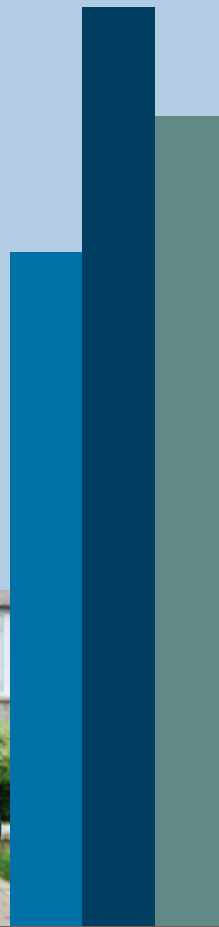


HOUSING MARKET ASSESSMENT Canada

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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 indicator for overvaluation at the national level has been downgraded from strong to moderate, though strong overall evidence of problematic conditions remains due to detection of both moderate evidence of price acceleration and overvaluation.
- Evidence of overvaluation has increased from moderate to strong in Victoria, where fundamentals are not keeping up with higher prices. There is also moderate evidence of price acceleration and overheating in Victoria, leading to strong overall evidence of problematic conditions.
- Toronto and Hamilton continue to show strong evidence of overall problematic conditions due to price acceleration, overvaluation and overheating as price growth has intensified and demand is outpacing supply in the rental, resale and new home markets.
- Price growth also remains strong in Victoria and other areas within British Columbia, despite a lower average MLS® price in Vancouver over the period covered.
- Due to improved balance between economic conditions and home prices in Regina, Montréal and Québec, evidence of overvaluation has been lowered in these three CMAs. This resulted in Regina now being assessed as having moderate overall evidence of problematic conditions, from a previously strong evidence. Montréal now shows weak overall evidence of problematic conditions.
- CMAs in the Prairies continue to exhibit moderate to strong evidence of overbuilding, while Moncton and St. John's supply of homes is adjusting to the demand, resulting in a reduction from moderate to weak evidence of overbuilding in the fourth quarter of 2016.

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¹ Results are based on data as of the end of December 2016 and market intelligence as of the end of March 2017. 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 regional reports.

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 fifteen 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 heightened vulnerability to housing market stability from the level of house prices and from factors that are known to influence future house prices.

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, a situation 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 which occurs 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 thresholds for problematic conditions. 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 for Canada and 15 Census Metropolitan Areas

Canada: Strong evidence of problematic conditions

While the overall assessment of problematic conditions remains strong for Canada, overvaluation has been downgraded to moderate from a previously strong assessment. House price growth at the national level has weakened to around 4% year-over-year, while personal disposable income has grown at a steady pace and growth in young adult population has strengthened at the end of 2016. Careful analysis by geography shows that local differences continue to divide the Canadian housing market into several markets: centres in the East are showing weak evidence of overvaluation, while centres in Southern Ontario and the West are showing moderate to strong evidence of overvaluation. High supply in the rental and new home markets relative to demand persist in the aftermath of the oil-price shock in Alberta and Saskatchewan CMAs, while most other CMAs are showing weak evidence of overbuilding at the end of 2016.

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

Victoria: Strong evidence of problematic conditions

Demand for housing in Victoria remained high in the fourth quarter of 2016. CMHC's HMA detected moderate evidence of overheating and price acceleration, as well as strong evidence of overvaluation in Victoria. The supply of both new and existing homes for sale are at all-time lows, contributing to strong price growth. The number of new listings in the resale market was muted, and completions of new units have yet to reflect the heightened construction activity in 2016. Fourth-quarter, seasonally-adjusted sales declined from the third quarter, largely due to a lack of inventory, 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's housing market continues to show strong evidence of problematic conditions due to moderate evidence of price acceleration and strong evidence of overvaluation. Evidence of overheating remains weak after being downgraded from moderate in last quarter's HMA. However, the market for resale homes cooled unevenly. Moderately priced properties sold quickly and often over the asking price compared with higher priced homes. Responding to rising purchase prices, starts of new homes increased throughout 2016. The count of completed and

unsold homes remains low and the region's relatively low rental market vacancy rate led the HMA framework to indicate weak evidence of overbuilding.

Edmonton: Moderate evidence of problematic conditions

The assessment for overbuilding continues to indicate moderate evidence of problematic conditions in Edmonton's housing market. The rental apartment vacancy rate breached the threshold for problematic conditions in 2016 as increasing rental supply outpaced demand. In the ownership market, the inventory of completed and unsold units continues to hover close to its overbuilding threshold due to an elevated number of row and apartment units. A lack of growth in house prices combined with an increasing young adult population kept the overvaluation indicator showing only weak evidence of overvaluation for a second consecutive quarter.

Calgary: Moderate evidence of problematic conditions

Due to an elevated apartment rental vacancy rate, we continue to detect moderate evidence of overbuilding. However, the evidence of overheating, price acceleration and overvaluation remains weak. Economic and demographic fundamentals have improved with gains in employment and income as well as growth among the young adult population. Resale market activity has shown signs of improvement with house prices stabilizing.

Saskatoon: Strong evidence of problematic conditions

Moderate evidence of overvaluation was detected in Saskatoon. Declining price trends and strong demographic growth have lowered the degree of overvaluation, but not sufficiently to warrant a shift in assessment from the previous release. Of particular concern is the continued decline in real personal disposable income. The framework also continued to detect strong evidence of overbuilding, in large part due to the multiples sector, where the inventory of completed and unsold units remained above its long-term threshold. In addition, the rental vacancy rate, at 10.3%, was above the 7.1% threshold for overbuilding.

Regina: Moderate evidence of problematic conditions

Evidence of overvaluation in house prices has shifted from moderate to weak in the current release, and the overall level of evidence of problematic conditions has been lowered from strong to moderate. Steady growth in overall employment and stronger gains in the young adult population have supported housing demand. As a result, house prices are more aligned with economic and demographic fundamentals. While the ratio of completed but unsold homes relative to population has continued to decline, it remains above its threshold for problematic conditions. Along with an elevated rental vacancy rate, this has resulted in the framework's continued assessment of strong evidence of overbuilding in Regina.

Winnipeg: Moderate evidence of problematic conditions

Moderate evidence of overbuilding continued to be detected in the Winnipeg CMA. The inventory of completed and unsold units remains above the critical threshold, and levels moved higher in the fourth quarter as a number of units reached completion at the end of 2016. Elevated levels of units under construction in 2017 are a risk for additional inventory, however population growth will continue to support housing demand. Evidence of overvaluation remains unchanged from the last assessment, but we do caution that real personal disposable income has declined year-on-year in the previous 4 quarters. This could pose some affordability challenges in the coming quarters, if that trend persists.

Hamilton: Strong Evidence of Problematic Conditions

In the Hamilton CMA, demand continues to outpace 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. Consequently, 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. 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.

Toronto: Strong Evidence of Problematic Conditions

Four consecutive quarters of the sales-to-new listings ratio being above the problematic threshold level of 0.70 has led to the continued detection of moderate evidence of overheating. Sustained evidence of price acceleration in 2016Q4 reflects higher price growth among all housing types, with the average condominium apartment price growth quickly catching up to that of single-detached homes. Declining inventories of both the new and resale homes as a result of demand outstripping supply, contributed to accelerating price growth. As of December 2016, the average days on market had declined to 20, compared to 29 days a year earlier. The continued rise in house prices could not be explained by fundamental economic drivers, such as income and population growth, and therefore strong evidence of overvaluation was detected. The seasonally adjusted real MLS® average price grew by 18.8% in the fourth

quarter while real personal disposable income per capita increased by 0.23% and the young adult population increased by 2.8%. Weak evidence of overbuilding was detected in 2016Q4, as the number of completed and unsold units remained stable and well below the threshold for problematic conditions. Strong condominium and rental demand continued to help absorb excess supply.

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 apartments. Nonetheless, the number of completed and unsold units has been steadily declining throughout 2016. A slight decline in the vacancy rate in the purpose-built and condominium rental markets point to some improvement in demand conditions. However in late 2016 and into the beginning 2017, the number of condominium apartments started, as well as the number of units under construction gradually trended up once more. Inventory management remains necessary until the unsold units are absorbed by buyers. We detect weak evidence for all other indicators of problematic conditions as the Ottawa market is supported by fairly stable economic fundamentals.

Montréal: Weak evidence of problematic conditions

Our framework has now detected weak evidence of overvaluation, a shift from the previous assessment of moderate evidence. Stronger population growth among young adults, combined with the increase in personal disposable income, indicates that house prices have been at levels more in line with those supported by the fundamentals.

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

Overall, the HMA results still indicated moderate evidence of problematic conditions in the Québec CMA in the fourth quarter of 2016. Evidence of overvaluation was downgraded from strong to moderate between the last two quarters. In fact, the HMA showed that house prices were above the levels warranted by underlying demographic and economic fundamentals. Evidence of overbuilding remained weak, but the situation should be monitored closely given the sustained level of conventional rental housing construction and the clear upward trend in the vacancy rate, particularly for newly built units.

Moncton: Weak evidence of problematic conditions

Following two quarters with the vacancy rate and the inventory of unsold homes below their problematic thresholds, the indicator of overbuilding in the Moncton CMA has changed from moderate to weak. Growth in residential prices have remained low and steady and as a result, the indicators of overheating, price acceleration and overvaluation remained below their thresholds that warrant detection of problematic conditions.

Halifax: Weak evidence of problematic conditions

Weak evidence of problematic conditions persists in the housing market in Halifax. A continuing decline in both the rental market vacancy rate and the inventory of completed and unsold homeownership units has kept the overbuilding indicator well below its threshold for problematic conditions. Despite a decrease in per-capita income, year-over-year growth in the young adult population supported a boost in home sales, while keeping average prices stable. As a result, both overvaluation and price acceleration models remain below their thresholds for problematic conditions.

St. John's: Weak evidence of problematic conditions

House prices remain under downward pressure year-to-date. 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. However, overbuilding has subsided due to declining inventory of completed and unsold units relative to the population. Increases in inventory are not anticipated as housing starts are declining in St. John's, but the annual vacancy rate increased to 7.9% and rental demand appears to be continuing to decline among the younger working age population.

Table I

Comparisons between the January 2017 and April 2017 reports

	Overheating		Price Acceleration		Overvaluation		Overbuilding		Overall Assessment	
	Jan.17	Apr.17	Jan.17	Apr.17	Jan.17	Apr.17	Jan.17	Apr.17	Jan.17	Apr.17
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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