

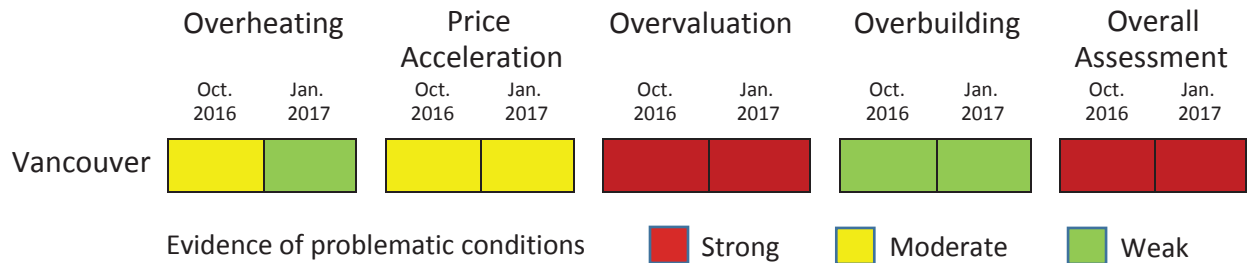
HOUSING MARKET ASSESSMENT Vancouver CMA

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Highlights



- Overall, the results of CMHC's third quarter 2016 Housing Market Assessment (HMA) framework continues to show strong evidence of problematic conditions for the Vancouver Census Metropolitan Area (CMA) housing market.¹
- The overall assessment is based on strong evidence of overvaluation and moderate evidence of price acceleration. The shift in the assessment for overheating from moderate to weak was influenced by sales activity in the resale market returning to a level consistent with its five-year average.
- Our framework continues to show weak evidence of overbuilding.
- 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 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 a problematic conditions becomes stronger.

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¹ 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.

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

In Detail

Weak Evidence of Overheating

The HMA framework detects weak evidence of overheating in the Vancouver CMA housing market during the third quarter of 2016. The sales-to-new listings ratio (a proxy for housing demand and supply) continued to trend lower for the second consecutive quarter. Although this indicator surpassed the threshold during two of the last four quarters and would normally remain yellow under the framework, current overall market conditions have cooled considerably from earlier this year, justifying a change to green.

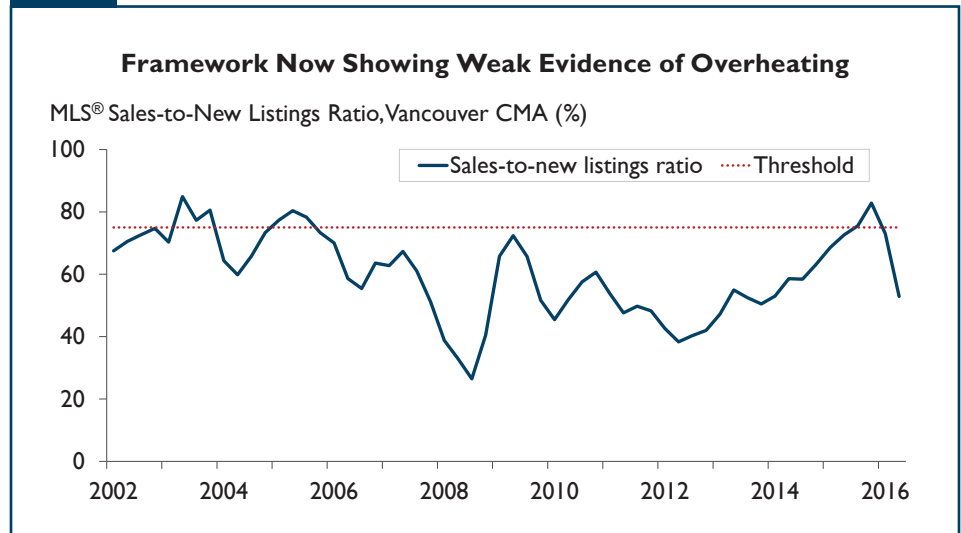
Table 1 provides a breakdown of sales-to-new listings ratios by municipality and home type in the

“Overall, the HMA framework shows strong evidence of problematic conditions in the Metro Vancouver housing market in the third quarter. Moderate evidence of price acceleration and strong evidence of overvaluation continue to be detected by the framework. A shift from moderate to weak evidence of overheating reflect the recent softening of home sales in the CMA.”



Robyn Adamache
Principal, Market Analysis (Vancouver)

Figure 1



Sources: Real Estate Board of Greater Vancouver and Fraser Valley Real Estate Board, calculations (threshold) by CMHC. Last data point: 2016Q3. MLS is a registered trademark of the Canadian Real Estate Association.

Table 1: Sales-to-New Listings Ratio (2016 Q4)

	All Home Types	Single-Detached	Town House	Apartment	Condo (Attached + Apartment)
Burnaby	75%	44%	85%	93%	
Coquitlam	79%	63%	76%	96%	
Delta	56%	47%	55%	90%	
New Westminster	82%	53%	56%	94%	
North Vancouver	80%	64%	90%	93%	
Port Coquitlam	90%	77%	84%	105%	
Port Moody	78%	65%	68%	93%	
Richmond	68%	43%	71%	89%	
M Ridge P Meadows	86%	80%	102%	88%	
Squamish	59%	44%	69%	66%	
Vancouver East	59%	39%	66%	84%	
Vancouver West	73%	60%	58%	80%	
West Vancouver	40%	34%	64%	60%	
REBGV	73%	55%	76%	88%	
Abbotsford-Mission CMA	97%	86%			111%
Langley	91%	83%			97%
Surrey	83%	62%			105%
White Rock	69%	49%			89%
FVREB	84%	67%			102%
Vancouver CMA	70%	56%			80%

Sources: REBGV, FVREB

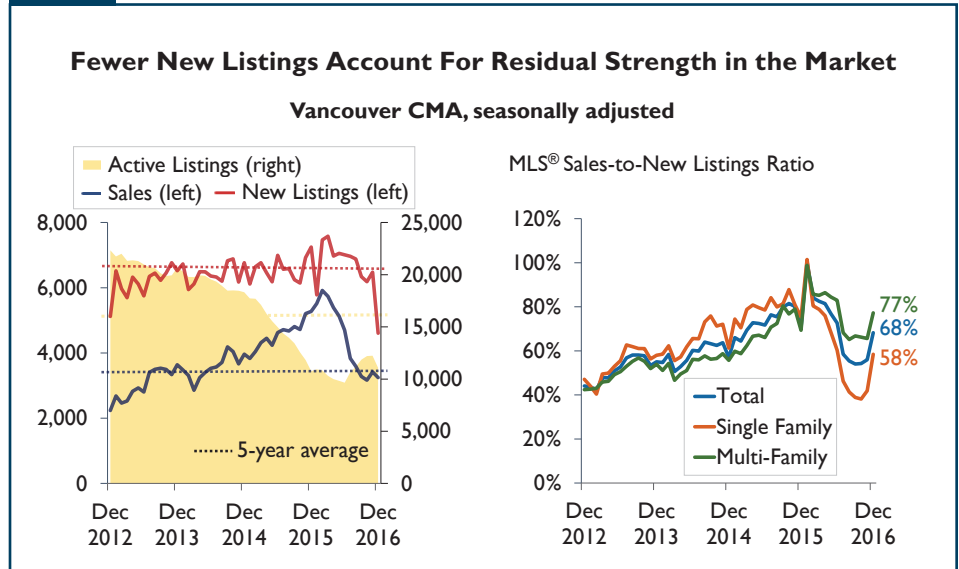
fourth quarter of 2016³. The data points to greater demand for multi-family homes (townhomes and apartments), which are typically more affordable, with higher sales-to-new listings ratios than those for single detached homes across all municipalities. The apartment market in particular, is showing weaker signs of cooling.

Seasonally adjusted fourth quarter 2016 MLS® sales were down 35 per cent compared to the same period last year, while the number of new listings was 15 percent lower. Much of the residual strength in the market is driven by a lower level of supply (Figure 2). After peaking in February 2016, MLS® sales returned to levels consistent with the five-year average. Meanwhile, the supply on the market remains well below the historical average, which provides some support to home prices. As of December 2016, there was a three-month supply of homes in the market, slightly lower from the two months prior.

Moderate Evidence of Price Acceleration

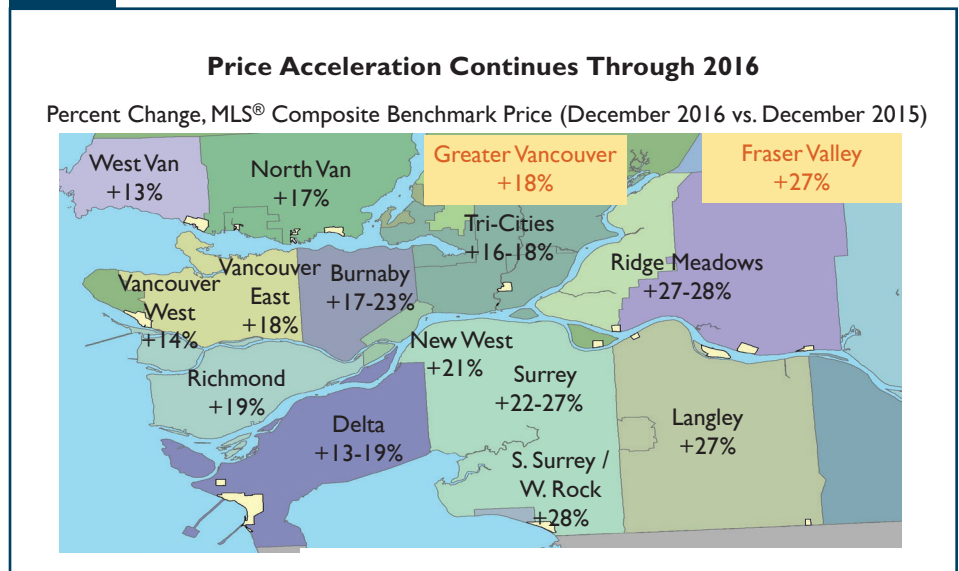
The CMHC HMA framework continues to show moderate evidence of price acceleration in Metro Vancouver's housing market for the third consecutive quarter. The low supply of new and resale homes provided support to home prices. As of December 2016, the MLS® HPI benchmark price composite (for all home types combined) was 18 per cent and 27 per cent higher in the Greater Vancouver and Fraser Valley Real Estate Board areas, respectively, compared to the same period a year earlier (Figure 3).

Figure 2



Sources: Real Estate Board of Greater Vancouver and Fraser Valley Real Estate Board, calculations by CMHC. Last data point: Dec 2016

Figure 3



Sources: Real Estate Board of Greater Vancouver, Fraser Valley Real Estate Board.

While strength in home price growth remains, the pace of growth has slowed for all home types. Overall, year-over-year single detached home prices rose at a comparable pace (14-30 per cent) to townhome (1-37 per cent) and apartment prices (8-29 per cent) across the Vancouver

CMA in December, with some variability across municipalities. Going forward, a moderation in sales and additions to supply, either through new home completions or more active listings, could continue to slow the pace of home price growth.

³ Note that the ratios provided in the table is actual (not seasonally adjusted) while the data used in the HMA framework is seasonally adjusted.

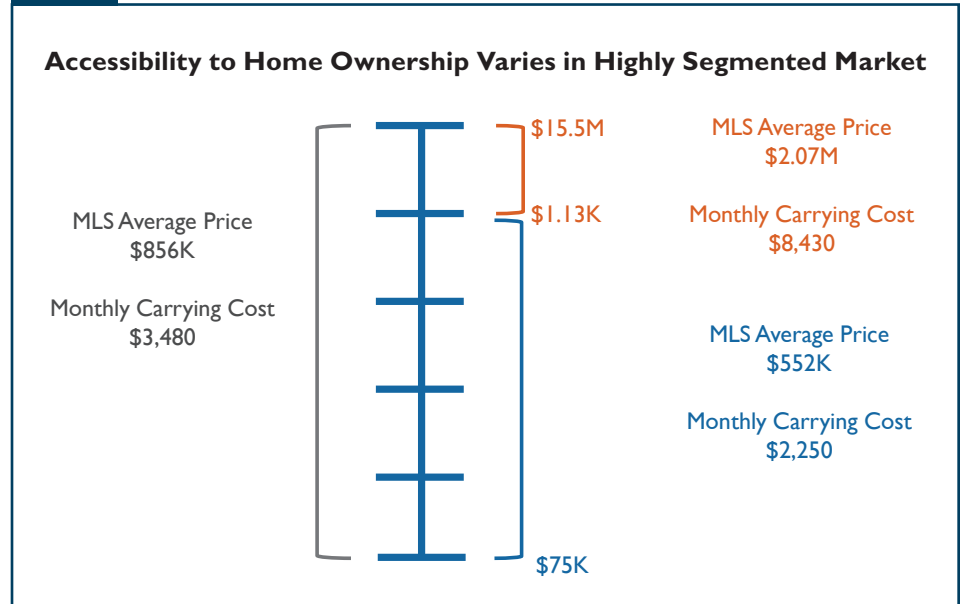
⁴ MLS is a registered trademark of the Canadian Real Estate Association (CREA).

Strong Evidence of Overvaluation

The HMA framework continues to detect strong evidence of overvaluation in Metro Vancouver's housing market in the third quarter results of 2016, signalling that home prices exceed levels supported by economic, demographic and financial fundamentals. Low mortgage interest rates, a growing population and job creation in the CMA boosted demand for housing and home price growth. For the second consecutive year, employment in BC recorded the fastest growth among the provinces, with a large part of the job growth within the Vancouver CMA. Despite these strong demand fundamentals, remarkably robust price growth has kept prices above the overvaluation threshold.

While home prices in Metro Vancouver are high, composite price measures mask the array of home ownership options available across various locales and home types. By analyzing the data in price quintiles, it becomes apparent that the housing market in the Vancouver CMA is highly segmented (Figure 4). At the top price quintile of all homes sold in the fourth quarter, the average price was over \$2 million; in comparison, the average price of the remaining fourth-fifths of sales was almost a quarter of that, at \$552,000. Single detached homes are the predominant home type at the top quintile and are typically located in expensive locales. The majority of buyers however, focus on condominium developments and suburban areas that are lower in price. The steep price growth for single detached homes over this

Figure 4



Source: REBGV, FVREB, CMHC Calculations, Q4 2016

Assumptions: Bank of Canada average 5-year fixed mortgage rate, 25 year amortization, 20% down payment

year provided further support to this trend. Apartment condo sales in 2016 reached an all-time high in the Real Estate Board of Greater Vancouver, with 18,959 homes changing hands. Sales of multi-family homes comprised 56 per cent of all sales in the first six months of 2016, and rose to 68 per cent in the latter half. Delta, Surrey, West Vancouver and Langley led the shift to a higher proportion of multi-family homes sales. The higher price growth this year is pushing single detached homes more out of reach for the average homebuyer, even in several suburban areas.

Despite sustained high average prices, the price distribution of sales is starting to level off. Overall, 19 per cent of homes sold in the fourth quarter of 2016 were over \$2 million compared to 21 per cent in the same period a year earlier.

This figure peaked in the first half of 2016 at a quarter of all sales. The limited supply of developable land⁵, lengthy municipal approval processes that add to home construction time, and a low level of new and resale home inventories and listings will continue to provide price pressures given strong demand fundamentals.

Weak Evidence of Overbuilding

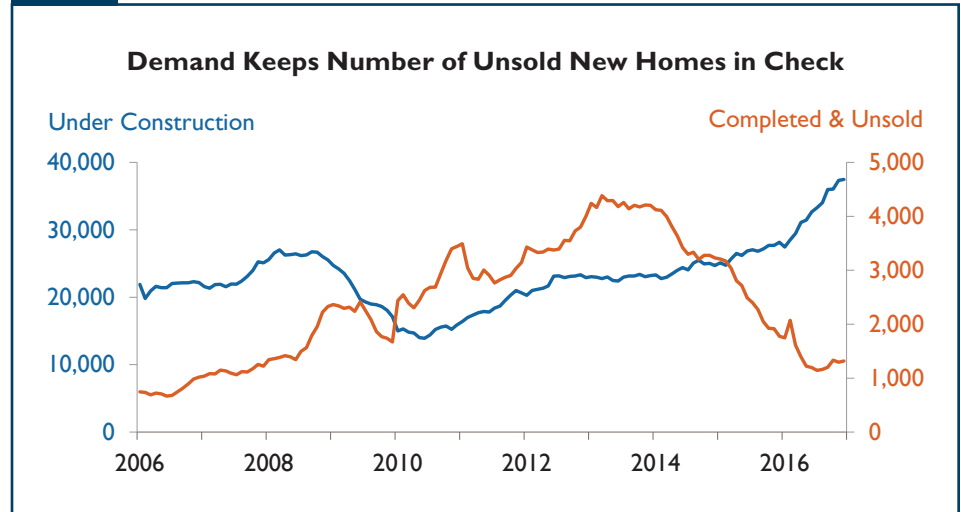
The HMA framework continues to show weak evidence of overbuilding in Metro Vancouver's housing market. Strong demand for new homes and fewer resale home listings which have prompted some home buyers to look in the new home market to meet their housing needs, has kept the stock of newly completed and unsold homes at a low level, even as the

⁵ Mountains to the north, the Strait of Georgia to the west, the U.S. border to the south and 22 per cent of the region's land supply dedicated to the Agricultural Land Reserve (ALR).

number of homes under construction reaches new heights (Figure 5). While there has been a slight pick-up in the inventory of new single detached homes, year-over-year (+18 per cent), townhome and apartment inventories are down 28 and 66 per cent, respectively, at the end of the fourth quarter. Builders have continued to start new home projects in response to the strong demand. The number of homes under construction carried on its month-to-month climb to record highs since February this year. Despite more than 5,800 homes started in the fourth quarter of 2016, nearly 60, 90 and 100 per cent of single detached homes, townhomes and apartments were absorbed upon completion, respectively, in the same period.

Extended periods of low rental vacancy rates in the Vancouver CMA also contribute to the framework's assessment of weak evidence of overbuilding. Recent growth in home prices may add to the demand for rental as homeownership may become out of reach for some potential home buyers, or as it takes longer to save for the down payment. The vacancy rate for both purpose-built and secondary rental

Figure 5



Source: CMHC Starts and Completions and Market Absorption Surveys
Last data point: December 2016

units has been at or below one per cent since 2014⁶, with both rates falling further between 2015 and 2016. Nearly all municipalities in the Vancouver CMA recorded a lower vacancy rate in 2016 than the year before. Coquitlam and Port Coquitlam had the highest vacancy rate in the CMA, at 1.8 per cent and 1.1 per cent, respectively, while most other areas had a vacancy rate of 0.5 per cent or lower. Over the past five years, 13,285 secondary rental units, such as investor-held condominium

apartments, were added to the rental housing supply, compared to 3,186 new additions to the purpose-built rental stock over the same timeframe. As of December 2016, there are more than 7,700 purpose-built rental units under construction which is more than double the five year average of 3,400 units. Going forward, the rental market could continue to tighten following recent policy changes in qualifying for a mortgage.

⁶ CMHC Rental Market Survey, Condominium Vacancy Survey.

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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