

HOUSING MARKET ASSESSMENT

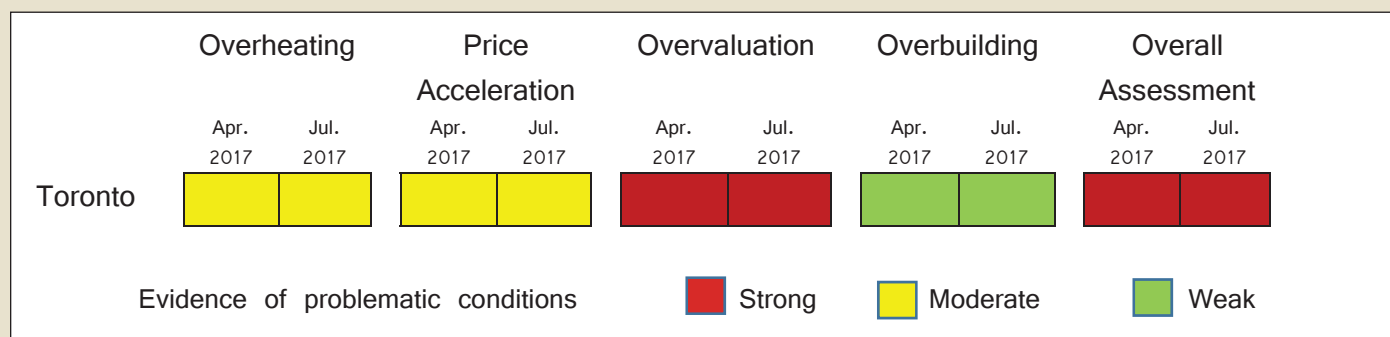
Greater Toronto Area

Date Released: Third Quarter 2017



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 subsided further in Q1 2017.
- The current release of the HMA is based on the analysis of data done prior to the announcement of the Fair Housing Plan by the Provincial Government of Ontario in April 2017. Since the first quarter of 2017, sales in the Greater Toronto Area (GTA) have declined and the supply of new listings notably increased resulting in a decline in the seasonally adjusted real MLS[®] average price.
- 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.

SUBSCRIBE NOW!

Access CMHC's Market Analysis Centre publications quickly and conveniently on the Order Desk at www.cmhc.ca/housingmarketinformation. View, print, download or subscribe to get market information e-mailed to you on the day it is released. CMHC's electronic suite of national standardized products is available for free.

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](#).

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.

In Detail

Overheating

We detected moderate evidence of overheating in Q1 2017. The seasonally adjusted sales-to-new listings ratio (SNLR) was 84%,

up from the previous quarter. This was the fifth consecutive quarter that the ratio was above our threshold of 70% – above the level at which we detect problematic conditions. Sales continued to increase to reach a record level, while the supply of new listings decreased. As more buyers were chasing fewer new listings, the number of active listings (or those available for sale at the end of the month) dropped to new lows. This led to the intensification of price bidding wars, resulting in the ratio of the average sale to list price surging to a seasonally adjusted rate of 110%. As prices of low-rise homes continued to escalate, more buyers looked towards relatively affordable high-rise homes. Market conditions in the condominium apartment segment also tightened as its seasonally adjusted SNLR reached

92% and its average rate of price growth caught up to that of single-detached homes.

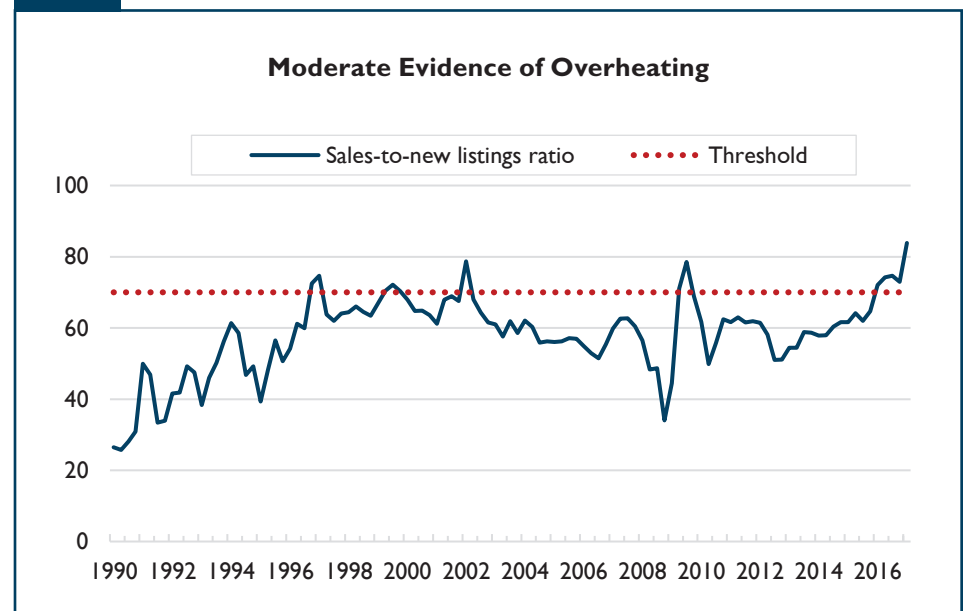
The analysis for this version of the HMA was based on data prior to the announcement of the Fair Housing Plan by the Provincial Government of Ontario in April 2017. The housing market's reaction to the new measures was prompt and strong. Since Q1 2017, sales in the Greater Toronto Area (GTA) have declined and the supply of new and active listings have notably increased resulting in a decline in the seasonally adjusted real MLS® average price. In June, sales were down 38% from the same period a year ago. The supply of new listings in May was at a record level and up 48% from a year ago but has settled lower at the seasonally adjusted annual rate of 179,000 units in June. The number

"Overall, problematic conditions continue to exist for the Toronto CMA. However, price growth and sales have started to moderate since Q1 2017 and more balanced market conditions are starting to emerge."



Dana Senagama,
Principal, Market Analysis (GTA)

Figure 1



Sources: CREA and calculations (threshold) by CMHC
Last data point: 2017Q1

of active listings continued to rise to reach a three-year high (Figure 2). Due to a sizable decline in sales and a higher number of new listings, the seasonally adjusted SNLR was down to 42% in June 2017. However, market conditions varied by dwelling type and region (see Table 1). Market conditions in the condominium apartments segment, which did not see the same increase in new listings as other housing types, were tighter with a seasonally adjusted SNLR at 57%. The single-detached market, which had the strongest decline in sales, saw its ratio dropping to 35% in June.

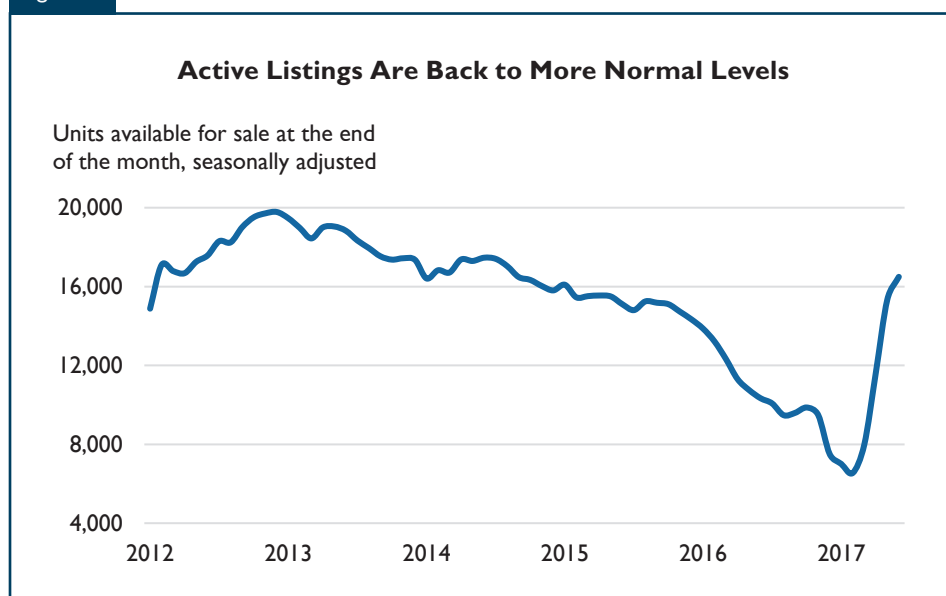
Price Acceleration

We detected moderate evidence of price acceleration in Q1 2017. The MLS® average house price grew by a seasonally adjusted 10.6% in Q1 2017 from the previous quarter. The rate of price growth was quite consistent across all housing types. The market continued to favour sales as the sales-to-new listings ratio remained elevated resulting in strong upward pressure on prices.

The changes in demand and supply conditions following the announcement of the Fair Housing Plan in April 2017 have caused prices to recede from their peak levels in Q1. While this trend was evident across all housing types and regions within the GTA, pricier sub-markets and expensive homes appeared to be affected the most by the recent changes.

In June, the seasonally adjusted average price of a single-detached home declined by about 13% from

Figure 2



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

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

	Single-Detached	Row*	Apartment	Total
Halton Region	40%	46%	52%	43%
Peel Region	36%	38%	54%	39%
City of Toronto	40%	48%	57%	50%
York Region	24%	34%	51%	29%
Durham Region	33%	53%	51%	38%
GTA	34%	43%	56%	41%

Source: TREB *Condominium and freehold

its peak in March. In the relatively affordable markets such as Durham and Peel Region, the changes were less pronounced. While inventories of condominium apartment also increased, they were still lower

than a year ago. With more buyers opting to purchase relatively affordable condominium apartments, their prices showed greater resilience.

Fewer sales of higher priced homes put stronger downward pressure on the average price in the GTA. The share of all homes sold over \$1 million (see Figure 3) approached levels seen twelve months ago. While there were several municipalities in the GTA where the average price of a home remained over \$1 million, on a regional basis, the average price slipped below this mark.

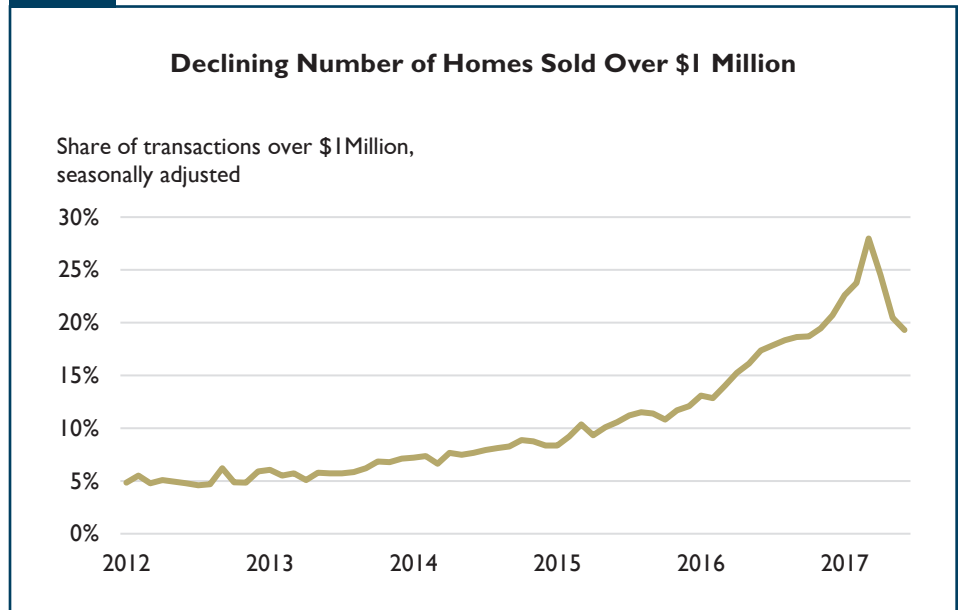
Overvaluation

We continued to detect strong evidence of overvaluation in Q1 2017. The average house price growth was stronger than the 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 nine consecutive quarters.

On a year-over-year basis, the real MLS® average price increased by 24.3% in Q1 2017. Over this same period, real disposable income increased by 0.28% and the young adult population grew by 2.85%. This growth in fundamental drivers, although healthy, could not account for price levels seen during Q1 2017, and thus a significant imbalance continued to persist.

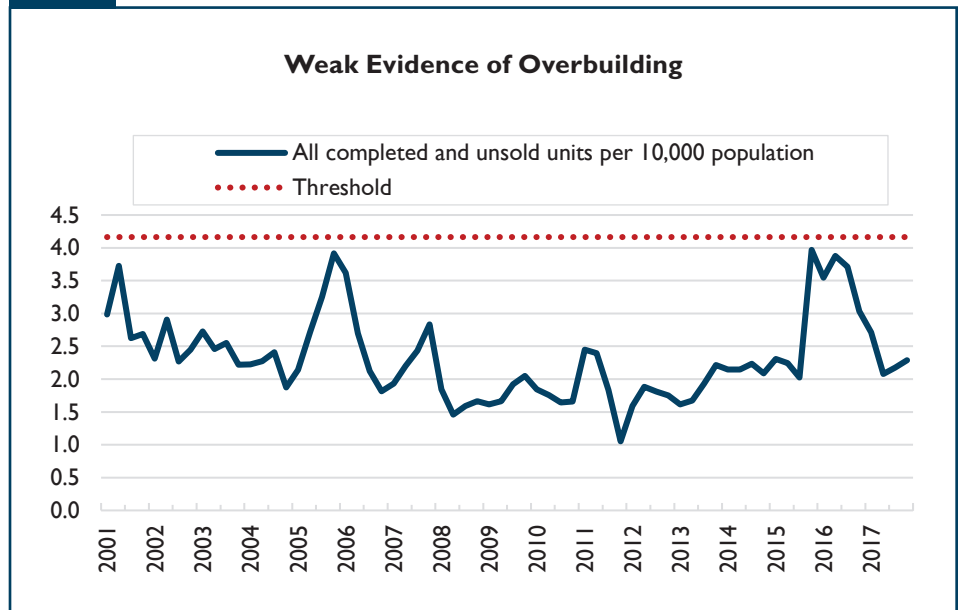
A strong economy supported by a pick-up in population growth, especially among young adults entering their prime home buying years, meant sustained upward pressure on house prices during Q1 2017. Job gains in finance and real estate sectors were also supportive of stronger price increases. However, following the announcement of the Fair Housing Plan in April 2017, price growth was more in line with changes in fundamentals such as population growth and inflation.

Figure 3



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

Figure 4



Sources: CMHC, Statistics Canada and calculations (threshold) by CMHC
Last data point: 2017Q1

Overbuilding

We detected weak evidence of overbuilding in Q1 2017, as the number of completed and unsold units remained stable and well below the threshold. Strong condominium

and rental demand continued to help absorb excess supply. The number of completed and unsold units remained low at 2.3 units per 10,000 population. This level was well below the threshold (4.2) for evidence of overbuilding in the

Toronto CMA. Builders continued to channel demand into existing inventories, thus keeping the number of unsold units low. Given escalated home prices in ground-oriented homes, demand for high-rise units gained momentum during Q1 2017 in both new and resale home markets and this demand would have inevitably

helped to absorb some of the existing newly completed units that were available for sale.

The number of homes under construction in June 2017 was 68,073, of which nearly two-thirds were apartments. Given the current demand for condominium

ownership and rental, this number should be manageable. However, inventory management continues to be necessary to make sure that condominium units currently under construction are sold upon completion.

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.

CMHC HELPS CANADIANS MEET THEIR HOUSING NEEDS.

Canada Mortgage and Housing Corporation (CMHC) has been helping Canadians meet their housing needs for more than 70 years. As Canada's authority on housing, we contribute to the stability of the housing market and financial system, provide support for Canadians in housing need, and offer unbiased housing research and advice to Canadian governments, consumers and the housing industry. Prudent risk management, strong corporate governance and transparency are cornerstones of our operations.

For more information, visit our website at www.cmhc.ca or follow us on [Twitter](#), [LinkedIn](#), [Facebook](#) and [YouTube](#).

You can also reach us by phone at 1-800-668-2642 or by fax at 1-800-245-9274.
Outside Canada call 613-748-2003 or fax to 613-748-2016.

Canada Mortgage and Housing Corporation supports the Government of Canada policy on access to information for people with disabilities. If you wish to obtain this publication in alternative formats, call 1-800-668-2642.

The Market Analysis Centre's (MAC) electronic suite of national standardized products is available for free on CMHC's website. You can view, print, download or subscribe to future editions and get market information e-mailed automatically to you the same day it is released. It's quick and convenient! Go to www.cmhc.ca/en/hoficlincl/homain

For more information on MAC and the wealth of housing market information available to you, visit us today at www.cmhc.ca/housingmarketinformation

To subscribe to printed editions of MAC publications, call 1-800-668-2642.

©2017 Canada Mortgage and Housing Corporation. All rights reserved. CMHC grants reasonable rights of use of this publication's content solely for personal, corporate or public policy research, and educational purposes. This permission consists of the right to use the content for general reference purposes in written analyses and in the reporting of results, conclusions, and forecasts including the citation of limited amounts of supporting data extracted from this publication. Reasonable and limited rights of use are also permitted in commercial publications subject to the above criteria, and CMHC's right to request that such use be discontinued for any reason.

Any use of the publication's content must include the source of the information, including statistical data, acknowledged as follows:

Source: CMHC (or "Adapted from CMHC," if appropriate), name of product, year and date of publication issue.

Other than as outlined above, the content of the publication cannot be reproduced or transmitted to any person or, if acquired by an organization, to users outside the organization. Placing the publication, in whole or part, on a website accessible to the public or on any website accessible to persons not directly employed by the organization is not permitted. To use the content of any CMHC Market Analysis publication for any purpose other than the general reference purposes set out above or to request permission to reproduce large portions of, or entire CMHC Market Analysis publications, please complete the [CMHC Copyright request form](#) and email it to CMHC's Canadian Housing Information Centre at chic@cmhc.ca. For permission, please provide CHIC with the following information: Publication's name, year and date of issue.

Without limiting the generality of the foregoing, no portion of the content may be translated from English or French into any other language without the prior written permission of Canada Mortgage and Housing Corporation.

The information, analyses and opinions contained in this publication are based on various sources believed to be reliable, but their accuracy cannot be guaranteed. The information, analyses and opinions shall not be taken as representations for which Canada Mortgage and Housing Corporation or any of its employees shall incur responsibility.

Housing market intelligence you can count on

FREE REPORTS AVAILABLE ON-LINE

Local, regional and national analysis and data pertaining to current market conditions and future-oriented trends.

- Canadian Housing Statistics
- Condominium Owners Report
- Housing Information Monthly
- Housing Market Assessment
- Housing Market Insight
- Housing Now Tables
- Housing Market Outlook, Canada
- Housing Market Outlook, Highlight Reports – Regional and Northern
- Housing Market Outlook, Canada and Major Centres
- Housing Market Tables: Selected South Central Ontario Centres
- Preliminary Housing Starts Data
- Rental Market Reports, Canada and Provincial Highlights
- Rental Market Reports, Major Centres
- Residential Construction Digest, Prairie Centres
- Seniors' Housing Reports

FREE DATA TABLES AVAILABLE ON-LINE

- Housing Construction Activity by Municipality
- Comprehensive Rental Market Survey Tables
- Comprehensive New Home Construction Tables

Get the market intelligence you need today!

Click www.cmhc.ca/housingmarketinformation to view, download or subscribe.

CMHC's Market Analysis Centre provides a wealth of local, regional, and national data, information, and analysis through its suite of reports, data tables, and interactive tools.

- **Forecasts and Analysis** – Future-oriented information about local, regional and national housing trends.
- **Statistics and Data** – Information on current housing market activities – starts, rents, vacancy rates and much more.

HOUSING MARKET INFORMATION PORTAL!

The housing data you want, the way you want it.

- Information in one central location
- Quick and easy access
- Neighbourhood level data

cmhc.ca/hmiportal

Housing Observer Online

Featuring quick reads and videos on...

- Analysis and data
- Timely insights
- Updates to housing conditions and trends & much more!

All links can be shared in social media friendly formats!

Subscribe today to stay in the know!
www.cmhc.ca/observer

