

# HOUSING MARKET ASSESSMENT

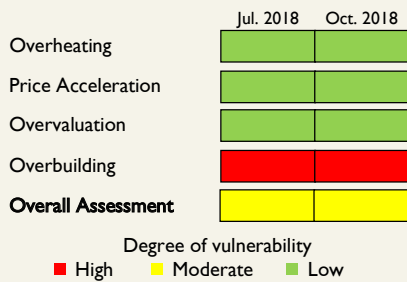
Saskatoon CMA

Date Released: Fourth Quarter 2018



## Highlights

### Results Overview Saskatoon CMA



- There remains a moderate degree of vulnerability in the Saskatoon housing market.<sup>1</sup>
- The framework's overvaluation rating for Saskatoon is unchanged from the prior quarter.
- No change to the ratings on overheating and house price acceleration.
- High evidence of overbuilding in Saskatoon's market was maintained in the second quarter.

## HMA Overview<sup>2</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 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 potentially low degree of vulnerability. As the number of intense and persistent signals increases, the associated degree of vulnerability increases.

## SUBSCRIBE NOW!

Get email notifications when CMHC publications are released or updated. Sign up for a free myCMHC account for enhanced site access, including one-click subscriptions to the reports and tables that matter to you.

Get your [myCMHC account](#) today!

<sup>1</sup> Results are based on data as of the end of June 2018 and local market intelligence up to the end of September 2018. CMHC continuously monitors market developments and will issue HMA updates on a quarterly basis.

<sup>2</sup> A detailed description of the framework is available in the appendix of the [National edition](#).

## In Detail

### No change to the overheating rating

According to the HMA framework's Q2 2018 results, there continued to be low evidence of overheating in Saskatoon's housing market. Slower economic growth and rising interest rates have contributed to easing demand for resale homes. On the other hand, new listings rose in Q2 2018 from the preceding quarter, resulting in a decrease in the sales-to-new-listings ratio (SNLR) to 36% from 41% in Q1 2018, on a seasonally adjusted basis. At this level, the SNLR remained significantly below the framework's threshold for overheating of 85%.



**Goodson Mwale**  
Senior Analyst,  
Economics

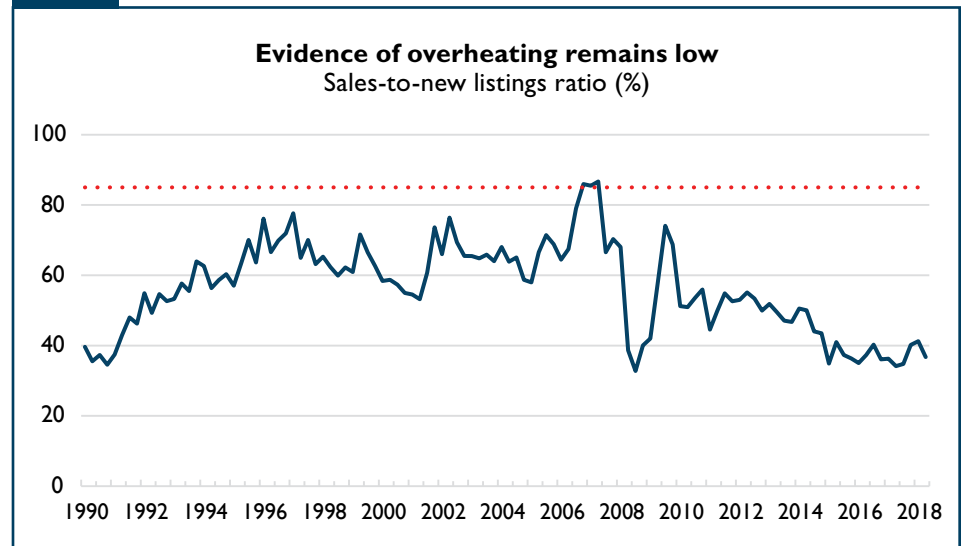
*"The overall assessment of the Saskatoon housing market remains unchanged from the previous quarter. Fundamentals remain mixed with weaker economic conditions resulting in a contraction in real personal disposable income, while positive growth has continued in the young-adult population. In addition, buyer's market conditions in Saskatoon have perpetuated a downward trend in several house price measures."*

### Price acceleration remains low

Low evidence of accelerating house prices was maintained in Q2 2018. Buyer's market conditions continued to put downward pressure on house

prices during the second quarter of 2018. The seasonally adjusted average MLS® price declined to \$327,952 in Q2 2018 from \$330,696 in Q1 2018. While the MLS® HPI composite benchmark price<sup>3</sup> rose slightly to \$296,100 in the second quarter from

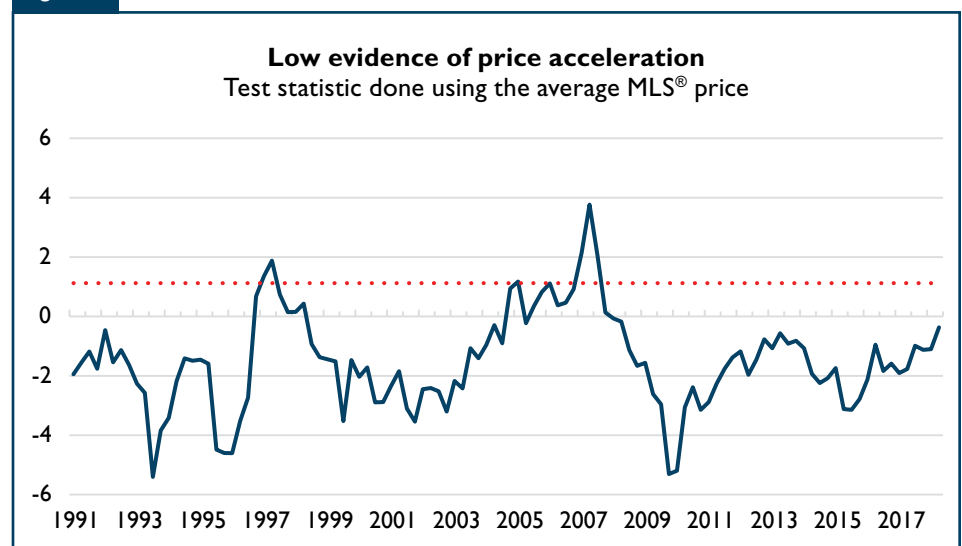
Figure 1



Last data point: 2018Q2

Source: CREA (seasonally adjusted) and calculations (threshold) by CMHC

Figure 2



Last data point: 2018Q2

Source: CREA (seasonally adjusted), CMHC calculations

<sup>3</sup> 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.

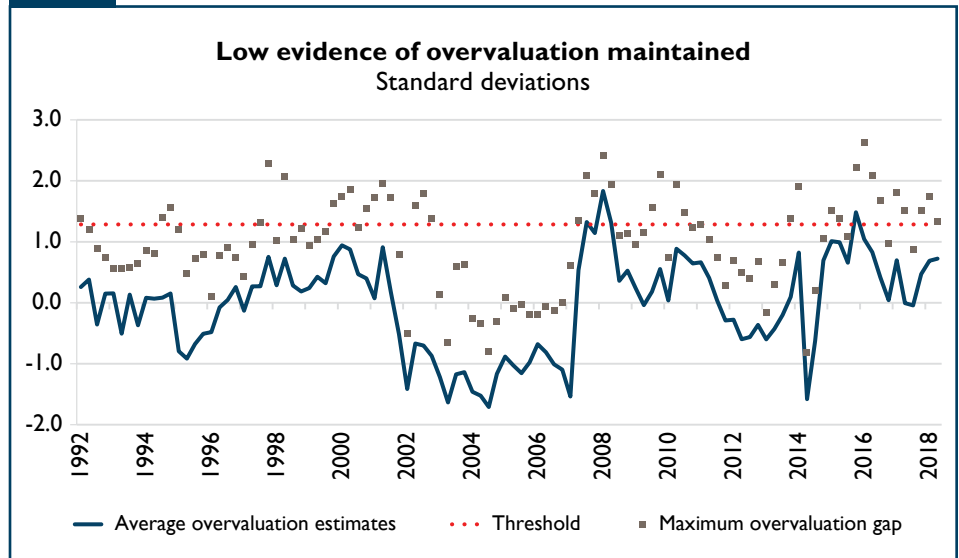
\$293,100 in the first quarter of 2018, this price measure was down 3.1% in Q2 2018 from the same quarter a year earlier, and significantly lower than the five-year average of \$311,329.

Among individual categories, the MLS® HPI benchmark prices for single-family and townhouse units rose slightly in Q2 2018 from Q1 2018, but were down on a year-over-year basis. The benchmark price for apartment units declined in the second quarter of 2018 from the preceding quarter, and was significantly lower than in the second quarter of 2017.

## Overvaluation rating remains unchanged

As shown in figure 3, the average estimate of overvaluation obtained from a group of selected models remained below the critical threshold. Individually, however, the maximum overvaluation gap from the hybrid model using the MLS® average price was above the threshold. Notwithstanding, several house price measures continued to trend lower in Q2 2018, while growth in some underlying fundamentals such as the young adult population remained positive. Therefore, the overvaluation rating was maintained on discretionary grounds.

Figure 3

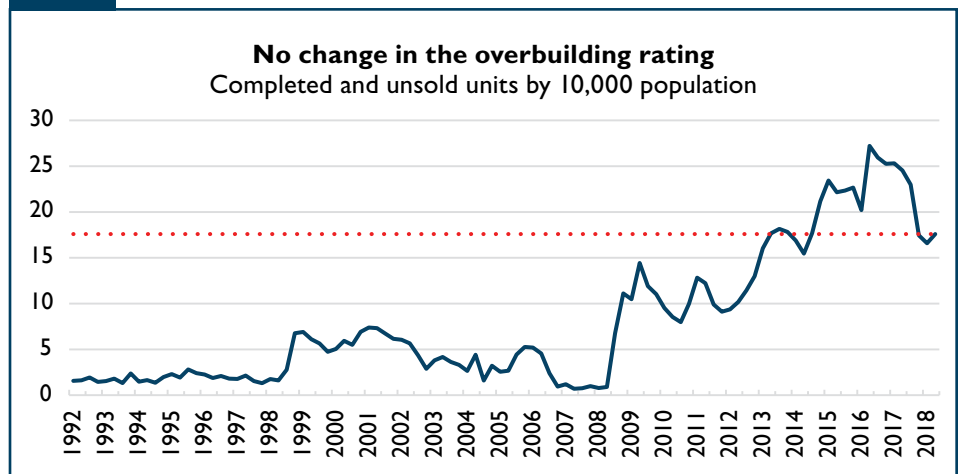


Last data point: 2018Q2

Sources: CREA, Statistics Canada and calculations by CMHC.

Note: The average estimate of overvaluation is the average gap between actual house prices and price levels estimated from a group of selected models. Baseline models include demand, supply, hybrid, and affordability models, each of which is estimated using four measures of house prices to generate sixteen unique estimates of overvaluation. The selection of models is conducted with a set of cointegration tests, and the selected models are estimated with Dynamic Ordinary Least Squares (DOLS). The maximum overvaluation gap is obtained from the model that has the largest gap between the actual price and the estimated price. The threshold is fixed at a critical value of 1.29 for a confidence level of 80%. Overvaluation is signaled when overvaluation estimates lie above the threshold.

Figure 4



Last data point: 2018Q2

Source: CMHC, calculations (threshold) by CMHC

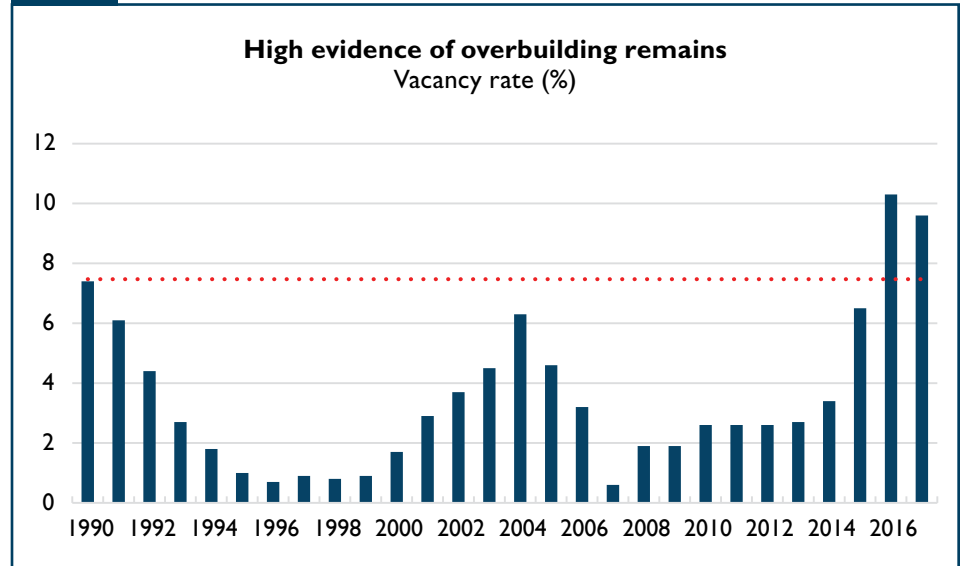
## Evidence of overbuilding remains high

According to the results of the HMA framework, Saskatoon's inventory of completed and unsold units per 10,000 population was marginally above the overbuilding threshold in the second quarter of 2018.

This follows a reading that was slightly below the threshold during Q1 2018. New housing inventory in Saskatoon's market has declined in recent months, but not sufficiently to warrant a change in assessment.

In addition, Saskatoon's rental apartment vacancy rate of 9.6% in October 2017 was above its critical threshold of 7.47%. Based on these two indicators, the assessment of high evidence of overbuilding in Saskatoon's market was maintained in the current release.

Figure 5



Last data point: 2017

Source: CMHC, calculations (threshold) by CMHC

## 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](http://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.

©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 this CMHC publication for any purpose other than the general reference purposes set out above or to request permission to reproduce large portions of, or the entire content of, this CMHC publication, please send a Copyright request to the Housing Knowledge Centre at [Housing\\_Knowledge\\_Centre@cmhc.ca](mailto:Housing_Knowledge_Centre@cmhc.ca). Please provide 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

## PUBLICATIONS AND REPORTS AVAILABLE ONLINE

*Local, regional and national analysis and data on current market conditions and future trends.*

- Housing Information Monthly
- Housing Market Assessment
- Housing Market Insight
- Housing Now Tables
- Housing Market Outlook, Canada
- Housing Market Outlook, Highlight Reports – Northern Housing
- Housing Market Outlook, Canada and Major Centres
- Preliminary Housing Starts Data
- Rental Market Reports, Canada and Provincial Highlights
- Rental Market Reports, Major Centres
- Seniors' Housing Reports
- Mortgage and Consumer Credit Trends Report

## DATA TABLES AVAILABLE ONLINE

- Funding and Securitization Data
- Household Characteristics
- Housing Market Data
- Housing Market Indicators
- Mortgage and Debt Data
- Rental Market Data

## HOUSING MARKET INFORMATION PORTAL

*The housing data you want, the way you want it.*

- ✓ Information in one central location
- ✓ Desktop and mobile friendly
- ✓ Neighbourhood-level data

**[cmhc.ca/hmportal](http://cmhc.ca/hmportal)**

## SUBSCRIBE NOW

*Get email notifications when CMHC publications are released or updated. Sign up for a free myCMHC account for enhanced site access, including one-click subscriptions to the reports and tables that matter to you.*

**Get your myCMHC account today!**

**Get the market intelligence you need today!**

Find all the latest trends, research and insights at **[cmhc.ca/housingmarketinformation](http://cmhc.ca/housingmarketinformation)**

## Housing Observer

Featuring quick reads and videos on...

- Analysis and data
- Timely insights
- Updates to housing conditions, trends and much more!

Subscribe today to stay in the know!

**[www.cmhc.ca/observer](http://www.cmhc.ca/observer)**

