

HOUSING MARKET ASSESSMENT

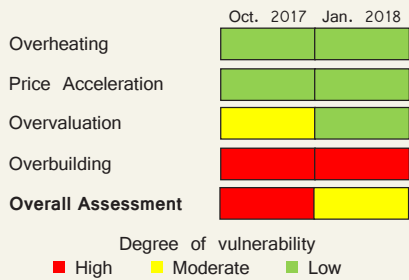
Saskatoon CMA

Date Released: First Quarter 2018



Highlights

Results Overview Saskatoon CMA



- Overall, the Housing Market Assessment (HMA) framework detected a moderate degree of vulnerability in Saskatoon's housing market, an improvement over the previous release.¹
- Evidence of overvaluation in house prices decreased from moderate to low.
- Low evidence of overheating and acceleration in the growth of house prices was maintained.
- High evidence of overbuilding continued to be detected due to elevated inventory of new housing units, particularly in the multiples sector, and a high rental apartment vacancy rate.

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 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 degrees of vulnerability 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 resolve an excess supply imbalance by supporting stronger demand and/or reducing supply. However, other unexpected developments that do not originate from the housing market could accentuate or reduce an imbalance.

Colour codes indicate the degrees of market vulnerability. 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 a potentially low degree of vulnerability. As the number of intense and persistent signals increases, the associated degree of vulnerability increases.

In Detail

Evidence of overheating remains low

The framework's results continued to show low evidence of overheating of demand in the local housing market. While Saskatoon's seasonally adjusted sales-to-new-listings ratio (SNLR) increased to 35% in Q3 2017 from 34% in Q2 2017, it remained significantly below the framework's threshold of 85% that would be consistent with overheating.

Tighter mortgage qualifying rules and rising mortgage rates kept demand for existing homes in check through Q3 2017. As a result, seasonally adjusted MLS^{®3} sales in Saskatoon were down 6.1% to 1,044 units in the third quarter from 1,112 in the preceding quarter. On the other hand, new listings were

SUBSCRIBE NOW!

Access CMHC's Market Analysis Centre publications quickly and conveniently on the Order Desk at www.cmhc.ca/housingmarketinformation. View, print, download or subscribe to get market information e-mailed to you on the day it is released. CMHC's electronic suite of national standardized products is available for free.

¹ Results are based on data as of the end of September 2017 and local market intelligence up to end of December 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](#).

³ MLS[®] is a registered trademark of the Canadian Real Estate Association (CREA).

down even more, declining by 7.8% on a seasonally adjusted basis to 3,001 units in Q3 2017 from 3,256 in Q2 2017. While new listings moderated, they remained elevated by historical standards.

Low evidence of price acceleration persists

The HMA framework continued to detect low evidence of an acceleration in the growth of house prices. Persistent buyer's market conditions have kept downward pressure on residential prices. The seasonally adjusted average MLS® price declined by 3.5% to \$329,657 in Q3 2017 from \$341,590 in Q2 2017. In addition, the MLS® HPI composite benchmark price⁴ declined in each of the three months of Q3 2017, compared to the previous year. This followed similar year-over-year declines in the three months of Q2 2017.



Goodson Mwale
Senior Market Analyst
(Saskatchewan)

"Overall, the degree of vulnerability in the Saskatoon housing market has decreased from high to moderate. The HMA framework now detects low evidence of overvaluation in house prices, but evidence of overbuilding remains high due to the multiples sector."

Figure 1

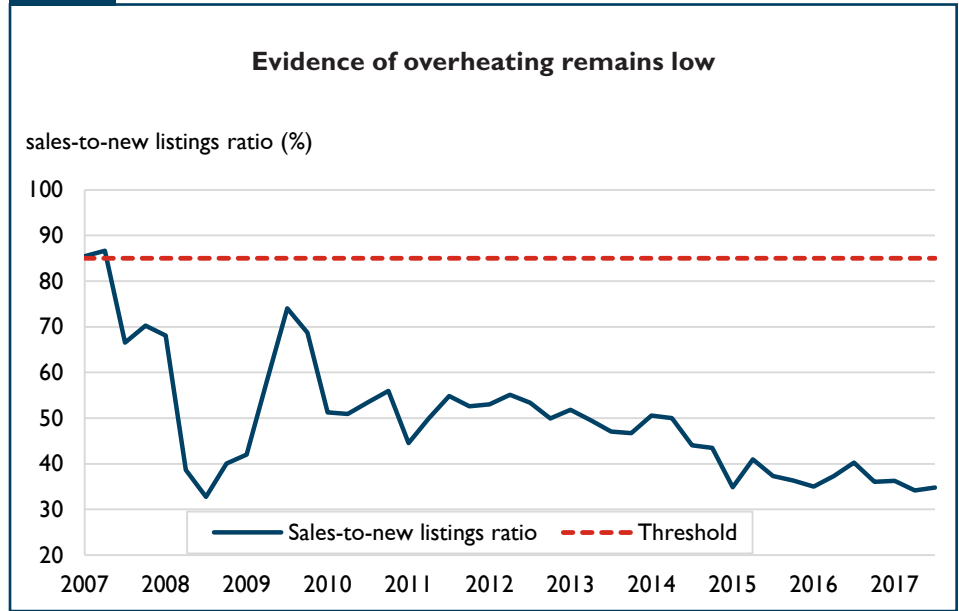
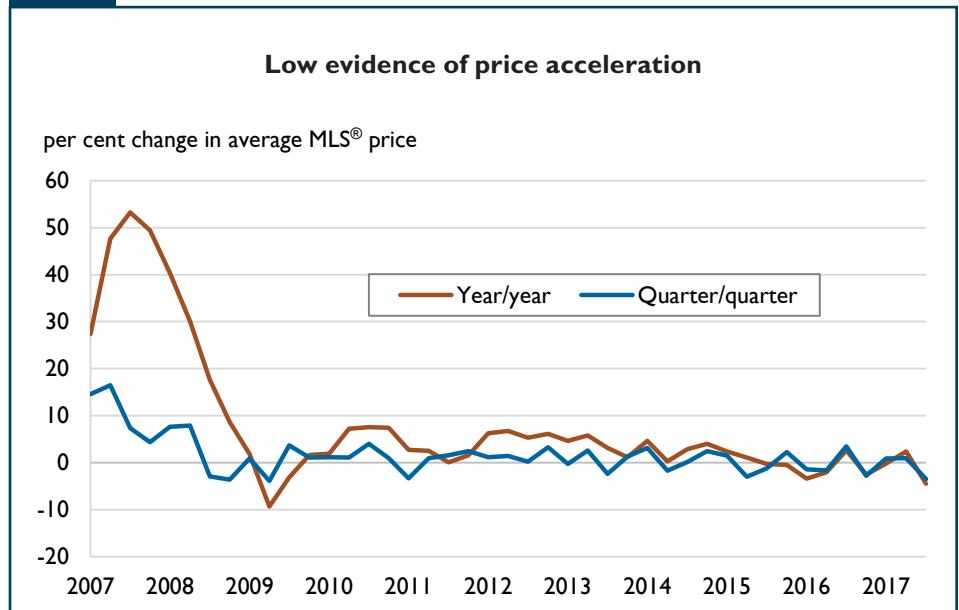
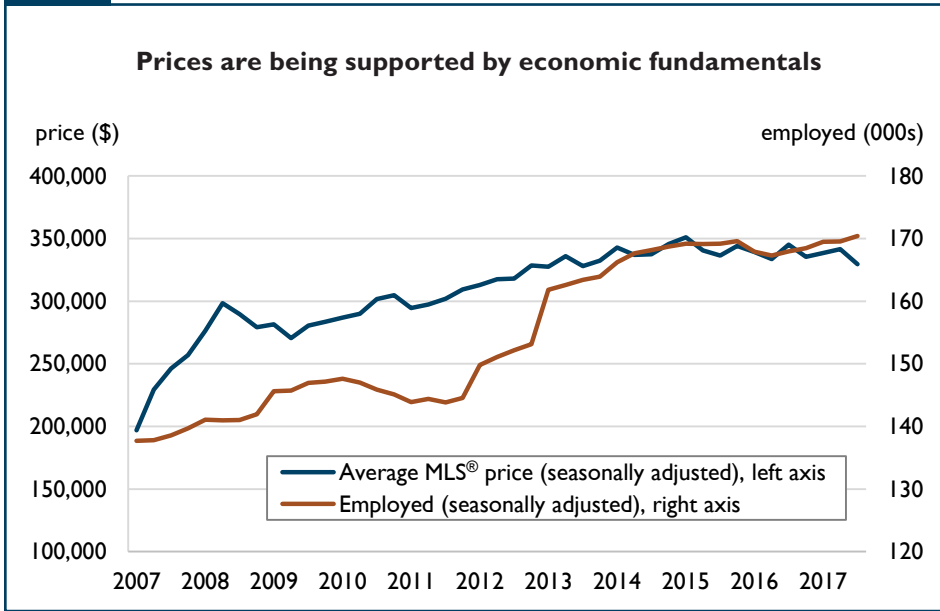


Figure 2



⁴ Source: CREA. The MLS® HPI is based on a hybrid model that merges Repeat-Sales and Hedonic Price approaches, and reflects the contribution made by various quantitative and qualitative housing features toward the home price.

Figure 3



Source: CREA, Statistics Canada
Last data point: 2017Q3

Likewise, the MLS® HPI benchmark prices for single-detached, townhouses and apartment units all posted year-over-year decreases in each of the three months of the third quarter, as buyer's market conditions weighed down on local real estate prices.

higher in the third quarter from the second quarter of 2017. Saskatoon's labour market added a total of 2,300 jobs during the first nine months of 2017, all of which were for full-time positions.

Price valuations have improved

Evidence of overvaluation decreased from moderate to low. The combination of declining price trends and continued economic and demographic growth has contributed to the unwinding of this market imbalance over recent quarters. With the gap between observed house prices and those estimated from fundamental variables narrowing further, this has reduced the imbalance in the current release.

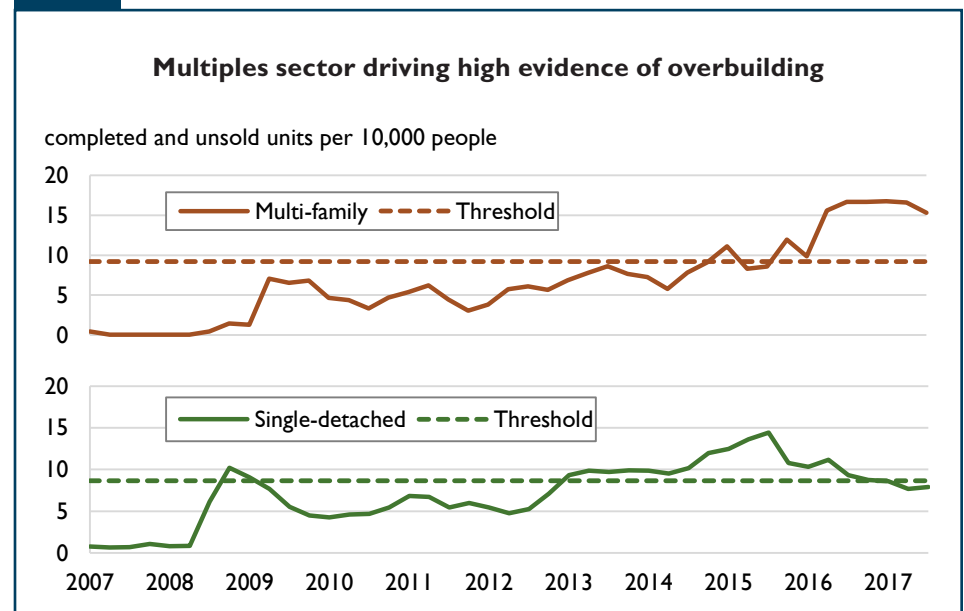
Saskatoon's young adult population, aged 25-34, increased by 1.0% in Q3 2017 from Q2 2017, and grew by 4.7% from Q3 2016. In addition, the local economy is recovering from the most recent economic downturn, with employment trending

Evidence of overbuilding remains high

In order to determine overbuilding, the HMA framework examines the level of new housing inventory and the purpose-built rental vacancy rate against their relative thresholds. The total inventory of completed and unsold units per 10,000 people remained above its threshold in Q3 2017. This is primarily due to the multiples sector where inventory levels for ownership apartment units remain elevated.

While Saskatoon's rental apartment vacancy rate declined to 9.6% in 2017 from 10.3% in 2016, it remained above its critical threshold of 7.5%. Therefore, the combination of elevated new housing inventory and a high rental vacancy rate contributed to high evidence of overbuilding in Saskatoon's housing market.

Figure 4



Source: CMHC, calculations (historical average) by CMHC
Last data point: 2017Q3

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 detect imbalances in housing markets.

Specifically, the framework considers four main factors that may provide an early indication of vulnerability in the housing market: (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 incidence of signs of vulnerability, 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 a low degree of vulnerability. Conversely, as the intensity, number, and/or persistence of the signals increases, so does the evidence of imbalances in the housing market.

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 vulnerability. 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 vulnerable 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 vulnerabilities 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 signs of overheating, 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 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 signs of overbuilding 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 degree of market vulnerability. The HMA reflects a comprehensive framework that not only tests for the presence or incidence of signals of imbalances (that is, how far the indicator is from its historical average), but also considers the intensity and the persistence of these signals over time. Generally, low intensity and persistence are associated with a lower vulnerability. As the number of persistent signals increases, the evidence of an imbalance 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 that can identify imbalances. 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 showing vulnerability 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 HELPS CANADIANS MEET THEIR HOUSING NEEDS.

Canada Mortgage and Housing Corporation (CMHC) has been helping Canadians meet their housing needs for more than 70 years. 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 unbiased housing research and advice 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.

©2018 Canada Mortgage and Housing Corporation. All rights reserved. CMHC grants reasonable rights of use of this publication's content solely for personal, corporate or public policy research, and educational purposes. This permission consists of the right to use the content for general reference purposes in written analyses and in the reporting of results, conclusions, and forecasts including the citation of limited amounts of supporting data extracted from this publication. Reasonable and limited rights of use are also permitted in commercial publications subject to the above criteria, and CMHC's right to request that such use be discontinued for any reason.

Any use of the publication's content must include the source of the information, including statistical data, acknowledged as follows:

Source: CMHC (or "Adapted from CMHC," if appropriate), name of product, year and date of publication issue.

Other than as outlined above, the content of the publication cannot be reproduced or transmitted to any person or, if acquired by an organization, to users outside the organization. Placing the publication, in whole or part, on a website accessible to the public or on any website accessible to persons not directly employed by the organization is not permitted. To use the content of any CMHC Market Analysis publication for any purpose other than the general reference purposes set out above or to request permission to reproduce large portions of, or entire CMHC Market Analysis publications, please complete the [CMHC Copyright request form](#) and email it to CMHC's Canadian Housing Information Centre at chic@cmhc.ca. For permission, please provide CHIC with the following information: Publication's name, year and date of issue.

Without limiting the generality of the foregoing, no portion of the content may be translated from English or French into any other language without the prior written permission of Canada Mortgage and Housing Corporation.

The information, analyses and opinions contained in this publication are based on various sources believed to be reliable, but their accuracy cannot be guaranteed. The information, analyses and opinions shall not be taken as representations for which Canada Mortgage and Housing Corporation or any of its employees shall incur responsibility.

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

