HOUSING MARKET INFORMATION

HOUSING MARKET ASSESSMENT

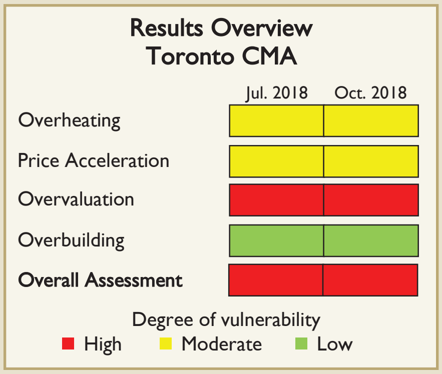
Greater Toronto Area

Date Released: Fourth Quarter 2018

Canada

CMHC SCHL

Highlights



- Recent results from the Housing Market Assessment indicated a high degree of market vulnerability in the Toronto CMA[1] housing market.
- Overheating, price acceleration, and overvaluation assessments are maintained however declining prices alongside growing incomes and population since early 2017 resulted in easing of overvaluation conditions.
- We detected weak evidence of overbuilding, as the number of completed and unsold units reached a historic low.

HMA Overview[2]

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

The signal for overheating was maintained in Q2 2018. Seasonally adjusted sales and new listings trended higher following a slow Q1 2018 which saw home buying demand hampered by rising mortgage carrying costs. The sales-to-new listings ratio (SNLR) of 48.62% in Q2 2018 was well below the threshold of 70% set to signal market overheating. However, the yellow (moderate) rating is maintained because the ratio was above the threshold for at least two quarters over the past three years (see Figure 1). Cooler market conditions that existed in the previous quarter continued to persist in Q2 2018, with sales and new listings trending lower. The higher SNLR in Q2 2018 was the result of new listings declining more than sales, when new listings were the lowest observed in a quarter since Q3 2010. Interestingly, the market for condominium apartments during this period still remained quite active, indicated by a seasonally adjusted SNLR of 62%, driven by a further shift in demand towards these relatively affordable units. A higher SNLR was more prevalent in the City of Toronto compared to other regions of the GTA, highlighting a greater level of activity in condominium apartments. York Region, which typically boasts greater market activity in low rise homes, had the lowest SNLR during Q2 2018 in the GTA, as a result of softening demand for higher priced single-detached homes.

We saw housing market activity pick up in Q3 2018 as buyers and sellers adjusted to new market conditions, with both seasonally adjusted sales and new listings trending up. The growth in sales outpaced that of new listings, which pulled up the SNLR to 51.09%. The condominium apartment market remained tight, with a SNLR of 61%.

[1] Results are based on data as of the end of June 2018 and market intelligence as of the end of September 2018. CMHC continuously monitors market developments and will issue HMA updates on a quarterly basis.

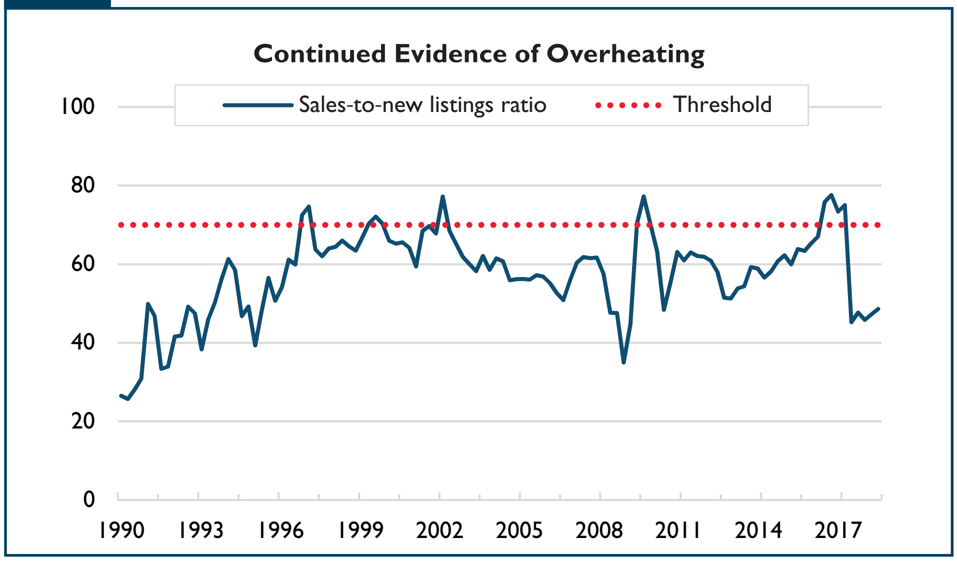
[2] A detailed description of the framework is available in the appendix of the National edition.

Price Acceleration

The signal for price acceleration was maintained in Q2 2018. The seasonally adjusted average MLS® price grew modestly from the previous quarter as single-detached homes began to recover for the first time since the introduction of the Ontario Fair Housing Plan (OFHP). However, moderate price growth across the GTA would have to persist longer in order for us to discount any evidence of price acceleration. As a result, the rating from the previous quarter was maintained (see Figure 2)[3]. Housing market conditions for condominium apartments remained tight, resulting in stronger price growth for this housing type. These units made up a larger percentage of sales and due to their weight in terms of dollar value, restrained the overall growth in home prices. Price growth in GTA regions mirrored that of their SNLRs. The City of Toronto, which boasted a higher SNLR is Q2 2018, showed resilience and higher price growth compared to areas such as York, Durham, and Halton regions, which had market conditions favouring buyers.

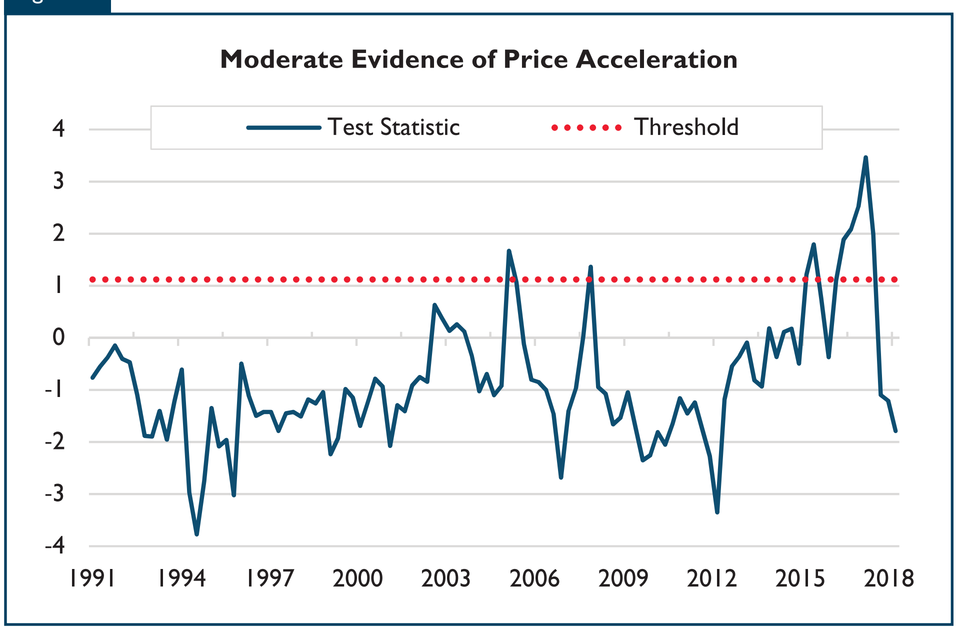
In Q3 2018, the year-over-year price growth was more pronounced with the average MLS® price rising by 3.9% compared to the same time period last year, when price growth slowed following months of unprecedented growth. Average prices grew across unit types, led by condominium apartments at 8.3%, followed by single-detached homes at 5.1%, townhomes at 2.2%, and

Figure 1



Last data point: 2018Q2
Sources: CREA and calculations by CMHC

Figure 2



Last data point: 2018Q2
Sources: CREA and calculations by CMHC

Dana Senagama,
Principal, Market
Analysis (GTA)

"Declining prices alongside growing incomes and population since early 2017 have resulted in easing of overvaluation conditions. However, our overall assessment continues to detect a high degree of vulnerability in the Toronto CMA housing market."

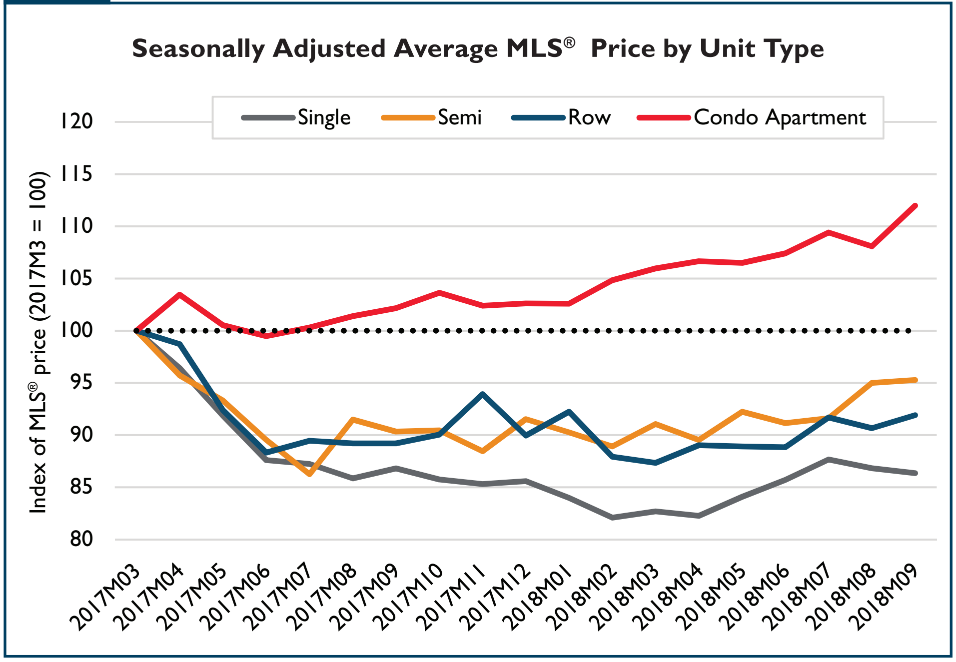
[3] Specifically, when the test statistic for price acceleration rises above the problematic threshold in any quarter (see Figure 2) the signal is maintained for 3 years.

semi-detached homes at 0.2%. Price growth has been largely influenced by affordability considerations, with relatively more affordable higher-density housing seeing continued price recovery on a seasonally adjusted basis in Q3 2018, while price growth for single-detached homes remained flat following a strong previous quarter (See Figure 3).

Overvaluation

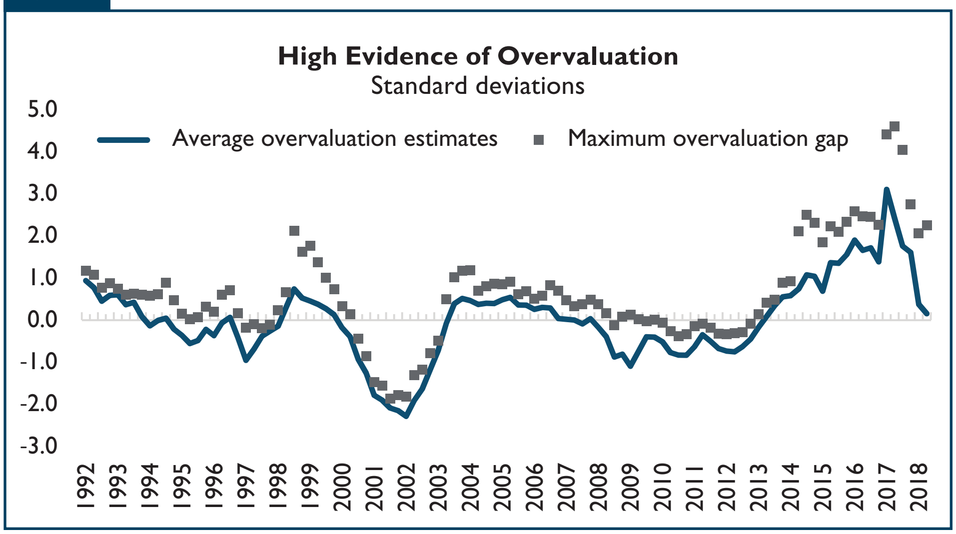
We continued to maintain our overvaluation rating in the Toronto CMA during Q2 2018. The average of the gaps between actual house prices and price levels predicted by economic fundamentals remained below the threshold in the second quarter of 2018. But the red rating was maintained as the average gap had been above the threshold for 11 quarters from the second quarter of 2015 to the fourth quarter of 2017 (see Figure 4). However, overvaluation was easing since this time last year. In Q2 2018, the real MLS® average house price decreased by 8.82% compared to the same time period a year prior, while growth in real disposable income eased by 0.24% and the young adult population increased by 3.46%.

Figure 3



Last data point: 2018M09
Sources: TREB and calculations by CMHC

Figure 4

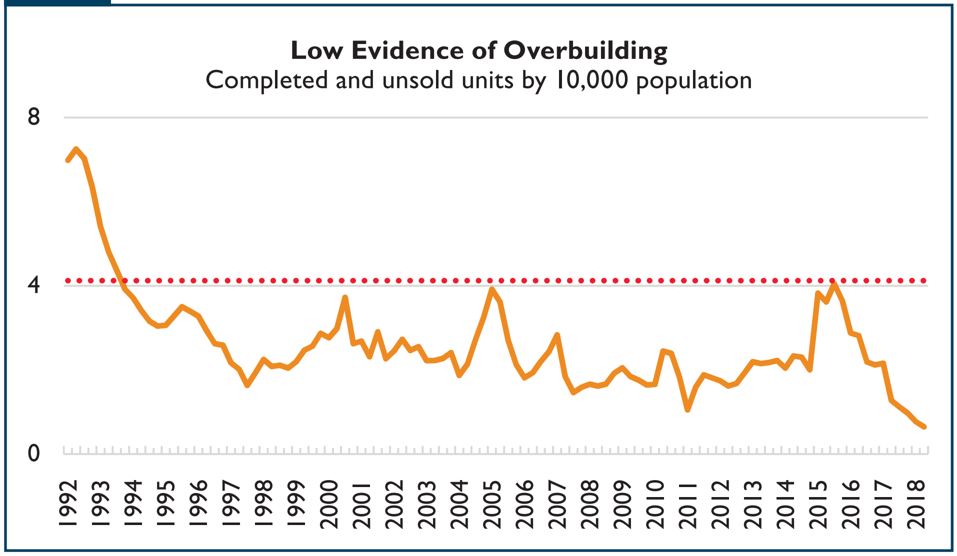


Last data point: Q22018
Sources: CREA, Statistics Canada and calculations by CMHC.
Note: The average estimate of overvaluation is the average gap between actual house prices and price levels estimated from a group of selected models. Baseline models include demand, supply, hybrid, and affordability models, 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

Overbuilding

A low degree of vulnerability continues to be detected for overbuilding as the inventory of completed and unsold units per 10,000 population continues to decline in the second quarter of 2018 (see Figure 5). Higher inventories are typically evident in condominium apartments compared to low rise homes. However, given high prices of single-detached homes and townhouses coupled with ultra-low vacancy rates in both the primary and secondary rental markets, demand for high rise units from end-users and investors remain strong with fewer units remaining unsold upon completion.

Figure 5



Last data point: Q22018
Sources: Statistics Canada and 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 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.

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/hmiportal

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**

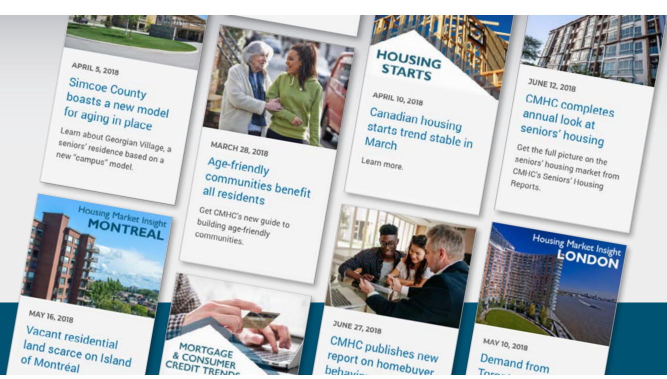
Housing Observer

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



68641_2018_Q04