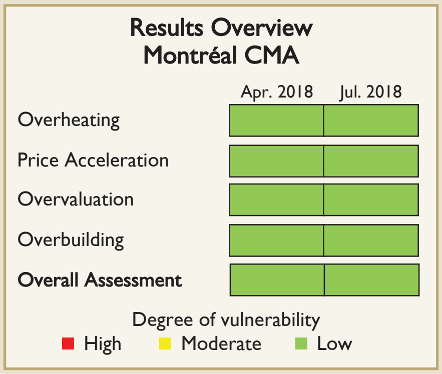
HOUSING MARKET INFORMATION

HOUSING MARKET ASSESSMENT

Montréal CMA

Date Released: Third Quarter 2018

Highlights



- According to the Housing Market Assessment (HMA) analytical framework, the degree of vulnerability of the Montréal census metropolitan area (CMA) housing market remained low during the first quarter of 2018.[1]
- Evidence of overvaluation remained weak, with house prices having stayed in line with economic and demographic fundamentals.
- Evidence of both overheating and acceleration in the growth of house prices remained below the problematic thresholds. However, the Montréal resale market continued to tighten, and this maintained upward pressure on prices.
- Evidence of overbuilding remained weak, as the number of completed and unsold homes per 10,000 population, as well as the rental vacancy rate, both remained well below their problematic thresholds.

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 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 resolving 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.

[1] 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.

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

In Detail

Evidence of overheating barely remained below the problematic threshold; still, tightening conditions continue to be observed

During the first quarter of 2018, evidence of overheating remained below the problematic threshold, even though the market continued to tighten. The seasonally adjusted sales-to-new listings ratio was close to 69% (see figure 1), which is barely below the problematic threshold of 70%. This ratio increased for a seventh straight quarter, as Centris® sales rose more rapidly than new listings. As such, the ratio was closer to the threshold for overheating, and this maintained significant pressure on prices.

As well, the active listings-to-sales ratio[3], another market indicator, continued to decrease, which indicated that the Montréal resale market has been increasingly favourable to sellers for three quarters now[4]. The tighter conditions could be observed in all market segments (see figure 2). In the case of single-family homes and plexes (rental properties with four to six units), these segments have been in sellers' market territory for over a year[5].

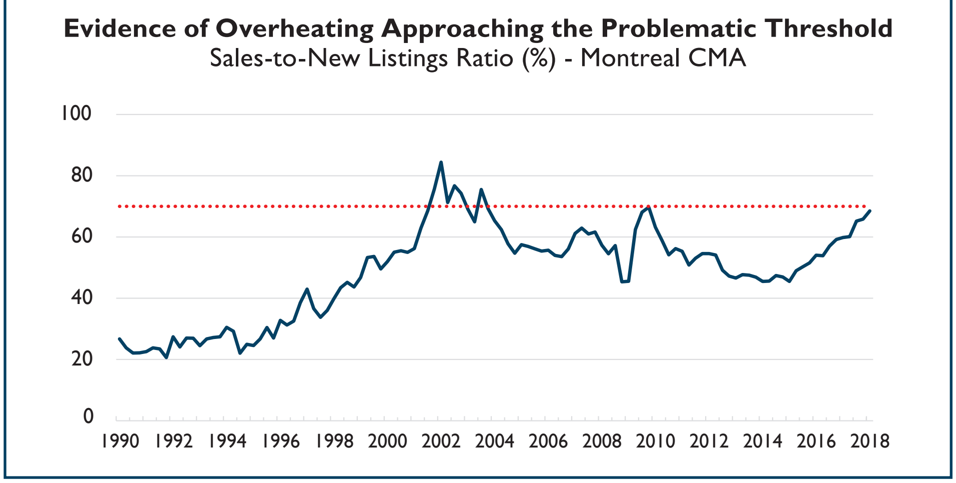
More specifically, for single-family homes, the active listings-to-sales ratio decreased in all of the large sectors[6] of the metropolitan area, and the market was even more favourable

Lukas Jasmin-Tucci,
Senior Analyst

Brahim Lgui,
Senior Analyst

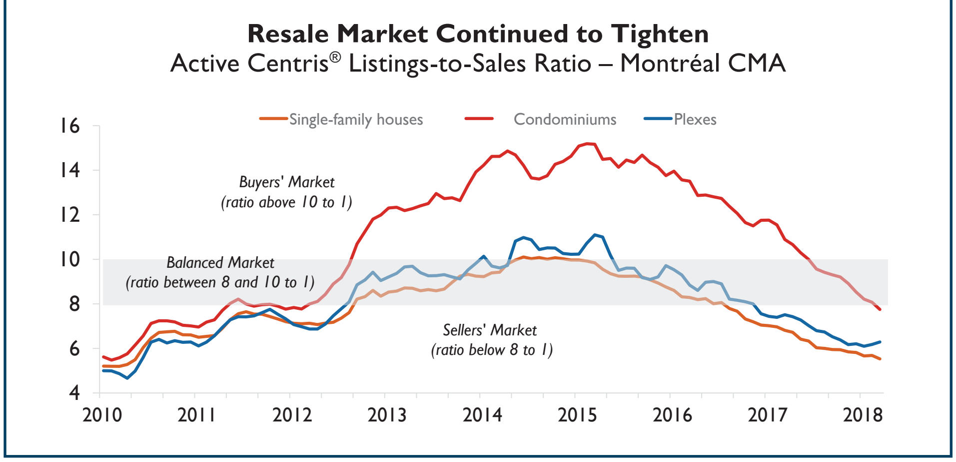
"For a sixth straight quarter, the degree of vulnerability of the Montréal CMA housing market remained low. The strength of the fundamentals supported the price levels observed. However, with the significant tightening of the resale market, the CMA market is moving ever closer to overheating."

Figure 1



Source: Quebec Federation of Real Estate Boards (QFREB) by the Centris® system, seasonally adjusted data by CMHC. Last data point: 2018 Q1.

Figure 2



Source: QFREB and CMHC calculations. Last data point: March 2018.

[3] While the sales-to-new listings ratio tells us about sales in relation to the pace of new listings on the resale market, the active listings-to-sales ratio provides information on the status of inventories relative to the rate of sales.

[4] In a sellers' market, the ratio is less than 8 sellers (in other words, active listings) for each buyer (in other words, Centris® sale). In a balanced market, the ratio is between 8 and 10 to 1, and, in a buyers' market, it is higher than 10 sellers for each buyer.

[5] In a sellers' market, sellers have greater negotiating power relative to buyers, and there is usually higher pressure on prices.

[6] Island of Montréal, Laval, North Shore, South Shore and Vaudreuil-Soulanges.

to sellers than in the previous quarter[7]. This was particularly evident in certain sectors of the Island of Montréal, where there were only four sellers (sometimes even fewer) for each buyer. This was the case, for example, in the West Island, Le Sud-Ouest, Notre-Dame-de-Grâce, Île-des-Sœurs and most of the central districts on the Island[8].

As for condominiums, this segment was on the cusp between a balanced market and a sellers' market for the whole CMA (see figure 2). As of the next quarter, the condominium market will likely be favourable to sellers, as sales should continue to climb, while active listings decrease.

However, condominium market conditions differed from one sector to the next. In Laval and on the North Shore, the ratio of about 12 sellers per buyer signified buyers' markets. On the South Shore and in Vaudreuil-Soulanges, the markets were balanced. On the Island of Montréal overall, the market became favourable to sellers for the first time since 2012. Several of the Island's central subsectors, such as Le Sud-Ouest, Verdun, Westmount, Outremont, Mont-Royal, Le Plateau-Mont-Royal and Rosemont, stood out as the most favourable to sellers.

Evidence of price growth acceleration was weak, but continues to be closely monitored

Evidence of acceleration in the growth of house prices remained weak in the first quarter of 2018. Still, the tightening of the resale market over the past months maintained pressure on prices.

In the first quarter of 2018, the average Centris® price rose by 5.9%, an increase similar overall to those recorded in the previous quarters (between 5% and 7%). It should be noted, however, that the rates of growth in average prices varied depending on the market segments and the sectors of the Montréal metropolitan area.

The single-family housing segment continued to support the growth in the average price in the Montréal area in the first quarter of 2018, with a gain of 6%. Despite a slowdown in most sectors of the Island, compared to the first quarter of 2017, a few sectors[9] continued to record gains in the average price of single-family houses of more than 10%. In the suburbs, the Laval, South Shore and Vaudreuil-Soulanges sectors also stood out with increases in average prices reaching 6.0%, 7.5% and 7.3%, respectively, in the first quarter of 2018. These growth rates were higher than the ones observed in the same quarter of 2017.

In the condominium segment, the growth in the average price in the Greater Montréal area slowed down in the first quarter of 2018 (+2%), compared to the same quarter of 2017 (+6%). Similar changes were recorded on the Island of Montréal, but some sectors[10] nevertheless stood out by posting gains of more than 10%. It should also be noted that the condominium segment in Laval stood out by registering an increase in prices of 12%, compared to only 2.5% a year earlier.

Over the next few quarters, the economic outlook should remain favourable to housing demand, and the market should continue to tighten. Given the recent evolution of prices on the Montréal resale market, the price growth acceleration indicator will remain under close monitoring over the next few months.

Evidence of overvaluation remained weak

In the first quarter of 2018, the HMA model did not identify any significant imbalance between real house prices and the price levels dictated by housing market fundamentals, such as personal disposable income and population. The growth in economic and demographic indicators continued to justify the price levels observed on the Montréal housing market. As a result, the model revealed no significant evidence of overvaluation.

A more detailed analysis revealed that most fundamentals continued to get stronger in the first quarter of 2018, compared to the first quarter of 2017. The population continued to grow (+1.3%), the real five-year fixed mortgage rate[11] decreased (from 2.7% to 1.9%) and real personal disposable income per capita increased (+0.5%).

---

7 Since the second quarter of 2015, single-family home market conditions have been tightening at similar rates in all sectors of the CMA. However, on the Island of Montréal and the South Shore, conditions were tighter to begin with than in Laval, on the North Shore or in Vaudreuil-Soulanges.

8 Le Plateau-Mont-Royal, Rosemont, Villeray, Outremont, Westmount, Mont-Royal, Hampstead.

9 Notre-Dame-de-Grâce, Montréal-Ouest, the northern portion of the west part of the Island of Montréal, the borough of Le Sud-Ouest and the central sector (Westmount, Outremont, Hampstead and Mont-Royal).

10 The northern portion of the west part of the Island of Montréal, Île-des-Sœurs, Le Plateau-Mont-Royal, Rosemont and Villeray.

11 Average negotiated rate adjusted for inflation.

As for real house prices (adjusted for inflation), they also all increased. Statistics Canada's New Housing Price Index (NHPI)[12], the average Centris® price[13] and the Teranet–National Bank House Price Index™ rose by 0.4%, 4.4% and 3.4%, respectively, compared to the first quarter of 2017.

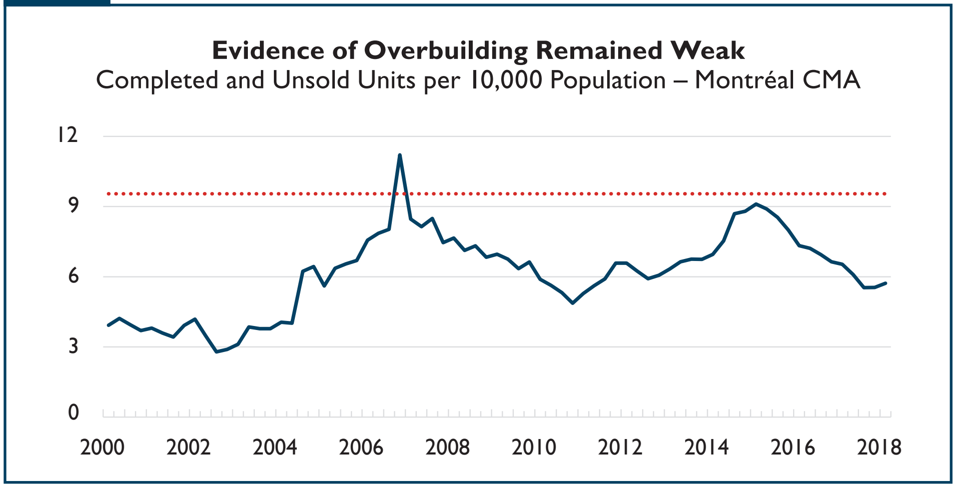
Since 2016, economic conditions in the Montréal area have remained favourable to housing demand. In that sense, even though prices increased, they did so in a context of strengthening fundamentals[14]. Reflecting this, the overvaluation analysis showed little difference between real house prices and the prices dictated by the fundamentals.

Evidence of overbuilding remained negligible

In the first quarter of 2018, both overbuilding indicators (the number of completed and unsold homes per 10,000 population, and the vacancy rate for conventional rental units) suggested weak evidence of overbuilding (see figures 3 and 4).

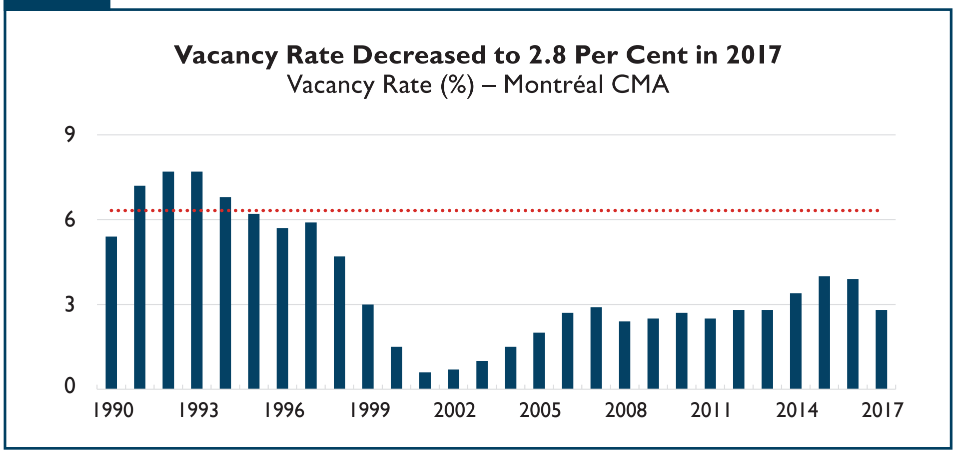
In the first quarter of 2018, the number of completed and unsold homes per 10,000 population reached 5.7, versus 5.6 in the previous quarter. As such, it remained under the threshold of 9.5 that would indicate an imbalance in homebuilding in Montréal. The increase in demand, combined with the marked slowdown in condominium starts in 2015 and 2016[15], allowed the inventory of unsold new condominiums to remain relatively low.

Figure 3



Sources: Statistics Canada and CMHC. Last data point: 2018 Q1.

Figure 4



Source: CMHC. Last data point: October 2017.

However, the surge in construction in Montréal that occurred in 2017 and that has continued, albeit at a slower pace, since the beginning of 2018 should result in an increase in completions, which, even with the strong demand, will likely put upward pressure on the inventory of unsold new condominiums over the next few quarters. That being said, the increased supply will not push past the problematic threshold in the short term. Condominium starts rose by 40% in 2017 and 6% in the first five months of 2018.

The vacancy rate for conventional rental units, for its part, decreased. According to the Rental Market Survey, it fell from 3.9% in October 2016 to 2.8% in October 2017. The reason for the

[12] Source: Statistics Canada.

[13] Source: Québec Federation of Real Estate Boards, through the Centris® system.

[14] The presence of foreign buyers in the Montréal CMA does not seem to be a determining factor in the price increase, since it is limited overall.

[15] Condominium starts decreased by 25% in 2015 and by 14% in 2016.

decline: an increase in conventional rental demand driven by an upswing in net migration. Indeed, net international migration rose sharply in the Montréal area, particularly in the category of non-permanent residents[16].

However, rental apartment construction was strong in 2017 in the Greater Montréal area, recording a 54% increase in starts of this type. We will therefore have to wait and see if the vast majority of these new units find tenants in the next few quarters. If not, the result would be upward pressure on the vacancy rate. Still, the vacancy rate would remain below the threshold that would signal evidence of overbuilding on the Montréal housing market.

[16] Net international and interprovincial migration in the Montréal CMA increased by about 7,000 people from July 2016 to June 2017. This gain was essentially attributable to net non-permanent resident migration, which reached nearly 9,500 people over the same period.

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

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

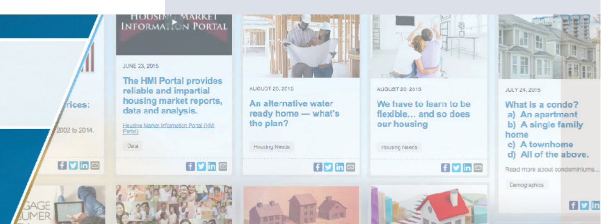
cmhc.ca/hmiportal

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

68617_2018_Q03