree of overvaluation, other mitigating factors require that we continue to monitor this market before changing our assessment. For one, the rate of growth in Saskatoon's young adult

population, aged 25-34, slowed to 4.4% in the first quarter of 2017 from 5.1% in the fourth quarter of 2016. In addition, real disposable income declined by nearly one per cent in Q1 2017 from the preceding quarter. While there were early signs that employment was beginning to recover, with the addition of 1,900 full-time jobs in Q1 2017, a gap between observed house prices and those estimated from economic and demographic fundamentals still exists.

Figure 3

House prices not being fully supported by economic fundamentals

quarter/quarter change (%)

Legend:
- Average MLS® price (seasonally adjusted)
- Real personal disposable income

Source: CREA, The Conference Board of Canada, CMHC calculations
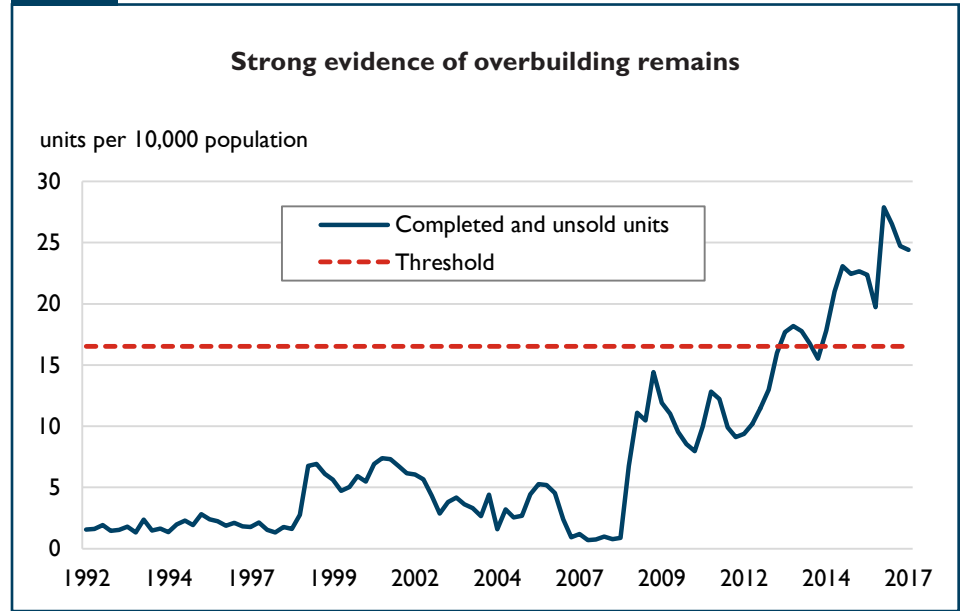Last data point: 2017Q1

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[4] 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.

Strong evidence of overbuilding

CMHC's HMA framework assesses overbuilding by examining the level of per capita new housing inventory and the purpose-built rental vacancy rate against their relative long-term thresholds. Accordingly, the framework continued to detect strong evidence of overbuilding in Saskatoon's housing market. The overall number of completed and unsold units per 10,000 people remained above historical averages. This was largely due to the multiples sector where inventory levels for ownership apartment units remain elevated. As well, Saskatoon's purpose-built rental apartment vacancy rate was significantly above its critical threshold. Therefore, the assessment of strong evidence of overbuilding was maintained in the current release.

Figure 4

Strong evidence of overbuilding remains

units per 10,000 population

Source: CMHC
Last data point: 2017Q1

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.

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* 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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