

# HOUSING MARKET ASSESSMENT

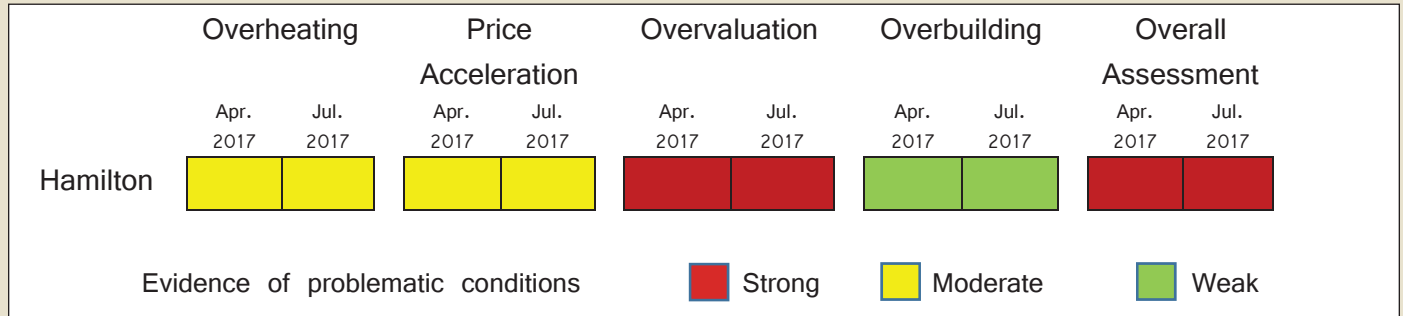
## Hamilton CMA

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## Highlights



- The overall assessment<sup>1</sup> for the Hamilton Census Metropolitan Area (CMA) showed strong evidence of problematic conditions in Q1 2017, unchanged from the previous quarter's assessment.
- Hamilton's sales-to-new-listings<sup>2</sup> ratio remained above the 75% threshold used to determine incidence of overheating.
- Moderate evidence of price acceleration was detected in Hamilton.
- Evidence of overvaluation remained strong, as home prices continued to grow faster than would be consistent with the growth in financial, economic and demographic fundamentals.
- 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 7 of this report.

## HMA Overview<sup>3</sup>

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.

Color codes indicate the level of evidence of problematic conditions. The HMA is a comprehensive framework that considers the

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<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> A detailed description of the framework is available in the appendix of the [National edition](#).

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.

## In Detail

### Moderate Evidence of Overheating

Hamilton's resale market continued to show evidence of overheating in Q1 2017. Demand has consistently

outstripped supply by a large margin, keeping the seasonally adjusted sales-to-new listings ratio above the threshold of 75%. From Q4 2016 to Q1 2017 sales were up and new listings were down, pushing the seasonally adjusted sales-to-new-listings ratio from 84% to 94%.

Listings were in short supply in all major geographic regions in Hamilton in Q1 2017, but the tightest sub-market was the Realtors® Association of Hamilton-Burlington's Hamilton East<sup>4</sup> zone. Prices in Hamilton East are generally lower than in most regions of Hamilton, suggesting that affordability attracted many buyers and was a major factor behind the large imbalance between demand and supply there.

Sales-to-new-listings ratios in Hamilton Mountain, Stoney Creek and Grimsby were also above the overall average for Hamilton.

The seasonally adjusted sales-to-new-listings ratio had decreased significantly from Q1 to Q2 2017 and indicated the market had almost become balanced. The sharp price increase in the first quarter encouraged a large number of homeowners to list their homes for sale in the second quarter. The sales-to-new-listings ratio in Stoney Creek decreased the most of any geographic region in Hamilton over that period, shifting from above to below the overall average for Hamilton.

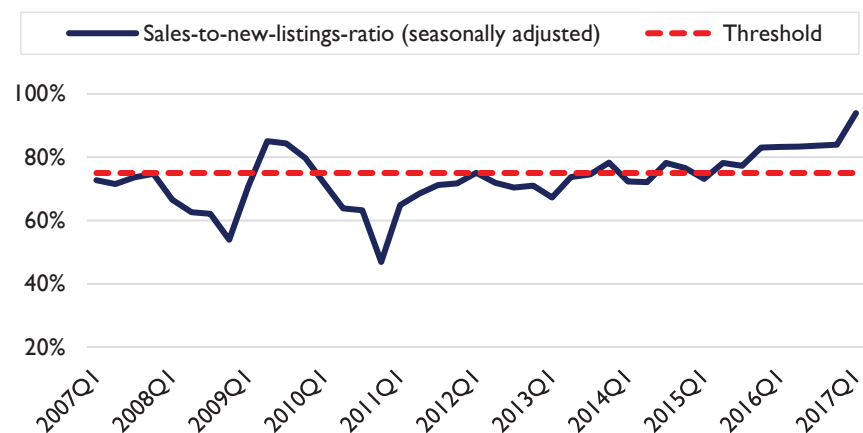
*"The HMA framework continued to detect strong evidence of problematic conditions in Hamilton in the first quarter of 2017. With fewer resale homes listed for sale and greater demand, price growth was stronger than in the fourth quarter of 2016. Prices in Hamilton remained much higher than levels that could be supported by economic and demographic fundamentals, such as income and population growth."*



**Anthony Passarelli**  
Senior Market Analyst

Figure 1

#### Hamilton's Sales-to-new-listings Ratio Consistently Above Threshold



Source: CREA, CMHC calculations. Last data point: Q1 2017

<sup>4</sup> South of Hamilton Mountain, West of Kenilworth Ave, East of Stoney Creek border

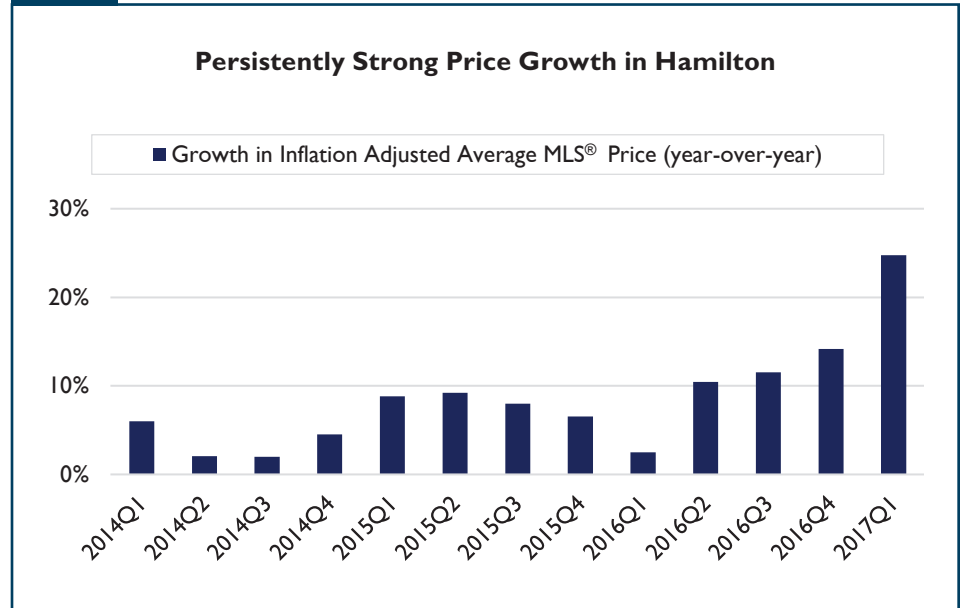
## Moderate Evidence of Price Acceleration

The persistent imbalance between demand and supply in Hamilton's resale market caused the average MLS® price in Hamilton to grow consistently faster than inflation. As a result, there was moderate evidence of price acceleration in Hamilton in Q1 2017. During the one-year period from Q1 2016 to Q1 2017, the inflation adjusted average MLS® price in Hamilton increased by 24%, compared to 14% growth in the year ending Q4 2016. Following seasonal adjustment, the inflation adjusted average MLS® price in Hamilton grew at an annualized rate of 37% from Q4 2016 to Q1 2017.

The average MLS® prices for all dwelling types in Hamilton all grew at rates well above inflation from Q1 2016 to Q1 2017. The strongest price growth was for townhomes, with the inflation adjusted average price increasing by 27%. On average, resale townhomes in Hamilton sold in just 14 days in Q1 2017 versus 27 days in Q1 2016. The shorter average duration on the market was due to the number of resale townhome listings not keeping pace with demand. Detached homes became too expensive for more buyers, leading to increased demand for townhomes. In Q1 2017, the average price of a resale detached home was \$644,702, compared to \$482,609 for a resale townhome.

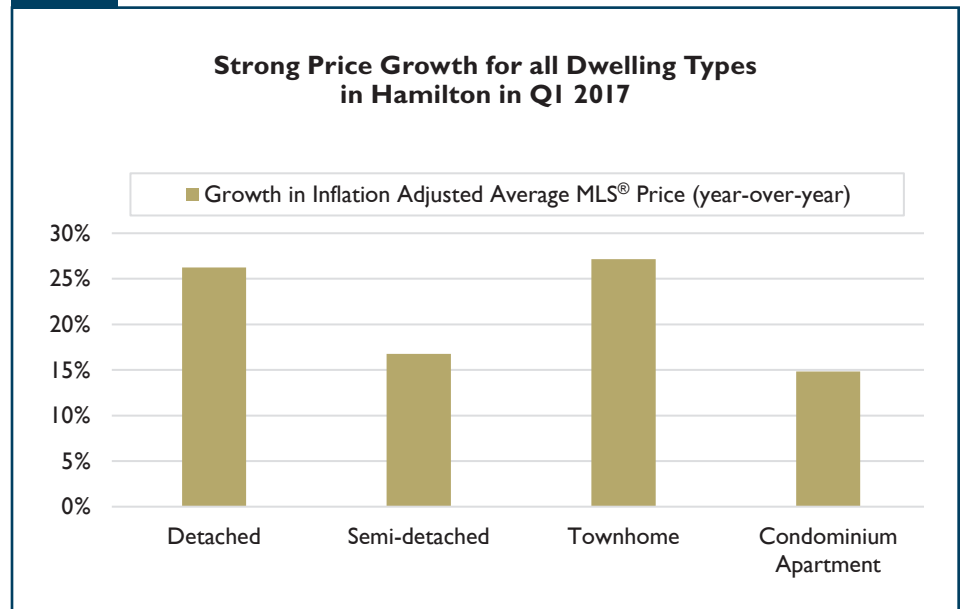
Growth in the average MLS® price from Q1 2017 to Q2 2017 was much slower but remained very strong. Following seasonal adjustment, the inflation adjusted average MLS®

Figure 2



Source: CREA, Statistics Canada, CMHC calculations. Last data point: Q1 2017

Figure 3



Source: Ontario Regional MLS® Database, Statistics Canada, CMHC calculations.

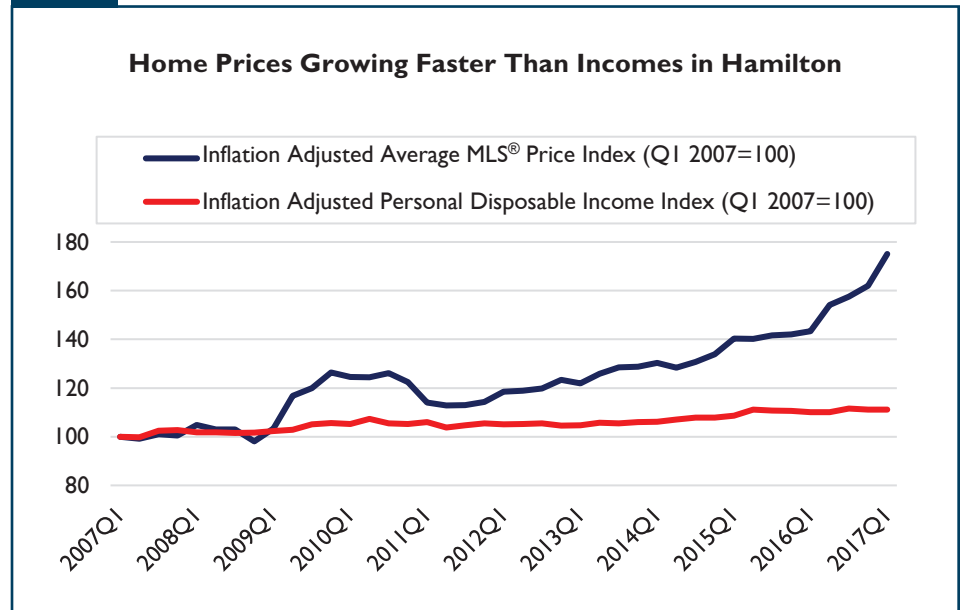
price in Hamilton still grew at an annualized rate of nearly 15% from Q1 2017 to Q2 2017, despite just a small imbalance between supply and demand in Hamilton's resale market. However, the average MLS® price in Q2 2017 was skewed to the upside by the composition of sales. Homes that sold for less than \$400,000 made up a smaller percentage of total MLS® sales, in Q2 2017 than in Q1 2017, than would have been expected given the rate of price increases.

## Strong Evidence of Overvaluation

Strong evidence of overvaluation persisted in Q1 2017, as home prices remained much higher than levels supported by financial, economic and demographic fundamentals. Double-digit annual growth rates in a number of house price measures for Hamilton continued to far outpace growth rates in real personal disposable income per capita, employment and the young adult population 25 to 34 years of age. Real personal disposable incomes in Hamilton were relatively flat from Q4 2016 to Q1 2017, despite full-time job growth in both quarters. The ratio of full-time jobs to part-time jobs in Hamilton only increased to a level similar to its long-term average in Q1 2017, putting little upward pressure on real wages.

In Hamilton, 25 to 34 year olds make up the largest share of first-time buyers, a fundamental driver of housing demand. The annualized

Figure 4



Source: CREA, Conference Board of Canada, Statistics Canada, CMHC calculations.  
Last data point: Q1 2017

growth rate of Hamilton's population 25 to 34 years of age remained in the 2.5% to 3.0% range in Q1 2017. However, the healthy population growth in that age group was not enough to account for current price levels. A significant number of 25 to 34 year olds from the Greater Toronto Area continue to migrate to Hamilton in search of more affordable housing options, particularly low-rise homes. An annual household income of \$130,000 was required<sup>5</sup> to purchase the average-priced resale detached home in Hamilton in Q1 2017. In comparison, an annual household income of \$150,000 was

required to purchase the average resale townhome in the GTA in the same period.

## Weak Evidence of Overbuilding

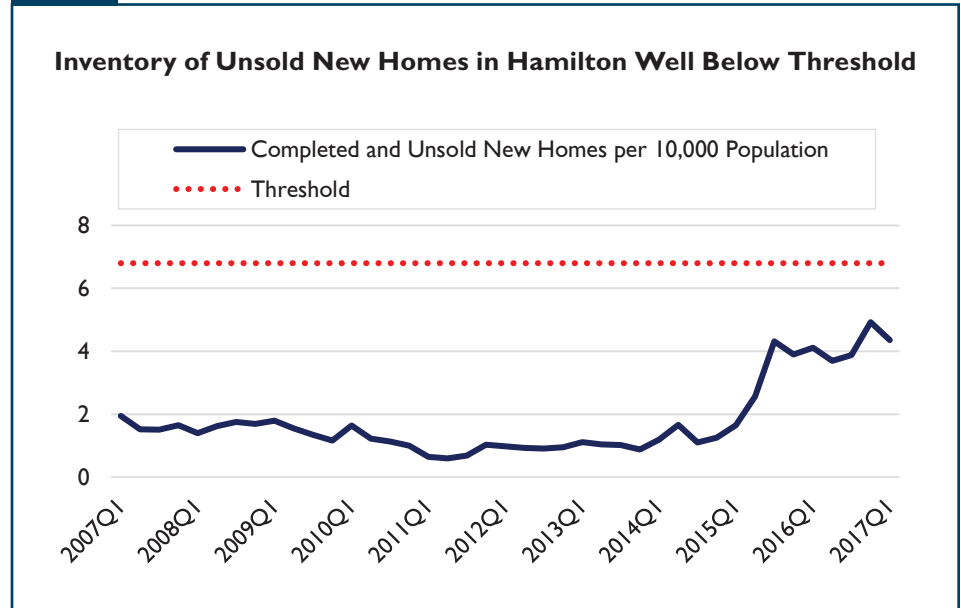
Both the number of completed and unsold new homes per 10,000 population and the rental vacancy rate remained at levels that indicated weak evidence of overbuilding. After adjusting for regularly occurring seasonal variation, the number of completed and unsold new homes per 10,000 population decreased from Q4 2016 to Q1 2017. New home inventories were absorbed

<sup>5</sup> Based on average MLS® price by dwelling type, 95% loan-to-value mortgage, 25 year amortization, 4.64% qualifying mortgage rate and 32% gross-debt-service ratio.

at a faster rate, as the supply of completed new homes available for purchase was down despite a much higher number of completions in Q1 2017. One factor contributing to the faster absorption of new home inventories in Q1 2017 was that buyers were faced with a greater shortage of resale home listings and therefore turned to the new home market to satisfy their needs. This kept sales of new townhomes strong, but townhomes also represented about 70% of the unsold inventory. Most of the new home inventories in Hamilton were located in Stoney Creek, Glanbrook and Flamborough (includes Waterdown). New home inventories in Stoney Creek and Flamborough were absorbed at a faster rate in Q1 2017 than in Q4 2016, while the absorption rate in Glanbrook was relatively steady.

Seasonally adjusted data for Q2 2017 show new home inventories in Hamilton have decreased but a slower absorption rate indicates demand has eased. Completions are expected to increase in the near future due to the high number of new homes under construction and, combined with easing demand, this could lead to higher inventories.

Figure 5



Source: CMHC, Statistics Canada. Last data point: Q1 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 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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