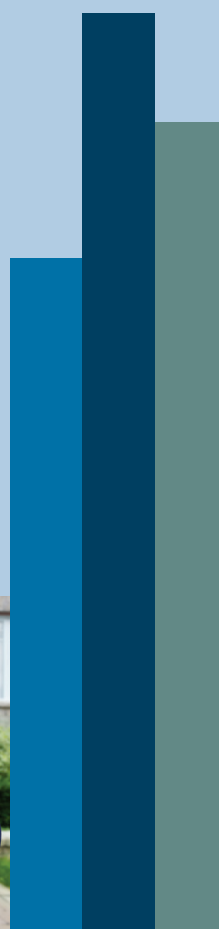


HOUSING MARKET ASSESSMENT Canada

Date Released: First Quarter 2017



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Highlights

- This quarterly release of the *Housing Market Assessment* (HMA) provides updated results¹ on the evidence of problematic housing market conditions for Canada and 15 Census Metropolitan Areas (CMAs)². For each of these CMAs, CMHC also issues a local report with more information and analysis³.
- To establish evidence on whether there are problematic conditions in the housing market, the HMA analytical framework looks at: overheating; acceleration of house prices; overvaluation; and overbuilding.
- The HMA continued to find strong evidence of problematic conditions for Canada due to the detection of both overvaluation and price acceleration.
- Imbalances at the national level largely reflect housing market conditions in Vancouver and Toronto. The intensity of price growth in these centres has also spread to their neighboring CMAs, including Hamilton and now Victoria.
- One of the key measures assessed by the framework is “price acceleration”, which is detected when price growth exceeds normal market changes on a persistent basis. Researchers have shown that this indicator can be a sign of excessive levels of speculation. With price acceleration now detected in Vancouver, Victoria, Toronto and Hamilton, home buyers should be prudent and ensure that their purchases are aligned with their needs as well as the long-term market outlook.
- Housing markets in oil-dependent CMAs have been rebalancing. As a result, the ratings of overvaluation for Edmonton and Calgary were downgraded from moderate to weak. For Calgary, this led to its overall assessment being lowered to moderate evidence of problematic market conditions. Ratings for other oil-dependent CMAs could also improve in coming quarters if price adjustments continue.

¹ Results are based on data as of the end of September 2016 and market intelligence as of the end of December 2016. CMHC continuously monitors market developments and publishes HMA updates on a quarterly basis.

² CMAs covered in this report are Victoria, Vancouver, Edmonton, Calgary, Saskatoon, Regina, Winnipeg, Hamilton, Toronto, Ottawa, Montréal, Québec, Moncton, Halifax, and St. John's.

³ Please use this [link](#) for all local reports.

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Overview

CMHC's Housing Market Assessment (HMA) provides a comprehensive and integrated view that relies on a combination of signals from a number of indicators to assess housing market conditions in several metropolitan areas across Canada, and for Canada as a whole⁴. The HMA allows a wide range of indicators on housing markets to be captured in a single snapshot. The objective is to identify locations in which there is a heightened vulnerability to housing market stability from the level of house prices or from factors that are known to influence future house prices.

In this update, CMHC maintains its overall assessment of strong evidence of problematic conditions being found for Canada resulting from both overvaluation and price acceleration being detected. Home prices have climbed to levels exceeding those economic fundamentals that underpin the housing market.

House price growth remains strong in Toronto and in some of its neighboring communities in Ontario. Price growth also remains strong in Victoria and other areas within British Columbia, despite lower average MLS® price for Vancouver over the period covered here.

In the oil-dependent CMAs of Newfoundland and Labrador, Saskatchewan and Alberta, house prices have adjusted to more sustainable levels given current economic fundamentals. However, rental vacancy rates in these centers have increased compared to a year earlier. In other parts of the country, including Quebec and the Maritimes, prices have

fluctuated around levels supported by fundamentals, despite moderate evidence of market imbalances.

Overview of the HMA 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.

Specifically, the HMA framework considers four main factors that may provide an early indication of potentially problematic housing market conditions: (1) overheating when the demand for existing homes greatly outpaces the supply of existing homes for sale; (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 rental market vacancy rate and/or the inventory of newly built housing units that are unsold is elevated.

For each factor, the framework tests for: (1) the presence of problematic conditions; (2) the intensity of problematic conditions; and, (3) the persistence of problematic conditions over time.

Generally, a situation in which CMHC detects few market imbalances 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 imbalances increases, the likelihood of a factor becoming problematic increases.

While a market in a metropolitan area may be identified as having weak evidence of problematic conditions, imbalances may exist within some segments of that housing market, or the evidence in that market may be approaching key thresholds. The framework therefore does not allow for the complete absence of problematic conditions, but identifies the level of evidence as low.

Housing market fundamentals are influenced by demographic, economic, and financial developments. To reflect these determinants, data on population, personal disposable income, and interest rates are used to characterize market fundamentals. 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 still hold.

HMA Results

Canada: Strong evidence of problematic conditions

For Canada as a whole, growth in house prices remains elevated. Overvaluation and price acceleration are still detected. After adjusting for inflation, house prices showed 7-per cent year-on-year growth to the end of the third quarter of 2016. Rapid price growth is concentrated

⁴ The data for Canada includes areas beyond the core 15 metropolitan areas.

within British Columbia and Ontario. Elsewhere in Canada, prices have been adjusting in oil-dependent provinces, leading now to only weak evidence of overvaluation for the CMAs in Alberta.

House price growth intensified in Toronto, and spread to other cities in Ontario. After accounting for inflation, house prices increased by 16 per cent in Toronto by the third quarter of 2016 compared to a year earlier. This rate was higher than 13 per cent year-on-year growth that Toronto recorded to the end of the second quarter of 2016. Meanwhile, house prices climbed 10 per cent in Hamilton, 21 per cent in Oshawa, 16 per cent in Barrie, 12 per cent in Guelph, and 13 per cent in Kitchener. If Ontario had been excluded in calculating price growth in Canada, house prices would have remained flat through to the third quarter.

A closer look at the numbers in British Columbia reveals a year-on-year decrease in house prices in Vancouver of 1 per cent to the third quarter of 2016, contrasting with a 15 per-cent increase in the year to the second quarter of 2016. Subsequent to the end of the period analyzed here, prices rebounded somewhat in Vancouver. At the same time, price growth remained elevated in Abbotsford, Kelowna and Victoria, posting gains of 21 per cent, 15 per cent, and 10 per cent, respectively.

Recent market adjustments in oil-dependent provinces have closed the gap between house prices and levels supported by economic fundamentals. As a result, weak evidence of overvaluation is now detected in Calgary and Edmonton. However, signs still suggest that overbuilding remains a concern for these regions.

Victoria: Strong evidence of problematic conditions

Demand for housing in Victoria remained high in the third quarter of 2016. CMHC's HMA detected moderate evidence of overheating, price acceleration, and overvaluation in Victoria. The supply of existing houses for sale is limited, with active listings at their lowest point since 2003, a time when price growth was similarly strong. Growth in new listings was muted, and completions of new units have yet to reflect heightened construction activity in 2016. Third-quarter, seasonally-adjusted sales declined from the second quarter while the average MLS® price continued to rise. Since demand fundamentals were not enough to support the rate of price growth that occurred, the HMA framework detected overvaluation.

Vancouver: Strong evidence of problematic conditions

Metro Vancouver continues to be assessed as showing moderate evidence of price acceleration and strong evidence of overvaluation. MLS® sales have been trending lower since the spring of 2016 and as a result, evidence of overheating in the market has been downgraded to weak from the previous assessment of moderate. Even though demand for resale homes has cooled, the supply of resale homes has remained below the five-year average level, contributing to a slight rebound in average prices in data available after the end of the quarter looked at here. Single-detached home prices, in particular, continue to be at levels higher than those consistent with financial, economic and demographic fundamentals. Inventories of new homes remain low, and rental vacancy rates across the region are below

one per cent in most areas, indicating weak evidence of overbuilding. Considering all factors, the overall assessment for Vancouver indicates strong evidence of problematic conditions.

Edmonton: Moderate evidence of problematic conditions

Moderate evidence of overbuilding was detected in Edmonton. Rental vacancy rates rose to 7.1 per cent, above the key threshold of 6.7 per cent. The number of completed and unsold units in inventory has also moved higher. Inventory is now close to, but below, its key threshold of 14.39 units per 10,000 residents. Evidence of overvaluation has dissipated as declines in price trends made valuations more aligned with economic fundamentals.

Calgary: Moderate evidence of problematic conditions

The level of evidence of problematic conditions in CMHC's overvaluation models changed from moderate to weak. Although the unemployment rate has been elevated, total employment has started to stabilize and the young adult population continues to post modest gains. House prices in Calgary have also been adjusting, and have moved closer in-line with economic and demographic fundamentals. On the other hand, the assessment for overbuilding continues to indicate moderate evidence of problematic conditions. The vacancy rate in Calgary increased for the third consecutive year in October 2016 as rental supply outpaced demand. With the change in the assessment for overvaluation, the overall assessment for Calgary has moved to moderate evidence of problematic conditions.

Saskatoon: Strong evidence of problematic conditions

Moderate evidence of overvaluation was detected in Saskatoon. Recent downward price adjustments have been countered by weak economic and labour market conditions, including a decline in personal disposable income. The framework also continued to detect strong evidence of overbuilding. Saskatoon's apartment vacancy rate increased to a record 10.3 per cent in 2016. In addition, the inventory of completed and unsold units, relative to population, remained above its historical threshold.

Regina: Strong evidence of problematic conditions

Moderate evidence of overvaluation was detected in Regina. Recent gains in house prices have not been matched by growth in personal disposable income. While the inventory of completed and unsold units has continued to decline, it remains above its key threshold. Combined with Regina's elevated rental vacancy rate of 5.5 per cent in 2016, this resulted in the framework's continued assessment of strong evidence of overbuilding.

Winnipeg: Moderate evidence of problematic conditions

The HMA framework continued to detect moderate evidence of overbuilding in Winnipeg, unchanged from the previous assessment. The inventory of completed and unsold units still remains slightly above the problematic threshold, but levels have decreased significantly since reaching a historic peak in the

fourth quarter of 2015. In the rental market, the vacancy rate is well below its threshold for overbuilding, and favorable demographic growth will continue to support demand. The resale market continued to experience balanced market conditions, and as a result, there was no change to the assessment from the last update for overheating, price acceleration or overvaluation.

Hamilton: Strong evidence of problematic conditions

Rapid growth in Hamilton's average home price led to evidence of price acceleration in the third quarter of 2016. As this price growth exceeded levels consistent with fundamental drivers, strong evidence of overvaluation continued in the third quarter of 2016. The sales-to-new-listings ratio declined in the quarter on a seasonally adjusted basis, but it remained above the threshold used to identify overheating. Current trends point to a tight resale market despite weak employment and slow income growth in Hamilton itself. This situation reflects purchasers coming to Hamilton in search of more affordable housing relative to the Greater Toronto Area.

Toronto: Strong evidence of problematic conditions

Three consecutive quarters of the sales-to-new listings ratio being above key thresholds led to continued detection of moderate evidence of overheating. Sustained evidence of price acceleration throughout 2016 reflects higher price growth among all housing types, although it was particularly evident among higher-end single-detached homes. Fewer

launches of new single-detached projects in high-demand areas in recent years has meant that demand has been increasingly absorbed by the resale market. Declining inventories of both new and resale single-detached homes contributed to rapid price growth. The continued rise in house prices has not been matched by growth in personal disposable income giving rise to strong evidence of overvaluation. The real MLS® average price of a home increased by 3.6 per cent in the third quarter of 2016, while real personal disposable income declined by 0.46 per cent.

The number of completed and unsold units moved lower in the third quarter of 2016. While apartment units under construction also moved slightly lower, they remain elevated relative to history. Builders will need to continue to monitor inventories to ensure that they remain low if demand were to moderate.

Ottawa: Weak evidence of problematic conditions

We continue to detect moderate evidence of overbuilding in Ottawa due mostly to an elevated number of completed and unsold condominium apartment units. Nonetheless, the number of completed and unsold units has come down significantly since February 2016. A slight decline in the vacancy rate in the purpose-built and condominium rental markets point to some improvement in demand conditions. In addition, the number of condominium apartments started, as well as the number of units under construction have both trended down significantly pointing to lower oncoming completions. However, inventory management remains necessary until the unsold units are absorbed by buyers.

Montréal: Moderate evidence of problematic conditions

Our framework detected moderate evidence of overvaluation, which indicates that housing prices remain above the levels supported by the fundamental factors. These fundamental factors reflect a weak decrease in the population growth among young adults and a weak increase in personal disposable income per person. Price growth remains modest although recent tightening of market conditions has led to a stronger increase in prices. As for the indicators of overbuilding, the vacancy rate stabilized in October 2016 and the inventory of completed and unsold condominium units has continued to decrease from elevated levels.

Québec: Moderate evidence of problematic conditions

Our framework still detected strong evidence of overvaluation in the third quarter of 2016, indicating that house prices are not completely supported by the economic and demographic fundamentals. The result is explained by the decline in the population pool of first-home buyers (the 25-34 year olds), and by the modest increase in personal disposable income. However we should note that even though the evidence of overvaluation remains elevated, it has tended to moderate since the beginning of 2016. Moreover, price adjustments were more concentrated in the

condominium units for which the supply of both newly-built and existing units remains elevated. Last, the evidence of overbuilding remains weak, but the development requires close monitoring taking into account the sustained level of construction in traditional rental housing units and the upward trend in the rental vacancy rate.

Moncton: Weak evidence of problematic conditions

An influx of Syrian refugees last winter boosted Moncton's population and helped to lower the apartment vacancy rate. This marks the first time in four years that the rate has fallen below the threshold for problematic overbuilding. Continued population growth and weaker price growth on the existing home market have helped to keep the measures of problematic overheating, price acceleration, and overvaluation below their problematic thresholds.

Halifax: Weak evidence of problematic conditions

The models detect weak evidence of problematic conditions in the housing market in Halifax. Strong migration gains combined with a relatively low level of new rental apartment units added to the universe exerted downward pressure on the overbuilding indicator. Prices in the resale market stabilized due to weak gains in per-capita income. As a result, both overvaluation and price acceleration indicators remain under key thresholds.

St. John's: Weak evidence of problematic conditions

House prices remain under pressure. Overbuilding continues to subside, with the inventory of completed and unsold units relative to the population now slightly lower than key thresholds. Inventory has declined moderately over the four previous quarters. The October 2016 vacancy rate increased to 7.9 per cent from 4.7 per cent and rental demand appears to be continuing to decline. Weaker overall housing market activity is attributed to a lack of economic growth, slower growth in the young-adult population and declines in real personal disposable income, all of which are linked to the year-to-date price pressure.

Table I

Comparisons between the October 2016 and January 2017 reports

	Overheating		Price Acceleration		Overvaluation		Overbuilding		Overall Assessment	
	Oct. 2016	Jan. 2017	Oct. 2016	Jan. 2017	Oct. 2016	Jan. 2017	Oct. 2016	Jan. 2017	Oct. 2016	Jan. 2017
Canada										
Victoria										
Vancouver										
Edmonton										
Calgary										
Saskatoon										
Regina										
Winnipeg										
Hamilton										
Toronto										
Ottawa										
Montréal										
Québec										
Moncton										
Halifax										
St. John's										

Evidence of problematic conditions

Weak

Moderate

Strong

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.

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