HOUSING MARKET INFORMATION

HOUSING MARKET ASSESSMENT
Halifax CMA

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Canada

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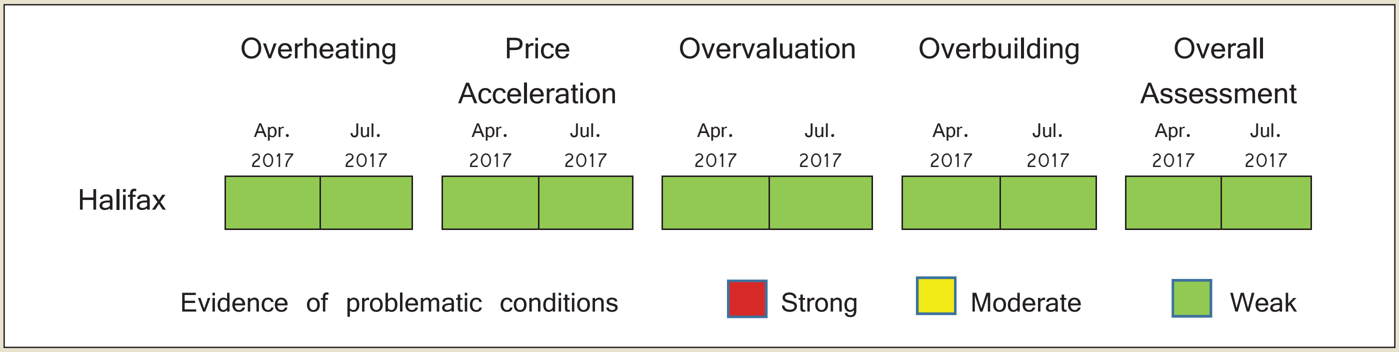
Highlights



- Overall, we detect weak evidence of problematic conditions in the Halifax CMA.
- Although MLS® sales volumes have had a slow start to the year, average prices have experienced growth as total active listings and the average number of days on market decreased.
- Population growth, especially in the young adult population supports rental demand and stable homeownership inventories, allowing the overbuilding indicator to remain below its threshold for problematic conditions.
- The Housing Market Assessment (HMA) analytical framework[1] 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[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 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.

[1] 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.

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

In Detail

Overheating

Models detect weak evidence of overheating in Halifax. The number of new listings has continued to slow, with 3,444 active listings available on the market in May, a decline of over 15% year-over-year.[3] With this drop in total active listings, the number of days on market has also decreased, falling to an average of 92 days across the Halifax CMA. The amount of time that a home is on the market has declined in all Halifax submarkets year-to-date with the exception of Fall River-Beaver Bank. The sales-to-new-listings ratio remained stable throughout 2016, increasing this quarter to 56.8%. The housing market shows balanced conditions and remains below the threshold for problematic conditions of 85%. MLS® sales volumes had a slow start to 2017 with Q1 2017 sales lagging Q1 2016 by over 7%. However, the market began to pick up pace, with strong sales growth occurring in May bringing year-to-date volumes only slightly behind year-to-date 2016 figures.

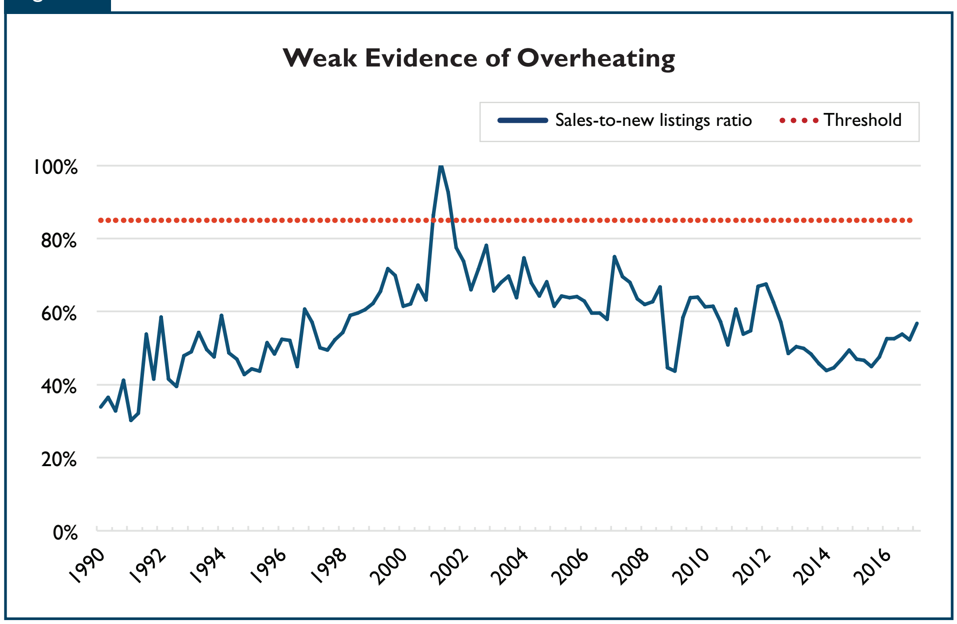
"While sales in the MLS® market declined as of Q1 2017 on a year-over-year basis, average prices have experienced growth, driven by a continued decrease in the number of total active listings on the market. As a result, both overvaluation and price acceleration models remain below threshold levels currently, but must be monitored in future quarters to ensure that price growth remains consistent with economic fundamentals."

Guillaume Neault
Principal, Market Analysis (Halifax)

Price Acceleration

By year-end 2016 average MLS® prices in the Halifax CMA recorded a marginal growth of 1.5% compared to 2015. In Q1 2017, average prices declined quarter-over-quarter, but witnessed growth of almost 4% compared to Q1 2016. In line with the recent increase in MLS® sales, average prices have begun to see significant growth in April and May specifically, reaching a year-to-date (January-May) average of $298,600, up by almost 6% compared to the same period last year[4]. In total, despite the year-over-year price growth in Q1 2017, quarter-over-quarter prices have fallen, continuing to support weak evidence of price acceleration in the Halifax market. However, the strong price growth recorded in the most recent months as well as the decline in total active listings indicates that price acceleration may become more visible across the Halifax CMA, with prices rising not only in the more expensive markets of Halifax City and Bedford-Hammonds Plains, but also in lower-priced markets as well such as Halifax County East and areas within Dartmouth City.

Figure 1



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

3 Nova Scotia Association of REALTORS®

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Overvaluation

Population growth has been a strong driver of Halifax's housing demand, with 2016's immigration levels more than doubling from the previous year. The increase of international migrants combined with the steady influx of Nova Scotians moving to Halifax from other parts of the province has supported the continued rise in seasonally adjusted population levels into 2017. This had a positive impact especially on the young adult population which grew by 4% year-over-year as of the end of Q1 2017.

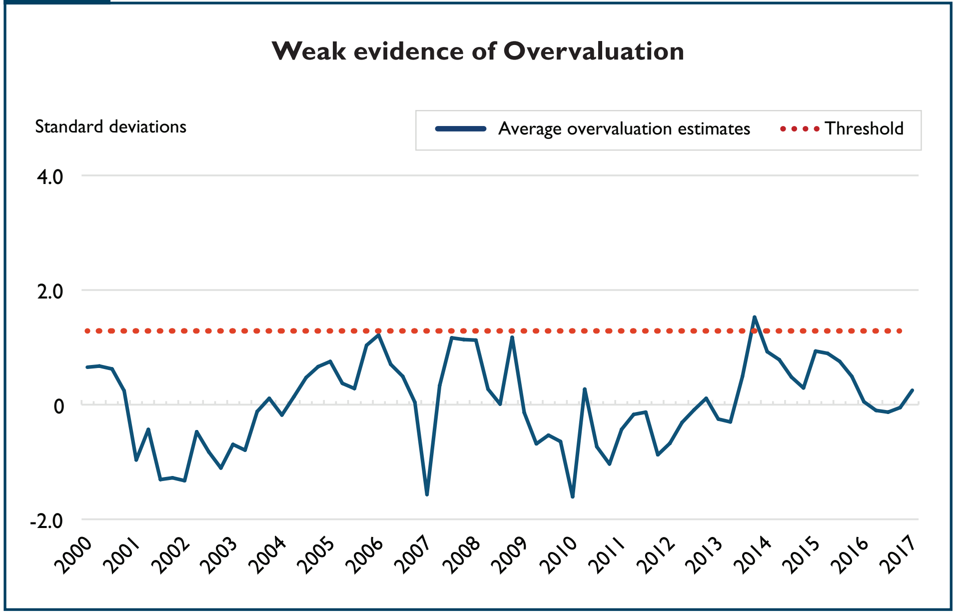
Although population levels increased, job growth within Halifax has remained weak. As of Q1 2017, seasonally adjusted employment declined on a quarter-over-quarter basis, although experiencing some minimal growth year-over-year. In addition, the monthly seasonally adjusted unemployment rate in Halifax reached 7% as of May, the highest point since March 2016[5].

Although models detect weak evidence of overvaluation currently for the Halifax market, if price growth continues to be strong over the next months the market will again show signs of overvaluation. As such, it will be important to monitor closely the relationship between price growth and economic fundamentals.

Overbuilding:

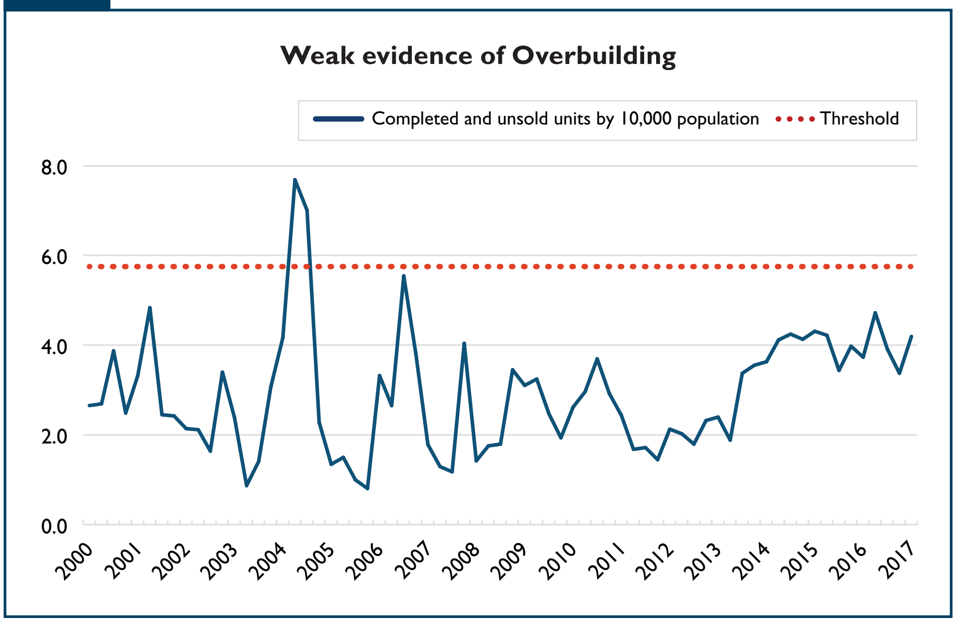
Strong levels of multiples construction continue to be the main driver within the residential new home market in Halifax. So far in

Figure 2



Source: Teranet – National Bank House Price Index™. Statistics Canada and calculations by CMHC. Last data point: 2017 Q1.

Figure 3



Sources: Statistics Canada and CMHC. Last data point: 2017 Q1.

[5] Statistics Canada CANSIM Table 282-0135

2017, 350 apartment units have been added to the rental universe, distributed throughout the Halifax Peninsula and Halifax Mainland regions. As of the end of May, there were 3,135 rental apartments under construction in Halifax, 57% of which are located on the Halifax Peninsula. This growth in under construction inventory was impacted by a number of larger projects breaking ground. As of the end of May, 833 rental apartment units have started within the Halifax CMA, more than double the number of rental starts that occurred over the same period last year. This increase, however, is not only apparent in the rental market, but also in the single-detached market with the number of single-detached starts increasing by over 16% compared to last year.

Inventories of completed and unsold homeowner and condominium units increased in Q1 2017 after three quarters of decline. Inventories now sit at 4.2 units per 10,000 population, still below the threshold for problematic conditions of 5.8 units. Continued elevated growth in the average absorbed price of a new home may be responsible for some of the build-up of inventory as buyers may increasingly look to the resale market for more affordable options. Nonetheless, inventory levels remaining below the problematic threshold and strong rental demand supports weak evidence of overbuilding 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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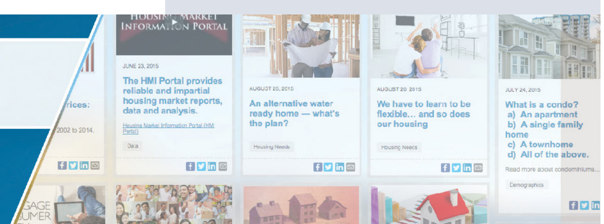

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