

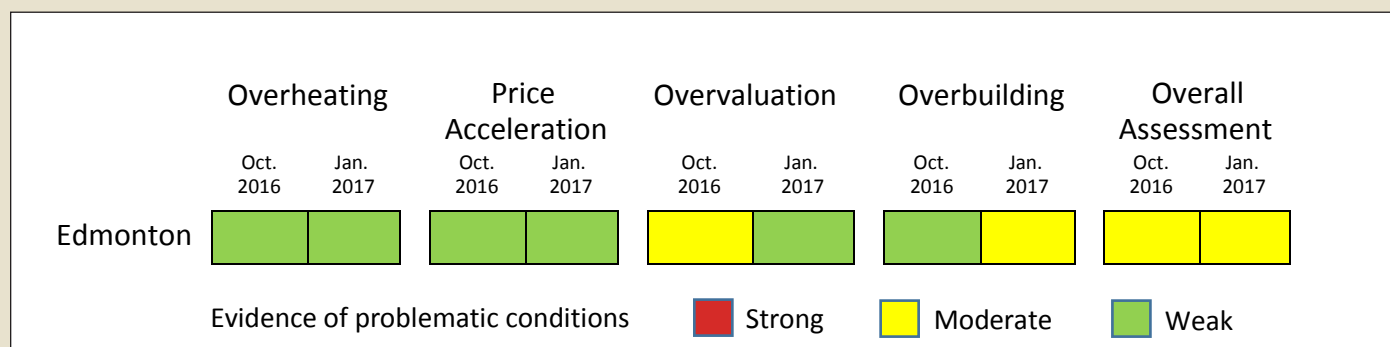
HOUSING MARKET ASSESSMENT Edmonton CMA

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Highlights



- Overall, moderate evidence of problematic conditions was detected in Edmonton's housing market, unchanged from the previous assessment.¹
- Evidence of overvaluation eased from moderate to weak as the young adult population, aged 25 to 34, continued to grow while price trends moderated.
- Factors such as overheating and price acceleration continue to show weak evidence of problematic conditions.
- Moderate evidence of overbuilding was detected as Edmonton's vacancy rate surpassed the problematic threshold. The number of completed and unsold units also continued to rise.
- 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 6 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 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

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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](#).

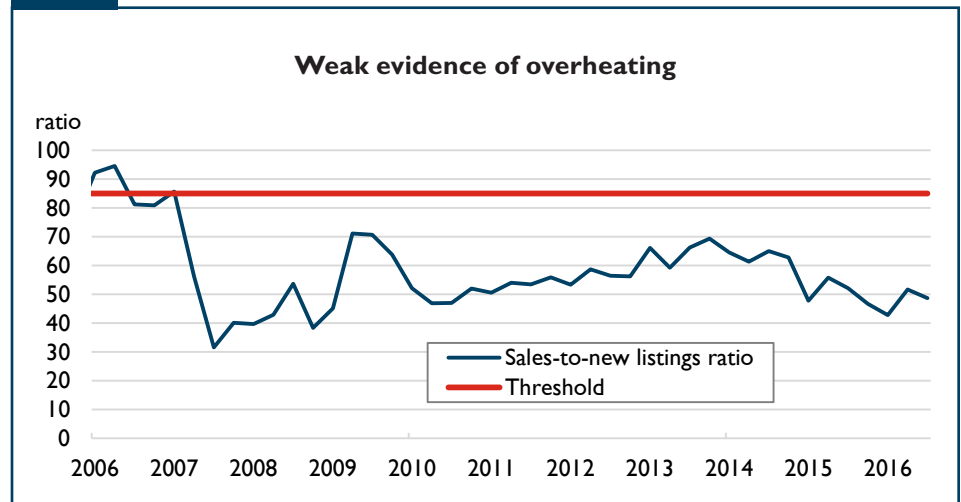
(that is, how far the indicator is from its historical average), and the persistence over time. Generally, low intensity and persistence are associated with potentially weaker evidence of problematic conditions. As the number of intense and persistent signals increases, the associated evidence of problematic conditions becomes stronger.

In Detail

Overheating

CMHC's Housing Market Assessment Framework found little evidence of overheating in Edmonton. During the third quarter of 2016, the sales-to-new-listing ratio averaged 48 per cent, down from the 52 per cent observed last quarter. This ratio, a measure of market balance comparing the number of new homes entering the market to the number being sold, remained well below the 85 per cent threshold that would suggest evidence of overheating. The ratio declined as the number of sales decreased while new listings increased.

Figure 1



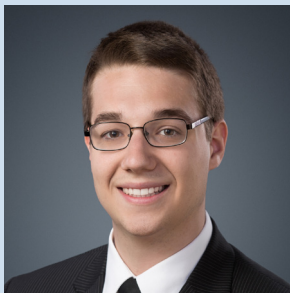
Sources: CREA and calculations (threshold) by CMHC
Last data point: 2016Q3

MLS® sales in Edmonton in the third quarter of 2016 declined 1.9 per cent from the second quarter, as weakening labour conditions impacted demand. On the supply side, new listings increased 4.1 per cent from the second quarter. This has helped maintain market conditions in Edmonton that favour buyers.

Price Acceleration

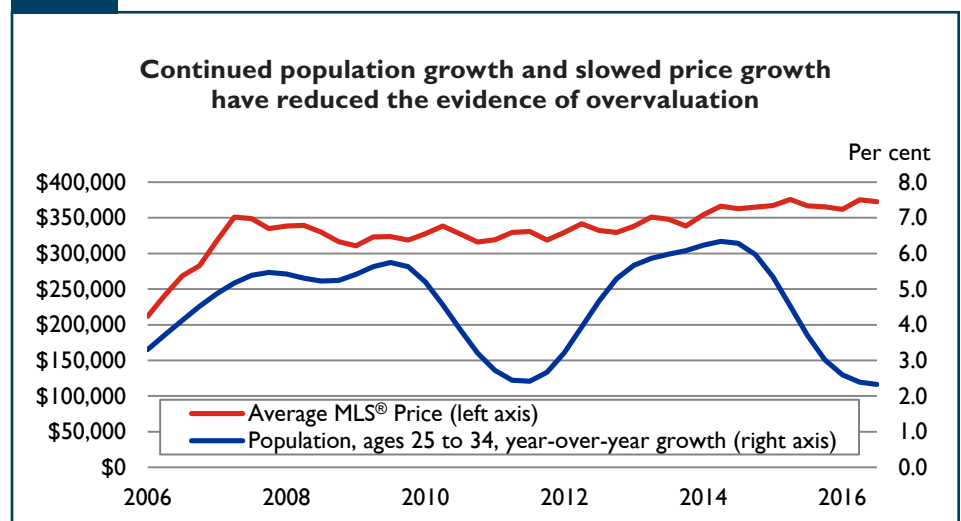
There continued to be weak evidence of price acceleration in Edmonton. In the third quarter of 2016, the seasonally adjusted average MLS® resale price increased 1.2 per cent from the previous quarter, to \$371,594, partially due to composition. Other price measures that mitigate composition effects like the Teranet Composite House

"Elevated rental vacancies and a growing number of completed and unsold units have contributed to moderate evidence of overbuilding."



Timothy Gensey
Market Analyst
Prairie and Territories Region

Figure 2



Sources: CREA and Statistics Canada
Last data point: 2016Q3

Price Index declined by 0.7 per cent, year-over-year. Statistics Canada New House Price Index³ for Edmonton has also edged lower. An elevated supply of resale homes and slower sales have combined to put downward pressure on price growth.

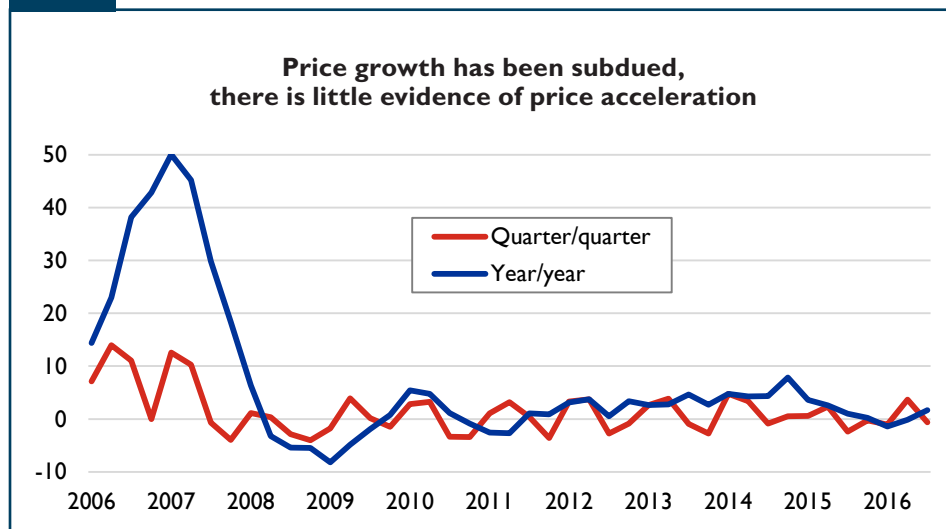
Overvaluation

The moderate evidence of overvaluation observed in the last quarter has subsided. Average MLS[®] resale price growth has moderated and other price measures like the NHPI and Teranet Composite House Price Index have declined. This has helped reduced the level of overvaluation. On the demand side, a fundamental support for housing prices is first time homebuyers. In Edmonton, this age group, the population aged 25 to 34, increased at 2.3 per cent which was faster than the national rate of 1.6 per cent. Growth in this population further reduced the perception of overvaluation.

Overbuilding

According to CMHC's October Rental Market Survey,⁴ the number of rental apartments in the Edmonton CMA increased by 2,677 units. This increase in supply outpaced demand, causing the apartment vacancy rate in Edmonton to increase to 7.1 per cent in the October 2016 survey. The problematic threshold for Edmonton is 6.7 per cent. This has caused the evaluation for evidence of overbuilding to increase to moderate.

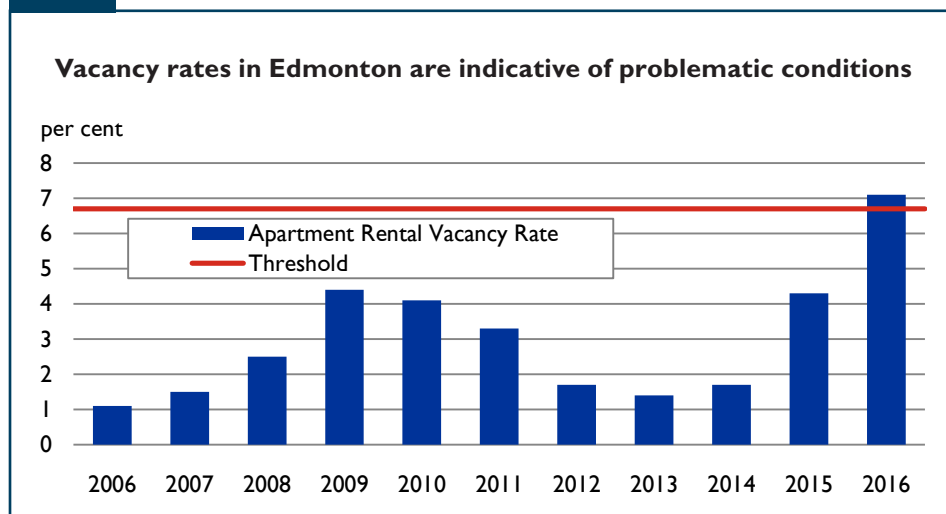
Figure 3



Source: CREA

Last data point: 2016Q3

Figure 4



Source: CMHC data and calculations

Last observation: October 2016

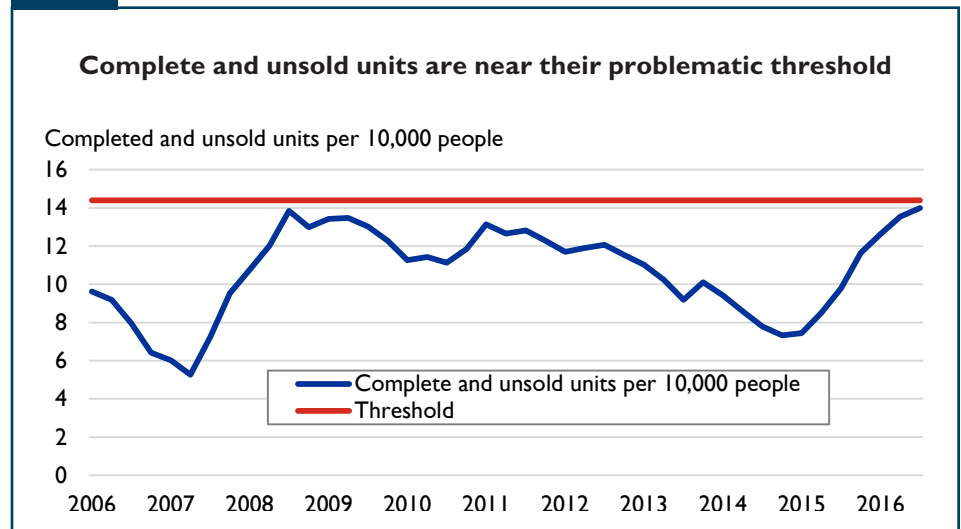
Note: The problematic threshold is generated by historic models that detect indicators of overbuilding for each CMA

³ Source: Statistics Canada, CANSIM, table 327-0046.

⁴ Source: CMHC Rental Market Survey: Edmonton, October 2016.

Unsold inventory is another measure of overbuilding and if current trends continue there is a risk of exceeding the problematic threshold. There were 14 complete and unabsorbed units per 10,000 people, close to the problematic threshold of 14.39. As of September 2016, there were 1,840 complete and unsold units available for home ownership, 45 percent more than the same period a year prior. Much of this rise has been concentrated in apartment condominium units, which are at an elevated level for Edmonton and more than double that of the year before.

Figure 5



Sources: Statistics Canada and CMHC

Last data point: 2016Q3

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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