

HOUSING MARKET ASSESSMENT

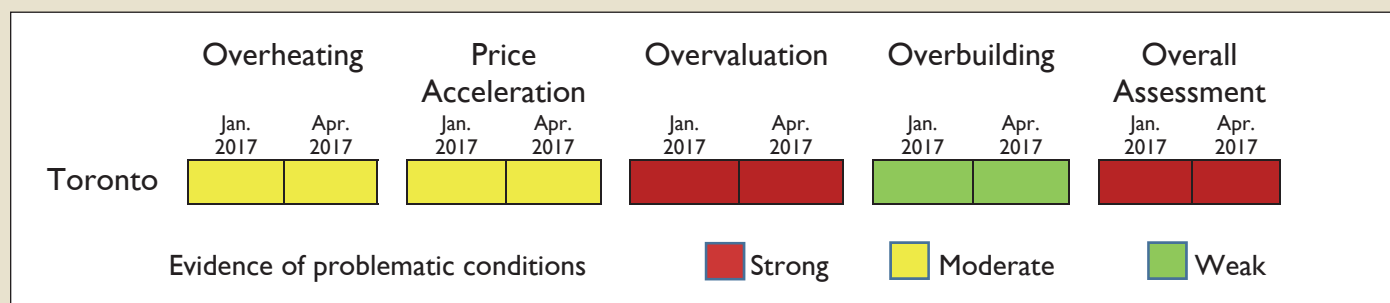
Greater Toronto Area

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Housing market intelligence you can count on

Highlights



- Recent results from the Housing Market Assessment indicated strong evidence of problematic conditions in the Toronto CMA¹.
- We detected moderate evidence of overheating and price acceleration, and strong evidence of overvaluation.
- We detected weak evidence of overbuilding, as the inventory of completed and unsold units remained low in Q4 2016.
- 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 7 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 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 development 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 potential 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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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](#).

In Detail

Overheating

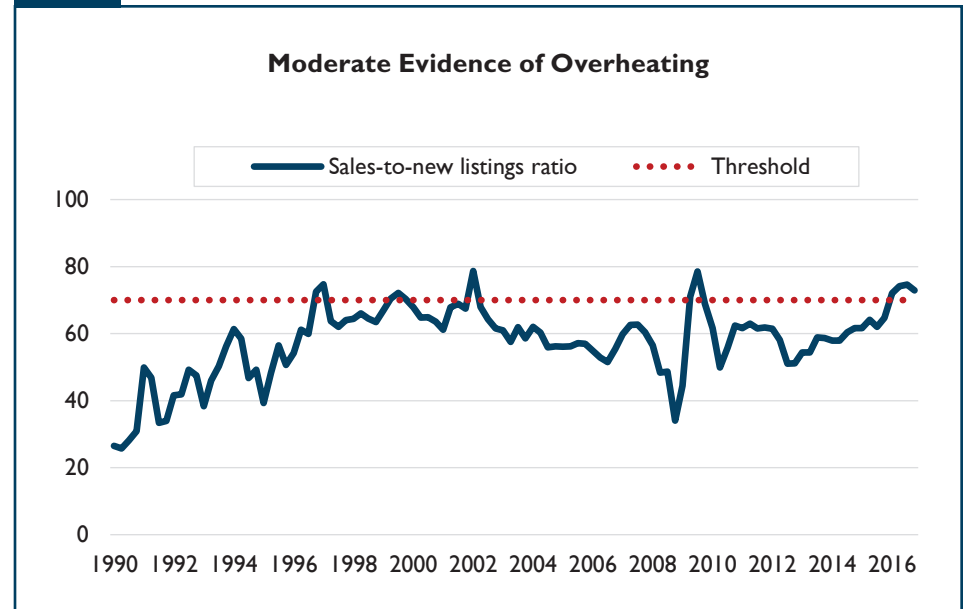
In Q4 2016, we detected moderate evidence of overheating. The seasonally adjusted sales-to-new listings ratio (SNLR) was 73 per cent, down slightly from the third quarter. This was the fourth consecutive quarter that the ratio was above our threshold of 70 per cent – the level at which we detect problematic conditions.

Throughout 2016, sales continued to rise while the supply of new listings decreased. This indicated that there were more buyers chasing fewer new listings, thus driving the number of active listings (or those available for sale at the end of the month) to new lows. As of March 2017, the number of active listings dropped by 35.2 per cent compared to the same time last year. This led to

price bidding wars, resulting in the average sale price often exceeding list price (see Figure 2). The ratio of the average sale price to average list

price surged to a seasonally adjusted 110 per cent, and was even higher in suburban markets such as York and Durham regions.

Figure 1



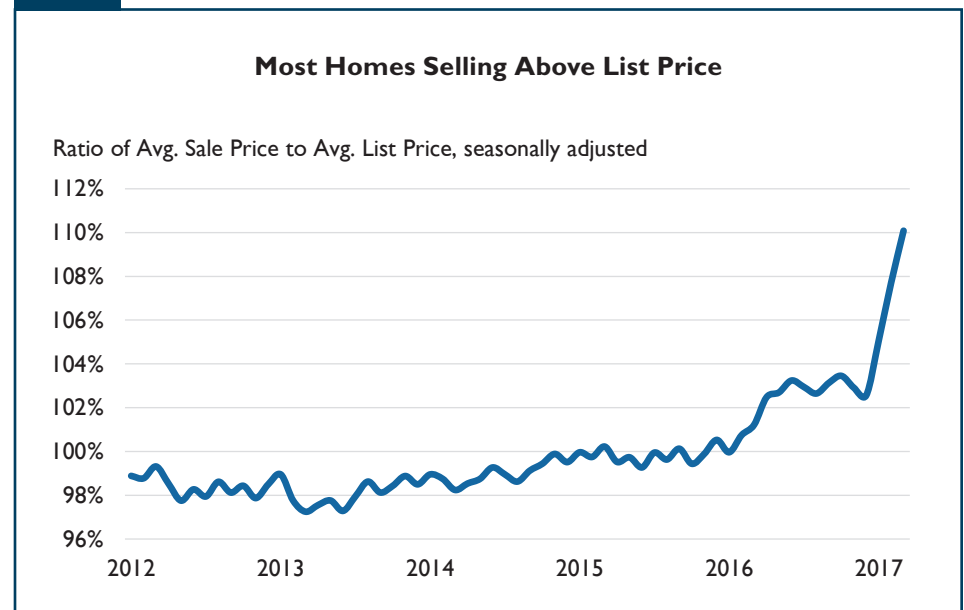
Sources: CREA and calculations (threshold) by CMHC
Last data point: 2016Q4

“Rapid growth in house prices above rates warranted by economic and demographic fundamentals such as income and population growth has meant the continued detection of problematic conditions in the Toronto CMA housing market.”



Dana Senagama,
Principal, Market Analysis (GTA)

Figure 2



Source: TREB, CMHC calculations
Last data point: March 2017

Recent data showed that the SNLR varied by dwelling type and region (see Table 1). This ratio remains elevated, but the condominium apartment market had the highest SNLR at 82 per cent. Much of this market tightening for condominium apartments was due to a sizable drop in the number of new listings compared to other home types.

As prices of low-rise homes continued to escalate, buyers looked towards more affordable high-rise homes and market conditions for condominium apartments tightened. The SNLR was slightly higher in most 905 regions, particularly for single-detached homes, as demand outweighed available supply in relatively lower priced municipalities.

Price Acceleration

We detected moderate evidence of price acceleration in Q4 2016. The MLS® average house price grew by a seasonally adjusted 4.3 per cent in Q4 2016 from the previous quarter. Prices grew at 21.3 per cent on a year-over-year basis. The market continued to favour sales as the sales-to-new listings ratio remained elevated resulting in strong upward pressure on prices.

Strong demand across all housing types resulted in less divergence in terms of price growth than in previous quarters. The amount of resale supply for both single-detached homes and condominium apartments declined significantly resulting in roughly one month of inventory³ for both housing types. As a result, the seasonally adjusted median price of a single-detached home and condominium apartment increased by 4.9 per cent and 4.0 per cent from the last quarter respectively. As the demand for condominium apartments grew over the past year, their inventories also declined quickly, and the rate of price growth moved closer to that of single-detached homes.

Home price growth has been strong across the GTA, however municipalities such as Durham and Halton experienced above average price growth (see Figure 3). Sales in these regions were also skewed towards pricier low-rise dwelling types that helped push up the average price over the past year. The City of Toronto, which had a large share of condominium apartment transactions, saw relatively lower, but accelerating price growth.

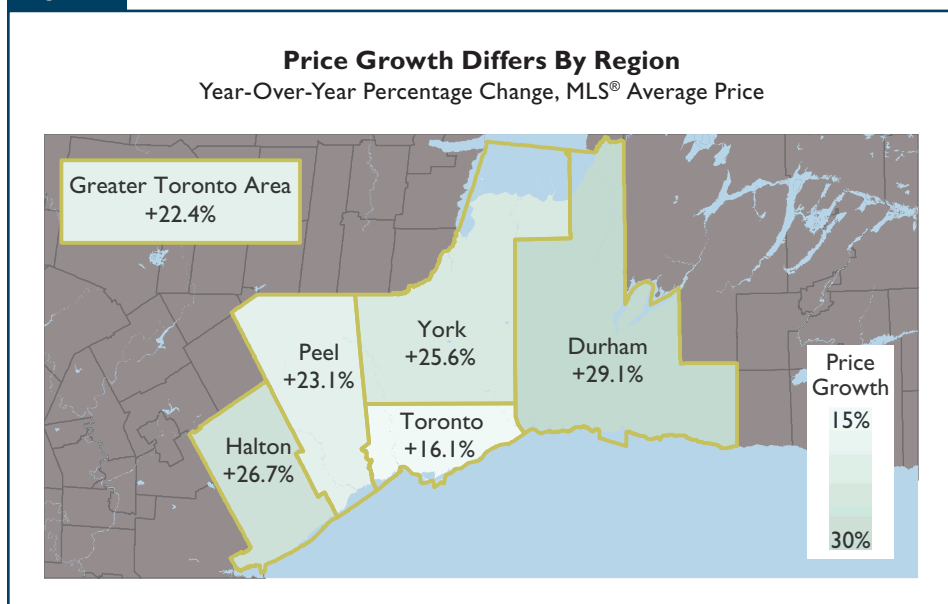
Table 1: Sales-to-New Listings Ratios (March 2017)

	Single-Detached	Row*	Apartment	Total
Halton Region	69%	76%	84%	73%
Peel Region	67%	70%	82%	71%
City of Toronto	63%	73%	81%	66%
York Region	59%	68%	84%	62%
Durham Region	72%	75%	94%	75%
GTA	65%	71%	82%	71%

Source: TREB

*Condominium and freehold

Figure 3



Source: TREB, CMHC calculations (six-month moving average)

Last data point: February 2017

³ The current month's number of active listings divided by current month's number of sales.

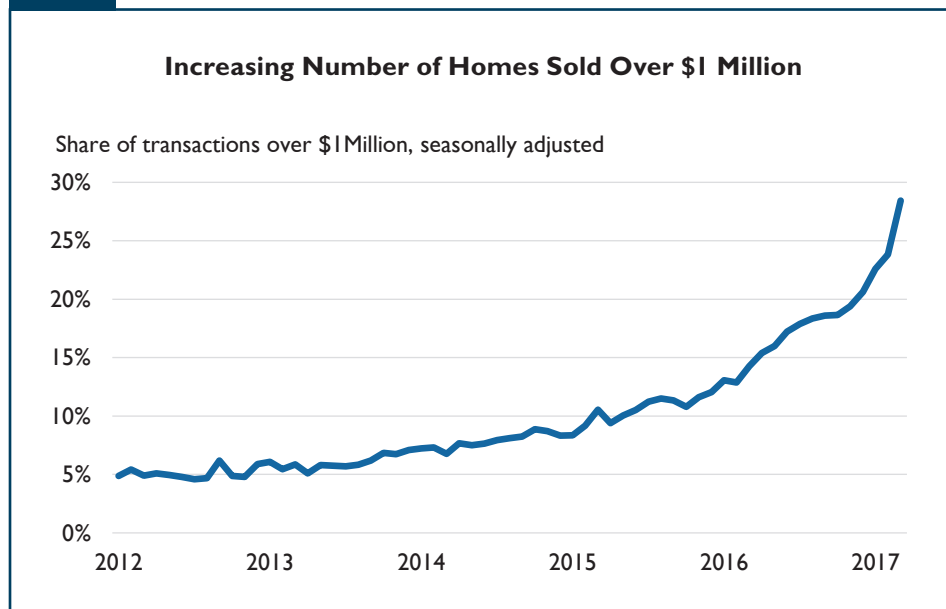
Strong price growth pushed the average sale price of many homes into the \$1 million and over category. In March 2017, 28.4 per cent of all homes sold were in this category (see Figure 4), and double the proportion observed twelve months ago. The average price of a home reached over \$1 million in most municipalities of York Region and Oakville, as well as the former municipality of North York. Notably, transactions over \$2 million also surged to a record 5 per cent of March's sales.

Overvaluation

We continued to detect strong evidence of overvaluation in Q4 2016. The average house price growth was stronger than growth in economic and demographic fundamentals such as personal disposable income and population. The difference between actual home prices and levels that would historically be supported by these fundamental drivers has been above its problematic threshold for eight consecutive quarters.

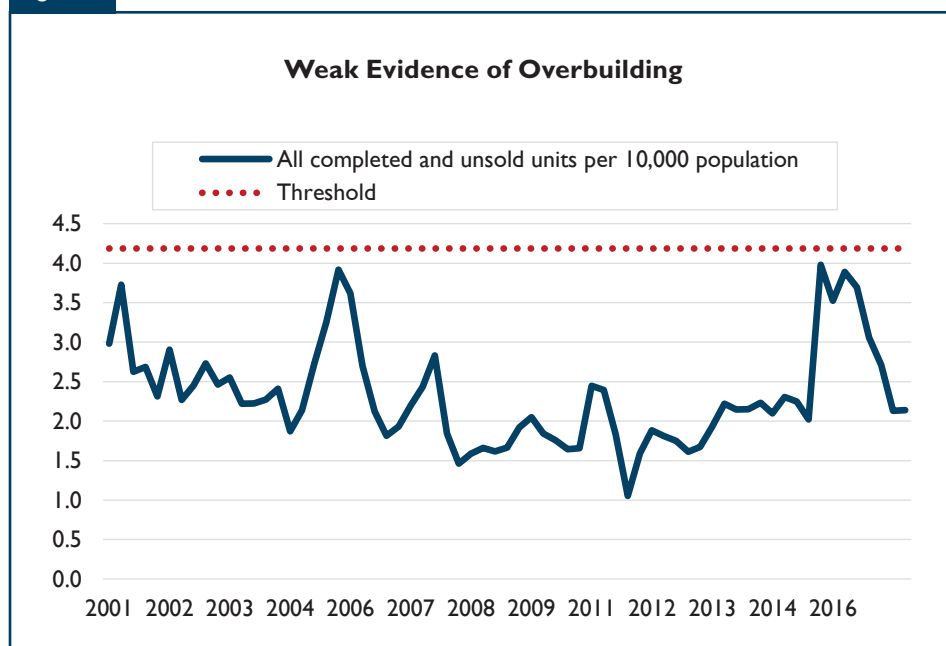
The real average MLS® price of a house in the GTA grew by 18.8 per cent in Q4 2016, compared to the same quarter last year. Over this same period, real disposable income increased by 0.2 per cent and the young adult population grew by 2.8 per cent. This growth in fundamental drivers, although healthy, could not account for current price levels, and thus a significant imbalance continued to persist.

Figure 4



Source: TREB, CMHC calculations
Last data point: March 2017

Figure 5



Sources: CMHC, Statistics Canada and calculations (threshold) by CMHC
Last data point: 2016Q4

A growing economy and recent pick-up in population growth meant that some upward pressure on prices, as suggested by our models, was inevitable. Population and full time employment increases for those aged between 25 and 44 years were supportive, while incomes continued to grow as well.

Overbuilding

We detected weak evidence of overbuilding in Q4 2016. Strong absorptions of apartment units resulted in the number of completed

and unsold units remaining low at 2.1 units per 10,000 population. This was well below the threshold (4.2) for evidence of overbuilding in the Toronto CMA. After a spike in completions in early 2015, this measure of overbuilding has declined significantly. Builders began channelling demand into existing inventories, and the number completions slowed in 2016. Many new homebuyers also shifted demand into the relatively more affordable condominium apartment market, which helped bring down inventory.

New housing supply in the pipeline remains robust, and the number of housing completions will increase in the near future. The number of homes under construction in March 2017 was 67,698, roughly two-thirds of which were condominium apartments. Should current demand levels hold for condominium rentals and ownership, this number will likely be manageable, yet conceivable scenarios of moderating demand warrant further monitoring.

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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