

# HOUSING MARKET ASSESSMENT

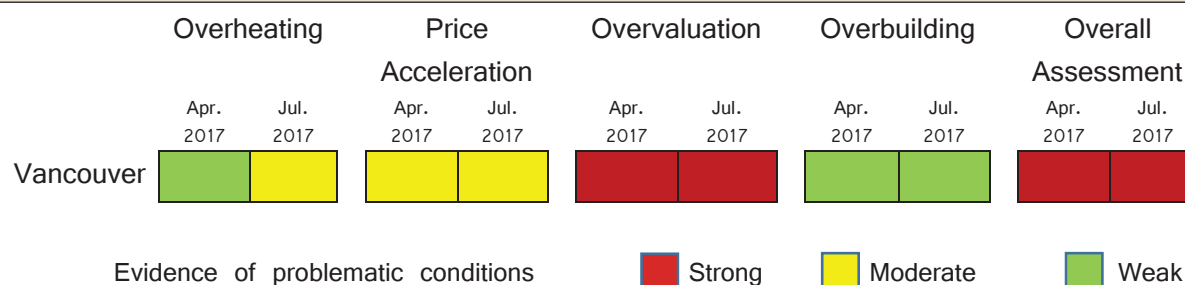
Vancouver CMA

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## Highlights



- CMHC's first quarter 2017 Housing Market Assessment (HMA) framework detects strong evidence of problematic conditions<sup>1</sup> for the Vancouver Census Metropolitan Area (CMA) housing market.
- The overall rating is driven by three factors: Overheating, Price Acceleration and Overvaluation. These parts of the framework point to imbalances in activity, the speed of price growth, as well as the magnitude of house price levels compared with fundamental factors in the Vancouver CMA.
- Overheating is now detected in the Vancouver CMA overall, although conditions vary by market segment.
- 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 6 of this report.

## HMA Overview<sup>2</sup>

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.

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<sup>1</sup> 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.

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

## In Detail

### Moderate Evidence of Overheating

The HMA framework detected moderate evidence of overheating in the Vancouver CMA housing market during the first quarter of 2017. The sales-to-new-listings ratio (SNLR, a measure of balance between demand and supply) has increased since the previous report, leading to the detection of overheating.

Conditions in different segments of the Vancouver market have further diverged since the beginning of the year. Figure 1 shows the SNLR for single detached homes, townhouses and apartments relative to the ratio for the overall market.

*"The HMA framework continued to show strong evidence of problematic conditions in the first quarter of 2017 for the Vancouver CMA. Overheating was detected in the first quarter due to increasing sales on slowing inventory. Price acceleration and overvaluation continue to be detected, and home prices have resumed climbing in many market segments."*



**Eric Bond**  
Principal, Market Analysis

The townhouse and apartment markets are currently above the threshold for overheating, leading to higher asking prices and more dwellings selling in multiple offer situations. Homes in these segments typically sell for less than single-detached homes, which makes them in high demand from first-time buyers and families. Activity in the single-detached home market has also begun to heat up again, particularly in recent months.

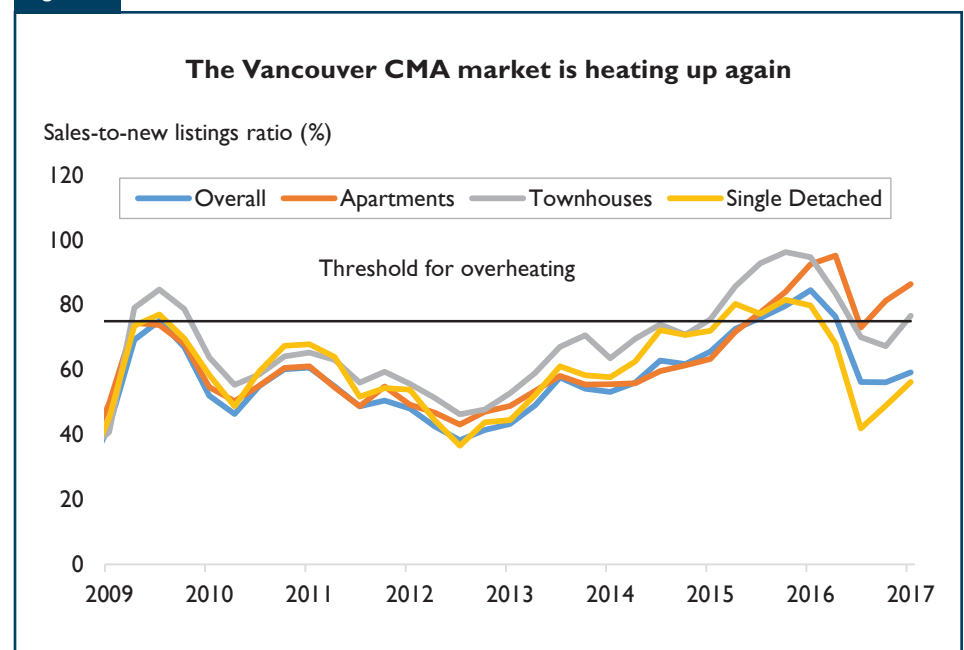
The rise in the sales-to-new listings ratio has been primarily driven by a decrease of listings over the past 12 months. There were 5,369 new listings for apartments in the first quarter of 2017, a 19% decrease from a year earlier, while new listings for single detached homes fell 24%. During this period, sales declined 23%

in the apartment segment, while sales of single-detached homes declined 53% relative to the year-earlier period. Fewer listings have kept overall resale market conditions tight in the Vancouver CMA, particularly in more affordable price segments even though sales have moved lower.

### Moderate Evidence of Price Acceleration

The HMA framework continues to show moderate evidence of price acceleration in Metro Vancouver's housing market for the fifth consecutive quarter. The framework indicates price acceleration is present if a significant price increase occurs at least once in the previous three years. Price acceleration is associated with increased speculative demand entering the market. Currently,

Figure 1



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

prices continue to show strong annual increases across the Greater Vancouver and Fraser Valley markets (Figure 2).

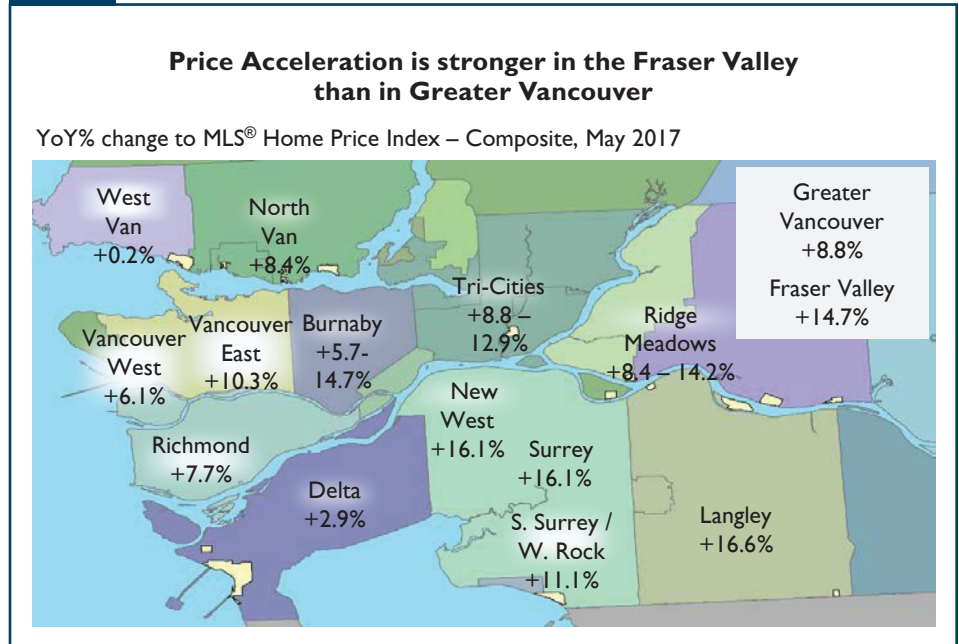
While average prices did decline on a month-over-month basis in the second half of 2016, the decline was primarily driven by a slowdown in the single-detached market. Single-detached benchmark prices fell month-over-month between August 2016 and February 2017, in addition to a declining share of sales from this segment pushing the overall average price down. In contrast, benchmark apartment prices were approximately flat between August 2016 and January 2017, before returning to a fast pace of growth since February 2017 (18% year-over-year in May 2017).

## Strong Evidence of Overvaluation

The HMA framework continued to detect strong evidence of overvaluation in Metro Vancouver's housing market in the first quarter of 2017. Growth in economic fundamentals, such as population and wages cannot fully account for the recent run-up in home prices since the third quarter of 2015.

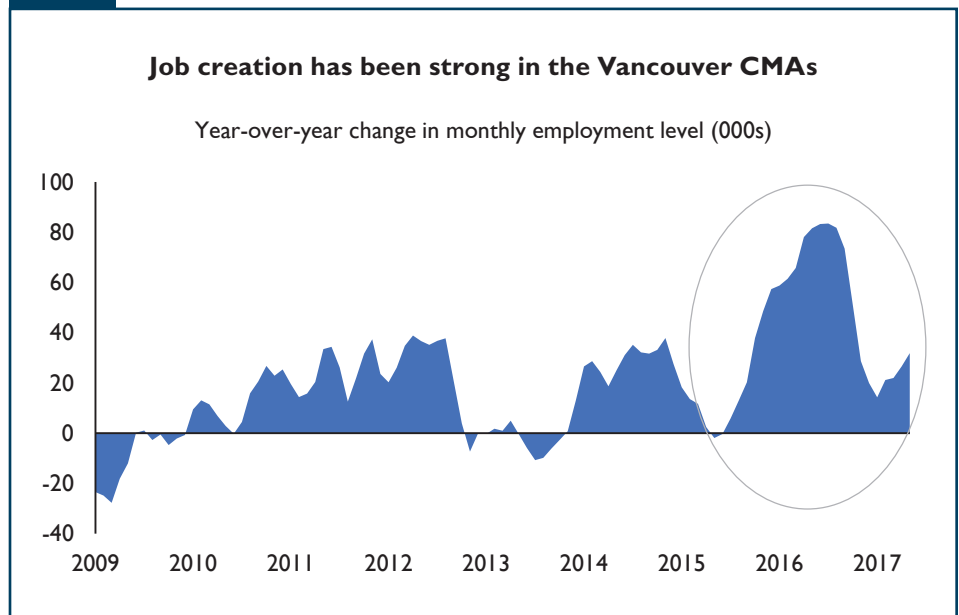
Population and wage growth, along with a record low mortgage rates continue to be supportive of house price growth. In particular, job creation has been strong in the Vancouver CMA (Figure 3). However, the HMA framework suggests that price levels have exceeded those supported by these strong local fundamentals. Current price levels appear stretched both relative to income and across housing types, particularly for single-detached homes, where median prices have

Figure 2



Sources: FVREB, GVREB

Figure 3



Source: Statistics Canada

increased faster in recent years compared to other dwelling types (Figure 4).

## Weak Evidence of Overbuilding

The HMA framework continues to show weak evidence of overbuilding in Metro Vancouver's housing market. Low new home inventories and low vacancy rates in the primary rental market point to weak evidence of overbuilding.

Figure 5 shows the drawdown in inventories of newly completed homes. Most striking is the decline in apartment inventories from nearly 1,400 in May 2014 to 280 in May 2017. Inventory of newly built townhouses and apartments stood at 414 in May 2017, well below the 10-year average of 1,700 units. New build single- and semi-detached inventory appears to have stabilized near 900 properties, close to the 10-year average of 1,000 units. This divergence is due in part to townhouses and apartments generally being less expensive than single-detached properties, so as home prices have increased, demand for more affordable units has remained strong.

The Vancouver CMA continues to have low rental vacancy rates, which also contribute to the framework's assessment of weak evidence of overbuilding. As outlined in the Vancouver CMA Rental Market Report from November 2016, strong inward migration and large recent price increases for ownership apartments have contributed to rising demand for rental housing. Potential first-time buyers may also be spending a longer time in the rental market saving for a down payment as a result of higher prices and mortgage insurance changes. The vacancy rates for the Vancouver CMA were 0.7% and 0.3% for primary and secondary rentals respectively in the fall of 2016.

Figure 4

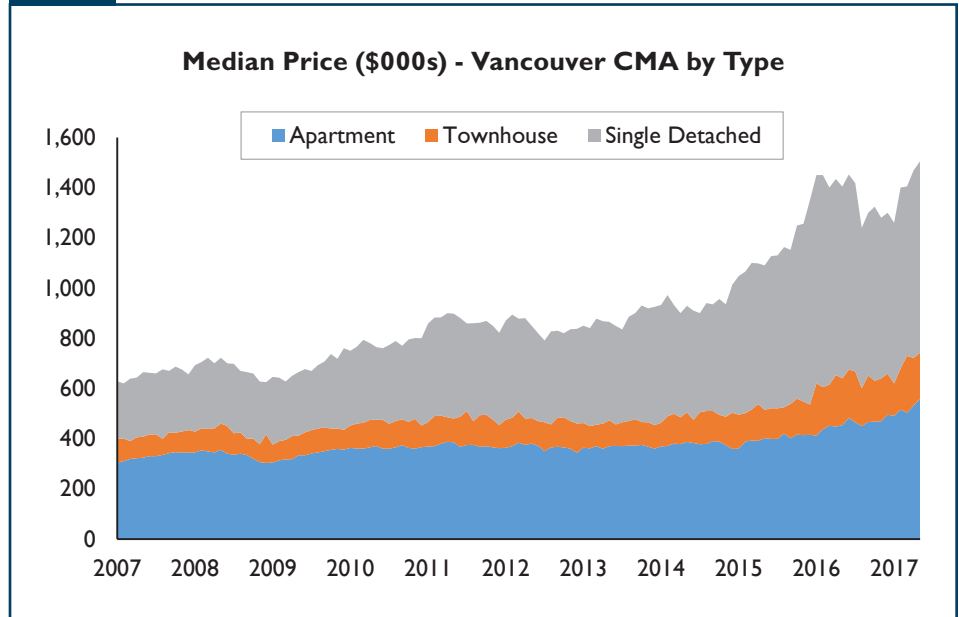
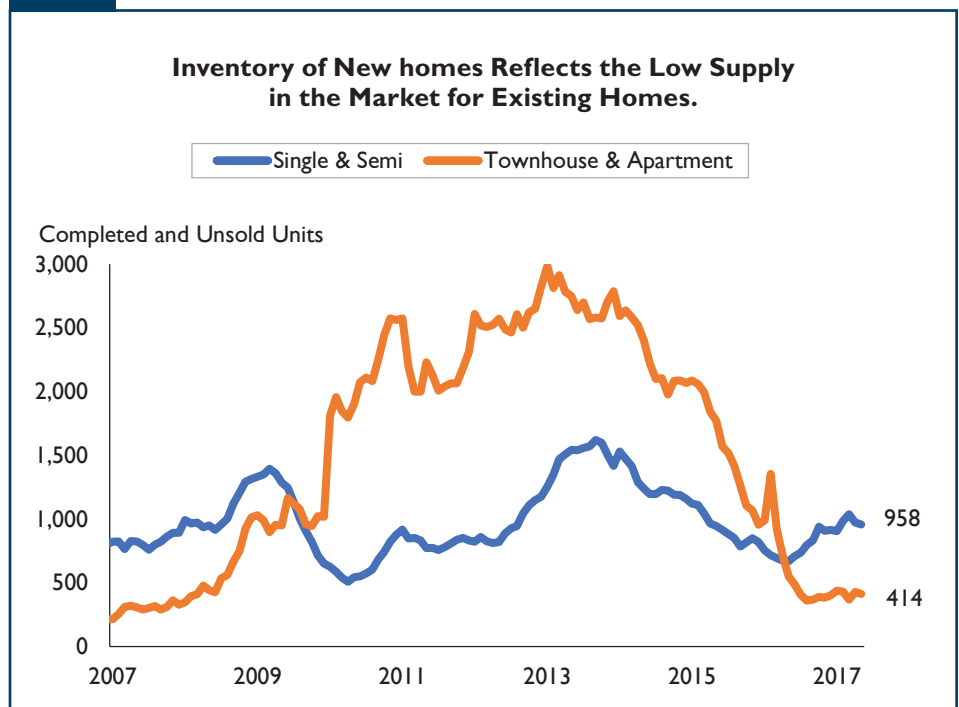


Figure 5





## 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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