HOUSING MARKET INFORMATION

HOUSING MARKET ASSESSMENT

Canada

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Canada

CMHC SCHL

Highlights

- The Housing Market Assessment (HMA)[1] continues to rate Canada as having a high degree of vulnerability for the seventh consecutive quarter due to the detection of overvaluation and price acceleration.
- A high degree of vulnerability is maintained in the overall assessment for Victoria, Vancouver, Hamilton and Toronto because of the detection of price acceleration and overvaluation. Strong evidence of overvaluation is still detected in Victoria, Vancouver and Toronto, while evidence of overvaluation has changed to moderate from strong for Hamilton.
- The overall assessment of vulnerability remains moderate for Calgary, Edmonton, Saskatoon and Regina where strong evidence of overbuilding continues to be observed.
- While Montréal is rated as having a low degree of vulnerability in this assessment, rapid growth in house prices is observed in certain neighbourhoods. Continued strong growth in house prices in Montréal as a whole might require that we revise our assessment of price acceleration from weak to moderate in a future report.
- The HMA is detecting low vulnerability for housing markets in Winnipeg, Ottawa, Québec City, Moncton, Halifax and St. John's.

[1] Results are based on data as of the end of December 2017 and market intelligence as of the end of March 2018. This national report provides the housing market assessment at the national level and summary assessment results for 15 Census Metropolitan Areas (CMAs). For each of these CMAs, CMHC also issues a local report with more information and analysis. Please use this link for all regional reports.

Overview of HMA Results

The Housing Market Assessment (HMA) is an analytical framework that provides a comprehensive view of vulnerabilities to housing market instability. It contains four main factors: overheating, price acceleration, overvaluation and overbuilding.

Overheating is detected when sales greatly outpace new listings in the market for existing homes. Price acceleration is signaled when the growth rate of house prices increases rapidly. Overvaluation indicates that house prices are elevated compared to price levels supported by personal disposable income, population, interest rates, and other fundamentals. Overbuilding is flagged when apartment rental vacancy rates and/or inventory of newly built and unsold housing units are higher than normal.[2]

Table 1

Comparisons between the January 2018 and April 2018 reports

	Overheating		Price Acceleration		Overvaluation		Overbuilding		Overall Assessment	
	Jan.18	Apr.18	Jan.18	Apr.18	Jan.18	Apr.18	Jan.18	Apr.18	Jan.18	Apr.18
Canada	Weak	Weak	Moderate	Moderate	Moderate	Moderate	Weak	Weak	High	High
Victoria	Moderate	Moderate	Moderate	Moderate	High	High	Weak	Weak	High	High
Vancouver	Moderate	Moderate	Moderate	Moderate	High	High	Weak	Weak	High	High
Edmonton	Weak	Weak	Weak	Weak	Weak	Weak	High	High	Moderate	Moderate
Calgary	Weak	Weak	Weak	Weak	Weak	Weak	High	High	Moderate	Moderate
Saskatoon	Weak	Weak	Weak	Weak	Weak	Weak	High	High	Moderate	Moderate
Regina	Weak	Weak	Weak	Weak	Weak	Weak	High	High	Moderate	Moderate
Winnipeg	Weak	Weak	Weak	Weak	Weak	Weak	Weak	Weak	Weak	Weak
Hamilton	Moderate	Moderate	Moderate	Moderate	High	Moderate	Weak	Weak	High	High
Toronto	Moderate	Moderate	Moderate	Moderate	High	High	Weak	Weak	High	High
Ottawa	Weak	Weak	Weak	Weak	Weak	Weak	Weak	Weak	Weak	Weak
Montréal	Weak	Weak	Weak	Weak	Weak	Weak	Weak	Weak	Weak	Weak
Québec	Weak	Weak	Weak	Weak	Weak	Weak	Weak	Weak	Weak	Weak
Moncton	Weak	Weak	Weak	Weak	Weak	Weak	Weak	Weak	Weak	Weak
Halifax	Weak	Weak	Weak	Weak	Weak	Weak	Weak	Weak	Weak	Weak
St. John's	Weak	Weak	Weak	Weak	Weak	Weak	Moderate	Moderate	Weak	Weak

Degree of vulnerability Weak Moderate High

Note 1: Colour codes indicate the degree of market vulnerability. Price acceleration and overheating are measured by single indicators. Colour scales for these factors vary between green and yellow. Overvaluation and overbuilding are measured by multiple indicators. Their colour scales, as well as the colour scale for the overall assessment, change among green, yellow and red to reflect different degrees of imbalances.

Note 2: The HMA detects the presence or incidence of market imbalances when indictors are above thresholds. It also measures the intensity of signals by how much indicators are above thresholds, and the persistence of signals by how long signals stand above thresholds. Generally, low intensity and persistence are associated with a lower vulnerability. As the number of persistent signals increases, the evidence of imbalances increases.

[2] More technical details on the HMA are provided in Appendix.

HMA Results for Canada

Canada: ■ High degree of vulnerability

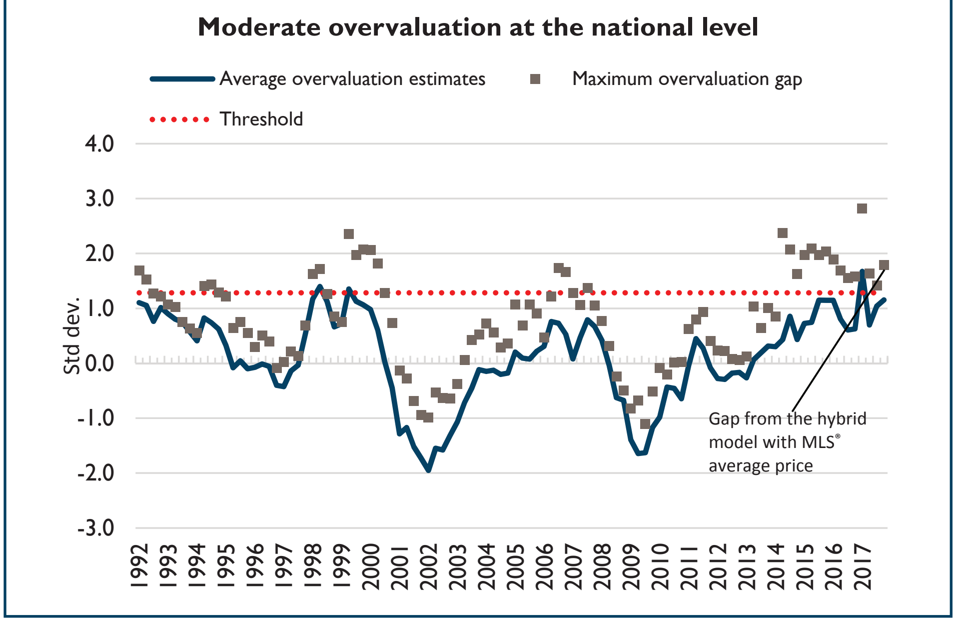
CMHC's HMA continues to rate the housing market for Canada as having a high degree of vulnerability for the seventh straight quarter. The rating is a result of the combination of price acceleration and overvaluation.

Moderate evidence of overvaluation remains at the national level. It indicates that house prices are still elevated relative to prices supported by fundamental factors such as income and population.[3] Figure 1 shows that the solid line, representing average overvaluation estimates from the selected models, lies below the threshold of overvaluation. However, our highest estimate of overvaluation[4] remains above the threshold. Therefore, according to the decision rule listed in Appendix, we detect moderate evidence of overvaluation for Canada.

Moderate evidence of price acceleration is maintained for Canada under the persistence rule. As shown in Figure 2, price acceleration was detected in the first quarter of 2016, signaling that expectations of future house-price appreciation might be excessive. The rating is kept for three years due to the persistence of excessive expectations.

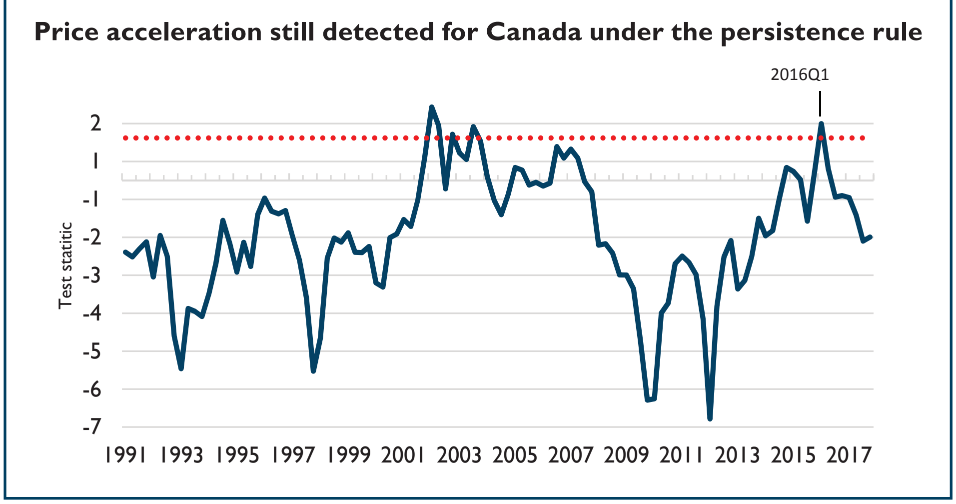
Only weak signs of overbuilding and overheating were detected for Canada as a whole. Both indicators are below their thresholds. The inventory of completed and unsold units per 10,000 population edged down to 3.9 units in the fourth

Figure 1



Sources: CREA, Statistics Canada, Teranet and National Bank of 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. These 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 2



Source: CREA and calculations by CMHC. Note: The test is done using the MLS® average price. Other price indices are also monitored.

[3] After adjusting for inflation, the MLS® average price and average family disposable income, increased by 2.7% and 1.3% in the fourth quarter of 2017 from a year ago, respectively. The young adult population increased by 1.6% in the fourth quarter of 2017 on a year-over-year basis.

[4] The highest estimate is obtained from the hybrid model with the MLS® average price. The hybrid model includes both demand and affordability factors as predictive variables of house prices.

quarter of 2017 from 4 units in the third quarter of 2017. The sales-to-new listings ratio slightly increased to 57% in the fourth quarter of 2017 from 55.8% in the third quarter of 2017.

The overall assessment is conducted by considering the combination of overvaluation, price acceleration and overbuilding. Thus, Canada as a whole is rated as having a high degree of vulnerability for the overall assessment because of the coexistence of moderate evidence of overvaluation and price acceleration.

As to regional markets, the contrast persists. Some centres in BC and Ontario remain highly vulnerable for the overall assessment. A high degree of vulnerability is maintained for Vancouver, Victoria, Toronto, and Hamilton with price acceleration and overvaluation being detected. Strong evidence of overvaluation is observed in Vancouver, Victoria and Toronto, while evidence of overvaluation has changed to moderate from strong in Hamilton. The overall assessment of vulnerability remains moderate for Calgary, Edmonton, Saskatoon and Regina where evidence of overbuilding stays strong with both the inventory of completed and unsold units and apartment rental vacancy rates above the thresholds of overbuilding.

While Montreal is still rated as showing a low degree of vulnerability, its growth rate of house prices has increased. As this price growth is concentrated in certain neighbourhoods, CHMC judges that the evidence of price acceleration, at the moment, remains weak for Montreal as a whole. If the rate of price growth were to continue to accelerate, then the level of evidence of price acceleration could be raised to moderate in a future HMA.

Elsewhere, the HMA is detecting low vulnerability for housing markets in Winnipeg, Ottawa, Québec City, Moncton, Halifax and St. John's.

HMA Summary Results for 15 Census Metropolitan Areas

Victoria: ■ High degree of vulnerability

CMHC continues to rate the Victoria housing market as having a high degree of vulnerability. We continue to detect strong evidence of overvaluation as house prices remained elevated over fundamentals. Evidence of overbuilding remains weak, however the inventory of completed and unsold units relative to population is trending up from a recent low point. Overheating remains moderate as the sales-to-new listings ratio has not sustained a downward trend from the threshold, and has increased in the months since the fourth quarter of 2017.

Vancouver: ■ High degree of vulnerability

Metro Vancouver's housing market remains highly vulnerable. Tight market conditions, reflected in our detection of moderate overheating, particularly for lower-priced properties, continue to exert upward pressure on the prices of homes. This can create affordability challenges for households with average local incomes. Rising prices for homes in the sub-$1 million market segment, coupled with rising mortgage rates, have eroded overall affordability further, accentuating CMHC's valuation models' detection of overvaluation in the Metro Vancouver housing market.

Edmonton: ■ Moderate degree of vulnerability

The HMA framework continued to detect a moderate degree of vulnerability in the Edmonton housing market. For a third consecutive quarter, evidence of overbuilding remained high as imbalances in both the ownership and rental markets were detected. The inventory of completed but unsold units continued to drift around its threshold level indicating overbuilding, while the apartment vacancy rate remained just above its threshold level. While evidence of overvaluation remained low, slowing growth in the young adult population has negatively impacted demographic fundamentals. Low evidence of overheating and price acceleration continued as their respective indicators remained below threshold levels.

Calgary: ■ Moderate degree of vulnerability

The HMA framework detected a moderate degree of vulnerability in Calgary's housing market, due to the high evidence of overbuilding. The number of completed and unsold units per capita reached a new high in the fourth quarter of 2017, and the rental apartment vacancy rate was also well above historical averages. New home inventories are particularly elevated in the multiple segment of the market. For overheating, price acceleration and overvaluation, the evidence continued to remain low.

Saskatoon: ■ Moderate degree of vulnerability

The HMA framework continued to detect low evidence of overvaluation as downward pressure on several house price measures was maintained in the fourth quarter of 2017. While strong evidence of overbuilding was still detected in the current release, there are signs that this imbalance is unwinding. The inventory of completed and unsold units shifted lower in the fourth quarter, and closer to the long-term threshold for overbuilding.

Regina: ■ Moderate degree of vulnerability

There continued to be a moderate degree of vulnerability in Regina's housing market. While evidence of overvaluation, overheating of demand and acceleration in the growth of house prices remained low, the HMA framework continued to detect strong evidence of overbuilding. The inventory of new housing units per capita and the rental vacancy rate remained above their respective thresholds in the fourth quarter of 2017.

Winnipeg: ■ Low degree of vulnerability

There continued to be a low degree of vulnerability in the Winnipeg CMA for the second consecutive quarter. Prices have been growing at a relatively strong rate as the resale market experienced some tightening in 2017. However, some economic fundamentals have not been moving in line with price increases as real personal disposable income has declined. Despite this, the framework continued to detect low vulnerabilities in price acceleration, overheating, and overvaluation. The inventory of completed and unsold units decreased in the fourth quarter of 2017, and remained below the threshold for overbuilding. This kept the assessment of overbuilding unchanged from the previous quarter.

Hamilton: ■ High degree of vulnerability

The HMA framework continued to detect a high degree of vulnerability in the Hamilton housing market due to moderate evidence of price acceleration and overvaluation. However, the degree of overvaluation lessened, as house prices became more aligned with fundamental drivers of housing demand, such as personal disposable income, population growth and employment. Fundamental drivers remained very supportive of housing demand, while house prices were either down slightly or steady in recent quarters.

Toronto: ■ High degree of vulnerability

With both demand and new supply of houses rebounding equally in the last quarter of 2017 as a result of buying likely brought forward due to new 2018 OSFI rules, the balance between demand and supply was not affected and the sales-to-new listings ratio remained virtually unchanged at 45% during the fourth quarter. Although the sales-to-new listings ratio was well below the threshold of 70% which is meant to signal market overheating, the change was not persistent enough to disregard our concern of market imbalances.

We continued to detect moderate evidence of price acceleration in the fourth quarter of 2017. Despite moderating house prices across the GTA, the average seasonally adjusted MLS® house price was relatively unchanged from the previous quarter. Moderate price increases would have to persist longer in order for us to discount any evidence of price acceleration. While price declines in single-detached homes have been more pronounced during the fourth quarter of 2017, market conditions for condominium apartments have tightened resulting in stronger price gains. Slightly higher mortgage rates and new OSFI rules have shifted demand to more affordable housing options. Due to their weight in terms of dollar value, the drop in sales and decline in the average price of single-detached homes weighed heavily on the overall average price.

We continued to detect high evidence of overvaluation in the Toronto CMA during the fourth quarter of 2017. The gap between actual home prices and levels that were supported by economic and demographic fundamental drivers such as income and population continued to shrink, but remained above the problematic threshold. In the fourth quarter of 2017, the real MLS® average house price declined 1.2% year-over-year, while growth in real disposable income and the young adult population was 0.52% and 2.9% respectively.

We continued to detect low evidence of overbuilding in the fourth quarter of 2017, as the number of completed and unsold units declined further to 0.98 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. The decline in inventories was evident for all housing types.

Ottawa: ■ Low degree of vulnerability

The number of completed and unsold units per 10k population has been trending below the critical threshold for four consecutive quarters so that the evidence of overbuilding moved to low from moderate since the third quarter of 2017. However, the number of units under construction has been trending up since the third quarter of 2017 due mainly to a rise in apartment construction. In 2017, resale market activity reached its highest level ever recorded, and the sales-to-new listings ratio moved into seller's market territory for the first time in seven years. However, the ratio remained below the overheating threshold of 80%. Overall, we detect low evidence for all indicators of vulnerabilities as the Ottawa market is supported by steady employment and earnings growth.

Montréal: ■ Low degree of vulnerability

For a fifth straight quarter, the degree of vulnerability of the Montréal CMA housing market remained low. The level of personal disposable income, combined with accelerated population growth among young adults, indicates that house prices have remained at levels supported by the fundamentals.

Still, given the marked tightening of supply and demand, the Montréal resale market is moving ever closer to overheating, and this is putting strong and steady pressure on prices. Overheating, price acceleration and overvaluation indicators for the metropolitan area should therefore continue to be monitored closely over the next few quarters.

Finally, evidence of overbuilding remained weak: the inventory of completed and unsold condominiums in Montréal was again low, while the rental apartment vacancy rate, at 2.8%, recorded its strongest decline in over 15 years.

Québec: ■ Low degree of vulnerability

Our analytical framework showed that the degree of vulnerability of the Québec-area housing market remained low in the last quarter of 2017. Overall, house prices remained close to levels supported by the economic and demographic fundamentals. Evidence of overvaluation therefore remained weak. In addition, we did not detect any evidence of overheating or of price growth acceleration, given relatively abundant supply on the resale market and the slight downward trend in prices (when adjusted for inflation).

Furthermore, the inventory of recently completed and unsold condominiums, as well as the rental apartment vacancy rate, were both below the thresholds that would indicate overbuilding. We should point out, though, that there is a significant number of units under construction or recently completed on the rental market. These units will trigger a surge in supply in the area, which will, in turn, put upward pressure on the vacancy rate. Rental market developments will therefore be the subject of continued monitoring.

Moncton: ■ Low degree of vulnerability

Moncton's sales-to-new listings ratio remains just below the threshold for overheating at 67%. Although a tighter resale market is generally associated with price growth, most of Moncton's price measures fell during the fourth quarter of 2017. The drop of 2.75% in the inflation-adjusted average MLS price is consistent with the small drop in disposable income and the lack of growth in the young-adult population.

Halifax: ■ Low degree of vulnerability

With strong existing home sales throughout the fourth quarter and the number of new listings remaining low, the sales-to-new listings ratio inched upward, although still below the threshold for overheating. Average prices increased by year-end, supported by a rise in sales of newly completed homes and a growth in the young adult population. Although remaining close to the overbuilding threshold, inventories of completed and unsold units declined slightly during the fourth quarter, signalling that demand for new home construction is keeping up with the growth in single-detached starts.

St. John's: ■ Low degree of vulnerability

Despite ongoing new and existing house price pressures, stability is emerging within the housing market, with some areas of the St. John's CMA showing little change in prices and year-over-year growth in certain neighbourhoods. Moderate evidence of overbuilding remains as the inventory of completed and unsold units relative to the population continues to stay above the threshold. Housing starts, however, are very low and the inventory of completed and unsold units relative to the population decreased to 5.57 in the fourth quarter of 2017 from 6.25 during the prior quarter. With the exception of a third quarter 2017 increase, the inventory of completed and unsold units relative to the population has now declined for five of the last six quarters. Weaker relative housing market activity overall is attributed to a lack of GDP growth, a flat young-adult population and negative real personal income growth, which is in line with the local labour market and economic weakness.

Appendix

What is CMHC's Housing Market Assessment?

The objective of CMHC's Housing Market Assessment is to identify locations in which there are heightened vulnerabilities to housing market instability from the level of house prices and/or from factors that are known to influence house prices.

The HMA is an analytical framework that provides a comprehensive view of housing market vulnerabilities, relying on a combination of indicators of housing market conditions for several metropolitan areas across Canada, and for Canada as a whole[5].

Specifically, the framework considers four main factors with different possible degrees of vulnerability[6] that may provide an early indication of imbalances in housing markets:

1. **Overheating:** Sales greatly outpace new listings in the market for existing homes.

   Moderate: Sales-to-listings ratio lies above the threshold of overheating for at least two quarters over the past three years.

   Low: Otherwise.

2. **Sustained acceleration in house prices:** Fast-rising prices often indicate that expectations of future house-price appreciation may be excessive.

   Moderate: The Augmented Dickey-Fuller (ADF) test statistic stands above the critical threshold for at least one quarter during the past three years.

   Low: Otherwise.

3. **Overvaluation:** house prices are higher than levels supported by personal disposable income, population, interest rates, and other fundamentals.

   High: The average of the gaps obtained from a group of selected models is above the critical threshold for at least two quarters during the past year. The gap measures the distance between the actual price and the price level estimated from fundamental variables of housing markets.

   Moderate: At least one of the selected models exhibits overvaluation.

   Low: Otherwise.

4. **Overbuilding:** Apartment rental vacancy rates and/or inventory of newly built and unsold housing units are higher than normal.

   High: The inventory of newly completed and unsold units is above the threshold for at least two quarters during the past year, while the annual rental apartment vacancy rate is also above the threshold.

   Moderate: Either the inventory of newly completed and unsold units is above the threshold for at least two quarters during the past year or the rental apartment vacancy rate is above the threshold.

   Low: None of the previous conditions is present

Overall assessment: Assess the degree of market vulnerability considering the combination of multiple factors.[7]

High: More than one factor of price acceleration, overvaluation or overbuilding exhibits moderate or strong evidence of imbalances.

Moderate: The rating reflects three scenarios. The first is when the overall assessment is red in the past six quarters. The second is when only one of the factors of overbuilding or overvaluation is assessed red for at least two quarters during the past year. The last is when one factor is showing moderate evidence of imbalances, but another factor lies slightly below the threshold.

Low: Otherwise.

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.

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5 The data for Canada include areas beyond the 15 Census metropolitan areas covered in this report.

6 The colour scale extends to red only for those factors that have multiple indicators that identify imbalances. As a result, only overvaluation and overbuilding receive a red rating, since they are assessed with more than one indicator.

7 The framework was tested against CMHC's mortgage insurance claims rate. The results show that the detection of more than one HMA factor is more problematic for insurance claims than the detection of just one factor. Therefore, the individual factors are jointly analysed to provide an overall assessment of the state of a given housing market, which is rated on our three-coloured scale (green, yellow, and red).

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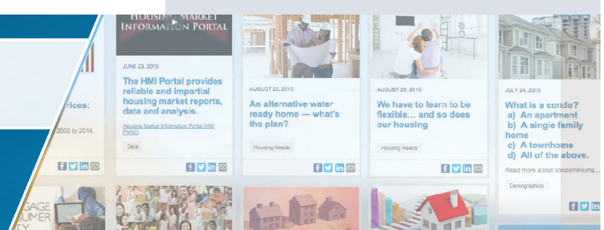

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