

HOUSING MARKET ASSESSMENT

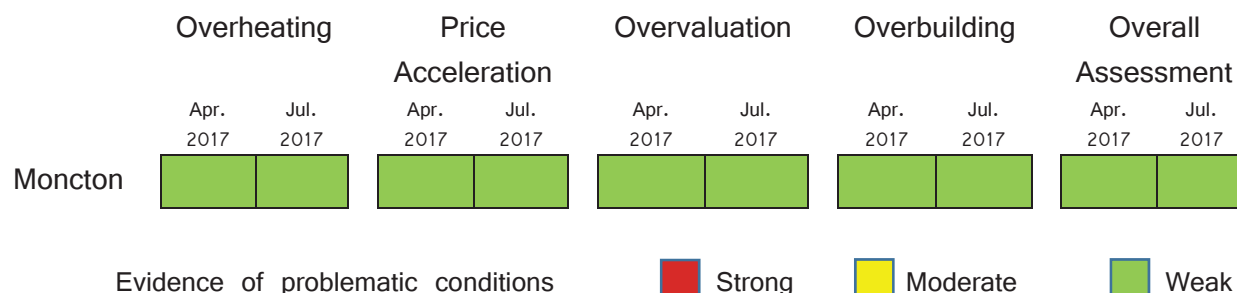
Moncton CMA

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Highlights



- Overall, we detect weak evidence of problematic conditions for the Moncton CMA.¹
- All indicators of problematic conditions remained well below their thresholds.
- The October 2016 vacancy rate for Moncton was 6%, which is below the 6.9% threshold for overbuilding.
- 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 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

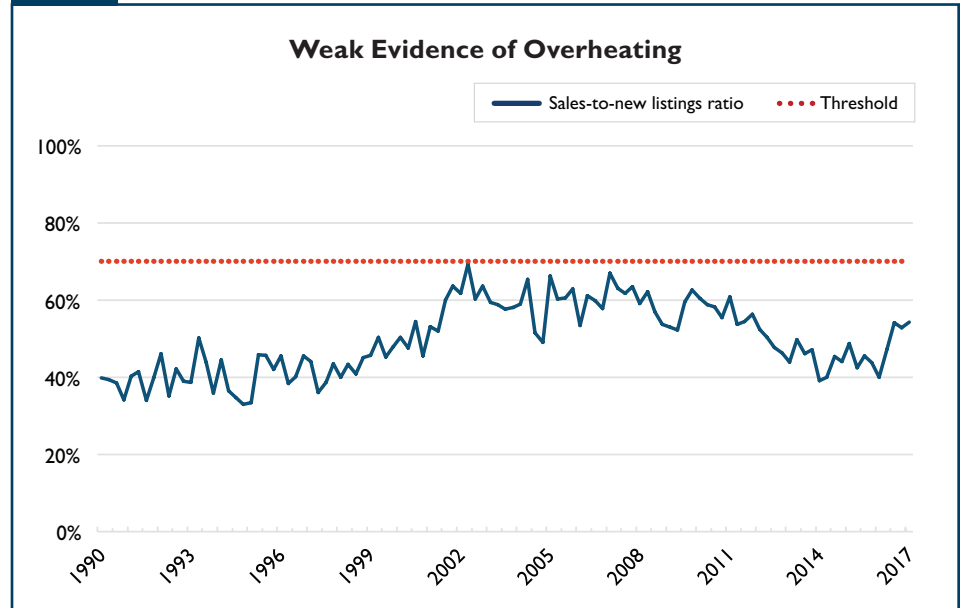
An increased pace of new listings over the past several years has built up a sizeable inventory of active listings in the Moncton area. On a seasonally adjusted basis, there were roughly 11 months of inventory on the MLS® system at the end of 2016. More recently, the pace of new listings has slowed and sales have remained strong, which has helped draw down inventory. As of the end of May, it was down to roughly 8 months, its lowest point since 2012. A seemingly paradoxical result of this inventory draw down is that average time on market has increased dramatically, to an average of 180 days for the first quarter of 2017. The increase in the average time to sell a home is the result of some very patient sellers, who are now waiting to find a buyer whereas before they might have

"Although Moncton's residential market appears to be tightening up, there is still ample inventory on the resale market to easily meet demand."



Michael Edwards
Senior Market Analyst (NB and PEI)

Figure 1



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

become discouraged and cancelled their listing. The indicator for overheating remained weak during the first quarter as Moncton's sales-to-new listings ratio of 54% remained well below its threshold for problematic conditions.

Price Acceleration

We detect weak evidence of price acceleration in Moncton's resale market. Compared to the final quarter of 2016, the average resale price was largely unchanged during the first quarter of 2017, on a seasonally adjusted basis. This is supported by the MLS House Price Index that was also largely unchanged on a quarter-over-quarter basis. Lower levels of price growth are expected for markets with elevated levels of housing inventory.

Overvaluation

Many of the traditional drivers of housing demand have cooled over the past few years in Moncton.

Employment in the Moncton CMA fell 0.3% in 2016 causing the unemployment rate to increase to over 8.0% at the start of 2017. Job losses seem to be concentrated in younger age cohorts, which in general tend to earn less than their older peers. As a result average weekly earnings have increased quite strongly over the past several quarters.

As job growth has remained weak over an extended period of time, more and more people have begun to look elsewhere in Canada for a fresh start. To highlight this effect, net interprovincial migration of 25-34 year olds has changed from an inflow of 103 people in 2010/2011 to an outflow of 222 people in 2015/2016.

Moncton's interprovincial outflows have been offset by inflows from elsewhere in the province and from international migrants. As a result population growth has remained robust, with the 2016

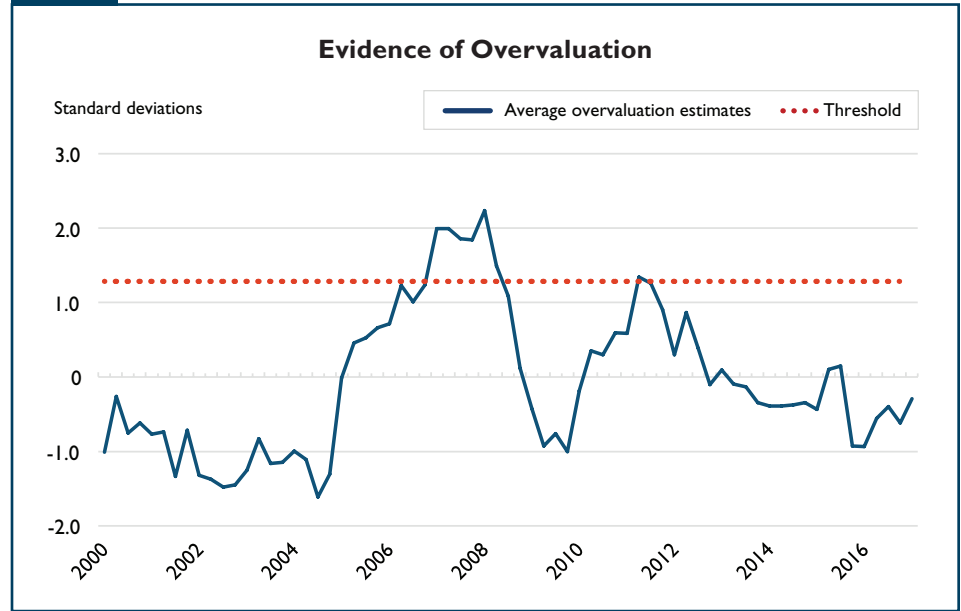
Census reporting a population of 144,810 up 4.0% from the previous census.

Low and steady growth in average home prices combined with population growth has helped the Housing Market Assessment's models of overvaluation remain below the problematic thresholds

Overbuilding

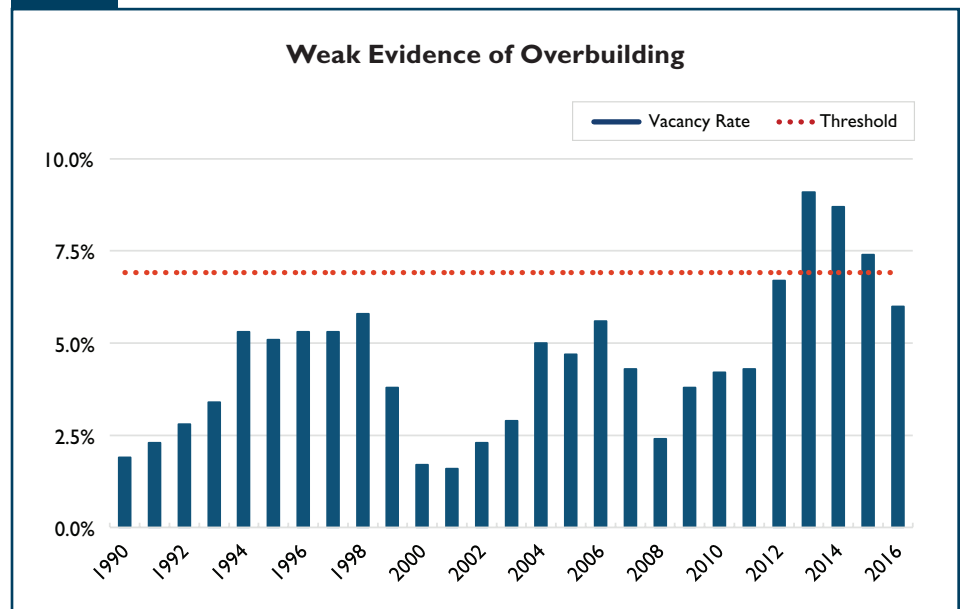
Thanks in part to slower apartment starts over the past several years, Moncton's October vacancy rate continued to fall from 7.4% in 2015 to 6.0% in 2016. This is down from its high of 9.1% in the fall of 2013. The inventory of completed and unsold homes was 2.5 units per 10,000 people as of Q1 2017. This was well below the threshold of 9.4 units that would signal overbuilding.

Figure 2



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

Figure 3



Source: CMHC. Last data point: 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.

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