HOUSING MARKET INFORMATION

HOUSING MARKET ASSESSMENT

Hamilton CMA

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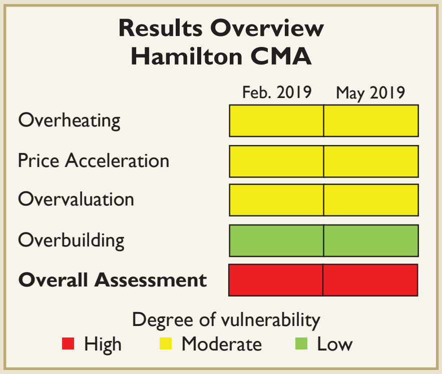
Canada

CMHC SCHL

Highlights



- The overall assessment[1] for Hamilton showed the housing market displayed a high degree of vulnerability in Q4 2018, unchanged from the previous quarter's assessment.
- Evidence of overheating was still signalled as the sales-to-new-listings[2] ratio was above the threshold for a persistent stretch in the past 12 quarters.
- The price acceleration rating was maintained due to periods of rapid short-term price growth in the last 12 quarters.
- The overvaluation rating was unchanged as one model still shows that Hamilton house prices remained considerably higher than price levels supported by economic and demographic fundamentals.

HMA Overview[3]

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 imbalances in the housing market; 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 fundamentals[4]. Overbuilding is flagged when the rental apartment vacancy rate and/or inventory of newly built and unsold housing units are significantly above normal levels.

The HMA combines the results from a technical framework with insights gained through CMHC's market analysts' knowledge of local market conditions. These insights allow 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 December 2018 (the annual rental apartment vacancy rates are from October 2018) and local market intelligence up to the end of March 2019.

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

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

In Detail

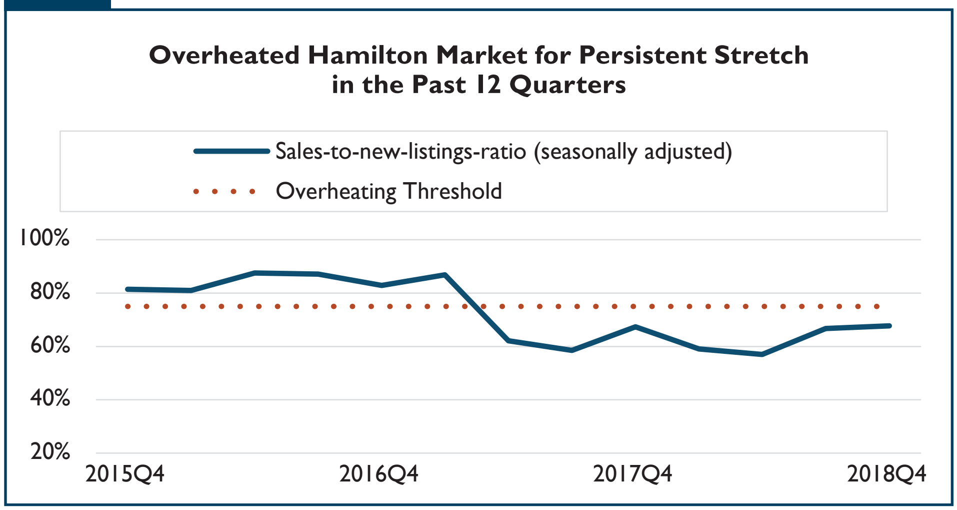
Rating for Overheating Maintained

In Q4 2018, the seasonally adjusted 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 a persistent stretch of time in the past 12 quarters. Sales and new listings both decreased at a similar rate in Q4 2018, keeping the ratio steady at a level that bordered on a sellers market. Sales decreased following very strong growth in Q3 2018 that was primarily fuelled by pent-up demand. Low consumer confidence, owing to weakening financial markets, likely also weighed on sales activity. New listings decreased and were at their lowest level in more than two years, as weak price growth in recent quarters discouraged some homeowners from putting their home up for sale.

Sales-to-new-listings ratios for each dwelling type were steady from Q3 2018 to Q4 2018. The market for semis-townhomes continued to have the strongest competition among buyers. This reflects 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. These regions were seller's markets, while some regions with generally pricier homes, such as Ancaster and Waterdown, favoured buyers.

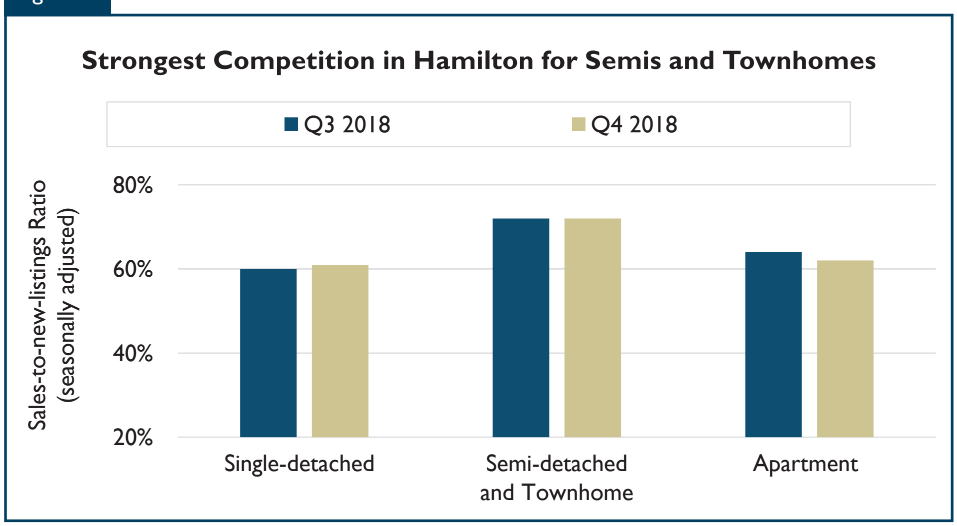
More recent data shows the overall resale market in Hamilton became far more balanced in Q1 2019, owing to fewer sales and a greater number of new listings. Harsher than normal weather conditions and weaker demand from Greater Toronto Area (GTA) buyers likely contributed to the slowdown in sales. Fewer GTA buyers searched outside their market for a home, as ownership costs did not rise there due to slightly lower prices and steady mortgage rates. Local economic conditions remained very supportive of demand, as full-time employment in Hamilton was at its highest level in over a year.

Figure 1



Sources: CREA, CMHC calculations
Last data point: Q4 2018

Figure 2



Sources: Realtors Association of Hamilton-Burlington®, CMHC calculations
Last data point: Q4 2018

Anthony Passarelli
Senior Analyst

"We continued to detect a high degree of vulnerability in the Hamilton housing market. While average overvaluation eased, one of our models still show that Hamilton house prices remain considerably higher than price levels supported by economic and demographic fundamentals."

Rating for Price Acceleration Unchanged

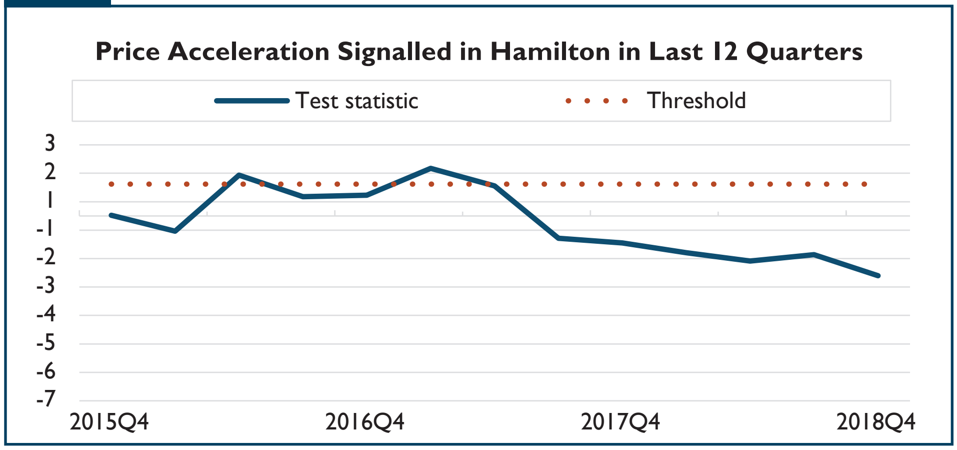
The rating for price acceleration was unchanged due to the rapid short-term price growth that occurred in Hamilton in 2016 and 2017. This type of price growth can attract investors and promote speculative activity. The inflation-adjusted average MLS® price grew modestly in Q4 2018, which was consistent with the near seller's market conditions at that time. Overall price growth was weaker than in Q3 2018, despite similar market conditions in both periods, as condominium homes (mostly apartments and townhomes) made up a larger percentage of overall sales. A larger percentage of overall sales in Q4 2018 were also in Hamilton Centre, the area of Hamilton which generally has the lowest prices.

More recent data shows that the average MLS® price was relatively steady in Q1 2019. The lack of overall price growth was due to more balanced market conditions and condominium homes again making up a larger percentage of sales. Affordability concerns have contributed to demand shifting towards condominium homes.

Rating for Overvaluation Maintained

Average overvaluation continued to edge lower in Q4 2018 as economic and demographic fundamentals in Hamilton, such as the young adult population and real personable disposable income per capita, grew slightly more than most house prices measures. However, this did not lead to a change in the rating because the gaps between actual house prices and the prices estimated by fundamentals in one of our models still exceeded our threshold.

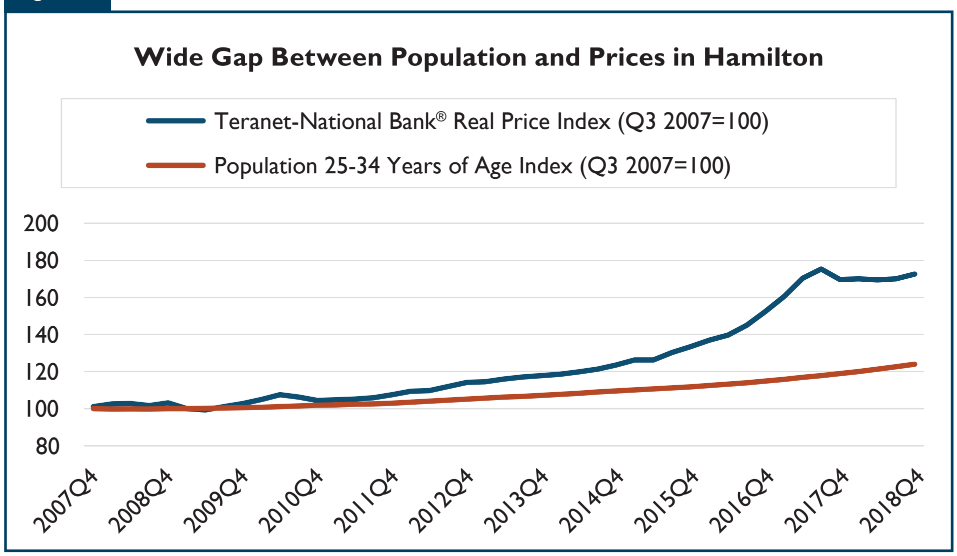
Figure 3



Sources: CREA, Statistics Canada, CMHC calculations
Last data point: Q4 2018

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

Figure 4



Sources: Teranet-National Bank®, Statistics Canada, CMHC calculations
Last data point: Q4 2018

The gap between Hamilton's population of 25 to 34 year olds and the Teranet-National Bank® Real Price Index remains wide. Most of the widening occurred in 2016 and 2017, when prices far outpaced the population of that age group. The 25 to 34 year old population is a fundamental driver of housing demand in Hamilton, as CMHC data show they historically make up the largest share of first-time home buyers in that market. Population growth for this age group remained strong in Q4 2018, due to the aging of the millennial cohort, high immigration and in-migration from the GTA.

The gap between the income required[5] to buy a home and actual incomes in Hamilton narrowed slightly in Q4 2018. Real mortgage carrying costs on the average priced home grew slightly less than real

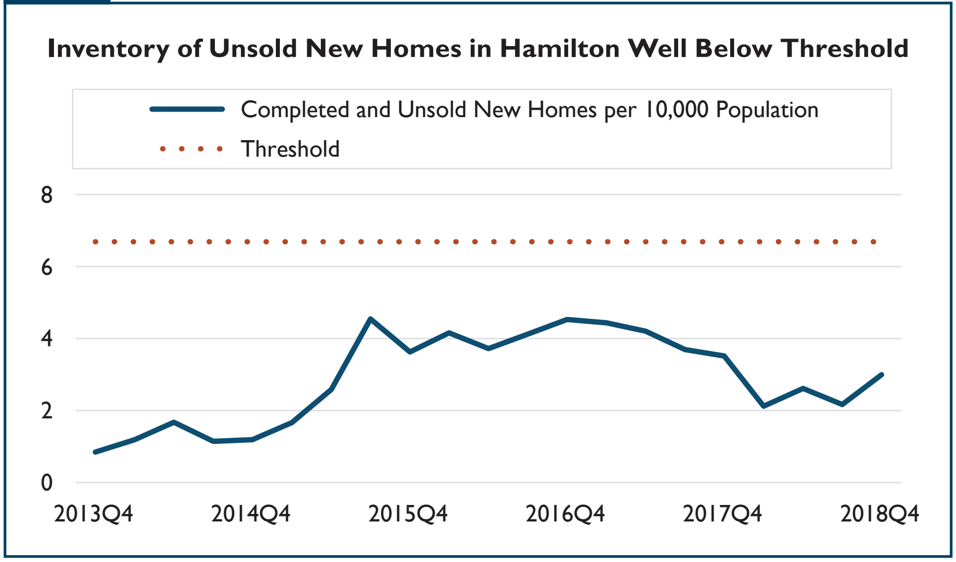
[5] Required income is calculated by estimating mortgage carrying costs then dividing it by 0.3 to reflect a 30% gross debt service ratio. Using real average MLS® prices, real mortgage carrying costs are calculated based on a 10% down payment, the real discounted fixed five year mortgage rate, and the longest available amortization for a mortgage.

personal disposable income per capita. Growth in the latter occurred, as more favourable employment conditions led to higher wages. The unemployment rate fell to 4.3%, which was well below the five-year average in Hamilton. Higher full-time employment also contributed to the wage growth.

Low Evidence of Overbuilding

We continued to detect low evidence of overbuilding in Q4 2018. The overall number of completed and unsold new homes per 10,000 population increased but remained well below the overbuilding threshold in Hamilton. The increase was primarily due to rising unsold inventories of newly completed row homes in Ancaster and Glanbrook. Inventories of new single-detached homes and apartments were low and relatively unchanged.

Figure 5



Sources: CMHC, Statistics Canada
Last data point: Q4 2018

More recent data show that the overall number of completed and unsold new homes continued to increase in Q1 2019. Row homes again accounted for nearly the entire increase, with inventories concentrated mostly in Ancaster, Glanbrook and Stoney Creek.

Row home inventories have been increasing due to greater competition from the resale market. The number of resale listings at the same price point as most new row homes was quite high, providing more buyers with more options.

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 each assessed with a single indicator. Colour scales for these factors vary between green and yellow only. Overvaluation and overbuilding are assessed with 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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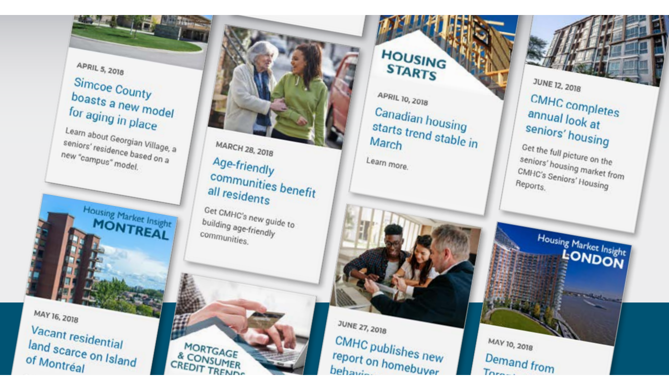

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