

HOUSING MARKET ASSESSMENT

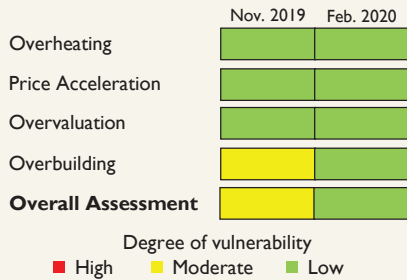
Saskatoon CMA

Date Released: First Quarter 2020



Highlights

Results Overview Saskatoon CMA



- There continues to be low evidence of overheating and price acceleration in the Saskatoon CMA.¹
- Low evidence of overvaluation in house prices is maintained as of Q3 2019.
- A consistent decline in inventories of completed and unsold new homes, combined with a significant decline in the apartment vacancy rate, have resulted in the Saskatoon housing market now exhibiting low evidence of overbuilding.
- As a result of unwinding of imbalances related to overbuilding, the overall assessment for the Saskatoon CMA has now moved to exhibiting a low degree of vulnerability.

HMA Overview²

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 housing market fundamentals³. 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.

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¹ Results are based on data as of the end of September 2019 (the annual rental apartment vacancy rates are from October 2019) and local market intelligence up to the end of December 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

Low Evidence of Overheating

Evidence of overheating remained low as of Q3 2019 in the Saskatoon CMA. On a seasonally-adjusted basis, resale market activity slowed during the third quarter of 2019 while new listings trended upwards over the same period. The result was that the sales-to-new-listings ratio (SNLR) moved down to 40% in Q3 2019 relative to 43% in Q2 2019. Overall, the indicator remained well below the HMA framework's critical threshold for overheating which is 85%.

Low Evidence of Price Acceleration

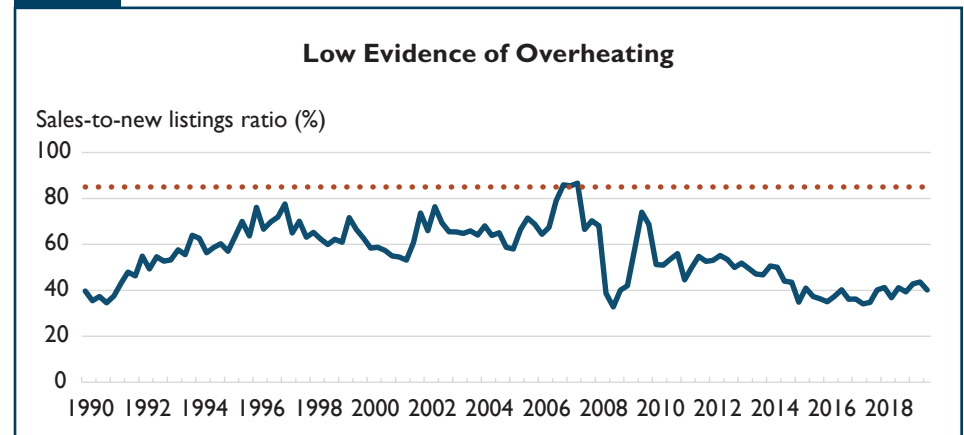
The HMA framework continued to detect low evidence of price acceleration as of Q3 2019 as the test for price acceleration did not exceed the critical threshold. Overall, the inflation-adjusted MLS average price in the Saskatoon CMA increased by

approximately 1% in Q3 2019, relative to Q2 2019. Additionally, inflation-adjusted MLS average prices also saw some small, yet positive, growth year-over-year of 0.18% in Q3 2019, relative to the same quarter in 2018. This represents the first positive year-over-year price growth in over 2 years and is a signal that the Saskatoon market is gradually moving towards more balanced housing market conditions.

Low Evidence of Overvaluation

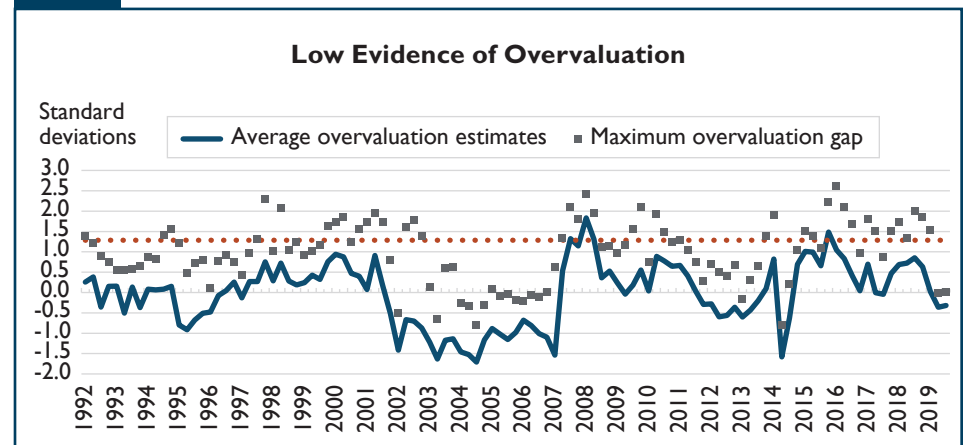
Low evidence of overvaluation was detected for the Saskatoon CMA in Q3 2019, marking the 9th consecutive quarter where this rating has been maintained. The average of all overvaluation models as well as each of the individual overvaluation models remained significantly below the critical threshold for overvaluation.

Figure 1



Sources: CREA and calculations (threshold) by CMHC
Last data point: 2019Q3

Figure 2



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 their fundamental level estimated from a group of selected models. These include demand, supply, hybrid, and affordability models. 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 90%. Overvaluation is signaled when overvaluation estimates lie above the threshold.



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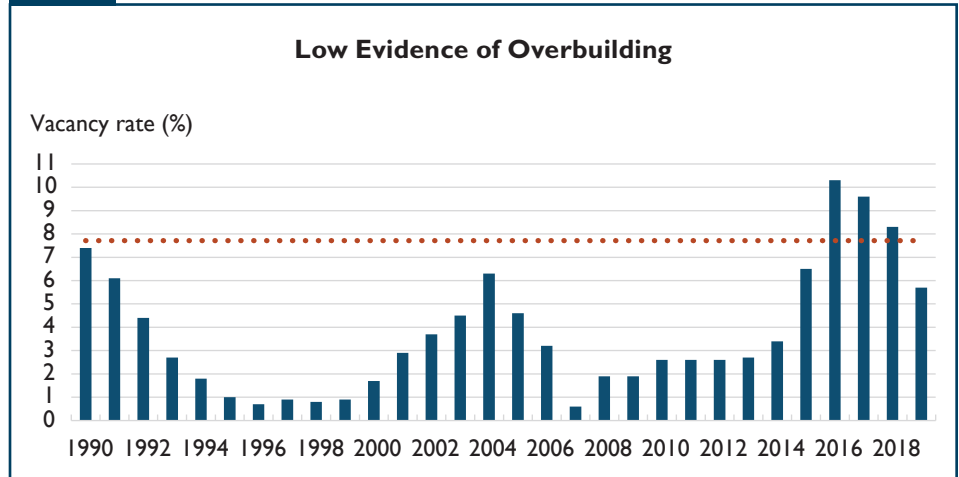
"The Saskatoon housing market now exhibits low evidence of overbuilding as a result of both the inventory of completed and unsold homes and the apartment vacancy rate moving below their respective critical thresholds. Evidence of overheating, price acceleration and overvaluation also remain low as of Q3 2019."

In addition to some upward price movement in Q3 2019, fundamental factors supporting housing demand saw some modest improvements. In particular, continued population growth in the Saskatoon CMA remained supportive of housing demand in addition to improvements in affordability driven by declining mortgage rates throughout the year up to Q3 2019. Overall, low evidence of vulnerabilities related to overvaluation persist.

Low Evidence of Overbuilding

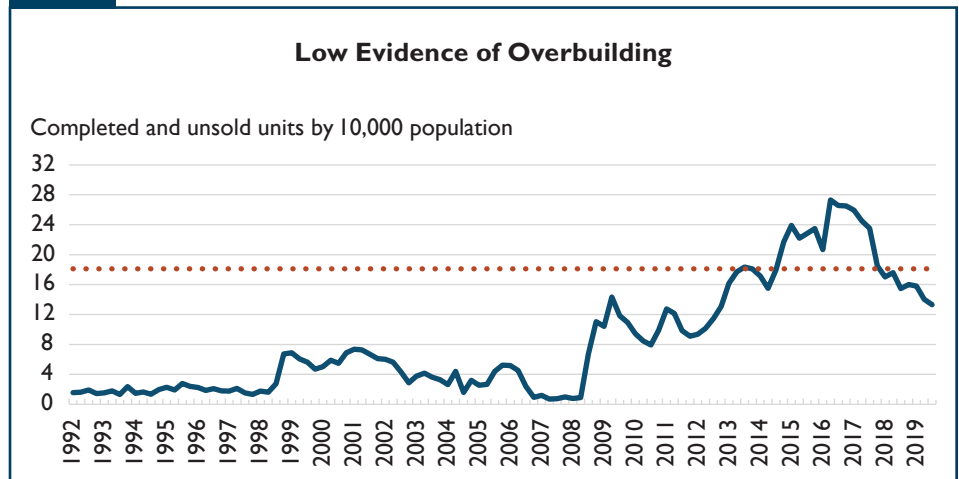
The HMA framework now detects low evidence of overbuilding in the Saskatoon CMA. Housing market vulnerabilities related to overbuilding have now diminished sufficiently as both the inventory of completed and unsold homes and the purpose-built apartment vacancy rate have moved below their respective critical thresholds. Inventories of unsold new homes consistently declined since early 2016 as builders scaled back on the number of new projects being initiated each year for the past 4 years as economic conditions softened. Meanwhile, steady population growth in the Saskatoon CMA, driven in large part by positive international migration, combined with a slower pace of new rental construction supported a significant decline in the apartment vacancy rate from 8.3% in 2018 to 5.7% in 2019. As a result of the unwinding of imbalances related to overbuilding, the overall assessment for the Saskatoon CMA has now moved to exhibiting a low degree of vulnerability. This change in the overall assessment marks the first time since Q1 2015 that the Saskatoon housing market has been given a low degree of vulnerability rating.

Figure 3



Source: CMHC
Last data point: 2019

Figure 4



Sources: Statistics Canada and CMHC
Last data point: 2019Q3

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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