

HOUSING MARKET ASSESSMENT

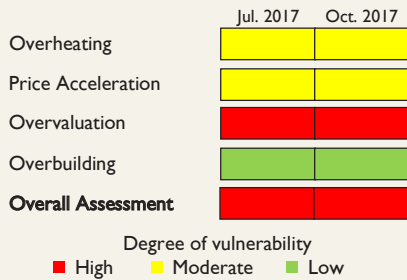
Vancouver CMA

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Highlights

Results Overview Vancouver CMA



- CMHC's second quarter 2017 Housing Market Assessment (HMA) framework detects a high degree of vulnerability¹ 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 growth compared with fundamental factors in the Vancouver CMA.
- As both unsold inventories of homes and apartment vacancy rates remain low, there continues to be low evidence of overbuilding.

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 degrees of vulnerability 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 resolve 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 degree of market vulnerability. The HMA is a comprehensive framework that considers both 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 potentially low degree of vulnerability. As the number of intense and persistent signals increases, the associated degree of vulnerability increases.

In Detail

Moderate Evidence of Overheating

The HMA framework continued to detect moderate evidence of overheating in the Vancouver CMA housing market during the second quarter of 2017. The overall sales-to-new-listings ratio (SNLR, a measure of balance between demand and supply) remained steady since the

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¹ Results are based on data as if the end of June 2017 and local market intelligence up to September 2017. CMHC continuously monitors market developments and will issue HMA updates on a quarterly basis.

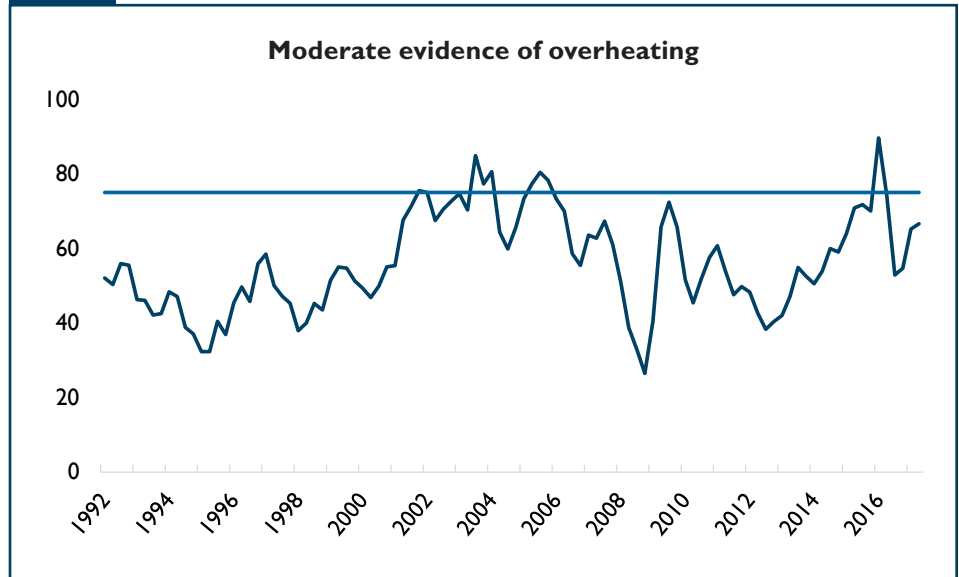
² A detailed description of the framework is available in the appendix of the [National edition](#).

last report, sitting just below the 75% threshold designated for overheating in the Vancouver CMA (Figure I).

Although the overall SNLR held steady, conditions varied by market location and type. Table I shows the SNLR for single detached homes, townhouses and apartments across different municipalities in the Vancouver CMA for June 2017. Notably, the majority of the SNLRs for townhouses and apartments remained well above the threshold for overheating, as high demand continued to exist for these home types due to their relative affordability in comparison to single-detached homes.

Compared with the first six months of last year, total sales and new listings in the Vancouver CMA are down by 24% and 16% respectively. However, the number of new listings for single-detached homes has been increasing gradually since the start of the year, which has eased some of the pressure in that segment of the resale market.

Figure I



Sources: Real Estate Board of Greater Vancouver and Fraser Valley Real Estate Board, calculations (threshold) by CMHC. Last data point 2017Q2. MLS® is a registered trademark of the Canadian Real Estate Association.

Table I: Sales-to-New Listings Ratio (June 2017), Vancouver CMA

	All Home Types	Single-Detached	Town House	Apartment	Condo (Attached + Apartment)
Burnaby	73%	39%	93%	102%	
Coquitlam	68%	54%	78%	82%	
Delta	72%	55%	109%	138%	
New Westminster	81%	58%	100%	85%	
North Vancouver	70%	59%	59%	93%	
Port Coquitlam	93%	88%	95%	96%	
Port Moody	78%	44%	90%	109%	
Richmond	59%	41%	56%	81%	
M Ridge P Meadows	87%	69%	120%	125%	
Vancouver East	71%	46%	69%	114%	
Vancouver West	59%	33%	56%	74%	
West Vancouver	41%	37%	62%	57%	
REBGV	68%	49%	76%	88%	
Langley	86%	79%			91%
Surrey	73%	62%			84%
White Rock	59%	43%			77%
FVREB	73%	62%			86%
Vancouver CMA	66%	52%			77%

Source: Real Estate Board of Greater Vancouver and Fraser Valley Real Estate Board



Eric Bond
Principal, Market
Analysis

"The HMA framework continued to show a high degree of vulnerability in Metro Vancouver's housing market in the second quarter of 2017. Overheating, price acceleration and overvaluation continue to be detected, as low inventories of homes for sale have placed increased pressures on home prices in the market."

Moderate Evidence of Price Acceleration

The HMA framework detected moderate evidence of price acceleration for the sixth consecutive quarter in Metro Vancouver's housing market. The framework indicates price acceleration is present if a significant price increase occurs at least once in the previous three years. Strong short-term price gains can attract investors and promote speculative activity that pushes prices further upwards. With the exception of West Vancouver, prices have continued to show positive year-over-year increases across markets in Greater Vancouver and Fraser Valley (Figure 2).

The MLS® HPI benchmark price composite (for all home types combined) saw higher year-over-year price increases in areas under the Fraser Valley Real Estate Board (FVREB) than in areas under the Real Estate Board of Greater Vancouver (REBGV). The largest increases were in apartments in North Delta and townhouses in North Surrey, where prices increased 36.2% and 32.3% year-over-year, respectively. In the first half of the year, single detached home prices increased 6.7% in Greater Vancouver, while townhouses and apartments were up 9.9% and 15.4% respectively. The higher price increases in areas under the FVREB can be associated with the low number of active listings

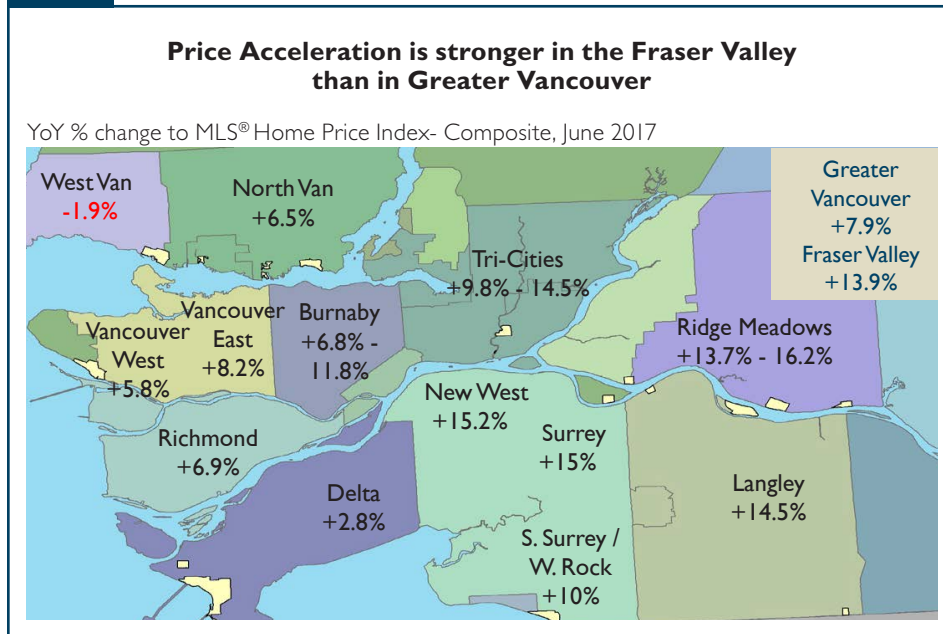
on the resale market. While active listings under the REBGV have increased by 9% since June 2016, the number of active listings under the FVREB remained flat, which has amplified the competition for homes in these markets and contributed to price growth acceleration.

High Evidence of Overvaluation

The HMA framework detected high evidence of overvaluation in Metro Vancouver's housing market in the second quarter of 2017. That is, improvements in fundamental factors such as population, income, actual and expected financing costs, and land supply cannot fully explain the growth in home prices.

Low mortgage rates, stronger population growth (led by international and interprovincial migration), and solid employment figures in the Vancouver CMA have reinforced housing demand this year. In particular, 39,600 full-time jobs were created in the Vancouver CMA between July 2016 and July 2017. The young adult population (ages 25-34) also grew by 0.65% from the first quarter to the second quarter of 2017, which is the highest quarterly increase in nearly 7 years. However, based on the HMA framework, home prices have increased above levels supported by these local improvements.

Figure 2



Source: FVREB, REBGV; Last data point: June 2017
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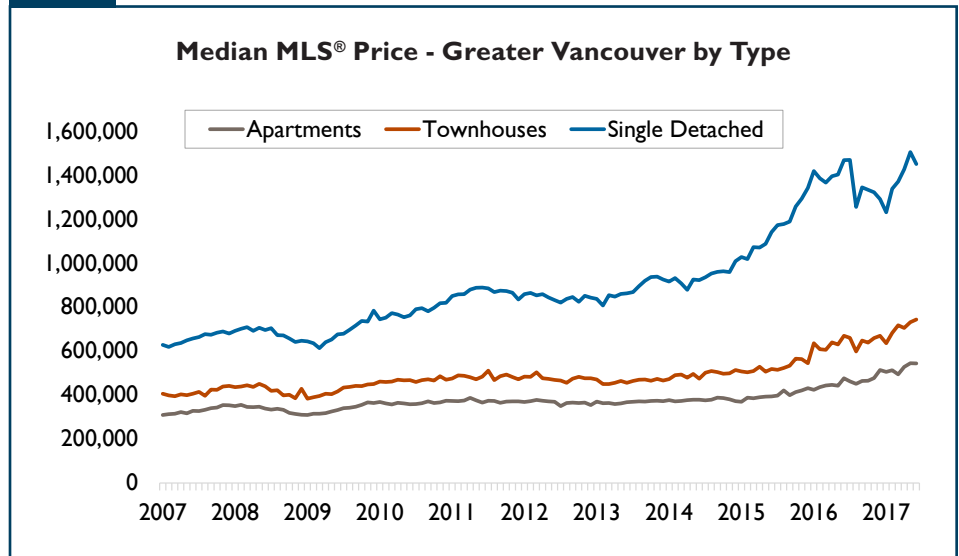
Figure 3 shows the median prices by structure type in Greater Vancouver, where prices have continued to trend up across all home types this year.

Low Evidence of Overbuilding

The HMA framework continues to show low evidence of overbuilding in Metro Vancouver's housing market. Despite record-breaking new home construction starts in 2016, new home inventories remain low (Figure 4) as developers have not been able to keep up with the demand. Inventories for multi-family dwellings have stayed relatively flat since July 2016, hovering around 400 units, while the stock of single detached homes has gone up slightly.

Apartment vacancy rates are also taken into consideration when assessing overbuilding conditions. With prices continuing to trend upward across the Vancouver CMA and rising mortgage rates, potential first-time buyers may have to rent longer in order to save for a down payment. As of August 2017, 8,443 primary rental units were under construction in the Vancouver CMA, the highest on record. This significant increase in rental construction is related to the low vacancy rates in the CMA, which were 0.8% in 2015 and 0.7% in 2016.

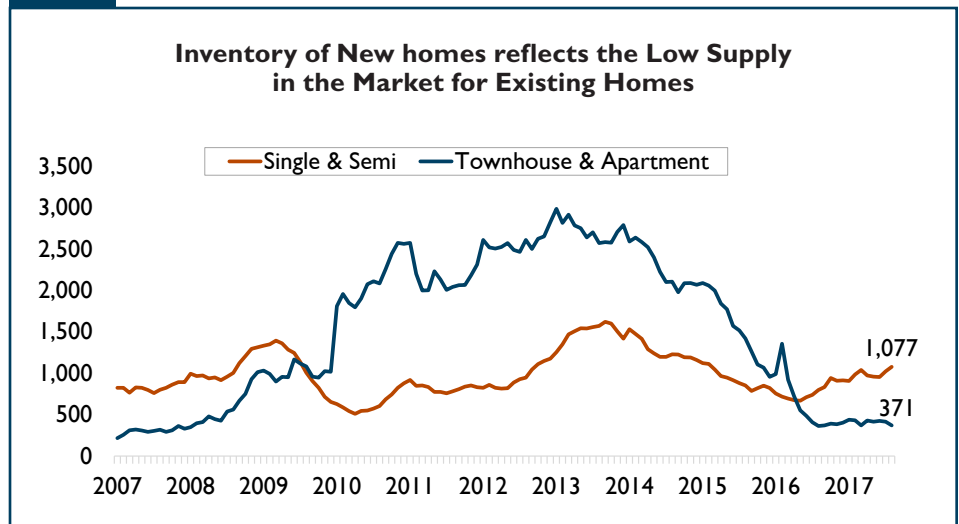
Figure 3



Source: CREA

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Figure 4



Source: CMHC; last data point August 2017

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 detect imbalances in housing markets.

Specifically, the framework considers four main factors that may provide an early indication of vulnerability in the housing market: (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 incidence of signs of vulnerability, 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 a low degree of vulnerability. Conversely, as the intensity, number, and/or persistence of the signals increases, so does the evidence of imbalances in the housing market.

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 vulnerability. 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 vulnerable 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 vulnerabilities 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 signs of overheating, 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 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 signs of overbuilding 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 degree of market vulnerability. The HMA reflects a comprehensive framework that not only tests for the presence or incidence of signals of imbalances (that is, how far the indicator is from its historical average), but also considers the intensity and the persistence of these signals over time. Generally, low intensity and persistence are associated with a lower vulnerability. As the number of persistent signals increases, the evidence of an imbalance 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 that can identify imbalances. 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 showing vulnerability 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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