HOUSING MARKET INFORMATION

HOUSING MARKET ASSESSMENT

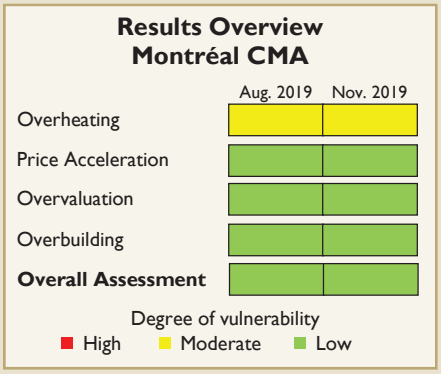
Montréal CMA

Date Released: Fourth Quarter 2019

Canada

CMHC SCHL

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 second quarter of 2019.[1]
- Evidence of overvaluation continued to be low, as housing prices stayed in line with economic and demographic fundamentals.
- The Montréal resale market continued to show moderate evidence of overheating, given the narrow gap between sales and new listings. This put pressure on prices, but evidence of price acceleration remained low.
- Evidence of overbuilding remained low, as the inventory of completed and unsold housing units per 10,000 population and the rental housing vacancy rate stayed at relatively low levels from a historical standpoint.

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 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[3]. 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 June 2019 (the annual rental apartment vacancy rates are from October 2018) and local market intelligence up to the end of September 2019.

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

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

In Detail

Moderate evidence of overheating in the Montréal housing market

In the second quarter of 2019, evidence of overheating in the Montréal CMA remained moderate, given that the seasonally adjusted sales-to-new listings ratio stayed just above the threshold for problematic conditions[3] (see figure 1).

The gap between demand, represented by sales, and new supply, represented by new listings, has therefore been getting more and more narrow. More specifically, from April to June 2019, the ratio between these two components increased, as sales grew faster than new listings. The figures for the latest quarters consequently confirmed the market tightening trend that has been observed for the past few years now.

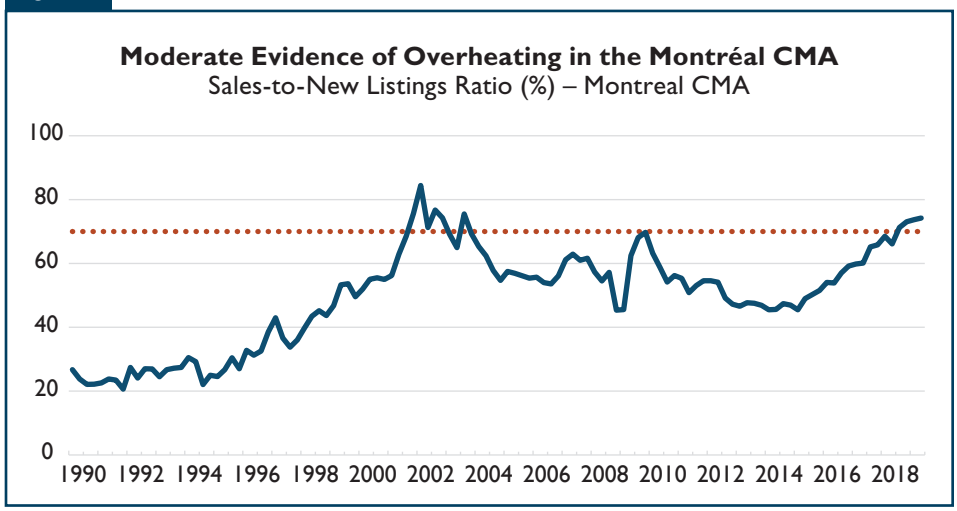
As well, the active listings-to-sales ratio,[4] another market indicator, continued to decrease,[5] thereby also showing that the Montréal resale market has been tightening and increasingly favourable to sellers.[6] In the second quarter of 2019, the tightening could be observed in all market segments: single-family homes, condominiums and plexes (rental properties with two to five units). Market conditions have favoured sellers of single-family homes and plexes for just over two years and sellers of condominiums for one year.

For single-family houses, the active listings-to-sales ratio decreased in almost all the large sectors[7] of the metropolitan area, and market conditions therefore became even more favourable to sellers market than in the previous quarter.[8] This was more marked in certain zones of the CMA, where there were fewer than four sellers for each buyer. This was the case, for example, in the southern part of the West Island of Montréal as well as in the zones[9] of Le Sud-Ouest, Rosemont, Villeray, Notre-Dame-de-Grâce–Montréal West and Mercier–Hochelaga-Maisonneuve. In the suburbs, zones such as Fabreville, Boisbriand–Sainte-Thérèse, the southwestern part of the South Shore, Candiac–La Prairie, Brossard–Saint-Lambert,

Lukas Jasmin-Tucci
Economist

"For just over two years now, the degree of overall vulnerability has remained low in the Montréal CMA. The strength of the fundamentals has supported the price levels observed on the market. However, the Montréal resale market continues to show moderate evidence of overheating, as a result of the significant tightening between new listings and sales."

Figure 1



Sources: Quebec Professional Association of Real Estate Brokers (QPAREB) through the Centris® system, seasonally adjusted data by CMHC
Last data point: 2019 Q2

[3] This threshold is set at 70%.

[4] 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.

[5] 12-month moving average.

[6] In a sellers' market, the ratio is below 8 sellers (or active listings) per buyer (or Centris® sale); in a balanced market, the ratio is between 8 and 10 sellers per buyer; and, in a buyers' market, this ratio is above 10 sellers per buyer. In a sellers' market, sellers have greater negotiating power relative to buyers, such that price increases are usually higher. In a buyers' market, buyers have greater negotiating power relative to sellers, such that prices rise only slightly or can even fall. In a balanced market, buyers and sellers have similar negotiating power, such that prices tend to increase at about the rate of inflation.

[7] The large sectors are the Island of Montréal, Laval, the North Shore, the South Shore, Vaudreuil-Soulanges and Saint-Jean-sur-Richelieu.

[8] Average of the last 12 months, thus July 2018 to June 2019, compared to April 2018 to March 2019.

[9] Boroughs or parts of boroughs.

Le Vieux-Longueuil, Saint-Hubert, Boucherville–Saint-Bruno, Sainte-Julie–Varennes, L'Île-Perrot and Vaudreuil-Dorion were in the same situation.

Just like for single-family houses, condominiums saw their market conditions tighten in the large sectors of the CMA, with sellers getting the edge in all of them. In the previous quarter, market conditions were still balanced in Saint-Jean-sur-Richelieu and on the North Shore.

The Island of Montréal stood out, as market conditions for condominiums heavily favoured sellers[10] in certain zones, including Le Sud-Ouest, Saint-Laurent, Ahuntsic, Notre-Dame-de-Grâce–Montréal West, Côte-des-Neiges–Côte-Saint-Luc, L'Île-des-Sœurs, Le Plateau-Mont-Royal, Rosemont, Villeray, Mercier–Hochelaga-Maisonneuve and Anjou–Saint-Léonard. In the suburbs, the Mascouche, Saint-Hubert, Boucherville–Saint-Bruno, L'Île-Perrot, Soulanges-Sud and Vaudreuil-Dorion zones also stood out for the same reason.

Evidence of price growth acceleration was low

Evidence of price acceleration remained low in the second quarter of 2019. The average Centris® price of existing homes rose by 6.0% compared to the second quarter of 2018. Despite the tightening between supply and demand on the resale market, price growth was stable and the results of the model were moving away from the threshold where evidence of price acceleration would be significant (see figure 2). It should be noted, however, that conditions varied depending on the market segments and the sectors of the Montréal metropolitan area.

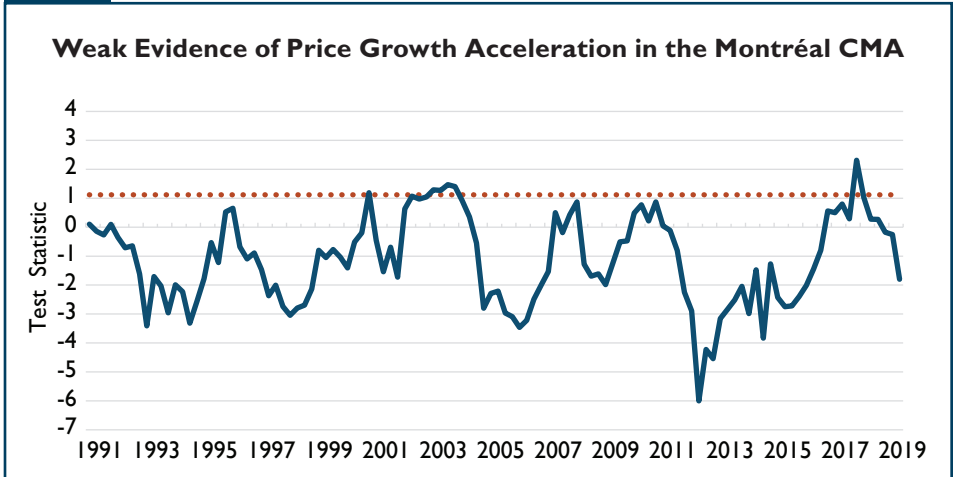
In the single-family housing segment, the average price in the Greater Montréal area rose by 5.1% in the second quarter of 2019 compared to the second quarter of 2018. The strongest increases occurred on the South Shore and the North Shore, where the average prices were respectively 7.4% and 8.0% higher than in the second quarter of 2018. Growth on the Island of Montréal was 4.3%, the lowest in nearly two years.

Condominiums were housing type that recorded the smallest increase in average price in the Montréal area in the second quarter of 2019 (+2.5%). This low increase was partly due to a compositional effect, as condominium sales on the Island of Montréal (where prices are the highest) now represent a smaller share of total transactions in the CMA. Nevertheless, this was where growth remained the strongest among the large geographical sectors, with a 5.8% increase in the average price. Relatively strong gains (more than 15%) were even recorded in some zones, such as Rosemont, Le Sud-Ouest and the southern part of the West Island.

The growth in the average price was greater than the increases noted in recent quarters on the North Shore (+3.9%), a sector that has now become a sellers' market. On the South Shore, after a period of stability, the rise in the average price was also larger (+4.5%). In Laval, the growth was more modest (+2.7%).

Over the coming quarters, it is expected that the economic outlook will remain favourable to housing demand and that the market will continue to tighten. The price growth acceleration indicator will therefore continue to be monitored over the coming months.

Figure 2



Sources: Quebec Professional Association of Real Estate Brokers (QPAREB) through the Centris® system, CMHC calculations
Last data point: 2019 Q2

[10] With fewer than five sellers per buyer.

Evidence of overvaluation remained low

In the second quarter of 2019, the HMA model did not identify any significant imbalance between real house prices[11] and the price levels dictated by housing market fundamentals, such as personal disposable income and population (see figure 3). The economic and demographic indicators continued to show results justifying the price levels observed on the Montréal housing market. As a result, the model revealed no significant evidence of overvaluation.

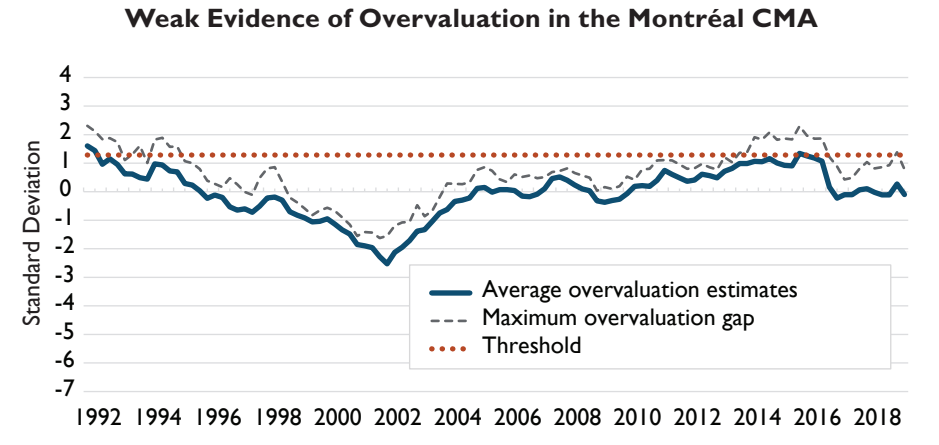
A more detailed analysis revealed that most fundamentals remained at levels supporting housing demand in the second quarter of 2019. The population aged 25 to 34 continued to grow (+1.3% over the same quarter in 2018). As for real personal disposable income per capita, despite a decrease in the second quarter of 2019 (-0.7%) for the second straight quarter, the substantial gains registered since 2015 have pushed this indicator to high levels. Finally, the real five-year fixed mortgage rate (adjusted for inflation) still remained at a historically low level.

As for real house prices (adjusted for inflation),[12] they all increased. Statistics Canada's New Housing Price Index (NHPI),[13] the average Centris® price[14] and the Teranet-National Bank House Price Index™ rose by 0.2%, 3.8% and 3.0%, respectively, compared to the second quarter of 2018.

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, as mentioned earlier.[15] Reflecting this, the overvaluation analysis showed little difference between real house prices and the prices dictated by fundamentals.

Figure 3



Sources: Quebec Professional Association of Real Estate Brokers (QPAREB) through the Centris® system, Statistics Canada, Teranet and National Bank, CMHC calculations
Last data point: 2019 Q2
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 (as of the fourth quarter of 2019, there are five models in total), each of which is estimated using four measures of house prices to generate twenty unique estimates of overvaluation. The selection of models is conducted with a set of cointegration tests, and the selected models are estimated with Dynamic Seemingly Unrelated Regression (DSUR). 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 1.285 for a confidence level of 80%. Overvaluation is signaled when overvaluation estimates lie above the threshold.

[11] Observed prices adjusted for inflation.

[12] Several different price indicators are used in order to get a more comprehensive market assessment.

[13] Source: Statistics Canada.

[14] Source: Quebec Professional Association of Real Estate Brokers (QPAREB) through the Centris® system.

[15] 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. In fact, these buyers accounted for less than 2% of all residential transactions in the Montréal CMA in 2018 (sources: JLR; CMHC, calculations). As well, a recent CMHC study, *Examining Escalating House Prices in Large Canadian Metropolitan Centres*, revealed that demand factors (employment, population, etc.) and supply constraints (land scarcity, etc.) were key in explaining the growth in prices.

Evidence of overbuilding remained negligible

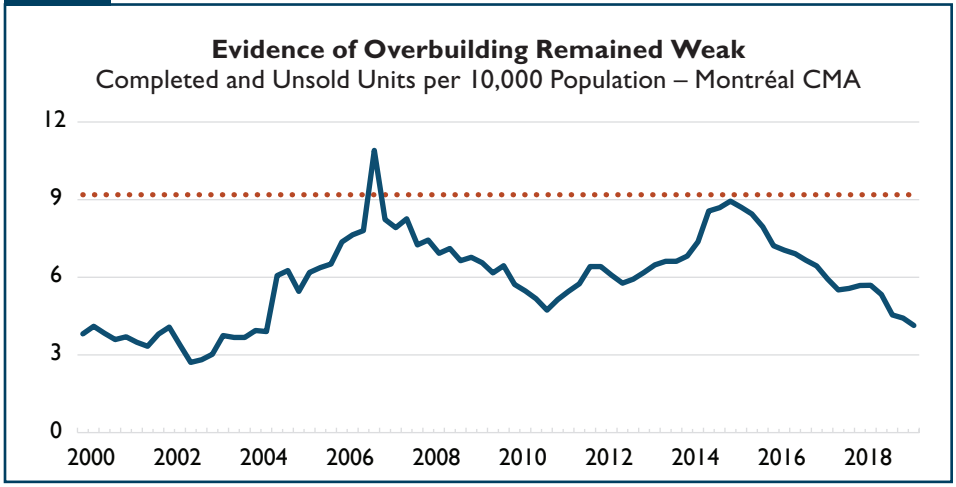
In the second quarter of 2019, both overbuilding indicators, namely, the inventory of completed and unsold units per 10,000 population and the vacancy rate for conventional rental housing, suggested low evidence of overbuilding (see figures 4 and 5).

The inventory of completed and unsold housing units per 10,000 population remained relatively low in the second quarter of 2019, reaching 4.1 units, compared to 4.4 in the previous quarter. This figure has in fact never been so low since 2004 in the Montréal CMA.

The increase in demand, combined with the slowdown in condominium starts in recent years,[16] allowed the inventory of unsold new condominiums to fall and remain relatively low. In fact, although the number of new condominiums did rise slightly in 2017, the year 2018 also ended with a decline in starts of this type, for the third time in four years. The data for the period from January to August 2019 indicate, moreover, that condominium starts should again be limited on the whole this year. Given the strong demand and the rather moderate pace of condominium construction, evidence of overbuilding should remain low over the coming quarters.

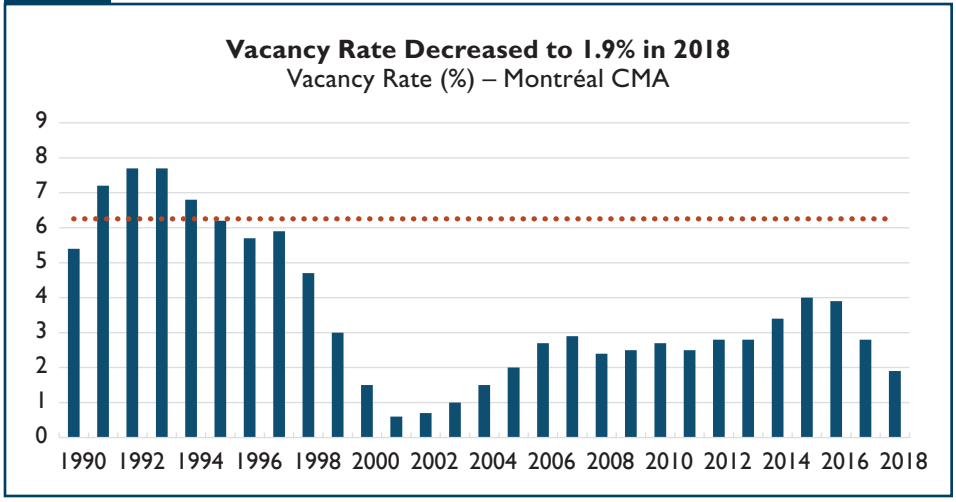
The vacancy rate for conventional rental units, for its part, registered a second straight annual decrease. According to the Rental Market Survey, it fell from 3.9% in 2016 to 2.8% in 2017 and then to 1.9% in 2018.

Figure 4



Sources: Statistics Canada and CMHC
Last data point: 2019 Q2

Figure 5



Source: CMHC
Last data point: October 2018

The reason for the decline: an increase in conventional rental housing demand driven, more specifically, by a marked upswing in net migration. Indeed, net international migration in the Montréal area[17] rose sharply between 2017 and 2018, particularly in the category of non-permanent residents. The data for the province of Quebec since the beginning of the year also suggest that net migration will remain high in 2019, once again contributing to rental housing demand.

[16] Condominium starts averaged at 8,250 units annually from 2015 to 2018, compared to about 11,000 from 2011 to 2014.

[17] According to estimates based on data from Statistics Canada and the Institut de la statistique du Québec, net migration in the Montréal CMA reached 52,000 people in 2018; this was about 20,000 people more than in 2017 and a record for the area.

What's more, this decrease in the vacancy rate occurred in a context where the supply of new rental units also increased significantly. In fact, between the 2017 and 2018 editions of our Rental Market Survey, around 7,500 units were added to the rental housing stock.[18] This was around 3,000 more than the year before and far exceeded the annual average from 2011 to 2014 (approximately 1,600 units).

In 2018, over 10,000 conventional rental apartments[19] were in fact started, a 30-year record. The figures since the beginning of 2019 also revealed that rental housing starts have stayed strong. We will therefore have to wait and see if the vast majority of these new units find tenants in next few quarters. If not, the result would be upward pressure on the vacancy rate. Preliminary estimates indicate that this increase would, however, not be sufficient to change our assessment of low evidence of overbuilding.

[18] July 2017 to June 2018. Only the structures that were open in June 2018 were included in the 2018 Survey.

[19] These units exclude apartments in seniors' residences.

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.

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, Instagram 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

PUBLICATIONS AND REPORTS AVAILABLE ONLINE

Local, regional and national analysis and data on current market conditions and future trends.

- Housing Information Monthly
- Housing Market Assessment
- Housing Market Insight
- Housing Now Tables
- Housing Market Outlook, Canada
- Housing Market Outlook, Highlight Reports – Northern Housing
- Housing Market Outlook, Canada and Major Centres
- Preliminary Housing Starts Data
- Rental Market Reports, Canada and Provincial Highlights
- Rental Market Reports, Major Centres
- Seniors' Housing Reports
- Mortgage and Consumer Credit Trends Report

DATA TABLES AVAILABLE ONLINE

- Funding and Securitization Data
- Household Characteristics
- Housing Market Data
- Housing Market Indicators
- Mortgage and Debt Data
- Rental Market Data

HOUSING MARKET INFORMATION PORTAL

The housing data you want, the way you want it.

- ✔ Information in one central location
- ✔ Desktop and mobile friendly
- ✔ Neighbourhood-level data

cmhc.ca/hmiportal

SUBSCRIBE NOW

Get email notifications when CMHC publications are released or updated. Sign up for a free myCMHC account for enhanced site access, including one-click subscriptions to the reports and tables that matter to you.

Get your myCMHC account today!

Get the market intelligence you need today!

Find all the latest trends, research and insights at **cmhc.ca/housingmarketinformation**

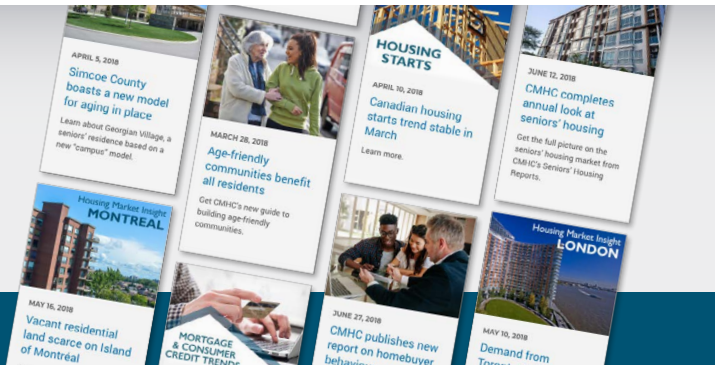
Housing Observer

Featuring quick reads and videos on...

- Analysis and data
- Timely insights
- Updates to housing conditions, trends and much more!

Subscribe today to stay in the know!

www.cmhc.ca/observer



68617_2019_Q04