

HOUSING MARKET ASSESSMENT

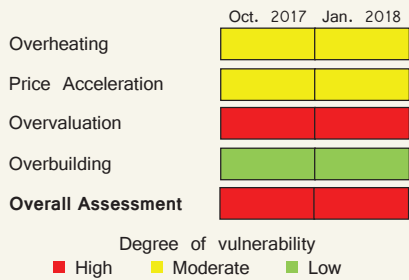
Greater Toronto Area

Date Released: First Quarter 2018



Highlights

Results Overview Toronto CMA



- Recent results from the Housing Market Assessment indicated a high degree of market vulnerability in the Toronto CMA¹ housing market.
- We detected moderate evidence of overheating and price acceleration, and high evidence of overvaluation.
- We detected weak evidence of overbuilding, as the inventory of completed and unsold units subsided further in Q3 2017.

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.

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.

In Detail

Overheating

We detected moderate evidence of overheating in Q3 2017. The seasonally adjusted sales-to-new listings ratio (SNLR) was 46%, virtually unchanged from the previous quarter. The stable SNLR was a result of the number of new listings declining at the same pace as sales. Both buyers and sellers continued to adjust their expectations and behaviours following the implementation of the new Fair Housing Plan by the Provincial Government of Ontario in April 2017. Although the SNLR ratio was well below the threshold of 70% set to flag market overheating, its prevalence for just two quarters had meant that market imbalances still existed. Similar to Q2 2017, the more affordable condominium apartment market conditions remained the

tightest in Q3 2017, with a seasonally adjusted SNLR slightly below 60%, while single-detached homes registered the lowest ratio at 38%.

New regulations introduced by the Office of the Superintendent of Financial Institutions (OSFI) in October 2017 extended mortgage stress testing requirements for uninsured mortgages. The new announcement propelled sellers and buyers to act before the new rules took effect in January 1 2018. The announcement as well as an improving economy had a pull forward effect on sales, and in December 2017, sales recovered to a seasonally adjusted annual rate of 103,523. There was an even stronger reaction from some sellers, who fearing that the pool of qualified home buyers may shrink next year, rushed to offload their properties. The supply of new listings in December reached a seasonally adjusted record annual rate of

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](#).

221,474 units, outpacing the previous record set in May 2017, following the Fair Housing Plan implementation.

The increase in demand however was not enough to keep pace with rising supply. The number of active listings (or those available for sale at the end of the month) trended up to reach a seven year high (figure 2), resulting in a minor softening in the average sale price. The seasonally adjusted SNLR in December 2017 settled at 49%, well below the threshold set for market overheating. Recent data revealed again that the softest market conditions persisted for more expensive sub-markets such as York region, which were more impacted by the policy changes and subsequent market adjustments (table 1).

Price Acceleration

We continue to detect moderate evidence of price acceleration in Q3 2017. The average seasonally adjusted MLS® house price was down from the previous quarter. The lower SLNR meant less price pressure but prices were up by 3.6% on a year-over-year basis. The lower rate of price growth would have to persist for a longer duration in order to discount any evidence of price acceleration. Furthermore, price acceleration

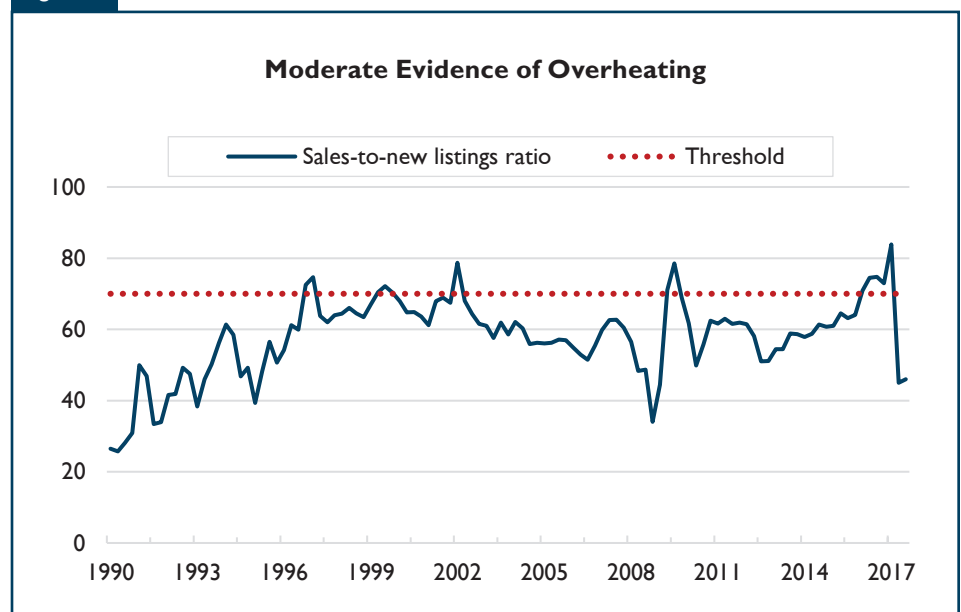
was more pronounced among some housing types such as condominium apartments, where the rate of price increase over the same time period was as high as 22.7%. The overall softening of house price growth reflected a compositional shift in the type of homes being sold. The share of single-detached homes sold dropped to a record level. Fewer sales of higher priced home types put stronger downward pressure on the overall average price.

Towards the end of 2017, the market appeared to have adjusted its reaction to the implementation of the Ontario's Fair Housing Plan by shifting demand towards more affordable townhomes and condominium apartments.

Overvaluation

We continued to detect high evidence of overvaluation in the Toronto CMA during Q3 2017. During this period,

Figure 1



Sources: CREA and calculations (threshold) by CMHC
Last data point: 2017Q3



Dana Senagama,
Principal, Market
Analysis (GTA)

"Despite moderating housing price growth, price levels still remain above rates justified by economic and demographic fundamentals such as income and population growth and continue to signal a high degree of vulnerability in the Toronto CMA housing market."

**Table 1: Seasonally Adjusted Sales-to-New Listings Ratio
(December 2017)**

Halton Region	51%
Peel Region	48%
City of Toronto	57%
York Region	34%
Durham Region	52%
GTA	49%

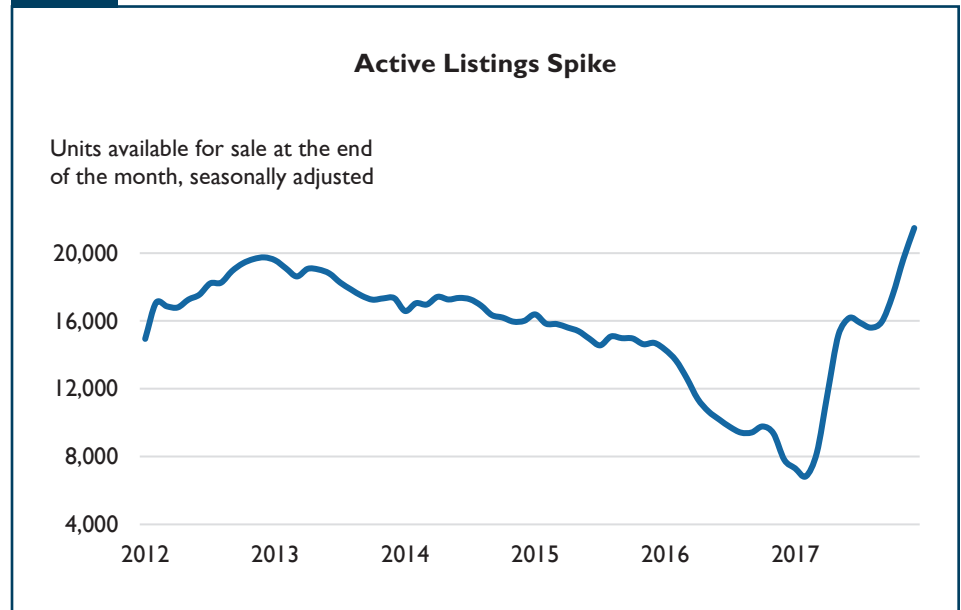
Source: TREB

the average house price growth was stronger than the growth in economic and demographic fundamentals such as personal disposable income and population. The divergence between actual home prices and the levels that were historically supported by these fundamental drivers had shrunk following the announcement of the Fair Housing Plan as well as due to a general improvement in the job market and population growth, but remained above the problematic threshold.

Overbuilding

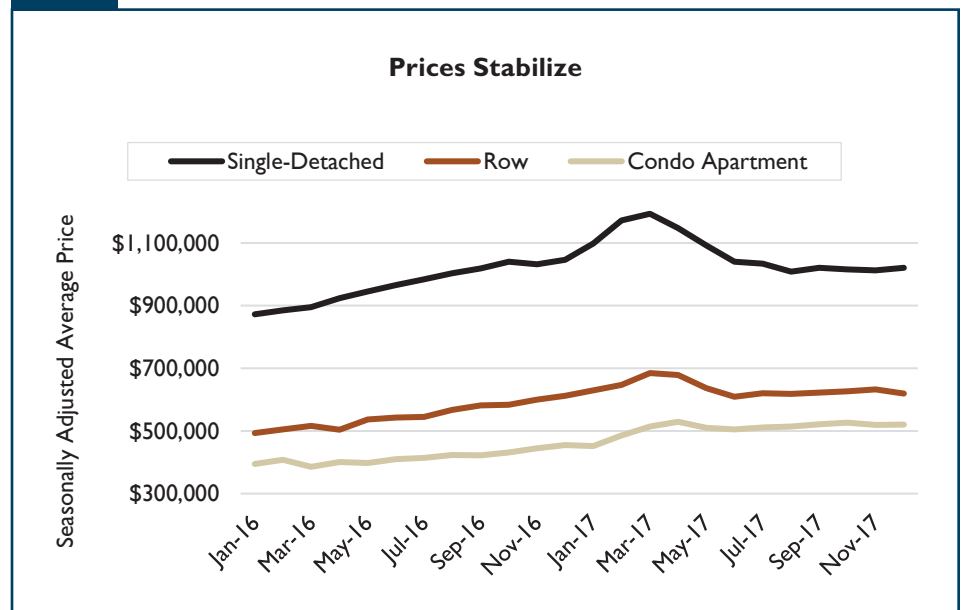
We detected low evidence of overbuilding in Q3 2017, as the number of completed and unsold units declined to 1.1 units per 10,000 population—one of the lowest levels ever recorded and well below the threshold of 4.2 units required for evidence of overbuilding in the Toronto CMA. Despite a higher number of new home completions in Q3 2017, the level of unsold inventories fell further. The stock of unsold low-rise homes at completion remained low and relatively unchanged, as robust demand for the family-oriented home types in Toronto continued to persist. Furthermore, since the beginning of the year, more home buyers have turned their attention towards the more affordable condominium apartments. It led to stronger demand and a higher rate of absorption of newly completed high-rise units. The average condominium apartment vacancy rate, which fell to 0.7% in October 2017, reflected continued tightening in the rental market. Stronger rental demand

Figure 2



Source: TREB, CMHC calculations
Last data point: December 2017

Figure 3

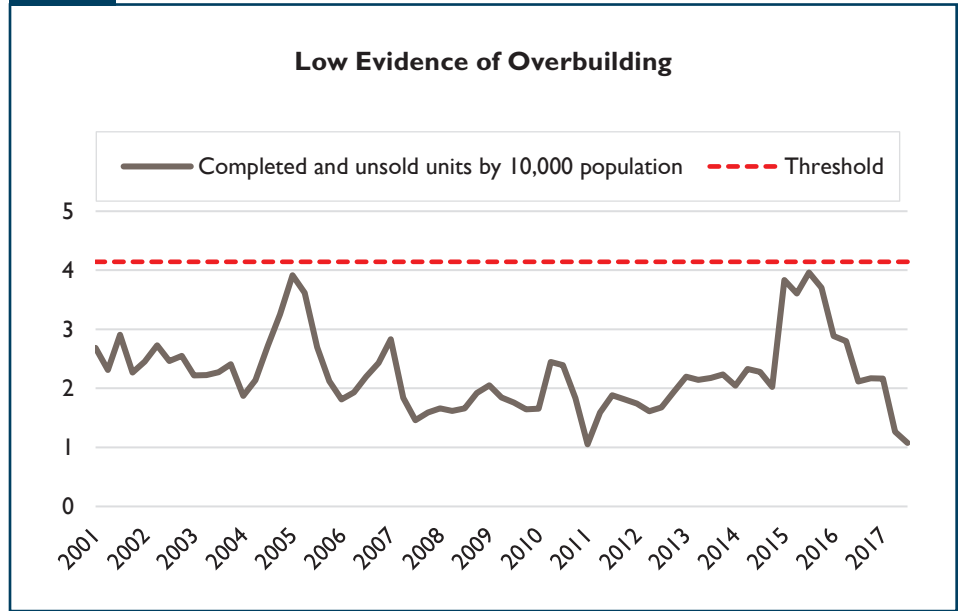


Source: TREB, CMHC calculations

would have also contributed to the absorption of some newly completed condominium apartment units.

The total number of homes under construction in December 2017 was close to an all-time high at 70,349 units. Nearly two-third of these units were condominium apartments. Over the next couple of years, more high-rise completions could potentially generate upward pressure on unsold inventories. Given that the absorption rate of condominium apartments at completion is close to 97% and the risk of unmanageable inventories appear low at this point, developers should continue to ensure that inventories are manageable and the stock of completed and unsold units remain low.

Figure 4



Sources: CMHC, Statistics Canada and calculations (threshold) by CMHC
Last data point: 2017 Q3

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

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

Get the market intelligence you need today!

Click www.cmhc.ca/housingmarketinformation to view, download or subscribe.

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

