HOUSING MARKET INFORMATION

HOUSING MARKET ASSESSMENT

Hamilton CMA

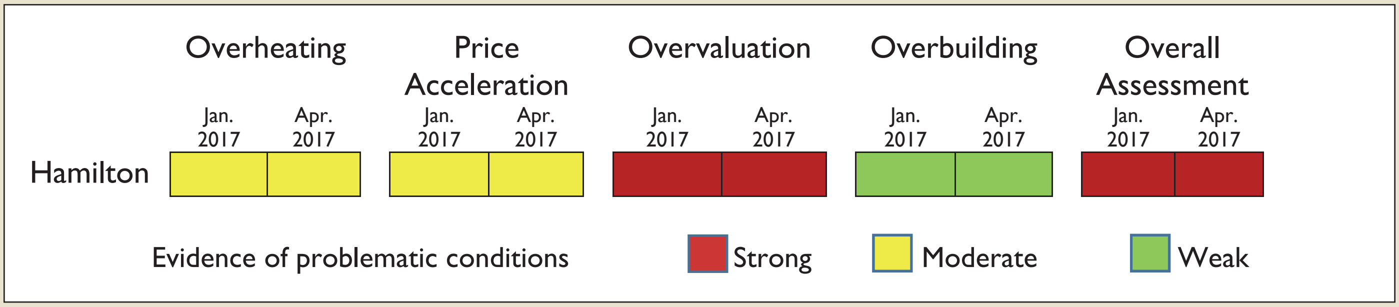
Date Released: Second Quarter 2017

Housing market intelligence you can count on

Canada

CMHC SCHL

Highlights



- The overall assessment[1] for the Hamilton Census Metropolitan Area (CMA) showed strong evidence of problematic conditions in Q4 2016, unchanged from the previous quarter's assessment.
- The sales-to-new-listings[2] ratio remained above the 75% threshold used to determine evidence of overheating.
- There was moderate evidence of price acceleration in Q4 2016, based on CMHC criteria.
- In the Hamilton CMA, there was strong evidence of overvaluation in Q4 2016, as home prices continued to grow faster than would be consistent with the growth in financial, economic and demographic fundamentals.
- There was weak evidence of overbuilding in Q4 2016.
- 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 Overview[3]

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

[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 sales-to-new-listings ratio above 60% is associated with sellers' market conditions. In a sellers' market, inflation adjusted home prices are generally rising. A sales-to-new-listings ratio below 40% has historically accompanied inflation adjusted prices that are falling, a situation known as buyers' market. When the sales-to-new-listings ratio is between these two boundaries, the market is said to be balanced. New listings are a gauge of the supply of existing homes coming onto the market, while sales are a proxy for demand.

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

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 problematic conditions becomes stronger.

"The Housing Market Assessment for the Hamilton Census Metropolitan Area (CMA) indicates moderate evidence of overheating, moderate evidence of price acceleration and strong evidence of overvaluation in the fourth quarter of 2016. The overheating assessment reflected the continued tightness of housing market conditions in the Hamilton CMA, as indicated by the decline in average days on market. Strong evidence of overvaluation persisted in the fourth quarter of 2016 as home prices continued to grow faster than would be consistent with the growth in financial, economic and demographic fundamentals."

Abdul K. Kargbo
Senior Market Analyst (Hamilton and Brantford CMAs)

In Detail

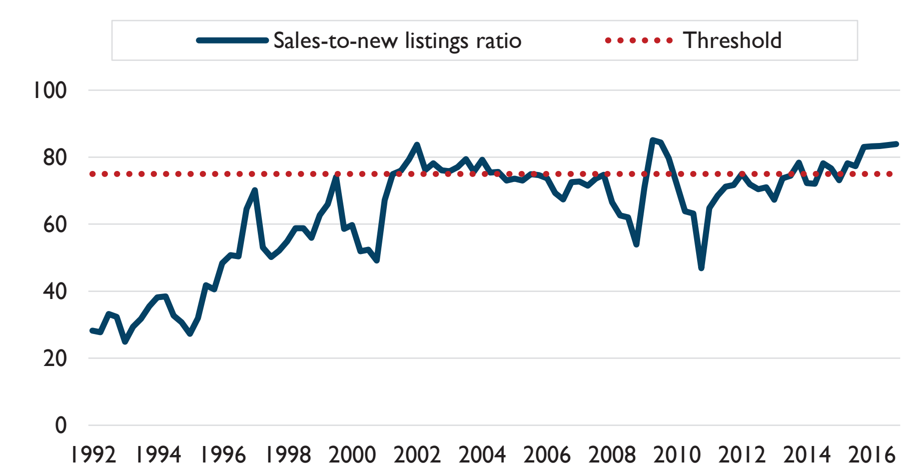
Overheating

In the Hamilton CMA, growth in demand continues to outpace growth in supply in the resale market and the sales-to-new-listings ratio was unchanged in the fourth quarter of 2016. Tight conditions persisted into the first quarter of 2017, as indicated by the decline in average days on market. The demand for townhouses remained exceptionally strong and the average days on market has dropped to 18 days compared to 31 days in the fourth quarter of 2015. The tight market conditions have encouraged some buyers to pay slightly above the asking price.

All submarkets across the Hamilton CMA remained in sellers' market territory in Q4 2016. The average days on market was lower in Hamilton Mountain, Burlington, Stoney Creek, Glanbrook and Hamilton Center compared to the Hamilton CMA average of 24 days. Buyers were paying above asking price for an average home in the aforementioned submarkets. Meanwhile, Flamborough continues to record the longest days on market, although the average days on market dropped significantly to 47 days in the fourth quarter of 2016 compared to 70 days in the fourth quarter of 2015. Generally, the priciest homes are located in Flamborough with an average price of $783,743 in the fourth quarter of 2016, significantly higher than the Hamilton CMA average of $500,338. This phenomenon may help explain why the average days on market was highest in Flamborough.

Figure 1

Moderate Evidence of Overheating Persisted in Q4 2016



Source: CREA, CMHC analysis. Last data point: Q4 2016

Since Q1 2011, the SNLR in Hamilton has consistently indicated that sales are strong at any level of listings, putting upward pressure on house prices. Many baby boomers are likely not moving and by extension limiting the number of new listings. The increase in the average vacancy rate was in part the result of an increase in the number of local rental households moving into homeownership, pushing the SNLR up even further. First-time buyer demand has been the engine for existing home sales in Hamilton since 2009. The strong presence of first-time buyers in the housing market continued to allow repeat buyers to trade up.

Price Acceleration

The HMA analytical framework detected moderate evidence of price acceleration in Hamilton's housing market. Strong sellers' market conditions persisted in Q4 2016 and pushed the rate of change in the average house price to move above the critical threshold. House prices were up by double-digits among all dwelling types, with townhouses registering the strongest price growth of 19% in the fourth quarter of 2016 compared to the same quarter in 2015. The strong growth in townhouse prices has been supported by a steady increase in demand from first-time buyers, particularly those coming from Toronto.

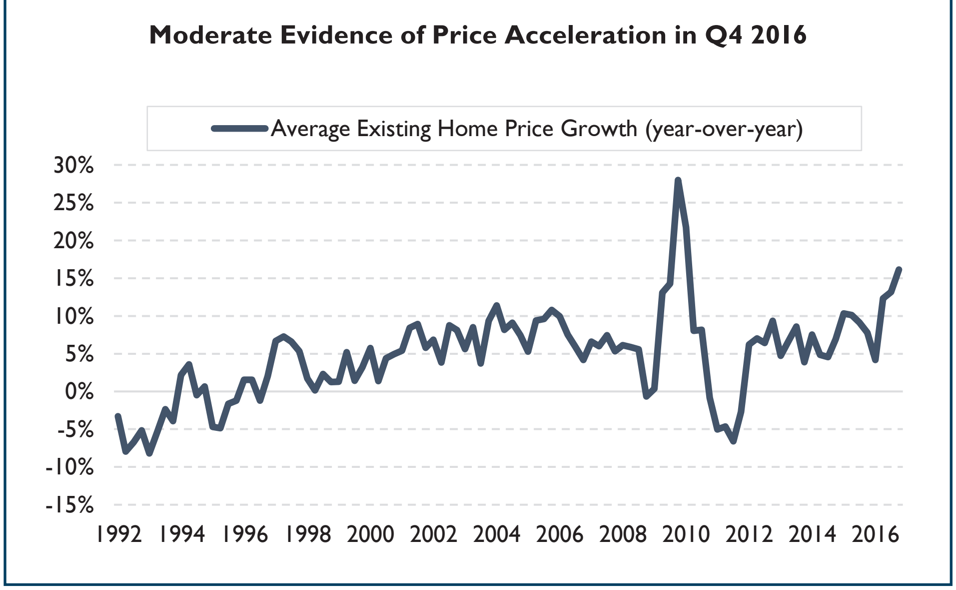
On a seasonally adjusted basis, the average existing home price was up 3.5% in Q4 2016 compared to Q4 2015. Seasonally adjusted prices were up across all dwelling types in Q4 2016 compared to Q3 2016. For the entire Hamilton CMA, the quarterly seasonally adjusted annual rate (SAAR)[4] of the average existing home price was up 14.8% in Q4 2016 compared to Q3 2016.

The average existing home price was up 16% in December 2016 compared to December 2015. The Teranet[5] – National Bank National Composite House Price Index™ was up 17.5% during the same 12-month period. The latter index is based prices for the same type of homes and is unaffected by the mix of homes being sold. The slightly slower growth in the average existing home price indicates that the mix of homes sold included more homes with below average prices, which in turn indicates the presence of first-time buyers, since they tend to focus on more affordable homes.

Overvaluation

Strong evidence of overvaluation persisted in the fourth quarter of 2016 as home prices continued to grow faster than would be consistent with the growth in financial, economic and demographic fundamentals. Total employment strengthened somewhat in the fourth quarter of 2016, but with full-time employment being less robust, real personal disposable income declined by 0.2% year over year in the fourth quarter of 2016, marking a third consecutive decline.

Figure 2



Source: CREA, CMHC analysis. Last data point: Q4 2016

---

4 By removing seasonal ups and downs, seasonal adjustment allows for comparison of adjacent quarters. The quarterly SAAR indicates the annual rate of price growth that would be obtained if the same pace of quarterly price growth was maintained for four quarters. This facilitates comparison of the current rate of price growth to annual forecasts as well as to historical annual rates.

5 The Teranet–National Bank National Composite House Price Index™ is an independent representation of the rate of change of Canadian single-family home prices (including resale homes). The measurements are based on the property sales records of public land registries. The monthly indices currently cover Victoria, Vancouver, Calgary, Edmonton, Winnipeg, Hamilton, Toronto, Ottawa-Gatineau, Montréal, Québec City and Halifax, which are then combined to form a coast-to-coast composite index.

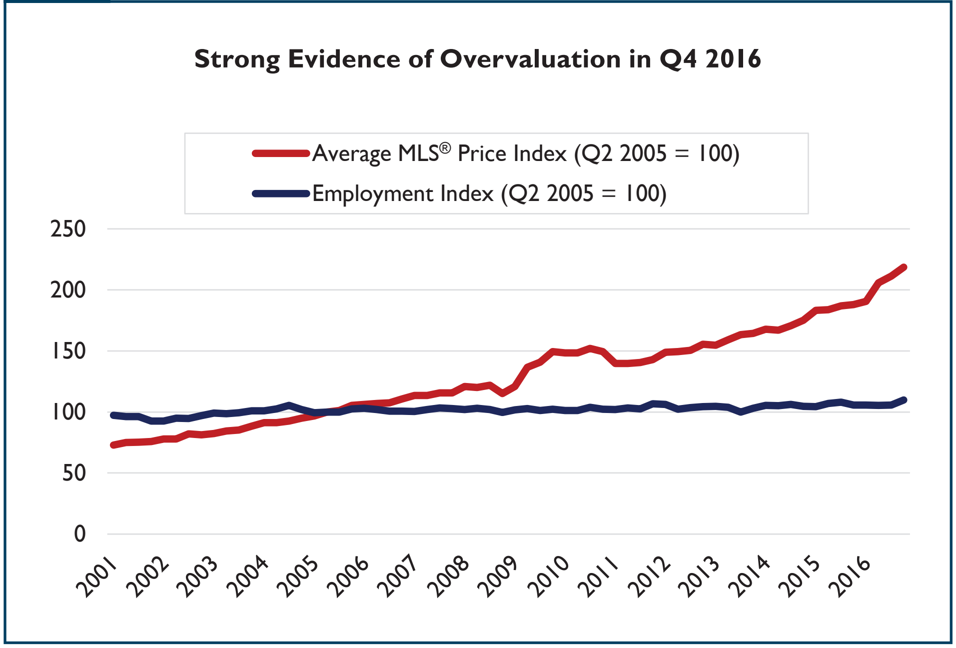
The house price gap between the Greater Toronto Area (GTA) and the Hamilton CMA continued to attract more out-of-town buyers. The supply of low rise homes in the GTA has been limited which helps explain the increase in demand for these types of dwellings in Hamilton. Many potential buyers that are priced out of the GTA market may be encouraged to move into the Hamilton area in search of affordable homes, particularly for low rise dwellings.

Overbuilding

The number of completed and unsold units was up in Q4 2016, primarily due to a higher inventory level in Ancaster, Dundas, Flamborough, and Glanbrook. Given the tight market conditions in the Hamilton region, the inventory increase in Ancaster, Dundas, Flamborough and Glanbrook could be transitory. As a result, the HMA analytical framework detected weak evidence of overbuilding in Hamilton's housing market in Q4 2016, unchanged from the previous quarter's assessment, and the new home inventory level remained below the threshold at which the framework would detect evidence of overbuilding.

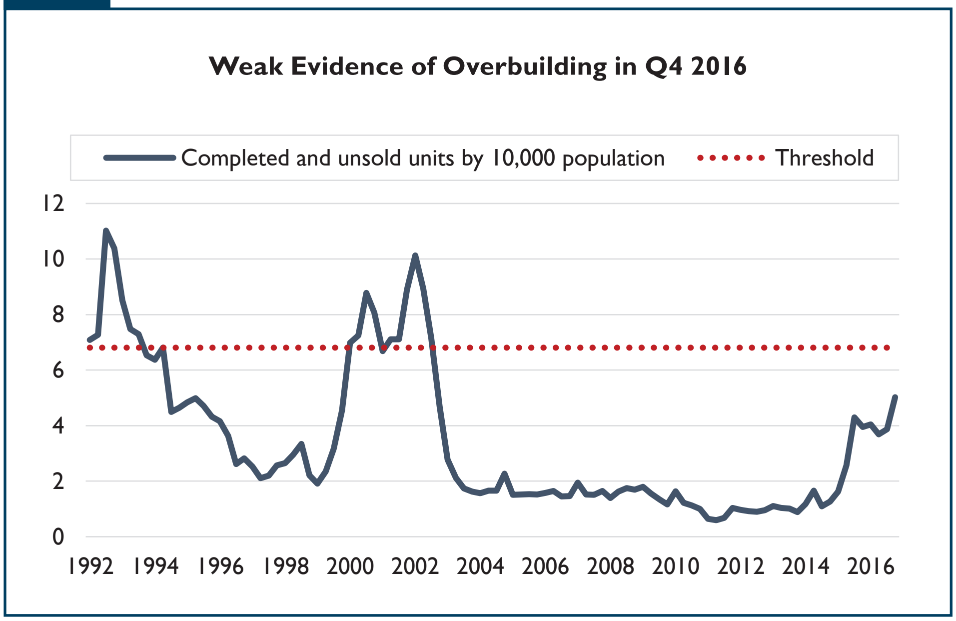
The rental vacancy rate indicator remained below the threshold at which the framework identifies evidence of overbuilding, despite the average rental vacancy rate increasing to 3.8% in October 2016, from 3.4% in October 2015. Weak employment growth among young adults aged 15 to 24 and a small rental supply increase exerted upward pressure on vacancy rates in October 2016. Another factor that contributed to the higher vacancy rates in 2016 was that some local rental households vacated their units and moved into homeownership, as mortgage rates remained at relatively low levels.

Figure 3



Source: Statistics Canada; CREA; CMHC analysis. Last data point: Q4 2016

Figure 4



Source: CMHC. Last data point: Q4 2016

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.

CMHC—HOME TO CANADIANS

Canada Mortgage and Housing Corporation (CMHC) has been Canada's national housing agency for almost 70 years.

CMHC helps Canadians meet their housing needs. As Canada's authority on housing, we contribute to the stability of the housing market and financial system, provide support for Canadians in housing need, and offer objective housing research and information to Canadian governments, consumers and the housing industry. Prudent risk management, strong corporate governance and transparency are cornerstones of our operations.

For more information, visit our website at www.cmhc.ca or follow us on Twitter, LinkedIn, Facebook and YouTube.

You can also reach us by phone at 1-800-668-2642 or by fax at 1-800-245-9274.

Outside Canada call 613-748-2003 or fax to 613-748-2016.

Canada Mortgage and Housing Corporation supports the Government of Canada policy on access to information for people with disabilities. If you wish to obtain this publication in alternative formats, call 1-800-668-2642.

The Market Analysis Centre's (MAC) electronic suite of national standardized products is available for free on CMHC's website. You can view, print, download or subscribe to future editions and get market information e-mailed automatically to you the same day it is released. It's quick and convenient! Go to www.cmhc.ca/en/hoficlincl/homain

For more information on MAC and the wealth of housing market information available to you, visit us today at www.cmhc.ca/housingmarketinformation

To subscribe to printed editions of MAC publications, call 1-800-668-2642.

Housing market intelligence you can count on

FREE REPORTS AVAILABLE ON-LINE

Local, regional and national analysis and data pertaining to current market conditions and future-oriented trends.

- Canadian Housing Statistics
- Condominium Owners Report
- Housing Information Monthly
- Housing Market Assessment
- Housing Market Insight
- Housing Now Tables
- Housing Market Outlook, Canada
- Housing Market Outlook, Highlight Reports – Regional and Northern
- Housing Market Outlook, Canada and Major Centres
- Housing Market Tables: Selected South Central Ontario Centres
- Preliminary Housing Starts Data
- Rental Market Reports, Canada and Provincial Highlights
- Rental Market Reports, Major Centres
- Residential Construction Digest, Prairie Centres
- Seniors' Housing Reports

FREE DATA TABLES AVAILABLE ON-LINE

- Housing Construction Activity by Municipality
- Comprehensive Rental Market Survey Tables
- Comprehensive New Home Construction Tables

Get the market intelligence you need today!

Click www.cmhc.ca/housingmarketinformation to view, download or subscribe.

CMHC's Market Analysis Centre provides a wealth of local, regional, and national data, information, and analysis through its suite of reports, data tables, and interactive tools.

- Forecasts and Analysis – Future-oriented information about local, regional and national housing trends.
- Statistics and Data – Information on current housing market activities – starts, rents, vacancy rates and much more.

HOUSING MARKET INFORMATION PORTAL!

The housing data you want, the way you want it.

- Information in one central location
- Quick and easy access
- Neighbourhood level data

cmhc.ca/hmiportal

Housing Observer Online

Featuring quick reads and videos on...

- Analysis and data
- Timely insights
- Updates to housing conditions and trends & *much more!*

All links can be shared in social media friendly formats!

Subscribe today to stay in the know!

www.cmhc.ca/observer

68609_2017_Q02