

# HOUSING MARKET ASSESSMENT

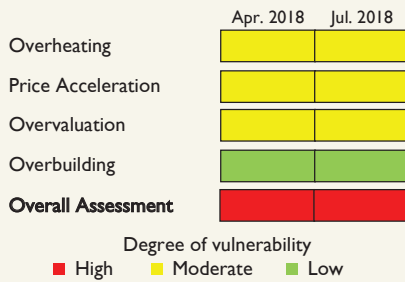
Hamilton CMA

Date Released: Third Quarter 2018



## Highlights

### Results Overview Hamilton CMA



- The overall assessment<sup>1</sup> for Hamilton showed the housing market displayed a high degree of vulnerability in Q1 2018, unchanged from the previous quarter's assessment.
- Moderate evidence of overheating still existed due to the sales-to-new-listings<sup>2</sup> ratio being above the threshold in 8 of the past 12 quarters.
- The inflation-adjusted average MLS<sup>®3</sup> price grew persistently for a period of time within the last 12 quarters. As a result, moderate evidence price acceleration continued to be detected.
- While overvaluation decreased on average, moderate evidence of it remained as house prices were still considerably higher than levels supported by housing demand fundamentals.

## HMA Overview<sup>4</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.

## In Detail

### Moderate Evidence of Overheating

In Q1 2018, the seasonally adjusted sales-to-new-listings ratio in Hamilton was 61%, below the 75% threshold set for an overheated market. However, moderate evidence of overheating was detected due to the ratio being above the threshold in 8 of the past 12 quarters. The ratio decreased as a result of sales declining more than new listings. The decline in sales was primarily due to a significant number of buyers rushing to purchase a home in Q4 2017, the last quarter before tougher mortgage qualifying regulations came into effect. Fundamentals such as

employment and population growth remained very supportive of demand in Q1 2018. New listings declined as many homeowners delayed listing their home for sale due to the severe winter weather and uncertainty around the impact of the tougher mortgage qualifying regulations.

The market for row and semi-detached homes favoured sellers, while the markets for both apartments and single-detached homes were balanced. The tight market conditions for row or semi-detached homes reflected the low supply of listings and strong demand for affordable low-rise housing. Regional markets with generally lower priced homes, such as Hamilton East and Hamilton Centre, also favoured sellers.

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

<sup>2</sup> A sales-to-new-listings ratio above 65% is associated with sellers' market conditions. In a sellers' market, inflation adjusted home prices are generally rising. A sales-to-new-listings ratio below 45% has historically accompanied inflation adjusted prices that are falling, a situation known as buyers' market. When the sales-to-new-listings ratio is between these two boundaries, the market is said to be balanced. New listings are a gauge of the supply of existing homes coming onto the market, while sales are a proxy for demand.

<sup>3</sup> Multiple Listing Service<sup>®</sup> (MLS<sup>®</sup>) is a registered trademark of the Canadian Real Estate Association (CREA).

<sup>4</sup> A detailed description of the framework is available in the appendix of the [National edition](#).

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The overall sales-to-new-listings ratio edged down further in Q2 2018 but the market remained balanced. The ratio decreased due to lower sales and higher new listings. Rising mortgage rates and tougher qualifying criteria in 2018 primarily contributed to the minor slowdown in sales. Lower prices in Q1 2018 did not encourage more homeowners to list. Anecdotal evidence suggests that a greater than usual number of sellers waited till Q2 2018 to list because of the harsh winter weather in Q1 2018. Rising mortgage rates and increased supply had the greatest impact on the ratio for single-detached homes, which signalled a move closer towards a buyer's market.

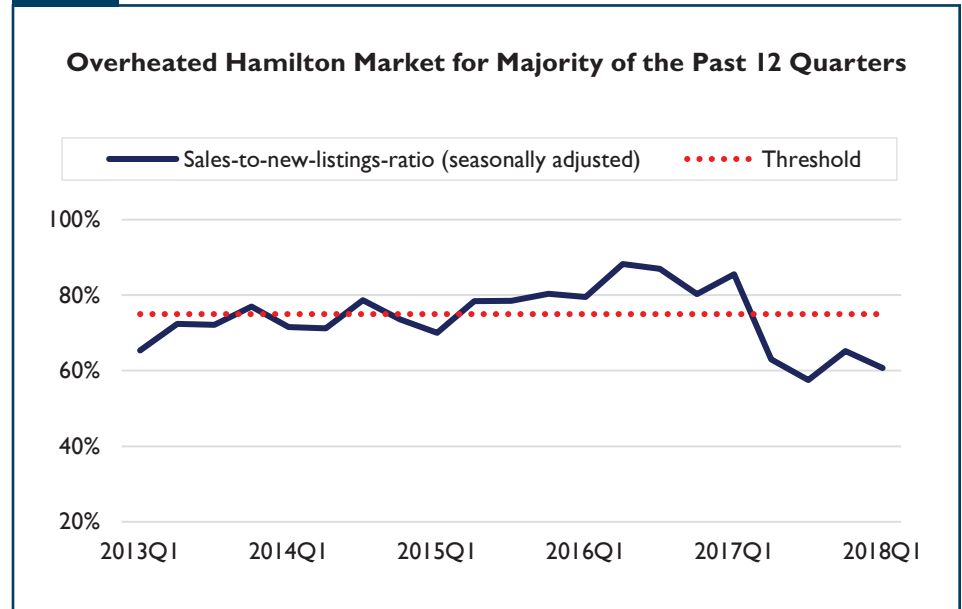
## Moderate Evidence of Price Acceleration

Despite softening house prices, moderate evidence of price acceleration continued to be detected due to the persistence rule. The inflation-adjusted average MLS® price decreased by an annualized rate of 11% from Q4 2017 to Q1 2018. A compositional shift in MLS® sales contributed to the decrease in the overall average price. Condominium apartment sales made up a larger

share of all transactions in Q1 2018 versus Q4 2017. Also, a smaller share of transactions in Q1 2018 versus Q4 2017 occurred in the most expensive region of Burlington.

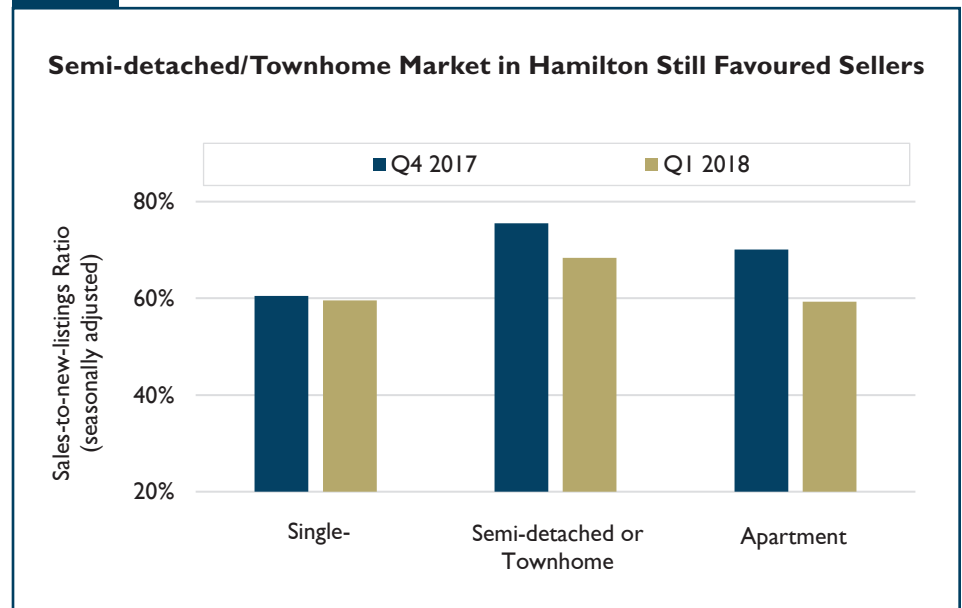
More recent data shows that the seasonally adjusted average MLS® price increased slightly from Q1 2018 to Q2 2018, consistent with the persistent balanced market conditions

Figure 1



Source: CREA, CMHC calculations. Last data point: Q1 2018

Figure 2



Source: Realtors Association of Hamilton-Burlington®, CMHC calculations. Last data point: Q1 2018



**Anthony Passarelli**  
Senior Market Analyst

*"The HMA framework continued to detect a high degree of vulnerability in the Hamilton housing market. While overvaluation decreased on average, moderate evidence of it remained as house prices were still considerably higher than levels supported by housing demand fundamentals."*

during that period. The composition of MLS® sales by dwelling type and region was similar in both quarters.

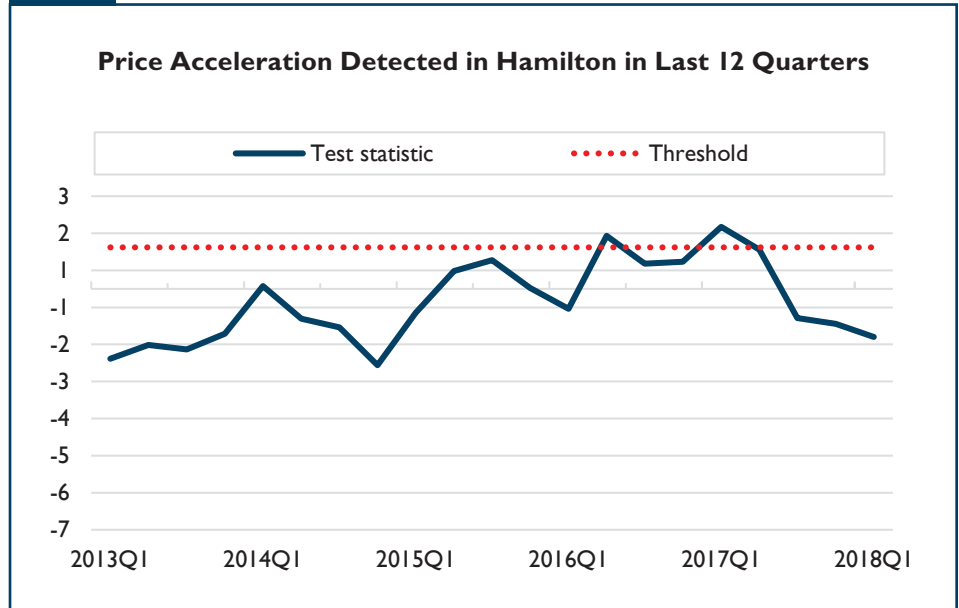
## Moderate Evidence of Overvaluation

While overvaluation decreased on average, moderate evidence of it remained as house prices were still considerably higher than levels supported by some housing demand fundamentals. Factors such as population growth, real personal disposable income per capita and employment still have ground to gain on prices.

The gap between population growth among 25 to 34 year olds and home price growth remained unusually wide, despite the narrowing that occurred in recent quarters. The 25 to 34 year old population is a fundamental driver of housing demand in Hamilton, as they make up the largest share of first-time home buyers in that market. Annualized growth in that age group remained strong, exceeding 3.0% from Q4 2017 to Q1 2018. Despite prices decreasing in the GTA in Q1 2018, a significant number of 25 to 34 year olds from there continued to migrate to Hamilton for more affordable housing, particularly in the low-rise segment. High immigration levels have also contributed to the strong population growth in this age group.

After adjusting for inflation, the average MLS® price outpaced personal disposable income per capita in 7 of the past 12 quarters ending in Q1 2018. However, the trend has shown signs of dissipating more recently as incomes outpaced

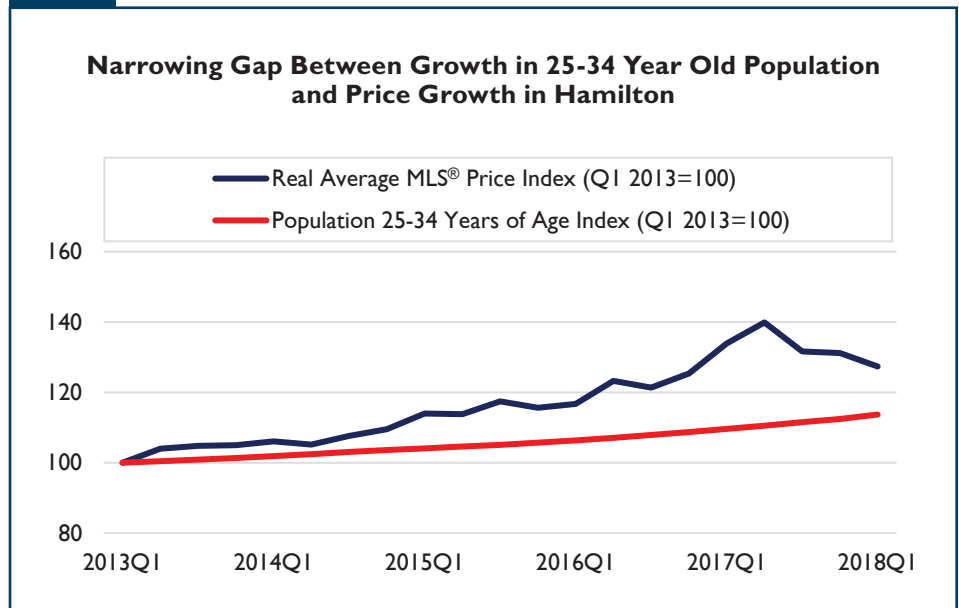
Figure 3



Source: CREA, CMHC calculations. Last data point: Q1 2018

Note: The test is done using the MLS® average price. Other price indices are also monitored.

Figure 4



Source: CREA, Statistics Canada, CMHC calculations. Last data point: Q1 2018

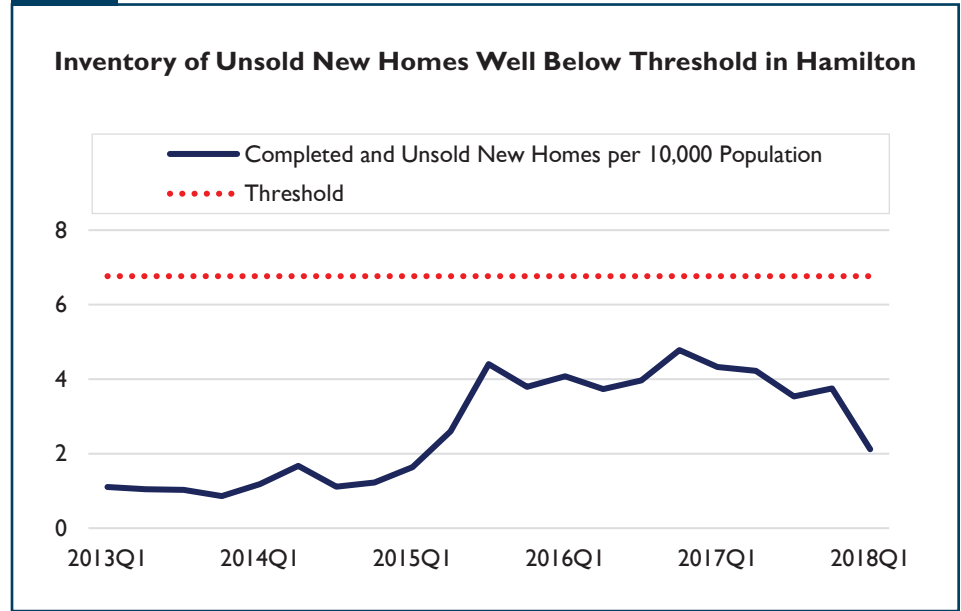
prices in both Q3 2017 and Q1 2018. Real personal disposable income decreased in Q1 2018, but less than prices. Income declined slightly as the ratio of part-time to full-time jobs was above the ten year average.

## Low Evidence of Overbuilding

We continued to detect low evidence of overbuilding in Q1 2018. The number of completed and unsold new homes per 10,000 population decreased from Q4 2017 to Q1 2018, well below the threshold of 6.7 units required for evidence of overbuilding in the Hamilton CMA. The decrease was primarily due to a large number of apartments being absorbed in Burlington. Inventories of new single-detached homes also decreased, while row home inventories were similar in both periods.

More recent data show that the seasonally-adjusted number of completed and unsold new homes remained low but increased from Q1 2018 to Q2 2018, mainly due to an increase in row home inventories. Row homes continued to make up the vast majority of the relatively small inventory of unsold new homes in Hamilton, predominantly concentrated in Waterdown and Ancaster.

Figure 5



Source: CMHC, Statistics Canada. Last data point: Q1 2018

## 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.

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