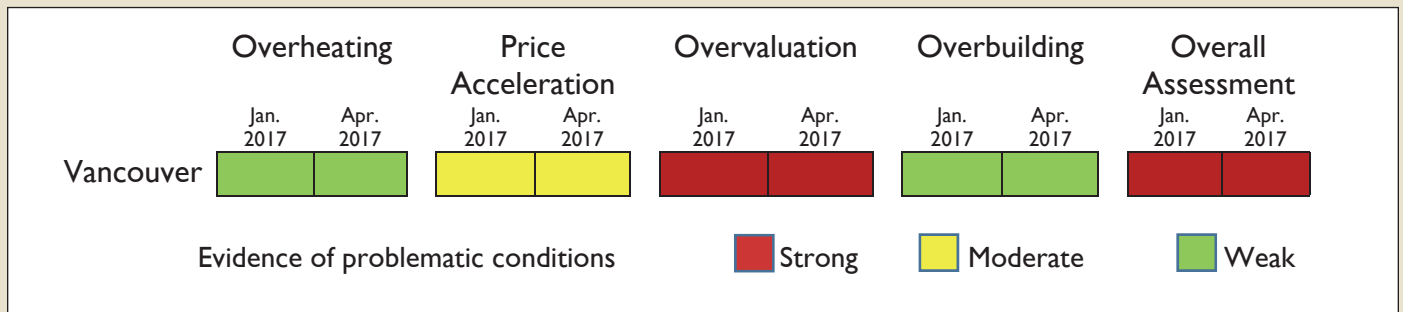# HOUSING MARKET ASSESSMENT
Vancouver CMA

Date Released: Second Quarter 2017

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Canada

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Highlights

	Overheating		Price Acceleration		Overvaluation		Overbuilding		Overall Assessment	
	Jan. 2017	Apr. 2017	Jan. 2017	Apr. 2017	Jan. 2017	Apr. 2017	Jan. 2017	Apr. 2017	Jan. 2017	Apr. 2017
Vancouver	Weak	Weak	Moderate	Moderate	Strong	Strong	Weak	Weak	Strong	Strong

Evidence of problematic conditions — ■ Strong ■ Moderate ■ Weak

- CMHC's fourth quarter 2016 Housing Market Assessment (HMA) framework detects strong evidence of problematic conditions[1] for the Vancouver Census Metropolitan Area (CMA) housing market.

- The overall rating is driven by two factors: Price Acceleration and Overvaluation. These parts of the framework point to imbalances in the speed as well as the magnitude of house price growth as compared with fundamental factors in the Vancouver CMA.

- Overheating is not detected in the Vancouver CMA overall, but certain segments of the market are exhibiting signs of overheating while others have become less problematic.

- 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 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 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 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 potential weaker evidence of problematic conditions. As the number of intense and persistent signals increases, the associated evidence of a problematic conditions becomes stronger.

[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.

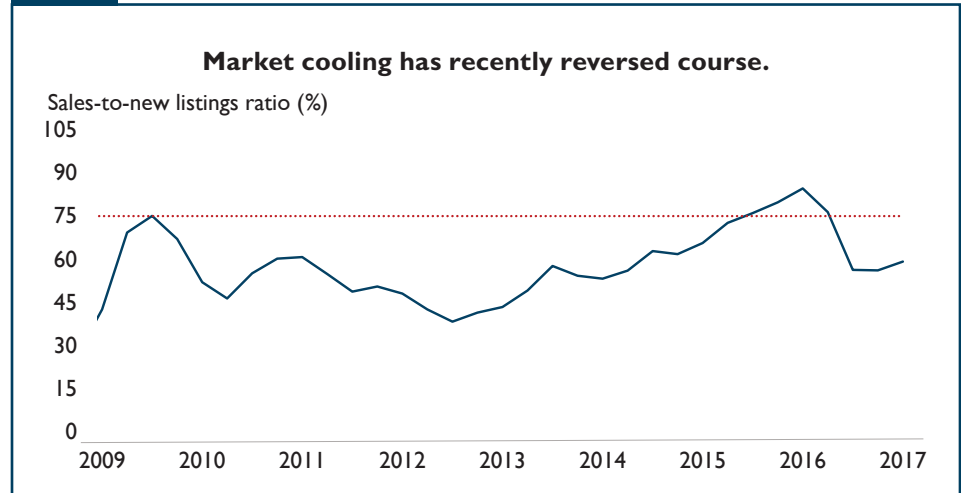[2] A detailed description of the framework is available in the appendix of the National edition.

In Detail

Weak Evidence of Overheating

The HMA framework detected weak evidence of overheating in the Vancouver CMA housing market during the fourth quarter of 2016. Figure 1 shows that the sales-to-new listings ratio (SNLR, a proxy for housing demand and supply) remained below 75 per cent, which is the threshold for overheating. However, more recent data suggests that the market is no longer cooling down.

Table 1 provides a breakdown of sales-to-new listings ratios by municipality and home type in March 2017[3]. The data points to greater demand for multi-family

"The HMA framework continued to show strong evidence of problematic conditions in the fourth quarter of 2016 for the Vancouver CMA. Price acceleration and overvaluation continue to be detected and median home prices continue to increase in many parts of the market. However, median single detached home prices are down from an earlier peak."

Braden Batch
Senior Market Analyst

Figure 1

Market cooling has recently reversed course.

Sales-to-new listings ratio (%)

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

Table 1: Sales-to-New Listings Ratio (March 2017)					
	Total	**Single-Detached**	**Town House**	**Apartment**	**Condo (Attached + Apartment)**
Burnaby	**75%**	58%	93%	81%	
Coquitlam	**81%**	64%	72%	102%	
Delta	**72%**	65%	123%	71%	
New Westminster	**81%**	74%	95%	81%	
North Vancouver	**77%**	64%	87%	89%	
Port Coquitlam	**83%**	83%	97%	76%	
Port Moody	**87%**	76%	70%	105%	
Richmond	**79%**	59%	73%	101%	
Ridge Meadows	**78%**	66%	110%	80%	
Squamish	**67%**	60%	63%	94%	
Vancouver East	**73%**	60%	88%	87%	
Vancouver West	**75%**	49%	69%	85%	
West Vancouver	**46%**	38%	60%	74%	
REBGV Full	**75%**	60%	82%	87%	
Abbotsford-Mission	**74%**	68%			80%
Langley	**86%**	84%			88%
Surrey	**78%**	64%			91%
White Rock	**73%**	60%			82%
FVREB Full	**77%**	67%			87%
Vancouver CMA	**73%**	62%			80%

Sources: REBGV, FVREB

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[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.
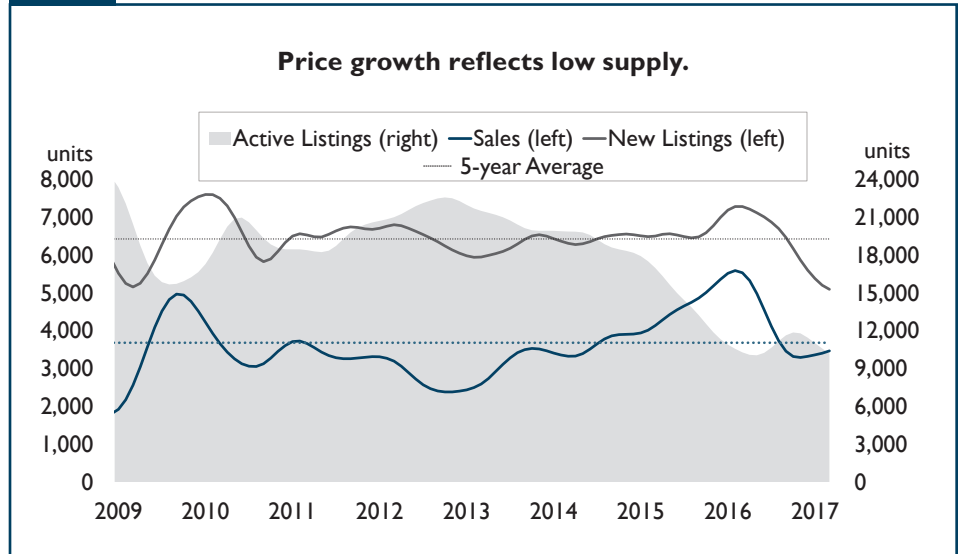
homes (townhomes and apartments), which are typically more affordable, with higher sales-to-new listings ratios than those for single detached homes across all municipalities. The apartment and townhouse markets are currently well above the threshold for overheating, and in some instances, as in the market segments where the SNLR is above 100%, it is likely that there are many home sales going to multiple-bid scenarios. Since the fourth quarter, the SNLR overall has increased back toward the threshold for the greater Vancouver area.

Seasonally adjusted March 2017 MLS® sales were down 37% year-over-year, while new listings declined 30% (Figure 2). New listings have added a near-constant supply to the market from 2011 to 2015, but since growing to a peak in March 2016 they now sit well below the 5-year average. By contrast, sales are much closer to the 5-year average. As a result, active listings, which measure the total available housing in the resale market, are now trending lower once again, the exception is for single detached properties over $1 million. For these properties, the supply has risen.

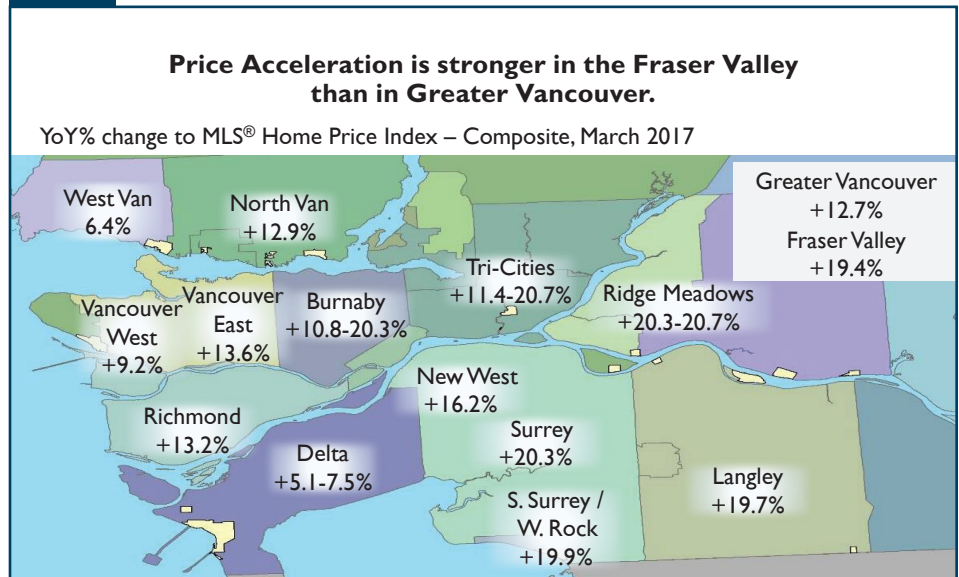## Moderate Evidence of Price Acceleration

The CMHC HMA framework continues to show moderate evidence of price acceleration in Metro Vancouver's housing market for the fourth consecutive quarter. The framework indicates price acceleration is present if a significant price increase occurs at least once in the previous three years. Currently, prices continue to show double-digit increases across the Greater Vancouver and Fraser Valley markets (Figure 3).

Figure 2

Price growth reflects low supply.

Legend: Active Listings (right) — Sales (left) — New Listings (left) ····· 5-year Average

Sources: FVREB, REBGV and calculations (trend) by CMHC
Last data point: March 2017

Figure 3

Price Acceleration is stronger in the Fraser Valley than in Greater Vancouver.

YoY% change to MLS® Home Price Index — Composite, March 2017

West Van 6.4%
North Van +12.9%
Greater Vancouver +12.7%
Fraser Valley +19.4%
Tri-Cities +11.4-20.7%
Ridge Meadows +20.3-20.7%
Vancouver West +9.2%
Vancouver East +13.6%
Burnaby +10.8-20.3%
New West +16.2%
Richmond +13.2%
Delta +5.1-7.5%
Surrey +20.3%
Langley +19.7%
S. Surrey / W. Rock +19.9%

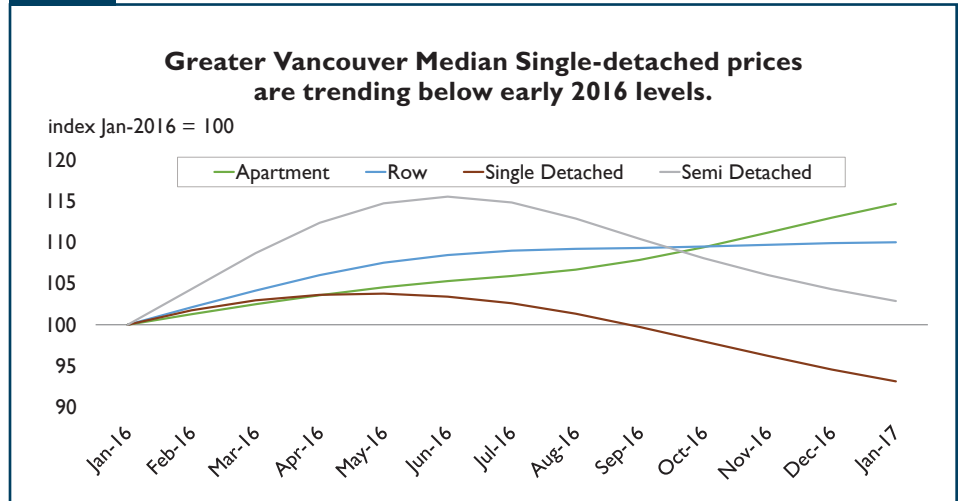Sources: FVREB, REBGV
Last data point: March 2017

While total supply in the market remains low, even average levels of demand can drive price growth. Median single-detached house prices trended lower at the onset of 2017 than at the beginning of 2016, while other property types remained elevated (Figure 4). On the supply side, active listings have risen for single detached homes, which helps explain the lower median prices in the data.

Strong Evidence of Overvaluation

The HMA framework continues to detect strong evidence of overvaluation in Metro Vancouver's housing market in the fourth quarter of 2016. In other words, growth in fundamentals cannot fully explain the growth in home prices.

Housing fundamentals have been strong for the Vancouver CMA, however the overall numbers mask important details. Employment growth is well above the ten-year average for both full-time and part time workers, which supports housing demand. However, average earnings fell in the fourth quarter of 2016. The cause was a higher share of part-time workers in the total employment figures, and the reduced average earnings then lessened the effect of employment growth on housing demand. The migration rate into Vancouver was also higher in 2016 than in the previous year. Here, too, a closer look at the data shows that population growth was driven by younger demographics, from ages 16-20 in particular. This group has a lower propensity to purchase a home, and for the core-working age population increases to the population were much smaller. Mortgage rates remain low by historical standards although toward the end of the year, small increases in the average

Figure 4

Greater Vancouver Median Single-detached prices are trending below early 2016 levels.

index Jan-2016 = 100

Sources: CREA, CMHC calculations
Last data point: March 2017

Figure 5

Stronger sales growth for homes over $1 million has driven average price in Greater Vancouver.

index Jan 2015 = 100
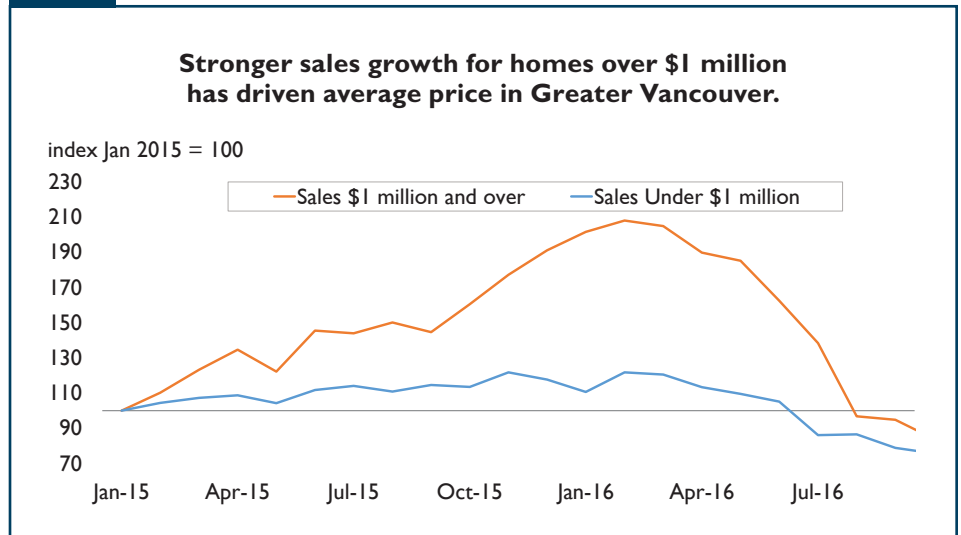
Sources: CREA, CMHC calculations
Last data point: Jan 2017

5-year lending rate ran counter to growth in housing demand. All told, fundamentals were, indeed, strong in the Vancouver CMA and explain some degree of the strength in the housing market, but fundamentals were ultimately insufficient to explain price acceleration and house price growth.

There are particular compositional factors that drove house price growth. As a share of total home sales, homes priced at or above

$1 million were a larger share of the total housing market from 2015 to 2016 as compared with years prior (Figure 5). Since market activity was stronger for $1+ million homes, the typical linkage between incomes and population growth are harder to justify. After all, much higher incomes and savings are required for these homes, and a higher down payment is required to secure a mortgage. Further, strong compositional factors pushed the average MLS® home price

growth in the fourth quarter of 2016 and in the previous year, not a general shift in fundamental factors.

Into the beginning of 2017, the relative share of $1+ million homes has fallen back to a level that is more typical of the Vancouver CMA housing market, and the average MLS® house price has likewise declined from a peak. As a result of this process, it is unlikely that the majority of individual homes actually declined in value. Rather, the relative scarcity of housing in the Vancouver CMA remains high due to low supply, and house price growth is facilitated by that scarcity. In fact, the only sector of the market that has registered any sort of decline in prices is precisely the sector that has increased supply from a low point, namely single-detached homes.

Weak Evidence of Overbuilding

The HMA framework continues to show weak evidence of overbuilding in Metro Vancouver's housing market. In general, the same scarcity of homes in the resale market is reflected in the inventory of new and unsold homes. Figure 5 shows that single-detached and semi-detached homes slightly improved in terms of inventory while row and apartment units remained at a low point. The same pattern of supply can be seen in active listings for the existing home market, there too single detached units are on the

Figure 6

Inventory of New homes Reflects the Low Supply in the Market for Existing Homes.

completed and unsold units
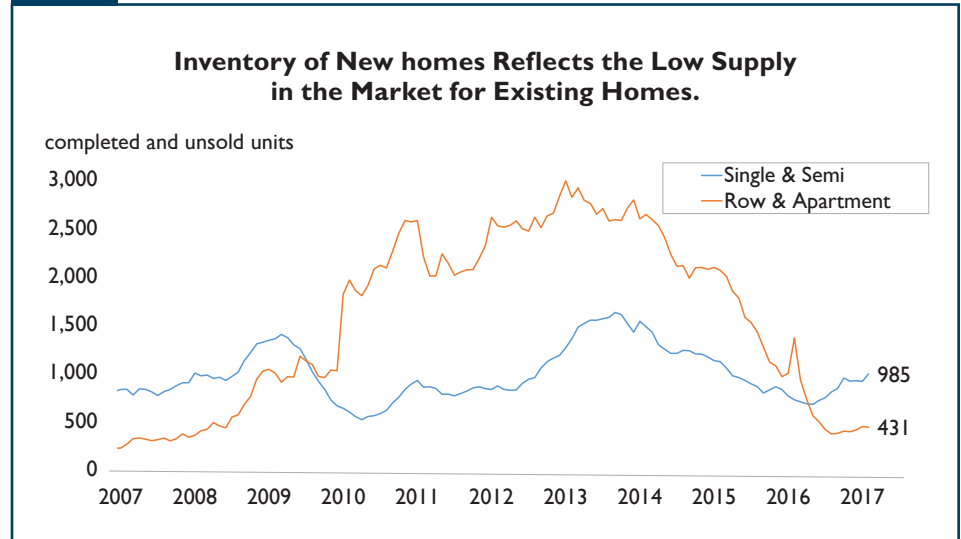
Sources: CMHC
Last data point: March 2017

rise and apartments and row units are in low supply. Housing starts have increased in recent years, as builder work to address the low supply levels, but overbuilding is of minimal concern at this point.

The Vancouver CMA continues to have low rental vacancy rates which also contributes to the framework's assessment of weak evidence of overbuilding. The strong growth of younger demographics as a share of the population puts added pressure on the rental market and that is compounded by the effect of recent growth in home prices. The presence of price acceleration adds to the demand for rental as it now takes longer to save for a down payment

and transition into home ownership. The vacancy rate for both purpose-built and secondary rental units has been at or below one per cent since 2014[4], with both rates falling further between 2015 and 2016 in nearly all municipalities in the Vancouver CMA. Coquitlam and Port Coquitlam had the highest vacancy rates in the CMA at 1.8% and 1.1%, while most other areas had a vacancy rate at or below 0.5.

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[4] 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.

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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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