

HOUSING MARKET ASSESSMENT














Hamilton CMA

Date Released: First Quarter 2019



Highlights

Results Overview Hamilton CMA

	Oct. 2018	Feb. 2019
Overheating		
Price Acceleration		
Overvaluation		
Overbuilding		
Overall Assessment		
Degree of vulnerability		
	 High	 Moderate  Low

- The overall assessment¹ for Hamilton showed the housing market displayed a high degree of vulnerability in Q3 2018, unchanged from the previous quarter's assessment.
- Evidence of overheating was still signalled as the sales-to-new-listings² ratio was above the threshold for the majority of the past 12 quarters.
- The price acceleration rating was maintained due to unusually strong growth in the inflation-adjusted average MLS^{®3} for a period of time within the last 12 quarters.
- The overvaluation rating was unchanged as some models still show that Hamilton house prices remained considerably higher than price levels supported by economic and demographic fundamentals.

HMA Overview⁴

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 and contribute to an orderly adjustment of housing market imbalances.

The HMA is an analytical framework that provides a comprehensive view of housing market vulnerabilities. It should be noted that it intends to identify short-term imbalances in the housing market. As such, it is not aimed at being a framework to identify long-term fundamental affordability challenges. It considers

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 fundamentals⁵. Overbuilding is flagged when the rental apartment vacancy rate and/or inventory of newly built and unsold housing units are higher than normal.

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.

Colour codes indicate the degree of market vulnerability. The HMA is a comprehensive framework that considers both the intensity (magnitude) and the persistence of signals of imbalances. Generally, low intensity and persistence are associated with low evidence of vulnerability. As the number of intense and persistent signals increases, the associated degree of vulnerability becomes higher.

¹ Results are based on data as of the end of September 2018 (the annual rental apartment vacancy rates are from October 2018) and local market intelligence up to the end of December 2018. CMHC continuously monitors market developments and will issue HMA updates on a quarterly basis.

² 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.

³ Multiple Listing Service[®] (MLS[®]) is a registered trademark of the Canadian Real Estate Association (CREA).

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

⁵ Other fundamental factors include mortgage-borrowing capacity of households, required minimum down payment, and labor productivity.

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In Detail

Evidence of Overheating Maintained

In Q3 2018, the sales-to-new-listings ratio in Hamilton was below the 75% threshold set for an overheated market. However, evidence of overheating was still signalled due to the ratio being above the threshold for the majority of the past 12 quarters. The ratio increased in Q3 2018 and the market tipped in favour of sellers again, as buyers generally had a low number of listings to choose from. Seasonally adjusted sales increased significantly due to improved buyer confidence. A number of buyers waited on the sidelines in the first half of 2018 to see how the market would react to the new mortgage stress test that came into effect at the beginning of the year. Greater demand from GTA buyers likely also contributed to the increased sales activity in Hamilton, as GTA house prices began to rise again and erode affordability. Strong sales growth occurred in regions of Hamilton located closest to the GTA, such as Burlington and Waterdown. Listings did not keep pace with sales because a lack of price growth in

recent quarters discouraged some homeowners from putting their home on the market.

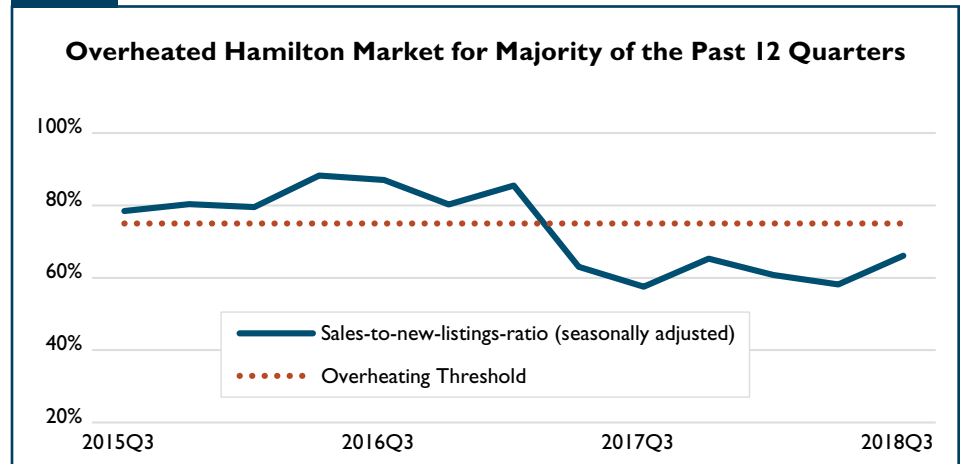
While sales of all dwelling types increased in Q3 2018, the market for semis and townhomes continued to have the strongest competition among buyers. This was a reflection of the high demand for affordable low-rise housing in Hamilton. The strongest competition for homes by region occurred in areas with generally lower priced homes, such as Hamilton East and Hamilton Centre.

Overall resale market conditions became even more favourable to sellers in Q4 2018. Seasonally adjusted sales were relatively steady while new listings decreased. Competition for each dwelling type was either similar or slightly stronger than in Q3 2018.

Rating for Price Acceleration Maintained

The rating of moderate price acceleration was maintained due to unusually strong growth in the inflation-adjusted average MLS® price for a period of time within the last 12 quarters. Seller's market conditions

Figure 1



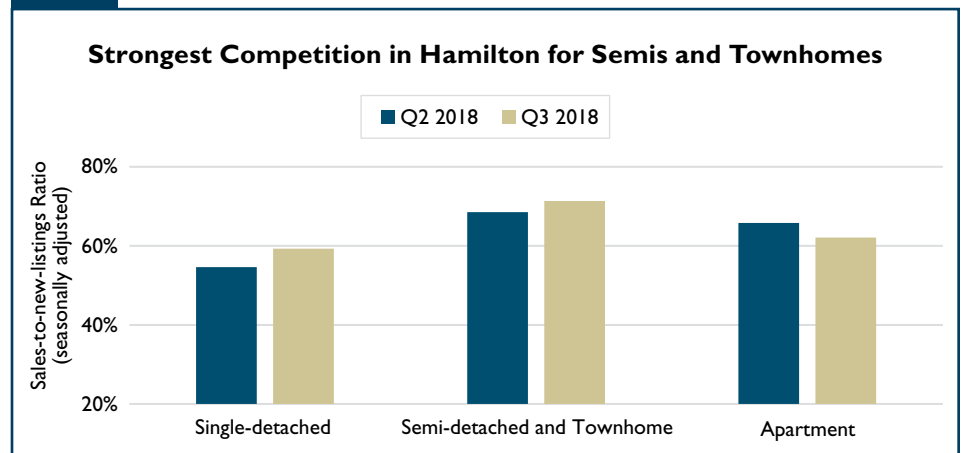
Sources: CREA, CMHC calculations.
Last data point: Q3 2018



Anthony Passarelli
Senior Analyst

"We continued to detect a high degree of vulnerability in the Hamilton housing market, despite average overvaluation decreasing in almost every quarter since Q2 2017. Some models still show that Hamilton house prices remain considerably higher than price levels supported by economic and demographic fundamentals."

Figure 2



Sources: Realtors Association of Hamilton-Burlington®, CMHC calculations
Last data point: Q3 2018

and the composition of MLS® sales both contributed to relatively strong growth in the inflation-adjusted average MLS® price in Q3 2018. There were a high number of buyers for every new listing and compared to Q2 2018, a larger percentage of the homes purchased were single-detached homes, generally the most expensive dwelling type. Sales by geographic region were similar in both quarters.

More recent data show slower growth in the seasonally adjusted average MLS® price in Q4 2018.

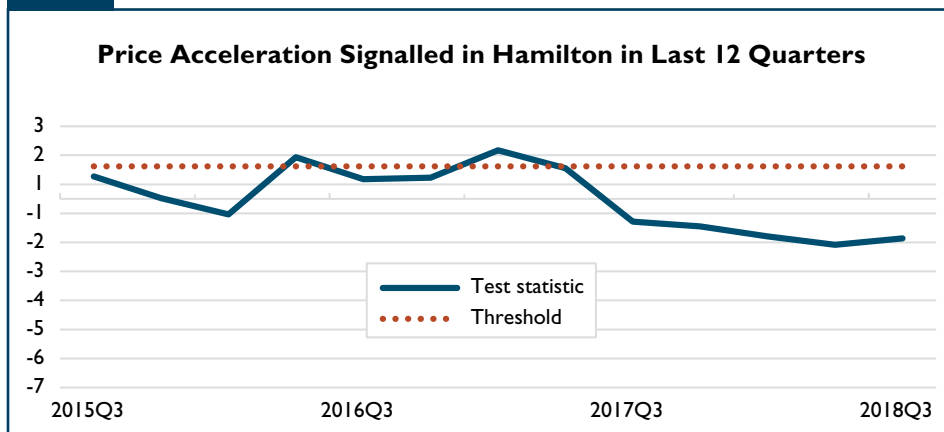
Home price appreciation was largely sustained due to the persistence of seller's market conditions, as the distribution of sales by dwelling type and geographic region were very similar to the results in Q3 2018.

Rating for Overvaluation Unchanged

Average overvaluation has either eased or held relatively steady in every quarter from Q2 2017 to Q3 2018, as house prices in Hamilton during that period have not outpaced economic and demographic fundamentals, such as real personal disposable income and the population. However, the gaps between actual house prices and the prices estimated by fundamentals in some models still exceeded our threshold, leading us to maintain the moderate rating for overvaluation.

The gap between Hamilton's population of 25 to 34 year olds and various house price measures has narrowed since Q2 2017. The 25 to 34 year old population is a fundamental driver of housing demand in Hamilton, as CMHC data show they make up the largest share of first-time home buyers in that market. Population growth for that age group remained strong due to high immigration levels, as well as high in-migration from the GTA. In Q3 2018, homes in the GTA became more expensive due to prices

Figure 3

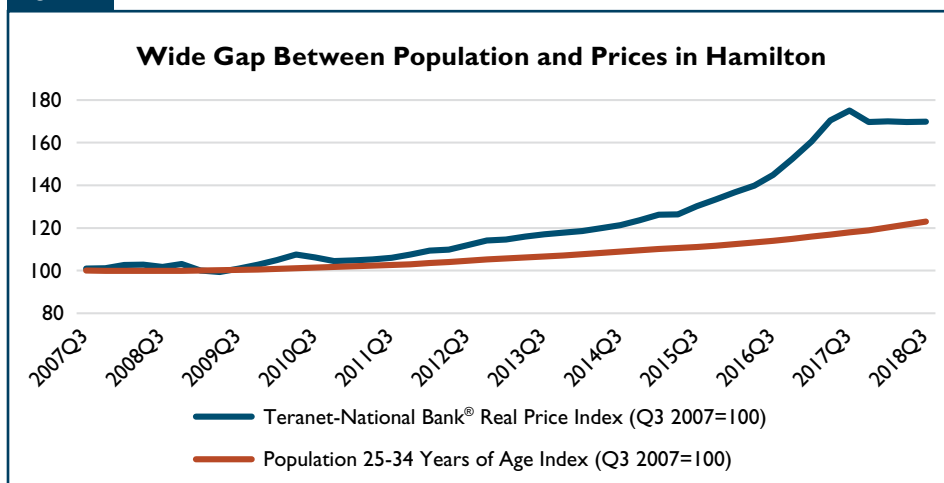


Sources: CREA, Statistics Canada, CMHC calculations

Last data point: Q3 2018

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

Figure 4



Sources: Teranet-National Bank, Statistics Canada, CMHC calculations

Last data point: Q3 2018

rebounding and mortgage rates rising. The eroding affordability of GTA homes, particularly low-rise homes, continued to lead to a significant number of 25 to 34 year olds migrating to Hamilton.

The gap between actual home prices in Hamilton and those predicted by economic fundamentals, such as real personal disposable income per capita and employment has also narrowed since Q2 2017. Real personal disposable income per capita was relatively steady from Q2 2018 to Q3 2018, as employment conditions continued to support wage levels.

The unemployment rate remained well below the ten year average at just 5.2%.

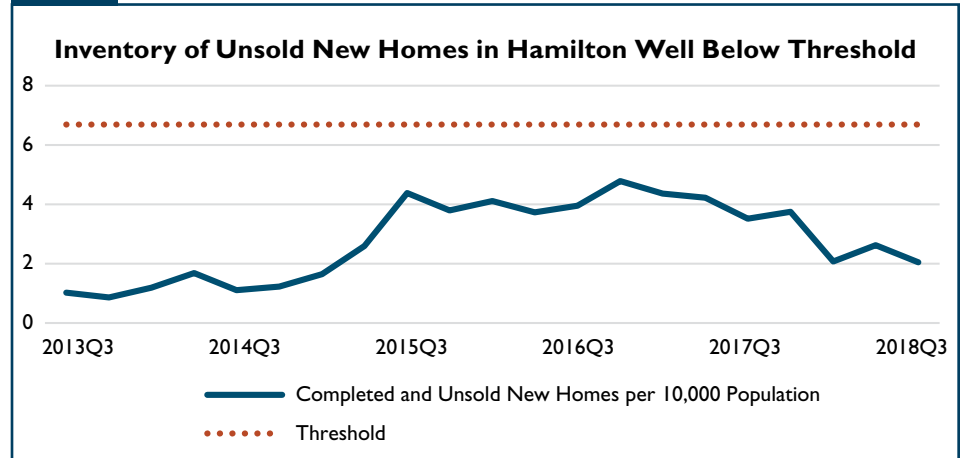
Low Evidence of Overbuilding

We continued to detect low evidence of overbuilding in Q3 2018. The overall number of completed and unsold new homes per 10,000 population decreased and remained well below the threshold of 6.7 units required for evidence of overbuilding in Hamilton. The decrease was primarily due to a significant number of newly completed

row homes being purchased in Grimsby, Ancaster and Waterdown. The number of resale row homes listed for sale was too low relative to demand in Q3 2018, enticing more buyers to purchase a newly completed row home. Inventories of new single-detached homes and apartments were low and relatively unchanged.

More recent data show that the overall number of completed and unsold new homes increased from their very low level in Q4 2018. Row homes accounted for nearly the entire increase, with most of them located in Ancaster and Glanbrook.

Figure 5



Sources: CMHC, Statistics Canada
Last data point: Q3 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. 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 in the existing home market; (2) sustained acceleration in house prices meaning that the rate of increase in prices is itself increasing; (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 the intensity (magnitude) and the persistence of signals. 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 number, intensity, 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 recent 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 in the resale market. The sales-to-new listings ratio is used as an indicator to assess possible overheating conditions. 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.

Acceleration in House Prices

House price acceleration occurs when the growth rate in house prices continuously increases. Acceleration in house prices over an extended period would

lead prices to unsustainable levels, hence increasing housing market vulnerability. To assess acceleration in house prices, the HMA framework uses a statistical test* that was developed to identify periods of accelerating growth in 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—based on economic theory—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 apartment vacancy rate, and the inventory of completed and unsold housing units per 10,000 population. The HMA framework compares the current levels and recent trends in these indicators with thresholds.

Note 1: Colour codes indicate the degree of market vulnerability. Overheating and price acceleration are measured by single indicator. Colour scales for these factors vary between green and yellow only. 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: 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: 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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