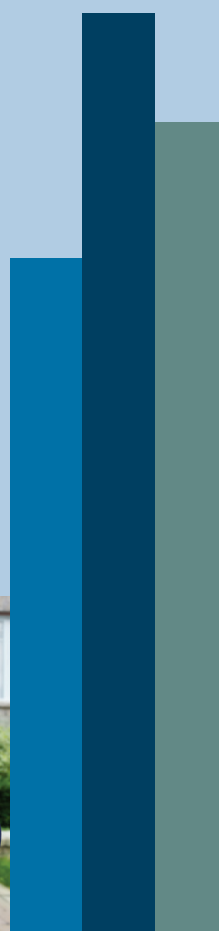


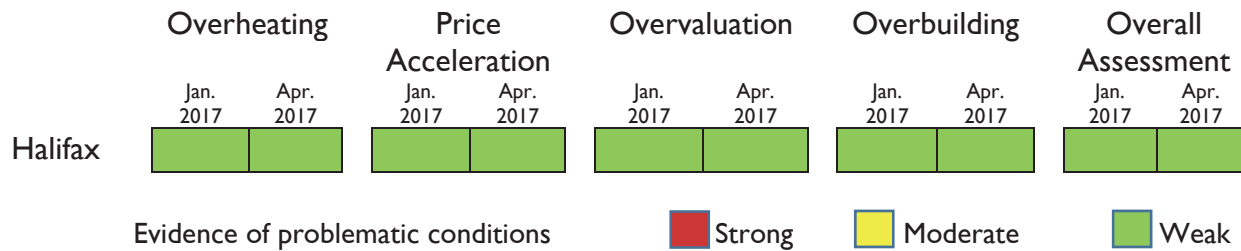
HOUSING MARKET ASSESSMENT Halifax CMA

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Highlights



- Overall, we detect weak evidence of problematic conditions in the Halifax CMA.¹
- Strong population growth combined with modest price growth has continued to mitigate the signs of overvaluation.
- While MLS® sales volumes have increased across most of the Halifax CMA submarkets, price growth has been centralized in the suburban markets.
- The overbuilding factor continues to remain below its threshold for problematic conditions due to strong rental demand and a decline in homeownership inventories.
- 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 5 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 problematic conditions becomes stronger.

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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

Overheating

Weak evidence of overheating is detected in Halifax. The sales-to-new-listings ratio remained stable throughout 2016, declining slightly this quarter to 52.3%. The housing market shows balanced conditions and remains below the threshold for problematic conditions of 85%.

MLS® sales volumes declined compared to the previous quarter but have increased year-over-year. Both new listings and total active listings recorded declines this quarter with active listings dropping to 2,748 in December.

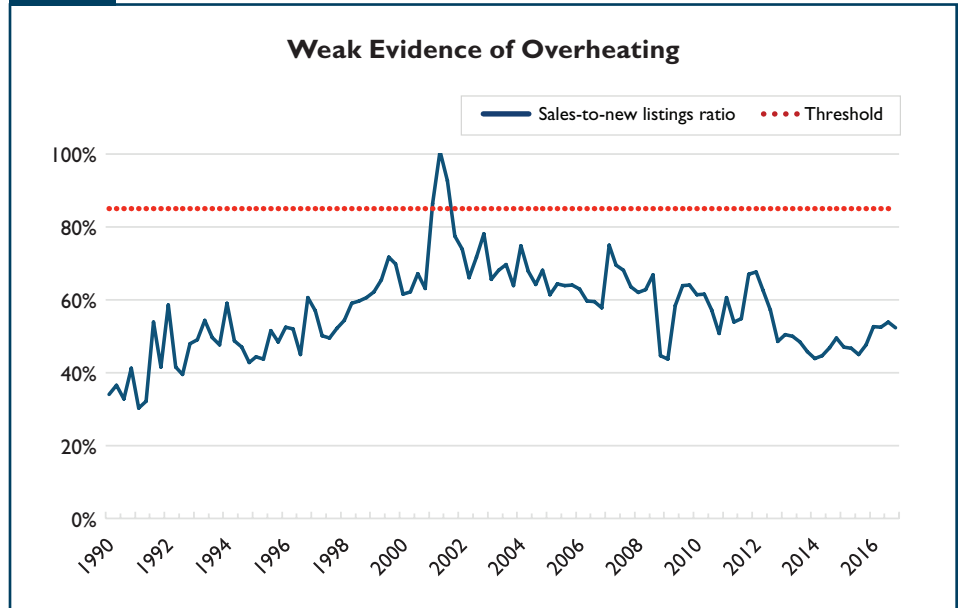
MLS® sales in 2016 surpassed 2015 levels in most of the Halifax CMA submarkets, showing the strongest level of sales in the region since 2012.

“Although growth in employment levels and real income per capita has remained stagnant, population gains combined with strong MLS® sales activity and declining new home inventories continue to indicate weak evidence of problematic conditions in the Halifax CMA.”



Guillaume Neault
Principal, Market Analysis (Halifax)

Figure 1



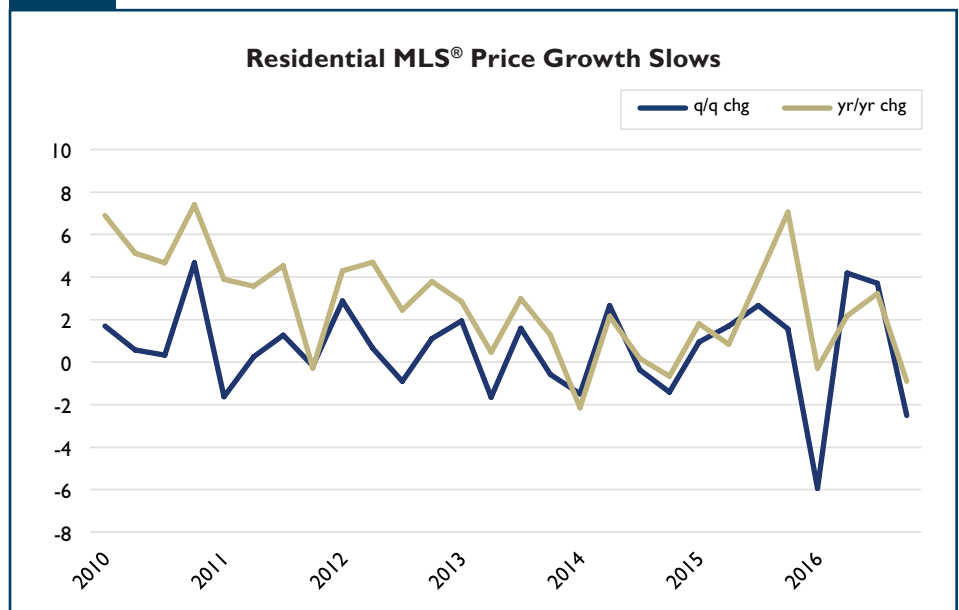
Source: CREA and calculations (threshold) by CMHC. Last data point: 2016 Q4.

Price Acceleration

Average MLS® prices in the Halifax CMA recorded a significant drop in the first half of 2016 compared to year-end 2015 figures. By Q3 2016, however, average prices climbed

by 3.7%. On a seasonally adjusted quarter-over-quarter basis, average prices once again recorded a decline in the Halifax CMA, falling by 2.5% to \$286,906 as of Q4 2016. In total, year-end 2016 prices have recorded marginal growth of a little over one

Figure 2



Source: Canadian Real Estate Association (CREA).

percent year-over-year, indicating weak evidence of price acceleration in the Halifax market. Growth in average MLS® prices in 2016 has been more centralized in the suburban markets connected to new single family development, while the urban cores of Halifax City and Dartmouth City have seen average prices decline or remain flat year-over-year.

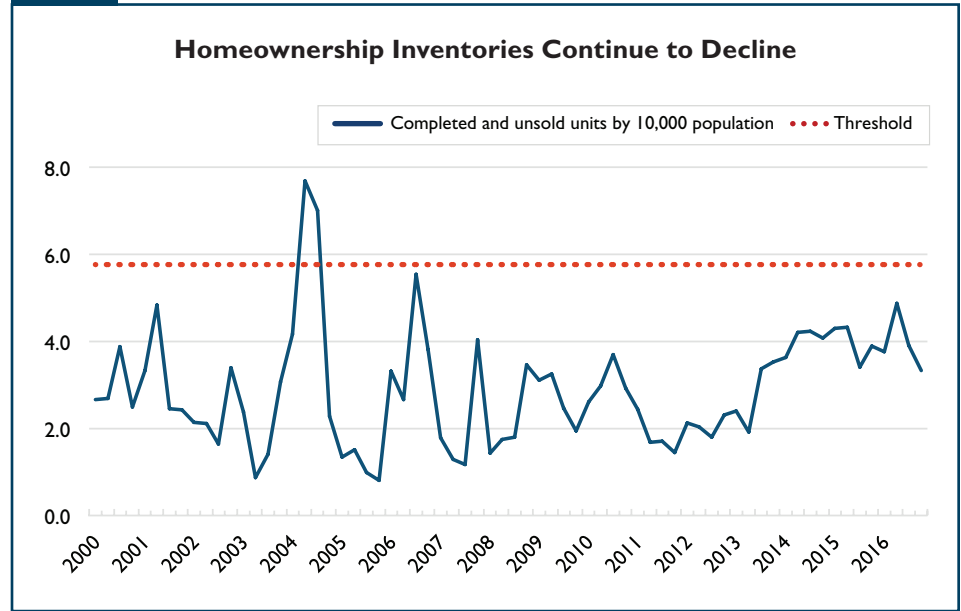
Overvaluation

We continue to detect weak evidence of overvaluation in the Halifax CMA, driven by slow year-over-year price growth and stable demand factors. With the influx of international migrants remaining strong, seasonally adjusted population levels in the Halifax CMA have steadily climbed throughout 2016. This had a positive impact especially on the young adult population which grew by 4.2% year-over-year as of Q4 2016. Despite strong population growth, seasonally adjusted employment levels have remained fairly flat throughout 2016, with some employment growth in the latter part of the year offsetting declines seen during the first two quarters.

Overbuilding

Despite continued construction in the multiples market, weak evidence of overbuilding is detected in the Halifax CMA. The addition of 717 rental apartments to the universe in the fourth quarter pushed the total for 2016 to 1,280 units, the majority

Figure 3



Source: Statistics Canada and CMHC. Last data point: 2016 Q4.

of which were located on the Halifax Peninsula and the Hammonds Plains area. As of the end of 2016, there were 2,652 rental apartments under construction in Halifax, 51% of which are located on the Halifax Peninsula. In contrast, 490 singles units were added to the universe in 2016, an increase from 2015 levels, but still well below past averages for singles construction in the Halifax CMA. There are 384 single, semi-detached and row units under construction as of the end of 2016, the majority of which are located in the rural and suburban areas of the Halifax CMA.

Inventories of completed and unsold homeowner and condominium units continued to decline in the fourth

quarter of 2016 to 150 units, or 3.3 unsold units per 10,000 population. This is the lowest inventory level since 2013 and falls below the threshold for problematic conditions of 5.8 units. A lower inventory level combined with continued rental market demand further supports weak evidence of overbuilding evident in the Halifax market.

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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