HOUSING MARKET INFORMATION

HOUSING MARKET **ASSESSMENT**

CANADA AND METROPOLITAN AREAS

DATE RELEASED: MARCH 2021

Welcome to the Housing Market Assessment (HMA)

CMHC contributes to market stability by providing information on imbalances affecting housing markets. The HMA assesses whether the housing system places Canada's financial stability at risk.

You will find in this report an overview of the economic and housing market conditions in Canada and detailed analyses for 15 Census Metropolitan Areas (CMAs) for the fourth quarter of 2020.

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What is the HMA?

The Housing Market Assessment (HMA) assesses whether the housing system places risks on Canada's financial stability. The HMA does not assess housing affordability.

The HMA framework considers 4 key imbalances:

1. **Overheating:** when housing demand outpaces supply in the resale market
2. **Price acceleration:** when the growth rate of house prices increases rapidly
3. **Overvaluation:** when prices remain significantly higher than warranted by economic and demographic fundamentals
4. **Excess inventories:** when there is a large quantity of unoccupied housing units

With the HMA, CMHC offers information and analysis that can help Canadians make informed decisions. As the number of intense and persistent signals of imbalances increases, the degree of vulnerability of the housing markets also increases. See the Appendix for more details on the HMA methodology.

Excess Inventories

In previous editions of the HMA, the factor "overbuilding" was used to indicate an elevated number of unoccupied new units in the homeownership market or a high vacancy rate in the rental market. The name of this factor could have led one to believe the HMA reported on excessive construction activity. However, this was not the intended interpretation; we intended to report on excessive quantity of unoccupied units in the short term that could place the owners of those units at financial risk.

The HMA introduces the term "excess inventories" instead. Analyses of excess inventories presented throughout the report provide additional insight into the risks associated with this factor as they relate to the homeownership and rental markets.

Comparisons between the December 2020 and March 2021 reports

	Overheating		Price Acceleration		Overvaluation*		Excess Inventories		Overall Assessment	
	Dec. 2020	March 2021	Dec. 2020	March 2021	Dec. 2020	March 2021	Dec. 2020	March 2021	Dec. 2020	March 2021
Canada	Low	Moderate	Low	Low	Moderate	Moderate	Low	Low	Moderate	Moderate
Victoria	Low	Low	Low	Low	Moderate	Moderate	Low	Low	Moderate	Moderate
Vancouver	Low	Low	Low	Low	Low	Low	Low	Moderate	Moderate	Moderate
Edmonton	Low	Low	Low	Low	Low	Moderate	Moderate	Moderate	Low	Moderate
Calgary	Low	Low	Low	Low	Low	Low	Moderate	High	Low	Moderate
Saskatoon	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low
Regina	Low	Low	Low	Low	Low	Low	Moderate	Moderate	Low	Low
Winnipeg	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low
Hamilton	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate	Low	Low	High	High
Toronto	Low	Low	Low	Moderate	Low	Low	Low	Moderate	Moderate	High
Ottawa	Moderate	Moderate	Moderate	Moderate	Low	Moderate	Low	Moderate	Moderate	High
Montréal	Moderate	Moderate	Moderate	Moderate	Low	Low	Low	Low	Moderate	Moderate
Québec	Moderate	Moderate	Low	Moderate	Low	Low	Low	Low	Low	Low
Moncton	Moderate	Moderate	Moderate	Moderate	High	High	Low	Low	High	High
Halifax	Low	Moderate	Low	Moderate	Moderate	Moderate	Low	Low	Moderate	High
St. John's	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low

Degree of vulnerability: Low, Moderate, High

The HMA methodology is presented in the appendix of this report.

*The March 2021 ratings are based on preliminary estimates of overvaluation, and the December 2020 ratings on revised estimates.

HIGHLIGHTS

- The impacts of the ongoing pandemic continued to influence housing market conditions in Canada in the fourth quarter of 2020.
- Sales remained elevated relative to new listings in several regions. There is now evidence of overheating at the national level.
- Sustained price growth contributed to the emergence or persistence of price acceleration and overvaluation imbalances in some markets, particularly in Eastern Canada.
- Among the three largest metropolitan areas, the degree of overall vulnerability of the housing market in Toronto moved to high while it remained moderate in Montréal and Vancouver.
- The short-term impacts of the pandemic led to an increase in the proportion of unoccupied rental apartments in many regions. The excess inventories in certain segments of the rental market can be a source of risk to short-term local market stability. However, the overall supply of housing remains low.

Overview of HMA Results in Canada[1]

Overall assessment

The economic impacts of the ongoing pandemic continued to be reflected in data for the fourth quarter of 2020. Indicators of economic activity and labour market conditions showed signs of resilience and recovery in the fourth quarter, despite the renewal of stringent containment measures across many provinces aimed at mitigating the second wave of the virus.

In particular, Statistics Canada's preliminary estimates point to an increase in real GDP of 1.9% in the fourth quarter while the estimate for 2020, as a whole, indicates a decline of 5.1%. The annual contraction in real GDP was driven by the initial impacts of the pandemic.[2] Overall, despite strong growth in the second half of 2020, employment in Canada remained below its pre-pandemic level at the end of that year. Pronounced weakness in employment persisted in industries more impacted by pandemic health and safety measures, namely, accommodation and food services, air transportation, and tourism.[3]

Housing markets across the country continued to experience elevated sales in the fourth quarter while new listings remained low, contributing to continued price appreciation. Strong housing market activity and price appreciation contributed to the emergence of new imbalances in some markets or contributed to the worsening of existing imbalances in already vulnerable markets. Imbalances of concern include an increase in the number of centres displaying evidence of overheating, price acceleration and overvaluation. This led to an increase in the number of Census Metropolitan Areas (CMAs) exhibiting either a moderate or high degree of overall vulnerability in the fourth quarter.

For Canada as a whole, which includes more regions than the 15 metropolitan areas covered in this report, the assessment of a moderate degree of overall vulnerability is maintained.

Overvaluation

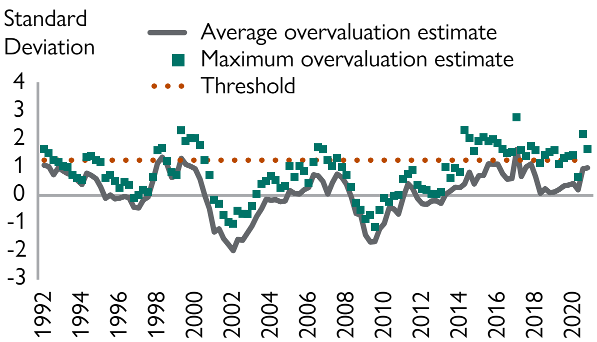
Moderate evidence of overvaluation continued to be detected at the national level. While the impact of COVID-19 on economic conditions in Canada continued to be felt, there was some improvement in key housing market determinants in the fourth quarter supporting housing market activity. Continued population growth, albeit slower than pre-pandemic rates, declining real mortgage rates and a recovery in the adjusted real personal disposable income of Canadians led to an improvement in the fundamental house price level. Overall, at the national level, observed house price growth slightly outpaced growth in the house price supported by fundamentals. This resulted in a slight widening of the average overvaluation gap, though it remained below the critical threshold for signalling high evidence of overvaluation (Figure 1).

[1] The current assessment is based on data up to the end of the fourth quarter of 2020 (the annual rental apartment vacancy rates are from October 2020), and market intelligence up to February 2021. In an effort to provide timely information, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of housing prices in the fourth quarter of 2020, including disposable income, population and labour productivity. Final assessments of vulnerabilities for this quarter will be presented in the next edition of the HMA as new data becomes available.

[2] Statistics Canada, gross domestic product by industry: https://www150.statcan.gc.ca/n1/daily-quotidien/210129/dq210129a-eng.htm.

[3] Labour Force Survey, December 2020: https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1410002201.

Figure 1: Moderate Evidence of Overvaluation in Canada



Sources: CREA, Statistics Canada, Teranet and National Bank of Canada, and calculations by CMHC
Last data point: 2020Q4

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. 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.

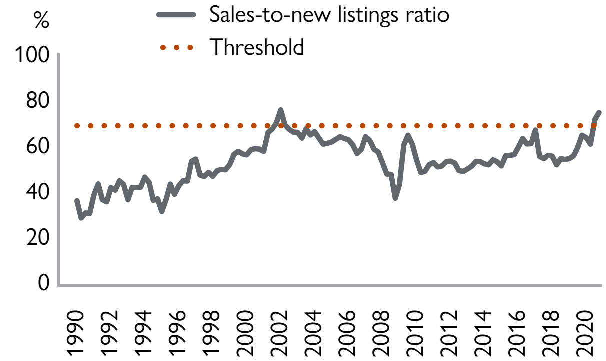
Overheating

In the third quarter of 2020, as containment measures were relaxed, resale market transactions increased significantly while new listings did not keep pace. As a result, in the previous assessment, the sales-to-new listings ratio (SNLR) in Canada moved above the critical threshold set to signal overheating. We held back on signalling overheating because we required more evidence of persistence. By the fourth quarter, the SNLR increased to 76% and had remained above the critical threshold for two quarters (Figure 2). Therefore, we now find sufficient evidence of overheating at the national level.

Price acceleration

Given tight market conditions, the inflation-adjusted MLS® national average price grew significantly relative to one year ago. Changes in this price measure over the past year also partially reflect an observed shift in demand towards ground-oriented housing across Canada. This shift was most acute in the third quarter of 2020, thus the increase in the price level was strongest in that quarter.

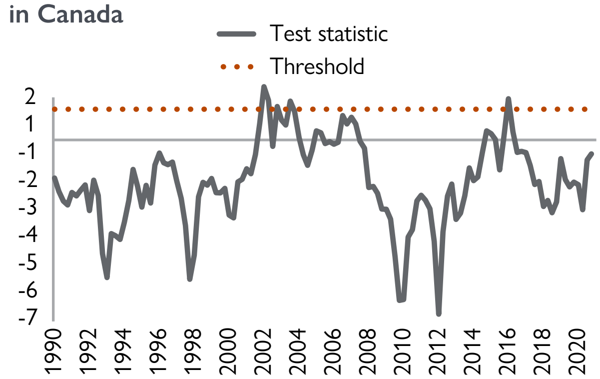
Figure 2: Evidence of Overheating in Canada



Sources: CREA and calculations by CMHC
Last data point: 2020Q4

In the fourth quarter, as this composition shift persisted, the result was that the increase in the inflation-adjusted MLS® national average price was less pronounced, increasing by approximately 1%. As a result, the indicator for price acceleration was well below the critical threshold and evidence of price acceleration nationally remained low (Figure 3).

Figure 3: Low Evidence of Price Acceleration in Canada

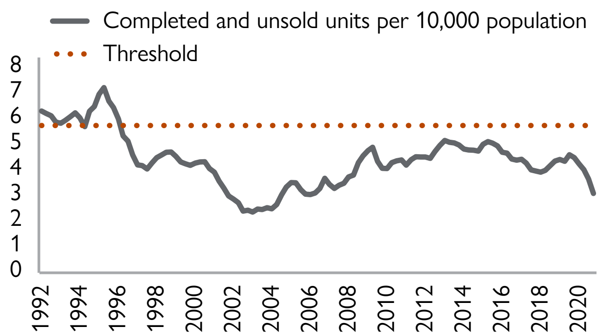


Sources: CREA and calculations by CMHC
Last data point: 2020Q4

Excess Inventories

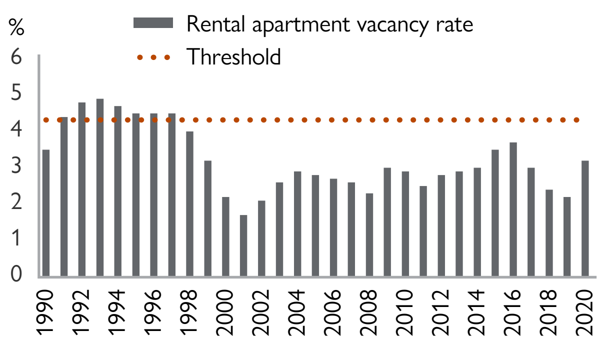
Evidence of excess inventories for Canada remained low as both the inventory of completed and unsold homes per 10,000 population (Figure 4) and the purpose-built rental apartment vacancy rate (Figure 5) remained below their respective critical thresholds.

Figure 4: Low Evidence of Excess Inventories in Canada (ownership market)



Sources: Statistics Canada and CMHC
Last data point: 2020Q4

Figure 5: Low Evidence of Excess Inventories in Canada (purpose-built rental market)



Source: CMHC
Last data point: 2020Q4

As noted in the prior assessment, the pace of new home absorptions increased since the onset of the pandemic and this trend continued into the fourth quarter with new home absorptions up over 17% relative to the same period in 2019. Absorptions registered gains across all dwelling types. As new home sales outpaced completions in 2020, the inventory of completed and unsold homes per 10,000 population trended lower throughout the year.

Meanwhile, conditions in the rental market following the onset of the pandemic diverged from that of the homeownership market. According to CMHC data from October 2020, the purpose-built rental apartment vacancy rate in Canada increased to 3.2%, compared to 2.2% in the same period in 2019. Typical sources of rental demand had been disrupted in 2020. Most notably, international migration into Canada was weaker and the net number of non-permanent residents entering the country had become negative.[4]

Overall, despite the national purpose-built rental apartment vacancy rate increasing in 2020, it remained below the critical threshold for excess inventories in the rental market. However, the impact of the pandemic on rental market conditions varied significantly across the country and, therefore, ratings for excess inventories differed across CMAs.

Regional overview

The third quarter of 2020 was characterized by a strong recovery in housing market activity across CMAs. The fourth quarter largely maintained that strength despite the reimplementation of more stringent pandemic containment measures across many jurisdictions.

Among Canada's largest CMAs, Toronto and Vancouver saw the quarterly pace of sales return to levels not seen since 2016 and 2017, respectively. Meanwhile, in Montréal, the quarterly pace of sales set new records with sales 51% higher than the previous peak in 2009. All three markets, consequently, experienced significant price appreciation. In fact, a sustained increase in the rate of house price growth led to the signalling of price acceleration in Toronto and the continued detection of price acceleration in Montréal.

[4] Statistics Canada: https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1710004001.

Despite elevated activity and upward price pressure in all three markets, estimates of overvaluation declined in Toronto and Vancouver in the fourth quarter because of continued growth in adjusted real personal disposable income and declining real mortgage rates. Meanwhile, estimates of overvaluation for Montréal increased but did not move above the critical threshold. Taken altogether, Vancouver and Montréal exhibited a moderate degree of overall vulnerability while Toronto moved to a high degree of overall vulnerability because evidence of price acceleration and excess inventories were detected.

Halifax experienced overheating and price acceleration in the fourth quarter in addition to maintaining moderate evidence of overvaluation. As a result, Halifax transitioned to a high degree of overall vulnerability. Also transitioning to high overall vulnerability was Ottawa where moderate evidence of overvaluation was detected. In Québec City, evidence of price acceleration was detected while overheating imbalances persisted.

As noted in the previous edition of the HMA report, many markets across Canada that were not seeing strong housing activity prior to the pandemic have since seen elevated sales levels and the beginnings of price appreciation. There was an elevated pace of sales in the third and fourth quarters of 2020 in Victoria, Winnipeg, Ottawa, Hamilton, Québec City, Halifax and Moncton. Housing markets in Calgary, Edmonton, Regina, Saskatoon and St. John's continued to see an elevated pace of sales in the fourth quarter along with upward trending sales-to-new listings ratios, as new listings did not keep pace with resale activity.

To learn more about local housing market conditions and vulnerabilities in Canada's major cities, continue reading through the subsequent sections of the report, which provides detailed HMA results and local market intelligence for 15 Census Metropolitan Areas.

Go Back to Table of Content

Victoria

Pershing Sun
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The housing market in Victoria remained moderately vulnerable in Q4 2020 due to the rating in overvaluation. A low mortgage rate environment and rising incomes contributed to a lower level of overvaluation in Victoria. Continuous heightened demand for detached homes contributed to rising price levels by the end of 2020, warranting potential vulnerability in overheating in the near future.

Results Overview*
Victoria CMA

	Dec. 2020	March 2021
Overheating	■	■
Price Acceleration	■	■
Overvaluation	▲	▲
Excess Inventories	■	■
Overall Assessment	▲	▲

Degree of vulnerability ■ **Low** ▲ **Moderate** ● **High**

* Results are based on data as of the end of December 2020 (the annual rental apartment vacancy rates are from October 2020) and local market intelligence up to February 2021. In an effort to provide timely information, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of housing prices in the fourth quarter of 2020. Final assessments of vulnerabilities for this quarter will be presented in the next edition of the HMA as new data becomes available.

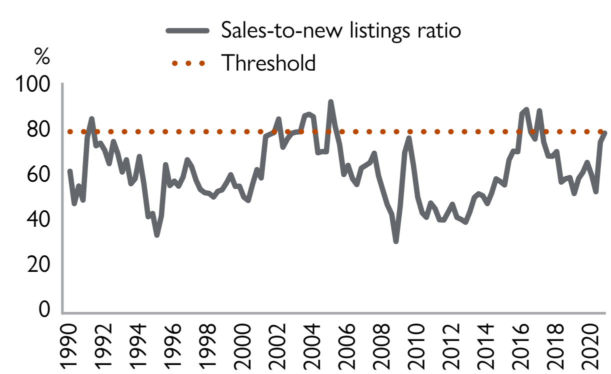
- The overall assessment rating, and each of the individual indicators remained the same in Q4 2020 from the previous quarter. Ratings for overheating, price acceleration, excess inventories remained low while overvaluation remained moderate.
- As the job market recovered in Victoria in Q4 2020, economic fundamentals along with a low mortgage rate environment continued to be the key factors supporting price growth. As a result, the overvaluation indicator lowered as the gap between market price and estimated price narrowed.
- The record low supply of detached homes led to rapid price growth in this segment as demand continued to outpace supply. Close monitoring for overheating is warranted if a similar demand pattern continues.
- Inventory remained below the excess inventories threshold. An expanding share of condominium/apartment inventory continues to project downward pressure on rent, before the rental demand returns in the post-pandemic era.

Evidence of overheating remained low, albeit up-trending

The rating of overheating remained low in the Victoria Census Metropolitan Area (CMA) in Q4 2020 2020, as the sales-to-new-listing ratio (SNLR) remained below the critical threshold (Figure 1). It is worth noting that the indicator sat slightly below the critical threshold of 80% after trending upward throughout 2020, gearing towards the overheating territory seen in 2016/2017.

Both detached and condo (condominium) markets saw various degrees of recovery since Q1 2020. Sales of detached homes were down 25% in Q4 2020 compared to Q3 2020, but has surpassed levels in the same quarters of the past decade. New listings also slowed down in Q4 compared to Q3, registering 2020 with the lowest level of detached new listings since 2015. In the condo markets, sales in the latter half of the year recovered from the April lows and concluded the year with higher sales than 2018 and 2019. Condo new listings slowed down in Q4 compared to Q3. On an annual basis, however, 2020 marked the highest level of new listings since 2015. As a result, throughout the second half of 2020, Victoria saw lower inventory (active listings) of detached homes compared to condos, for the first time since 2008.

Figure 1: Low Evidence of Overheating in Victoria

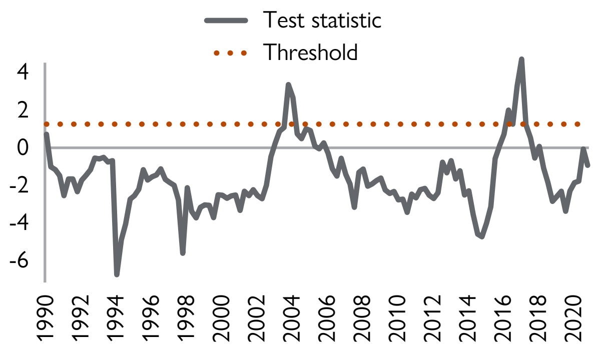


Sources: CREA and calculations by CMHC
Last data point: 2020Q4

Low vulnerability in price acceleration

The rating of price acceleration remained low in Q4 2020. The test statistics for price acceleration remained under the critical threshold for the 15th consecutive quarter since it first surpassed the threshold in Q1 2017, maintaining a low rating for Victoria. (Figure 2)

Figure 2: Low Evidence of Price Acceleration in Victoria



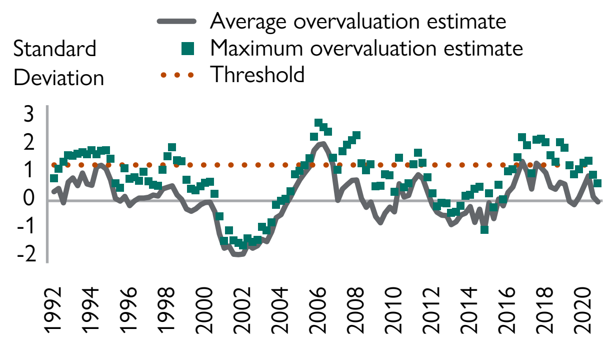
Sources: CREA and calculations by CMHC
Last data point: 2020Q4

Average price increased both quarter-to-quarter (QTQ) and year-over-year (YOY), reflected by most of the price indexes adopted in the HMA framework. This includes the inflation adjusted MLS® average price (down 3% QTQ and 9% YOY), the inflation adjusted Teranet-National Bank House Price Index™ (up 3% QTQ and up 4% YOY), the inflation adjusted Statistics Canada New Housing Price Index (up 2% QTQ and up 3% YOY) and the inflation adjusted CMHC Home Price Index (up 4% QTQ and 9% YOY). As demand continued to outpace supply in the detached segment, the rapid growth of detached home prices has led the price gap between condos and detached homes to expand rapidly in 2020. As a result, the average price of detached homes is more than double that of condos in Q4 2020, a differential last seen in Victoria in 2016.

Moderate vulnerability in overvaluation as the economy recovers unevenly

The HMA framework continued to detect moderate evidence of overvaluation in Q3 2020. The average gap between actual home price and estimated home prices remained below the critical threshold (Figure 3) in Q4, indicating a lessened imbalance between actual home price and the level supported by economic fundamentals. However, moderate vulnerability is maintained to account for the persistence of potential signs of overvaluation as the maximum gap measure overpassed the threshold in the first half of 2020 (Figure 3).

Figure 3: Moderate Evidence of Overvaluation in Victoria



Sources: CREA, Statistics Canada, Teranet and National Bank of Canada, and calculations by CMHC
Last data point: 2020Q4

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. 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.

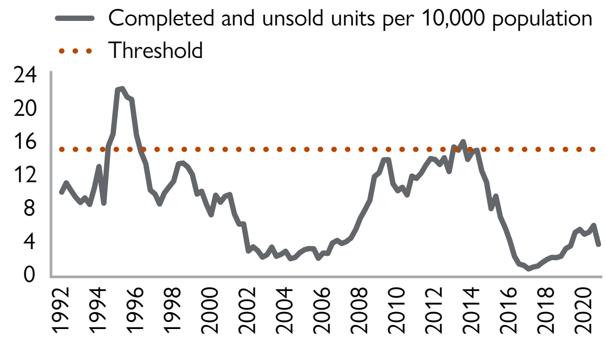
The HMA framework estimates home prices using various demographic and economic indicators including population growth, inflation adjusted personal disposable income,[1] mortgage rates, carrying cost for homeowners, and labor productivity (construction sector). As Victoria's economy slowly recovers from the pandemic-induced recession, employment recovered to similar levels seen in Q4 2019,[2] as did Income[3] levels on a per capita basis. However, the imbalance of recovery among different demographics and occupations persists: for the 25-44 age group, the unemployment rate remained at 6.3%,[4] more than double the level seen in Q4 2019; employment in the food and accommodation sector remained 40%[5] lower in Q4 2020 compared to the same period in 2019.

The decoupling of rising home sales and the uneven economic recovery reveals the fact that homebuyers in Victoria weathered the storm relatively well. In fact, the HMA model identified that the greatest contributor to the growth of model-estimated home price in Victoria is the declining inflation adjusted mortgage rate. Buyers are motivated by the historically low mortgage rates, as well as relatively stable interest rate expectations in the short term. However, long-term uncertainties remain if the job market recovery stalls and mortgage rates start to rise.

Evidence of excess inventories remained low

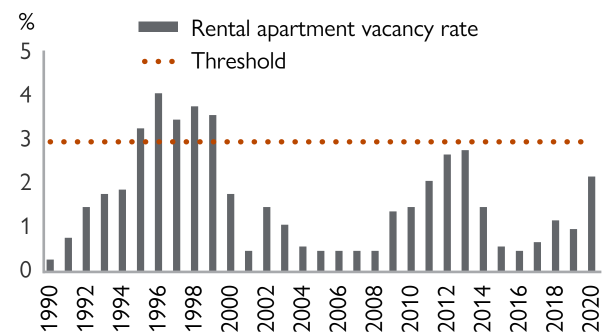
Inventory of completed and unsold units (per 10,000 population) remained well below the threshold (Figure 4). The vacancy rate increased from 1% in 2019 to 2.2% in 2020 as rental demand declined due to travel restrictions and tenants relocating during the pandemic (Figure 5). However, the vacancy rate remained below the critical threshold of 3%. Condos dominated both completed/unabsorbed inventory and the under-construction inventory. Specifically, unsold condos have reached record highs in the second half of 2020, a level not seen since 2015.

Figure 4: Low Evidence of Excess Inventories in Victoria (ownership market)



Sources: Statistics Canada and CMHC
Last data point: 2020Q4

Figure 5: Low Evidence of Excess Inventories in Victoria (purpose-built rental market)



Source: CMHC
Last data point: 2020Q4

[1] The COVID-19 pandemic has triggered atypical variations in several economic indicators, including disposable income. In order to generate more reliable results, the real (inflation-adjusted) disposable income data included in the HMA overvaluation framework in this edition was adjusted to capture more accurately the underlying economic and labour market conditions. A detailed description is available in the appendix of the report.

[2] Statistics Canada. Table 14-10-0378-01 Labour force characteristics, three-month moving average, unadjusted for seasonality.

[3] Inflation adjusted personal disposable income per capita, adjusted for government transfer.

[4] Average of monthly unemployment rates in Q4 2020.

[5] Statistics Canada. Table 14-10-0379-01 Employment by industry, three-month moving average, unadjusted for seasonality (x 1,000).

Among those under construction, rental apartments have surpassed condos in 2019 and remained the majority throughout 2020. Although inoculation has gradually started across BC and Canada, uncertainty remains as dwelling preference may still be influenced by factors like remote working capabilities in the post-pandemic era. The high rental supply is warranted as interprovincial migrants and immigrants (students and workers) return in the near future. However, the elevated inventory of condos could put downward pressure on price if demand for detached homes continues rise.

Go Back to Table of Content

Vancouver

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The overall moderate rating for Vancouver was maintained, as it is our judgment that vulnerabilities outside of the framework were present in the fourth quarter of 2020. With significant uncertainty about the underlying health of the housing market, we determined a moderate rating to be prudent.

Results Overview*
Vancouver CMA

	Dec. 2020	March 2021
Overheating	Low	Low
Price Acceleration	Low	Low
Overvaluation	Low	Low
Excess Inventories	Low	Moderate
Overall Assessment	Moderate	Moderate

Degree of vulnerability Low Moderate High

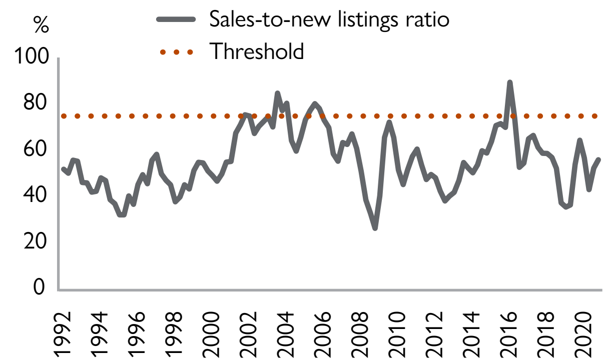
* Results are based on data as of the end of December 2020 (the annual rental apartment vacancy rates are from October 2020) and local market intelligence up to February 2021. In an effort to provide timely information, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of housing prices in the fourth quarter of 2020. Final assessments of vulnerabilities for this quarter will be presented in the next edition of the HMA as new data becomes available.

- CMHC's Housing Market Assessment (HMA) maintained its rating of a moderate degree of vulnerability for the Vancouver Census Metropolitan Area (CMA) housing market. The overall rating reflects our judgement that the individual indicators in the HMA framework do not account for all vulnerabilities in the housing market.
- CMHC's analytical framework maintained its ratings for overheating, price acceleration, and overvaluation, as the framework did not detect specific vulnerabilities in those areas.
- Lower rental demand in the pandemic environment led to a higher rental vacancy rate, particularly among new units seeking high rents. For cautionary reasons, we signal moderate evidence of excess inventories to reflect the financial headwinds faced by some rental operators.
- In the ownership market, inventories of new homes declined, as supply did not outpace demand.

Backlog of transactions and low interest rates drive sales in fourth quarter

Overheating was not detected in Vancouver CMA, with the sales-to-new listings indicator remaining below the threshold (Figure 1). Continuing a trend that began in the third quarter, both sales and new listings were unseasonably high in the fourth quarter of 2020 as both buyers and sellers returned to the market. Low mortgage interest rates into the quarter also fuelled sales activity.

Figure 1: Low Evidence of Overheating in Vancouver



Sources: CREA and calculations by CMHC
Last data point: 2020Q4

Through the end of 2020 and into 2021, sales are maintaining an elevated level of activity while new listings are falling in most submarkets. The sales-to-available listings indicator, as seen in Table 1, shows the share of homes that sold as compared to the total available homes on the market. It shows a shift towards sellers' advantage in most of the submarkets compared to the year-ago period, with the Metro Vancouver market now favouring sellers in both the detached and attached property categories. Typically, this implies a rise in prices as buyers face greater competition for scarce homes.

Table 1: Sales-to-Available Ratio

	Single-Detached		Condo (Attached + Apartment)	
	End Q4 2020	End Q4 2019	End Q4 2020	End Q4 2019
Burnaby	59%	50%	52%	60%
Coquitlam	66%	51%	66%	66%
Delta	68%	49%	59%	46%
New Westminster	67%	49%	61%	64%
North Vancouver	72%	57%	66%	65%
Port Coquitlam	73%	59%	76%	67%
Port Moody	63%	38%	69%	69%
Richmond	43%	36%	50%	46%
M Ridge P Meadows	76%	54%	70%	54%
Vancouver DT	-	-	44%	54%
Vancouver East	58%	47%	59%	64%
Vancouver West	44%	30%	50%	50%
West Vancouver	41%	29%	40%	33%
Langley	76%	58%	65%	60%
Surrey	72%	51%	65%	59%
S. Surrey / White Rock	62%	37%	59%	51%
Vancouver CMA	62%	45%	58%	57%

Source: SnapStats (Based on Real Estate Board of Greater Vancouver and Fraser Valley Real Estate Board data), CMHC calculations

Note: Starting with this edition of the HMA, the sales-to-available ratio is being expressed as a quarterly measure. The ratio is equal to (sales in the quarter) / (active listings at the end of the quarter + sales in the quarter). It is therefore bounded between 0 and 100%. A balanced market is between 30 and 54%.

Among submarkets, more expensive areas such as West Vancouver and the West side of the City of Vancouver were notable for having softer market conditions. Meanwhile, suburban markets, particularly Langley and Surrey, faced tighter market conditions on strong demand for lower priced single-detached product.

Price growth strong, but not strong enough to trigger a moderate price acceleration rating

Price acceleration was not detected in the fourth quarter of 2020. MLS® prices increased 12% year-over-year, a pace of increase not seen since 2017; however, price growth was not enough to breach the threshold for price acceleration. In general, price growth was strongest for single-detached homes at lower price points, which are generally found in suburban areas. Due to a greater supply of listings, price growth for apartments was lower across the region.

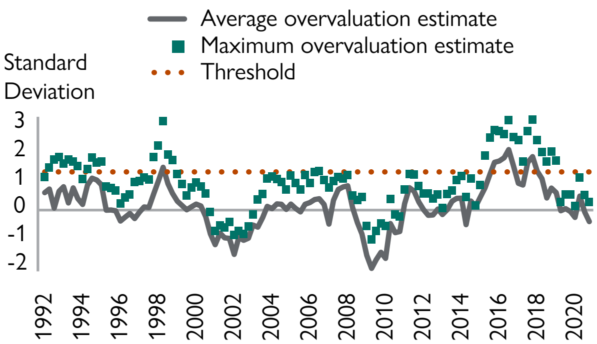
While overvaluation lessened, the overall level of vulnerability in the market remains moderate

Overvaluation was not detected for Vancouver. While there was considerable price growth in the fourth quarter of 2020, fundamentals predicted a stronger increase than what was observed.

Household incomes increased in Vancouver, even after accounting for net government transfers.[1] Factoring in the decline in mortgage rates means that buyer households enjoyed stronger budgets. This led the HMA framework to predict a larger increase in house prices than what we observed in the data. The overvaluation gap thus weakened slightly as fundamental house prices moved ahead of observed house prices (Figure 2).

[1] The COVID-19 pandemic has triggered atypical variations in several economic indicators, including disposable income. In order to generate more reliable results, the real (inflation-adjusted) disposable income data included in the HMA overvaluation framework in this edition was adjusted to capture more accurately the underlying economic and labour market conditions. A detailed description is available in the appendix of the report.

Figure 2: Low Evidence of Overvaluation in Vancouver



Sources: CREA, Statistics Canada, Teranet and National Bank of Canada, and calculations by CMHC
Last data point: 2020Q4

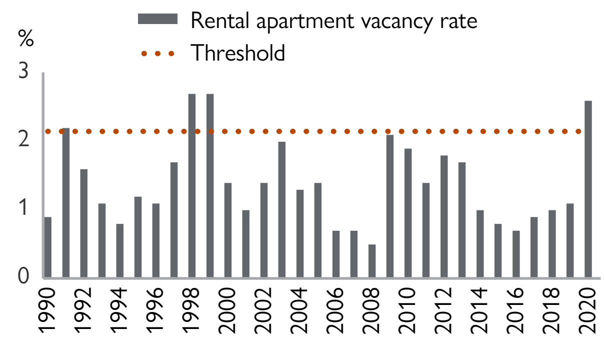
Note: The average estimate of overvaluation is the average gap between actual house prices and their fundamental level estimated from a group of selected models. There are five models in total, each of which is estimated using four measures of house prices to generate twenty unique estimates of overvaluation. 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.

With observed prices trailing the predicted fundamental price level, the overvaluation indicator did not detect a vulnerability. That said, it is our judgment that vulnerabilities are nonetheless present. While it may be true that the aggregate level of income has increased, we do not account for certain inequalities in the distribution of income in the overvaluation models. For one, we can infer that the populations purchasing housing are less likely to be those who have lost employment due to the pandemic, which implies a certain decoupling between aggregate measures and the experiences of particular demographics. These divergent trends are not easily teased apart in modelling, and we consider the level of uncertainty about many trends in the market to, likewise, be much harder to ascertain. As such, we consider the overall level of vulnerability in the market to be moderate.

Higher rental market vacancy rate signals moderate excess inventories

With the recent release of the results of CMHC's 2020 Rental Market Survey, the purpose-built apartment vacancy rate indicator moved higher and cleared its threshold to signal moderate evidence of excess inventories (Figure 3).

Figure 3: Evidence of Excess Inventories in Vancouver (purpose-built rental market)

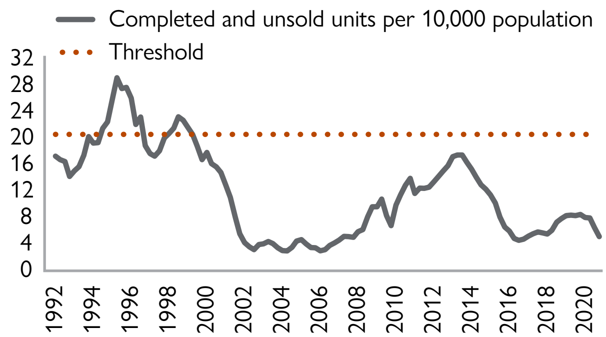


Source: CMHC
Last data point: 2020Q4

The higher vacancy rate results primarily from an interruption to rental demand growth as migration to the Vancouver CMA declined and international students departed during the pandemic. While these impacts are likely temporary, rental operators with unoccupied newly completed rental units seeking rents higher than those currently demanded by the market may face financial headwinds in the short term. Out of an abundance of caution, we consider it prudent to signal moderate evidence of excess rental inventories in the Vancouver CMA at this time. In the long term, the region continues to face a shortage of rental housing options suitable for households with different levels of income, meaning additional new supply will be crucial in increasing housing affordability.

In the ownership market, strong demand and low mortgage interest rates drove inventories of newly completed and unsold homes lower, similar to the resale market. Overall, the unsold stock of new homes remains low relative to the local population in the Vancouver CMA (Figure 4).

Figure 4: Low Evidence of Excess Inventories in Vancouver (ownership market)



Sources: Statistics Canada and CMHC
Last data point: 2020Q4

Go Back to Table of Content

Edmonton

Christian Arkilley
Senior Analyst, Economics

The overall vulnerability assessment for the Edmonton market was changed from low to moderate as there was moderate evidence of overvaluation and excess inventories detected.

Results Overview*
Edmonton CMA

	Dec. 2020	March 2021
Overheating	Low	Low
Price Acceleration	Low	Low
Overvaluation	Low	Moderate
Excess Inventories	Moderate	Moderate
Overall Assessment	Low	Moderate

Degree of vulnerability ■ Low ▲ Moderate ● High

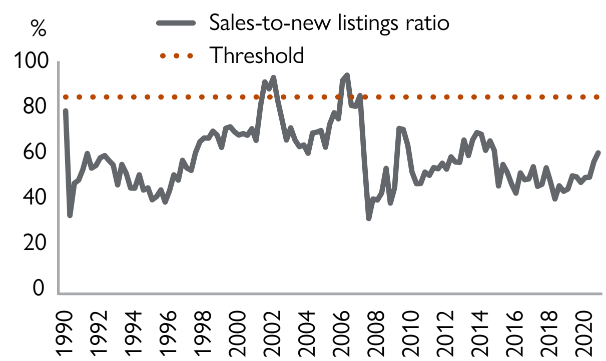
* Results are based on data as of the end of December 2020 (the annual rental apartment vacancy rates are from October 2020) and local market intelligence up to February 2021. In an effort to provide timely information, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of housing prices in the fourth quarter of 2020. Final assessments of vulnerabilities for this quarter will be presented in the next edition of the HMA as new data becomes available.

- The overall vulnerability rating for the Edmonton market was changed from low to moderate. Both overvaluation and excess inventories exhibited moderate evidence of imbalances, which ordinarily would have resulted in a high degree of overall vulnerability, according to the HMA framework. Edmonton's overall rating was changed to a moderate degree of vulnerability in this release, as the evidence of overvaluation was marginally detected.
- Evidence of overvaluation changed from low to moderate due to the persistence rule.
- Excess inventories was maintained as moderate as vacancy rate increased above the critical threshold.
- Overheating and price acceleration continue to exhibit low evidence of vulnerabilities.

Evidence of overheating maintained as low

The evidence of overheating was maintained as low this quarter. The ratio of sales to new listings trended up further this quarter as demand for existing homes increased. The decrease in the nominal 5-year discounted mortgage rate together with an improved labour market resulted in increased demand for housing in the Edmonton CMA. As a result, the seasonally adjusted sales-to-new listings ratio (SNLR) rose to 60.5% in Q4 2020 from 56.7% in Q3 2020. The SNLR was still below the threshold for overheating, which is why we have maintained a low rating on this factor (Figure 1).

Figure 1: Low Evidence of Overheating in Edmonton

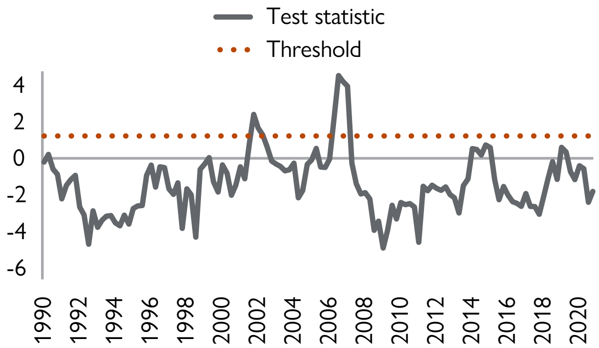


Sources: CREA and calculations by CMHC
Last data point: 2020Q4

Evidence of price acceleration remains low

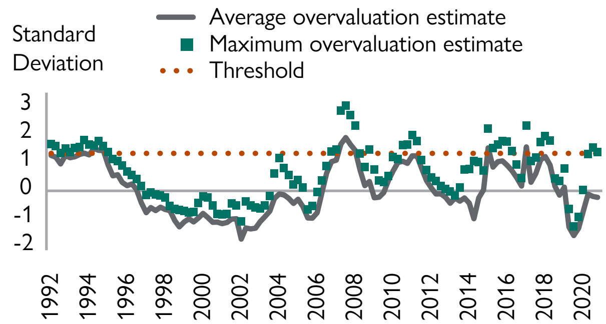
The HMA framework continued to detect low evidence of price acceleration in the Edmonton CMA in the fourth quarter of 2020. The MLS® average price increased in the fourth quarter compared to the same period a year ago. On a seasonally adjusted basis, the MLS® average price trended up this quarter compared to the previous quarter. The increase in sales, while new listings trended higher resulted in an upswing in the MLS® price growth in the fourth quarter. Despite the increase in the MLS® price growth, the test statistic was still below the threshold for accelerating growth (Figure 2).

Figure 2: Low Evidence of Price Acceleration in Edmonton



Sources: CREA and calculations by CMHC
Last data point: 2020Q4

Figure 3: Moderate Evidence of Overvaluation in Edmonton



Sources: CREA, Statistics Canada, Teranet and National Bank of Canada, and calculations by CMHC
Last data point: 2020Q4

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. 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.

Rating on overvaluation changed from low to moderate

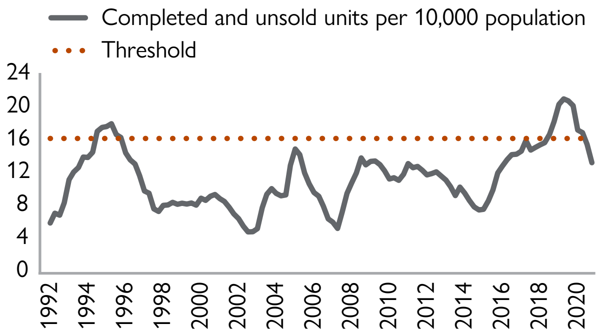
The overvaluation rating changed to moderate this quarter from low in the previous quarter. Prices in the resale market continue to be at levels supported by fundamentals. The fundamental real house price grew by 2.75%, with both real personal disposable income per capita[1] and the real five-year discounted mortgage rate adding some support for this price growth. The population of young adults (25-34) on the other hand increased marginally in the fourth quarter of 2020, but still added to overall price growth. The maximum overvaluation estimate from the individually selected models remained slightly above the critical threshold this quarter (Figure 3). Given that this indicator has been above the threshold for two of the past four quarters, it is our judgement that there exists moderate evidence of overvaluation in the Edmonton market, based on the framework's persistence. Therefore, we have changed our assessment accordingly.

Moderate evidence of excess inventories maintained

There continues to be moderate evidence of excess inventories in the Edmonton CMA. The inventory of completed and unsold units declined by 34% this quarter, compared to same quarter in the previous year. There were decreases in all housing types, with single-detached inventories decreasing by 36% while apartment inventories fell by 29%. The number of completed and unsold units per 10,000 population declined further below the critical threshold for this factor (Figure 4).

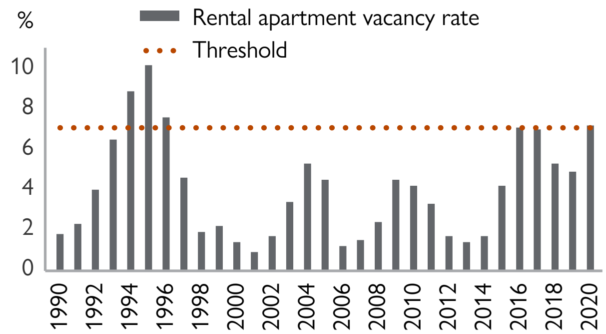
[1] The COVID-19 pandemic has triggered atypical variations in several economic indicators, including disposable income. In order to generate more reliable results, the real (inflation-adjusted) disposable income data included in the HMA overvaluation framework in this edition was adjusted to capture more accurately the underlying economic and labour market conditions. A detailed description is available in the appendix of the report.

Figure 4: Evidence of Excess Inventories in Edmonton (ownership market)



Sources: Statistics Canada and CMHC
Last data point: 2020Q4

Figure 5: Evidence of Excess Inventories in Edmonton (purpose-built rental market)



Source: CMHC
Last data point: 2020Q4

The rental apartment vacancy rate (October 2020) increased above the critical threshold (Figure 5). In 2020, the vacancy rate in the Edmonton CMA increased to 7.2% from 4.9% in 2019. Travel restrictions due to the COVID-19 pandemic, which restricted international migration as well as job losses (especially among young adults), contributed to the increase in vacancy rate. Meanwhile, the number of completed and unsold units was above the critical threshold twice in the past four quarters as of 2020 (in Q1 2020 and Q2 2020). This combination would normally lead to an increase from moderate to high evidence of excess inventories. Nonetheless, new housing inventory remains on a downward trend. Until this trend changes, the evidence of excess inventories is maintained at moderate.

Go Back to Table of Content

Calgary

Michael Mak
Senior Analyst, Economics

There is now a higher evidence of vulnerability in excess inventories in the homeowner and rental market in the Calgary CMA, driven by a combination of increased rental supply, lower rental demand, and continued elevated unsold homeowner inventories.

Results Overview*
Calgary CMA

	Dec. 2020	March 2021
Overheating	■	■
Price Acceleration	■	■
Overvaluation	■	■
Excess Inventories	▲	●
Overall Assessment	■	▲

Degree of vulnerability ■ **Low** ▲ **Moderate** ● **High**

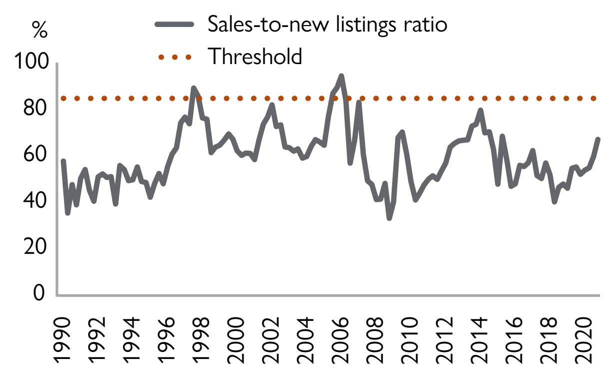
* Results are based on data as of the end of December 2020 (the annual rental apartment vacancy rates are from October 2020) and local market intelligence up to February 2021. In an effort to provide timely information, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of housing prices in the fourth quarter of 2020. Final assessments of vulnerabilities for this quarter will be presented in the next edition of the HMA as new data becomes available.

- Overall assessment now points to a moderate degree of vulnerability in the Calgary CMA.
- Evidence of overvaluation remains low as home prices stay flat compared to strengthening economic fundamentals.
- Excess inventories show evidence of a high degree of vulnerability, compared to a moderate degree in the previous quarter.
- Evidence of overheating and price acceleration remain low in the Calgary CMA, but market conditions show increasing trend from a buyer's market earlier in the year to conditions that are more balanced.

Low levels of evidence in overheating in the Calgary CMA

The model uses a measurement of a seasonally adjusted sales-to-new listings ratio (SNLR) to determine whether the resale market exhibited evidence of overheating. In the fourth quarter, this SNLR reached 67%, below the overheating threshold of 85% (Figure 1). The SNLR continued to trend upwards from recent lows of 40% in 2018. The current measurement of 67% is the highest the indicator has recorded since the second quarter of 2015 when it recorded in the upper 60% region.

Figure 1: Low Evidence of Overheating in Calgary



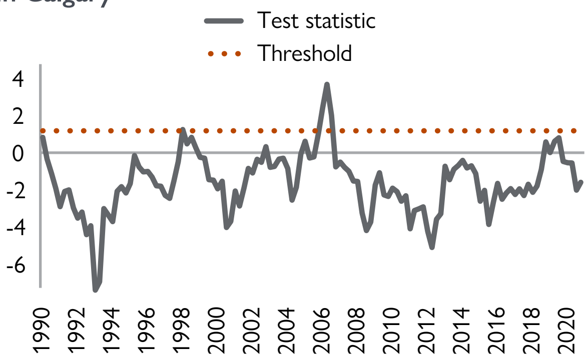
Sources: CREA and calculations by CMHC
Last data point: 2020Q4

While both quarterly sales and new listings were lower compared to the previous quarter, sales decreased at a much slower rate than new listings. Quarter-over-quarter sales were down 17% in Q4, compared to 37% lower new listings. Adjusted for seasonality, quarterly sales were up by 13.6%, and change in new listings were negligible. Abnormally high sales for the winter season was the main driver for the increase SNLR, as home resales usually slowdown in the fourth and first quarters of the year. As the SNLR is at a 5-year high, conditions in the local market point towards a balanced market compared to a buyers' market over the past several quarters.

Evidence of price acceleration continued to be low in the Calgary CMA

The quarterly average MLS® sales price at $465,000 stayed above year lows. This average price was lower by 1.3% compared to the previous quarter, but was 3.8% higher than the average sales price in the fourth quarter of 2019. Following the increase in prices from the third quarter, prices in Calgary continue to reflect the compositional shift in sales, where more expensive single detached homes are in higher demand compared to lower priced condominiums. After a seasonal adjustment, average prices show a negligible change from the previous quarter, pointing to the maintenance of this level. While seasonally adjusted prices are at its highest levels since 2018, there is low evidence of price acceleration (Figure 2).

Figure 2: Low Evidence of Price Acceleration in Calgary

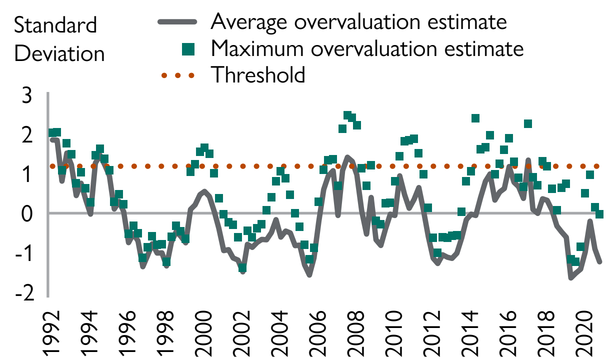


Sources: CREA and calculations by CMHC
Last data point: 2020Q4

Evidence of overvaluation in the Calgary CMA remained low

The overvaluation estimate was lower, continuing the previous quarter trend away from the overvaluation threshold (Figure 3). This estimate was driven by an increase in the fundamentally estimated house price growth, compared to a slight decrease in inflation adjusted observed house price growth, quarter-over-quarter. In the fourth quarter, increases in the inflation adjusted personal disposable income,[1] as well as a decrease in the 5-year discounted mortgage rate were the main factors supporting stronger fundamental house prices. Both factors continue their trends from the previous quarter, with increasing disposable income, signifying steady recovery in the local economy, while lower mortgage rates are consistent with monetary conditions.

Figure 3: Low Evidence of Overvaluation in Calgary



Sources: CREA, Statistics Canada, Teranet and National Bank of Canada, and calculations by CMHC
Last data point: 2020Q4

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. 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.

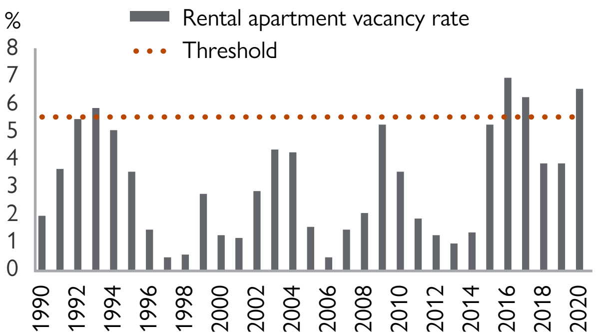
Excess inventories in the Calgary CMA has now reached a level of high vulnerability

The model mainly takes in two factors to determine vulnerability levels - the level of complete and unsold inventory per 10,000 population, and the vacancy rate in purpose-built rentals in the CMA. For the past several quarters, evidence of excess inventories was rated as moderate, with elevated levels of unsold ownership inventory persisting. This quarter, with higher vacancy rates from the 2020 Rental Market Survey, there is now a high degree of evidence of excess

[1] The COVID-19 pandemic has triggered atypical variations in several economic indicators, including disposable income. In order to generate more reliable results, the real (inflation-adjusted) disposable income data included in the HMA overvaluation framework in this edition was adjusted to capture more accurately the underlying economic and labour market conditions. A detailed description is available in the appendix of the report.

inventories. Vacancy rate in October 2020 was 6.6%, higher than the threshold of 5.6% (Figure 4). Rental demand in the Calgary CMA was impacted this year by a combination of oil sector shock, and the COVID-19 pandemic. The economic impact lowered employment in the Calgary CMA, as well and impacted international migration into Alberta, both drivers of rental demand in Calgary. Together with an increase in primary rental supply by 3.2%, the vacancy rate increased from 3.9% to 6.6%.

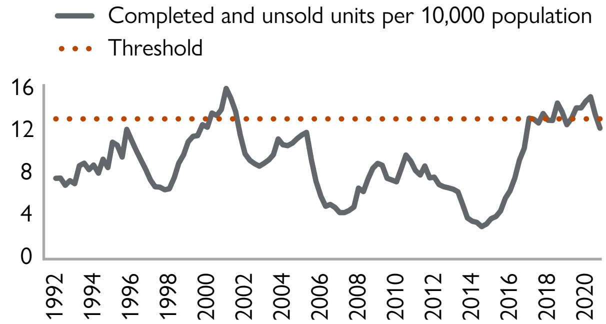
Figure 4: Evidence of Excess Inventories in Calgary (purpose-built rental market)



Source: CMHC
Last data point: 2020Q4

Completed and unsold units per 10,000 population remained elevated this quarter but continue the lower trend from highs earlier this year. While the metric for the fourth quarter dipped below the threshold level, the measure of excess inventories in the homeowner market remains from being above the threshold in three of the previous four quarters (Figure 5). Total unsold inventories continued to trend lower in the Calgary CMA in the fourth quarter, showing increased demand in the single detached, semi-detached, and row type housing.

Figure 5: Evidence of Excess Inventories in Calgary (ownership market)



Sources: Statistics Canada and CMHC
Last data point: 2020Q4

However, unsold inventories in the condominium segment increased in the same period, continuing this year's theme of stronger single detached demand versus condominiums. The average absorption rate in condos for this quarter was 56%, compared to an average of 85% units absorbed upon completion for single detached units. Completions in the apartment segment also saw over 1,100 units come to market in both the homeownership and rental category. While this figure is more than a quarter of this year's apartment completions, it is the second highest quarterly rate. Total inventories under construction remained steady this quarter, with 10,100 housing units under construction as of December 2020, 6,500 of which are apartment units. The total housing stock looks to increase in the near future as single detached starts ended the year with the highest amount of starts in Q4. However, this increase in inventories may be supported if recent single detached demand continues.

Go Back to Table of Content

Saskatoon

Goodson Mwale
Senior Analyst, Economics

We have maintained our overall assessment of a low degree of vulnerability in the Saskatoon market. The overvaluation gap between real observed and fundamental house prices narrowed in the fourth quarter of 2020 and remained below the critical threshold.

Results Overview*
Saskatoon CMA

	Dec. 2020	March 2021
Overheating	Low	Low
Price Acceleration	Low	Low
Overvaluation	Low	Low
Excess Inventories	Low	Low
Overall Assessment	Low	Low

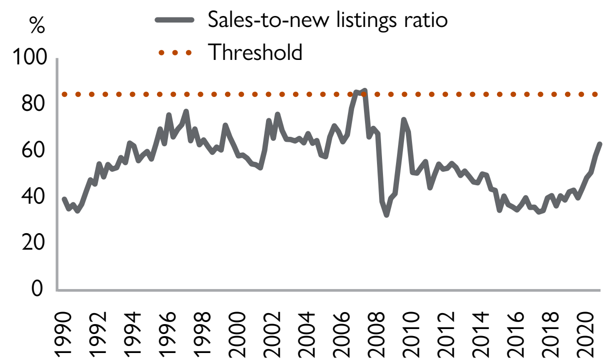
Degree of vulnerability Low Moderate High

* Results are based on data as of the end of December 2020 (the annual rental apartment vacancy rates are from October 2020) and local market intelligence up to February 2021. In an effort to provide timely information, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of housing prices in the fourth quarter of 2020. Final assessments of vulnerabilities for this quarter will be presented in the next edition of the HMA as new data becomes available.

Evidence of overheating remains low

The Saskatoon housing market continued to experience strong resale activity during the fourth quarter of 2020, with sales rising 44% from the same quarter of 2019. As was the case in the preceding quarter, buyers took advantage of lower mortgage rates to purchase limited listings, which kept market conditions firmly in balanced territory. While MLS® sales trended higher, new listings continued to trend lower, pushing the sales-to-new listings ratio (SNLR) to 63.5% from 58.4% in the third quarter of 2020. Despite this increase, the SNLR remained below the critical threshold of 85% set for overheating (Figure 1).

Figure 1: Low Evidence of Overheating in Saskatoon



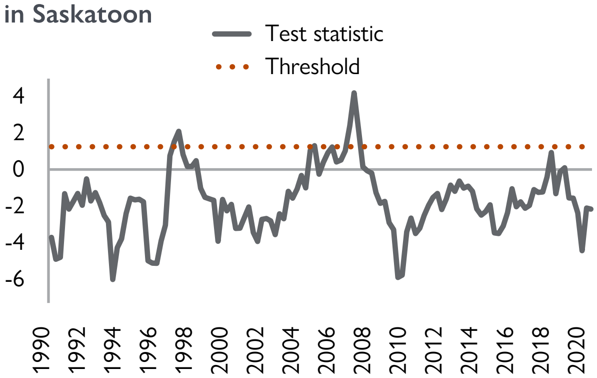
Sources: CREA and calculations by CMHC
Last data point: 2020Q4

No price acceleration detected

There was no evidence of accelerating growth in house prices detected during the fourth quarter of 2020 (Figure 2). That said, balanced market conditions continued to yield price gains across the various segments of the housing market. Saskatoon's MLS® HPI composite benchmark price[1] rose 5.36% to $303,679 in the fourth quarter from $288,222 in the same quarter of 2019. In the submarkets, benchmark prices for single-family homes rose the most, up 5.43% on a year-over-year basis. Under the same comparison, prices for condominium apartments and townhouses rose 4.97% and 2.99%, respectively.

[1] Source: CREA. The MLS® HPI is based on a hybrid model that merges repeat-sales and hedonic price approaches, and reflects the contribution made by various quantitative and qualitative housing features towards the home price.

Figure 2: Low Evidence of Price Acceleration in Saskatoon

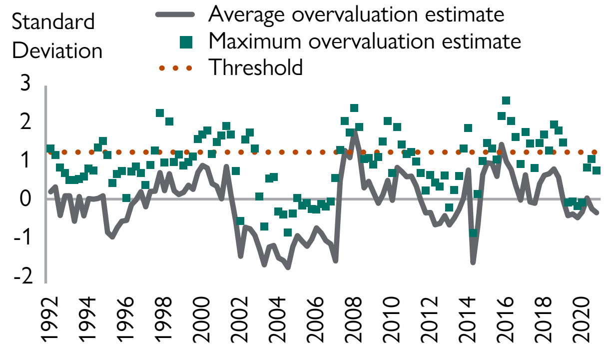


Sources: CREA and calculations by CMHC
Last data point: 2020Q4

The low rating on overvaluation is maintained

While we had been concerned about emerging overvaluation imbalances in recent quarters, the gap between real observed prices and those estimated from fundamentals narrowed in the fourth quarter of 2020. This resulted from an improvement in the fundamental price due to a lower real mortgage rate and slightly higher real adjusted personal disposable income per capita.[2] Figure 3 indicates that the maximum overvaluation estimate from the individually selected models was still below the critical threshold in the fourth quarter of 2020. In addition, the average overvaluation gap also remained below the critical threshold, which is consistent with a low rating.

Figure 3: Low Evidence of Overvaluation in Saskatoon



Sources: CREA, Statistics Canada, Teranet and National Bank of Canada, and calculations by CMHC
Last data point: 2020Q4

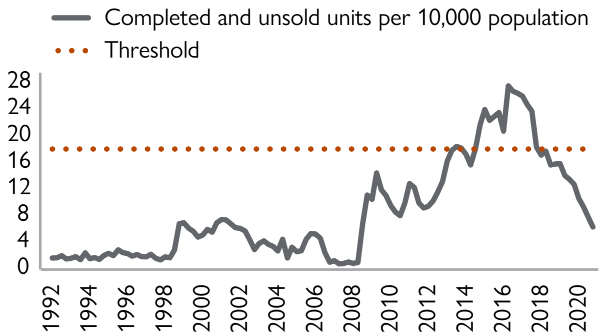
Note: The average estimate of overvaluation is the average gap between actual house prices and their fundamental level estimated from a group of selected models. There are five models in total, each of which is estimated using four measures of house prices to generate twenty unique estimates of overvaluation. 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.

Low evidence of excess inventories

The inventory of completed and unsold units per 10,000 population in the Saskatoon CMA remained below its critical threshold in the fourth quarter of 2020 (Figure 4). Having peaked in the second quarter of 2016, new housing inventory has trended lower ever since, breaking below the threshold in early 2018. The current environment of lower mortgage rates and declining inventory has supported continued gains in both resale activity and new home construction in the Saskatoon market. After declining to a 14-year low in 2019, housing starts in the Saskatoon CMA rose 44% to 1,909 units in 2020. Meanwhile, the total inventory of newly completed and unsold units numbered 200 units at the end of the fourth quarter of 2020 – a level not seen since the third quarter of 2010.

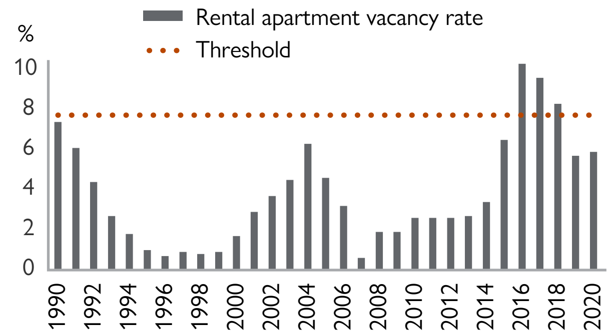
[2] The COVID-19 pandemic has triggered atypical variations in several economic indicators, including disposable income. In order to generate more reliable results, the real (inflation-adjusted) disposable income data included in the HMA overvaluation framework in this edition was adjusted to capture more accurately the underlying economic and labour market conditions. A detailed description is available in the appendix of the report.

Figure 4: Low Evidence of Excess Inventories in Saskatoon (ownership market)



Sources: Statistics Canada and CMHC
Last data point: 2020Q4

Figure 5: Low Evidence of Excess Inventories in Saskatoon (purpose-built rental market)



Source: CMHC
Last data point: 2020Q4

Additionally, Saskatoon's vacancy rate in purpose-built rental apartments remained stable in 2020. At 5.9%, the vacancy rate was below the critical threshold of 7.74% in the fourth quarter of 2020 (Figure 5). Given the results of these two complimentary indicators, it is our judgement that evidence of excess inventories in the Saskatoon market remains low.

Go Back to Table of Content

Regina

Taylor Pardy
Senior Analyst, Economics

Low evidence of overheating, price acceleration, and overvaluation were detected in the Regina CMA in the fourth quarter of 2020. Moderate evidence of excess inventories was maintained as a result of vulnerabilities in the rental market.

Results Overview*
Regina CMA

	Dec. 2020	March 2021
Overheating	■	■
Price Acceleration	■	■
Overvaluation	■	■
Excess Inventories	▲	▲
Overall Assessment	■	■

Degree of vulnerability ■ **Low** ▲ **Moderate** ● **High**

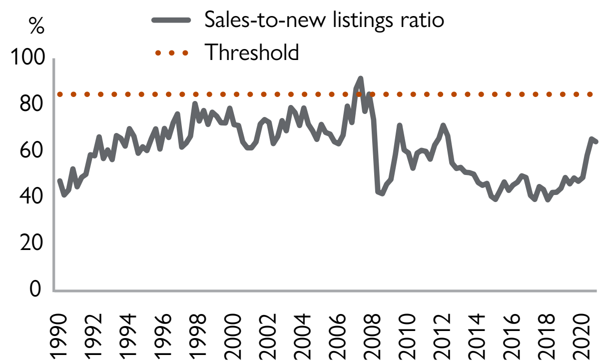
* Results are based on data as of the end of December 2020 (the annual rental apartment vacancy rates are from October 2020) and local market intelligence up to February 2021. In an effort to provide timely information, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of housing prices in the fourth quarter of 2020. Final assessments of vulnerabilities for this quarter will be presented in the next edition of the HMA as new data becomes available.

- There continues to be low evidence of overheating and price acceleration in the Regina CMA.
- Low evidence of overvaluation continued to be detected, unchanged from the previous quarter following data revisions.
- Moderate evidence of excess inventories was maintained as a result of elevated vulnerabilities in the rental market.
- Overall, the Regina CMA exhibits a low degree of overall vulnerability as of the fourth quarter of 2020.

Low Evidence of Overheating

The Regina housing market continued to show low evidence of overheating in the fourth quarter of 2020 as the indicator remained below the critical threshold (Figure 1). Overall, the total number of existing home sales declined by 3% in the fourth quarter relative to the third quarter while new listings declined by just 0.6% in the same period. The net result was a slight decline in the seasonally-adjusted sales-to-new-listings ratio to 65% from 66% in the previous quarter. However, the quarter-over-quarter changes do not tell the full story. The pace of sales in the fourth quarter of 2020 remained 51% above the same quarter in 2019 and approximately 7% above the previous peak pace of sales seen in 2012. Factors like continued, albeit slower, population growth, demographics-driven demand, and low mortgage rates have generally been supportive of sales activity in the Regina CMA since the onset of the pandemic.

Figure 1: Low Evidence of Overheating in Regina

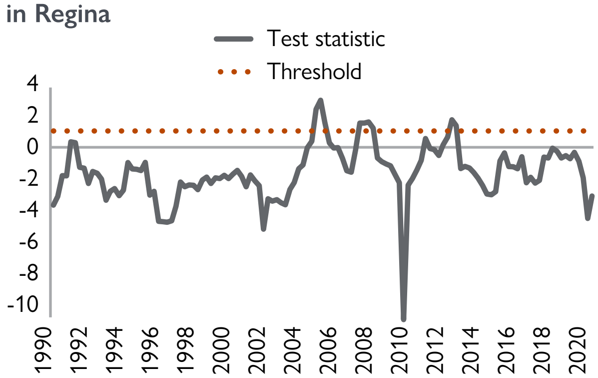


Sources: CREA and calculations by CMHC
Last data point: 2020Q4

Low Evidence of Price Acceleration

The Regina CMA continued to exhibit low evidence of price acceleration in the fourth quarter of 2020 as the test statistics did not exceed the critical threshold (Figure 2). The inflation-adjusted MLS® average price declined by 2% in the fourth quarter, relative to an increase of 3% in the previous quarter. The shift in pricing in the fourth quarter was due in part to a composition shift in sales and differing market conditions by type. Looking at year-over-year comparisons shows that the MLS® average price has increased by a total of 3% relative to the same quarter in 2019. Meanwhile, market conditions also differ significantly by type of housing and have thus had different price growth profiles over the past year.[1]

Figure 2: Low Evidence of Price Acceleration in Regina

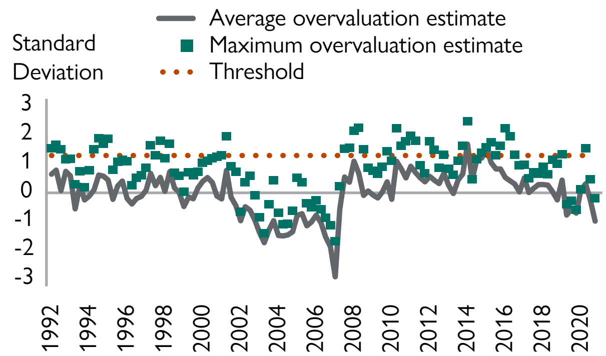


Sources: CREA and calculations by CMHC
Last data point: 2020Q4

Low Evidence of Overvaluation

While the HMA framework had previously detected moderate evidence of overvaluation in the Regina CMA in the third quarter, the rating for the fourth quarter has reverted to low evidence of overvaluation due to significant data revisions related to the adjusted real personal disposable income per capita (Figure 3).[2] The higher income estimates for the Regina CMA resulted in a sufficient increase in the price level supported by fundamentals such that none of the individual model estimates remained above the critical threshold. Additionally, the average estimate of overvaluation also declined. Besides adjustments to the adjusted real personal disposable income per capita estimates, declines in estimates of overvaluation were also supported by continued, albeit slower, population growth, lower real mortgage rates and the slight decline in MLS® average prices in the fourth quarter.

Figure 3: Low Evidence of Overvaluation in Regina



Sources: CREA, Statistics Canada, Teranet and National Bank of Canada, and calculations by CMHC
Last data point: 2020Q4

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. 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.

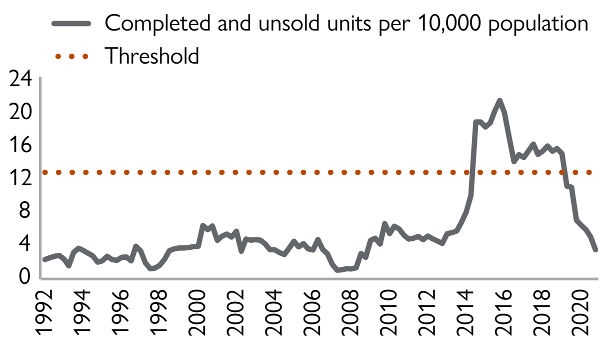
[1] The composite MLS® HPI Benchmark price increased by approximately 1% over the same period while benchmark prices for the single-detached, townhome and apartment condo segments of the market increase by 8%, 9% and 0.6%, respectively. Source: CREA.

[2] The COVID-19 pandemic has triggered atypical variations in several economic indicators, including disposable income. In order to generate more reliable results, the real (inflation-adjusted) disposable income data included in the HMA overvaluation framework in this edition was adjusted to capture more accurately the underlying economic and labour market conditions. A detailed description is available in the appendix of the report.

Moderate Evidence of Excess Inventories

On the ownership side of the market, the inventory of completed and unsold units per 10,000 population in the Regina CMA remained significantly below the critical threshold in the fourth quarter of 2020, maintaining a similarly low inventory level last seen in 2012 (Figure 4). The elevated pace of absorptions since the onset of the pandemic, relative to completions, has resulted in persistent declines in inventory levels and stimulated the need for additional housing starts in the Regina CMA. As a result, housing starts finished 2020 up 42% from the low point seen in 2019.

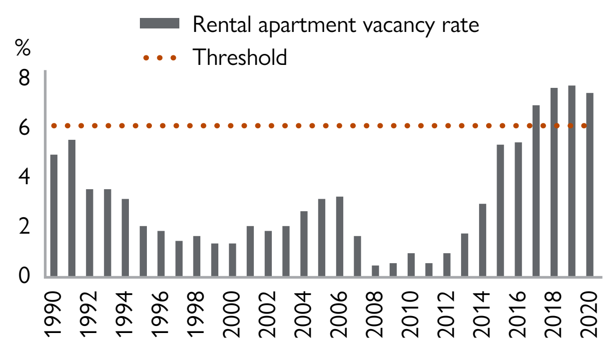
Figure 4: Low Evidence of Excess Inventories in Regina (ownership market)



Sources: Statistics Canada and CMHC
Last data point: 2020Q4

Meanwhile, on the rental side, vulnerabilities related to excess inventories persisted based on data as of October 2020 showing that the rental apartment vacancy rate was estimated at 7.5%, well above the critical threshold of approximately 6.2% (Figure 5). In contrast to the stronger conditions in the ownership side of the market, imbalances related to excess inventories in the rental market come at a time when fundamentals that typically support rental demand have been impacted significantly by the COVID-19 pandemic. In particular, international migration and the number of non-permanent residents moving into the area have decreased and it is unclear when these sources of population growth and demand will resume. Overall, the HMA framework continued to detect moderate evidence of excess inventories in the Regina CMA as of the fourth quarter of 2020 reflecting vulnerabilities in the rental market.

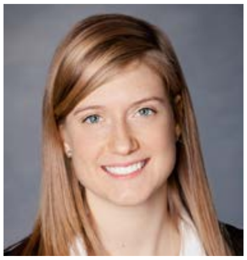
Figure 5: Evidence of Excess Inventories in Regina (purpose-built rental market)



Source: CMHC
Last data point: 2020Q4

Go Back to Table of Content

Winnipeg



Heather Bowyer
Senior Analyst, Economics

The overall degree of vulnerability remained low in the Winnipeg CMA. However, there has been some tightening in the resale market as demand has rebounded faster than supply, putting some upwards pressure on the overheating indicator.

Results Overview*
Winnipeg CMA

	Dec. 2020	March 2021
Overheating	■	■
Price Acceleration	■	■
Overvaluation	■	■
Excess Inventories	■	■
Overall Assessment	■	■

Degree of vulnerability ■ **Low** ▲ **Moderate** ● **High**

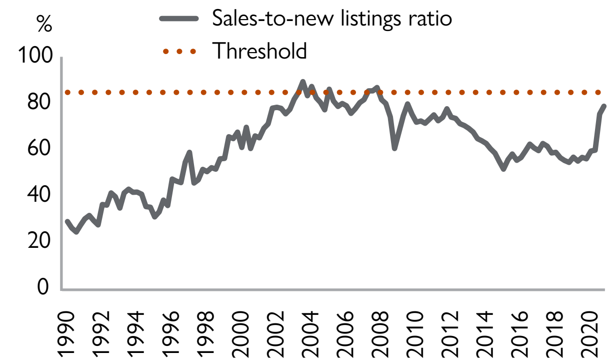
* Results are based on data as of the end of December 2020 (the annual rental apartment vacancy rates are from October 2020) and local market intelligence up to February 2021. In an effort to provide timely information, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of housing prices in the fourth quarter of 2020. Final assessments of vulnerabilities for this quarter will be presented in the next edition of the HMA as new data becomes available.

- Overall, there continued to be a low degree of vulnerability detected in the Winnipeg CMA housing market.
- While there was low evidence of overheating, the resale market has tightened, putting upwards pressure on the sales-to-new listings ratio.
- Despite an increase in October 2020, the apartment vacancy rate remained below the threshold for excess inventories.
- Factors such as price acceleration and overvaluation continue to show low evidence of vulnerabilities.

Evidence of overheating remains low

There continued to be low evidence of overheating in the Winnipeg CMA; however, the seasonally adjusted sales-to-new listings (SNL) ratio continued to trend upwards in the first quarter of 2021. Despite an increase in COVID-19 restrictions in the fourth quarter of 2020 causing employment levels to fall, resale demand remained strong, likely driven by continued low mortgage rates. In addition, new listings fell, which put upwards pressure on the seasonally adjusted SNL: it increased from 76% to 79%, but it remained below the 85% threshold (Figure 1). While overheating remains low, continued monitoring of this indicator is warranted given the upwards trend experienced over the last several quarters.

Figure 1: Low Evidence of Overheating in Winnipeg



Sources: CREA and calculations by CMHC
Last data point: 2020Q4

Evidence of price acceleration remains low

Price growth moderated in the fourth quarter of 2020 compared to the previous quarter, leading to low evidence of price acceleration. Resale market activity moderated in the fourth quarter after a rebound in activity in the third quarter that followed the springtime lockdowns. This led to a smaller increase in the seasonally adjusted average price MLS® price, up 0.7% from the previous quarter, to $327,840. Price growth continued to be highest among single-family homes, with the seasonally adjusted CREA Benchmark Price increasing by 2% compared to the previous quarter. The benchmark price for apartment units increased by 1%.

Evidence of overvaluation remains low

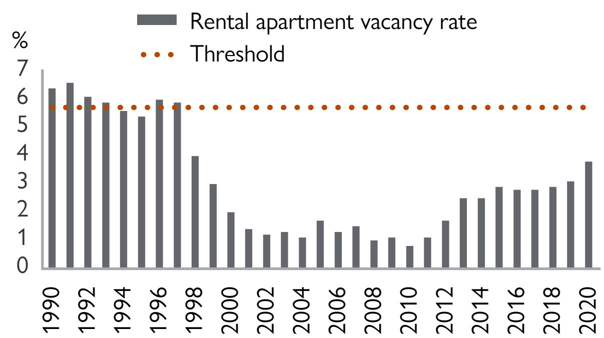
The evidence of overvaluation remained low in the Winnipeg CMA as the gap between observed house prices and those predicted by current fundamentals remained below the critical threshold. In fact, observed house price growth was less than that predicted by fundamentals in the fourth quarter of 2020. Continued low mortgage rates and increases in adjusted real personal disposable income per capita[1] were supportive of stronger fundamental price growth than the price growth that actually occurred.

Evidence of excess inventories remain low

Overall, there was low evidence of excess inventories in the fourth quarter of 2020. In the new home market, total inventories continued to move lower, with declines in both condominium apartment and single-detached inventories. Similar to the resale market, demand in the new home market was stronger than supply, reflected in the number of absorbed units outpacing the number of newly completed homeownership units in the fourth quarter. This was largely due to the number of newly completed homeownership units decreasing compared to the previous quarter, which moved inventory levels lower.

In the rental market, despite an increase in October 2020, the apartment vacancy rate remained below the threshold for excess inventories in the fourth quarter of 2020 (Figure 2). However, a considerable amount of rental construction has led to an elevated number of units under construction, which may lead to supply increasing faster than demand in the future.

Figure 2: Low Evidence of Excess Inventories in Winnipeg (purpose-built rental market)



Source: CMHC
Last data point: 2020Q4

Go Back to Table of Content

[1] The COVID-19 pandemic has triggered atypical variations in several economic indicators, including disposable income. In order to generate more reliable results, the real (inflation-adjusted) disposable income data included in the HMA overvaluation framework in this edition was adjusted to capture more accurately the underlying economic and labour market conditions. A detailed description is available in the appendix of the report.

Hamilton

Anthony Passarelli
Senior Analyst, Economics

Hamilton's housing market continued to display a high degree of overall vulnerability, as house prices accelerated and became increasingly detached from economic and demographic fundamentals.

Results Overview*
Hamilton CMA

	Dec. 2020	March 2021
Overheating	▲	▲
Price Acceleration	▲	▲
Overvaluation	▲	▲
Excess Inventories	■	■
Overall Assessment	●	●

Degree of vulnerability ■ **Low** ▲ **Moderate** ● **High**

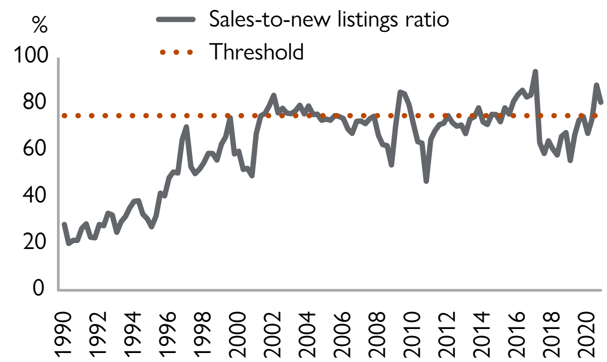
* Results are based on data as of the end of December 2020 (the annual rental apartment vacancy rates are from October 2020) and local market intelligence up to February 2021. In an effort to provide timely information, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of housing prices in the fourth quarter of 2020. Final assessments of vulnerabilities for this quarter will be presented in the next edition of the HMA as new data becomes available.

Overall Assessment for Hamilton Maintained at High

Overheating rating unchanged

We continued to detect evidence of overheating as the sales-to-new listings ratio (SNLR) remained above its critical threshold, as exhibited in Figure 1. While the SNLR decreased slightly since our last assessment, resale market conditions in Hamilton remained very favourable to sellers.

Figure 1: Evidence of Overheating in Hamilton



Sources: CREA and calculations by CMHC
Last data point: 2020Q4

MLS® sales activity in the fourth quarter was much higher than typical during this period, owing to a combination of factors. Buyers had greater purchasing power, as nominal mortgage rates decreased for the fourth consecutive quarter. Low mortgage rates have brought more first-time buyers into the market, making it easier for existing homeowners in Hamilton to sell and upgrade to a more expensive property. Hamilton also continued to attract a higher than usual number of move-over buyers from neighbouring regions, many of them searching for more spacious homes. Data from the Realtors® Association of Hamilton-Burlington show that the increased sales activity in 2020 vs. 2019 was disproportionately for homes 2000 square feet and larger. Finally, the early stages of the economic recovery and strong house price growth likely led to improved consumer confidence, causing more would-be buyers to come off the sidelines. The supply of new listings was well below levels needed to bring the resale market into balance.

The SNLR and other similar measures of supply-demand balance, such as days on market and months of inventory, suggest that every sub-region of the Realtors® Association of Hamilton-Burlington was firmly in seller's market territory in the fourth quarter. The median days on market in many neighbourhoods was less than 10 days, well below the 20 day benchmark characteristic of a seller's market. These included neighbourhoods in Stoney Creek, Burlington (Orchard, Headon Forest, Alton), Dundas and Waterdown, where many of Hamilton's largest and most expensive single-detached homes are located.

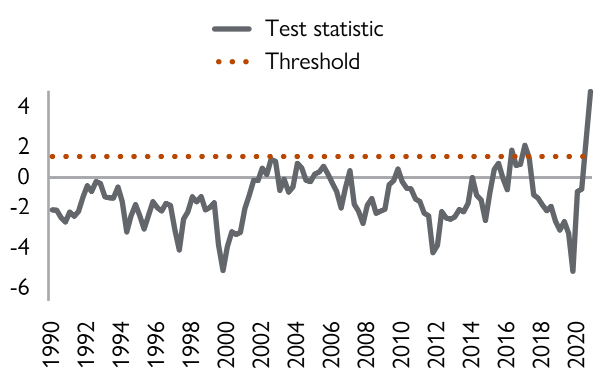
Seller's market conditions were also present in the row home segment, which generally make up about one of every five resale transactions in Hamilton CMA. Most row homes sold in less than 10 days in the fourth quarter, particularly those in the popular price point of $500,000 to $700,000. Row homes were a relatively more affordable low-rise alternative to single-detached homes, as well as a substitute for pricier condominium apartments.

The condominium apartment segment was more balanced. In contrast to the markets for single-detached and row homes, recent price growth has prompted more units to be listed. Mild inventory shortages existed for apartments selling under $500,000, most of which are located in the City of Hamilton.

Price acceleration still signalled

As shown in Figure 2, price acceleration was still signalled due to a sustained increase in the growth rate of Hamilton's real average MLS® price. The nominal average MLS® price grew more than 20% from the fourth quarter of 2019 to the fourth quarter of 2020, owing to the significant shortage of overall resale listings relative to sales. The changing composition of sales by geography and dwelling type also contributed to the strong price growth. A larger percentage of sales in the fourth quarter of 2020 were of single-detached homes in Hamilton's most expensive neighbourhoods.

Figure 2: Evidence of Price Acceleration in Hamilton



Sources: CREA and calculations by CMHC
Last data point: 2020Q4

The average price of single-detached homes increased by nearly 25% in the 12-month period ending in the fourth quarter. Strong price appreciation occurred for single-detached homes across Hamilton CMA, with all major sub-regions experiencing double-digit price growth. Similar tight market conditions for row homes also led to double-digit annual price growth for that dwelling type in both the City of Hamilton and City of Burlington. Much lower price growth occurred in the better supplied condominium apartment segment.

Moderate evidence of overvaluation

House prices became more detached from economic and demographic fundamentals in the fourth quarter, prompting us to maintain our rating of moderate evidence of overvaluation. With the exception of real personal disposable income, most fundamentals improved since our last assessment. However, house price measures increased far more than could be supported by strengthening fundamentals.

The borrowing capacity of potential buyers continued to increase, as nominal mortgage rates dropped by more than 25 basis points for the second consecutive quarter, while incomes[1] were steady. Income growth did not occur from the third to the fourth quarter, partly due to a lack of upward pressure from the labour market component. Hamilton's economy was in the early stages of its recovery. While Hamilton's unemployment rate decreased, it remained well above average at 8.0%. Labour incomes also failed to increase because a smaller percentage of people working in the fourth quarter had a full-time job.

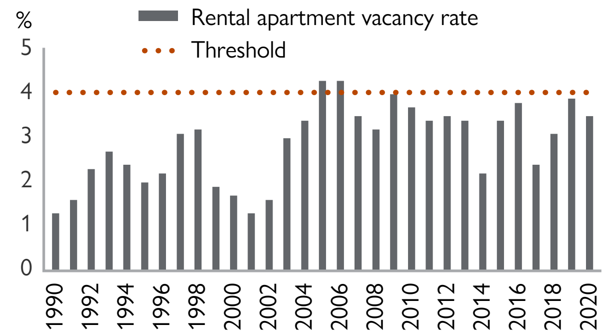
Demographic fundamentals continued to improve, including the size of Hamilton's overall population and the share of it comprised by people in the 25-34 age group. Additional importance is placed on this age group, since it has historically made up a large portion of first-time buyers in Hamilton. Strong sales activity in recent quarters can partly be attributed to greater in-migration of these households from the Greater Toronto Area.

[1] The COVID-19 pandemic has triggered atypical variations in several economic indicators, including disposable income. In order to generate more reliable results, the real (inflation-adjusted) disposable income data included in the HMA overvaluation framework in this edition was adjusted to capture more accurately the underlying economic and labour market conditions. A detailed description is available in the appendix of the report.

Low evidence of excess inventories

Evidence of excess inventories remained low, as both the population-adjusted number of completed and unsold new homes and the purpose-built rental apartment vacancy rate remained below their respective critical thresholds. New to this assessment is data from CMHC's 2020 Rental Market Survey, which was conducted in October. Hamilton's purpose-built rental apartment vacancy rate, shown above in Figure 3, was relatively unchanged, as the slight decrease observed was within the survey's margin of error. Rental demand was similar to 2019. A greater number of existing tenants remained in their units, offsetting weaker inflows of new renters as a result of lower international migration, fewer student renters and weak employment conditions.

Figure 3: Low Evidence of Excess Inventories in Hamilton (purpose-built rental market)



Source: CMHC
Last data point: 2020Q4

Go Back to Table of Content

Toronto

Dana Senagama
Senior Specialist, Market Insights

While the pandemic has impacted lower wage paying sectors and the rental market, homeownership demand has continued to grow and defy expectations. With evidence of price acceleration and excess inventories detected simultaneously, our overall assessment moved from a moderate to a high degree of vulnerability.

Results Overview*
Toronto CMA

	Dec. 2020	March 2021
Overheating	■	■
Price Acceleration	■	▲
Overvaluation	■	■
Excess Inventories	■	▲
Overall Assessment	▲	●

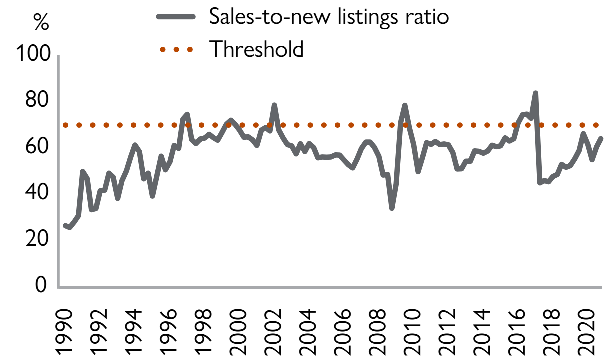
Degree of vulnerability ■ **Low** ▲ **Moderate** ● **High**

* Results are based on data as of the end of December 2020 (the annual rental apartment vacancy rates are from October 2020) and local market intelligence up to February 2021. In an effort to provide timely information, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of housing prices in the fourth quarter of 2020. Final assessments of vulnerabilities for this quarter will be presented in the next edition of the HMA as new data becomes available.

Low evidence of overheating

In Q4 2020, evidence of overheating in the Greater Toronto Area (GTA) housing market remained low as the sales-to-new listings ratio (SNLR) was 64.1%, below the critical threshold set to signal overheating (Figure 1). Despite more stringent lockdowns, housing market activity remained strong, fueled by pent-up demand from earlier in the year, higher household savings, and low borrowing rates. Seasonally adjusted sales grew by 1.2% while new listings declined by 3.2%.

Figure 1: Low Evidence of Overheating in Toronto



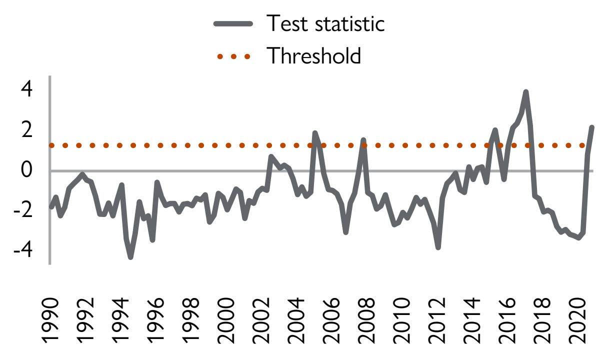
Sources: CREA and calculations by CMHC
Last data point: 2020Q4

The SNLR for each low-rise housing segment was above 70%, with townhouses, the most affordable form of low-rise housing, having the highest at 95.7%. While the SNLR for condominium apartments rose to 47.9%, it remained low, favouring buyers. The SNLRs in relatively more suburban areas of the GTA, where low-rise housing is more prevalent, namely, Durham (81%), Halton (74%), Peel (69%), and York (62%) were higher compared to Toronto (53%). This shift in demand towards low-rise housing was influenced by the COVID-19 pandemic, which resulted in increased telecommuting and individuals preferring to live in less densely populated areas.

Price acceleration detected

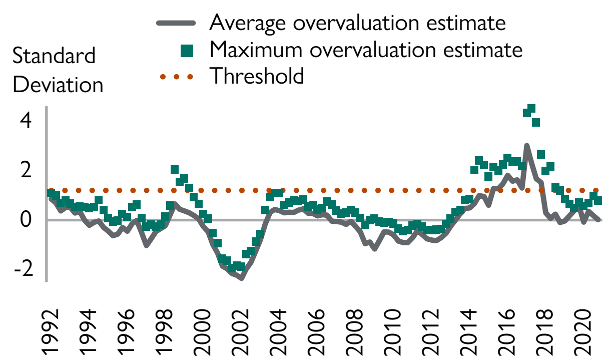
Evidence of price acceleration was detected in the GTA housing market in Q4 2020, as there was a sustained increase in the growth rate of house prices in recent quarters (Figure 2). Price growth in the fourth quarter was primarily in low-rise housing: townhouses (4.5%), single-detached (2.5%), and semi-detached (0.7%). Condominium apartments, on the other hand, saw average prices decline by 4.0%. The more suburban regions of the GTA, Durham and Halton, led price growth by 5.2% and 4.1%, respectively. The City of Toronto saw its average price decline by 4.8%, which was primarily driven by a decline in its average condominium apartment price.

Figure 2: Evidence of Price Acceleration in Toronto



Sources: CREA and calculations by CMHC
Last data point: 2020Q4

Figure 3: Low Evidence of Overvaluation in Toronto



Sources: CREA, Statistics Canada, Teranet and National Bank of Canada, and calculations by CMHC
Last data point: 2020Q4

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. 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.

Low evidence of overvaluation

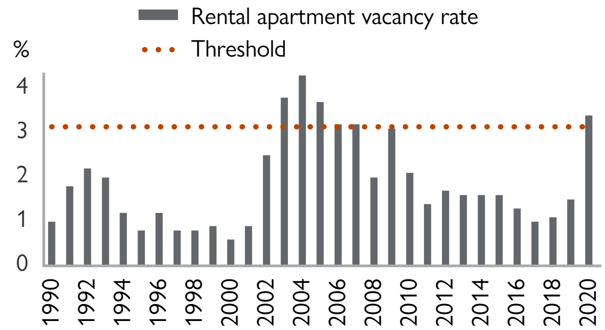
There was low evidence of overvaluation in the GTA in Q4 2020. The average overvaluation gap moved lower, compared to the previous quarter, and was below its critical threshold (Figure 3). The pandemic resulted in job losses in lower paying services-producing industries, while other higher paying industries were left relatively intact. Therefore, while observed real house prices increased relative to the previous quarter, their level was below that of prices supported by economic and demographic fundamentals such as income[1] and population growth.

[1] The COVID-19 pandemic has triggered atypical variations in several economic indicators, including disposable income. In order to generate more reliable results, the real (inflation-adjusted) disposable income data included in the HMA overvaluation framework in this edition was adjusted to capture more accurately the underlying economic and labour market conditions. A detailed description is available in the appendix of the report.

Excess inventories detected

For the first time since we began publishing our HMA report, we detected moderate evidence of excess inventories in the Toronto CMA. This is because the average purpose-built rental apartment vacancy rate of 3.4%, based on our latest Rental Market Survey in October 2020, exceeded its critical threshold (Figure 4). Job losses among rental households and lack of migrant inflows to Toronto, due to border and airport restrictions, have curbed rental demand and caused vacancy rates to increase. In addition, regulatory changes restricting short-term rentals in the City of Toronto resulted in an increase in new listings of condominium apartments on the resale market.

Figure 4: Evidence of Excess Inventories in Toronto (purpose-built rental market)



Source: CMHC
Last data point: 2020Q4

Go Back to Table of Content

Ottawa

Anne-Marie Shaker
Senior Analyst, Economics

Housing market conditions in Ottawa pointed to a high overall degree of vulnerability in Q4 2020.

Results Overview*
Ottawa CMA

	Dec. 2020	March 2021
Overheating	▲	▲
Price Acceleration	▲	▲
Overvaluation	■	▲
Excess Inventories	■	▲
Overall Assessment	▲	●

Degree of vulnerability ■ **Low** ▲ **Moderate** ● **High**

* Results are based on data as of the end of December 2020 (the annual rental apartment vacancy rates are from October 2020) and local market intelligence up to February 2021. In an effort to provide timely information, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of housing prices in the fourth quarter of 2020. Final assessments of vulnerabilities for this quarter will be presented in the next edition of the HMA as new data becomes available.

In Q4 2020, the overall assessment for housing market conditions moved to a high degree of vulnerability in Ottawa as excess inventories and overvaluation pressures rose this quarter. Market conditions were already exhibiting rising pressures for price acceleration and overheating prior to this quarter.

Since the onset of the COVID-19 pandemic, housing market activity in Ottawa on both the resale and new home market sides has been supported by the relative stability of public administration employment as well as a strong IT sector. Public administration employment, with 24% of total employment, posted growth both during the quarter and in 2020 as a whole. This combined with low mortgage rates, and people working from home raised homeownership demand, and put upward pressure on prices as supply lagged. Job losses continued to be strongest for part-time employment, in lower paying[1] sectors, and were also more pronounced for the younger 15 to 24 age group affecting homeownership demand to a lesser extent. In addition, the sluggish employment for the 15 to 24 age group, lower immigration and non-permanent resident levels, caused a reduction in rental demand while supply grew, so that the purpose-built vacancy rate[2] rose, especially in more central areas.

Overheating pressures remained as supply trailed demand

We continue to detect evidence of overheating for the Ottawa CMA, with a seasonally adjusted sales-to-new-listings (SNL) ratio of 80%. This is the fifth consecutive quarter where the SNL is at or over the 80% overheating threshold. Although supply trended higher in Q4 2020 compared to the previous quarter, demand also continued to grow keeping the ratio at the overheating threshold. By market segment, both freehold[3] and condominium transactions continued to favor sellers[4] despite weaker growth in demand for condominium apartments compared to freeholds. Noteworthy is that although new listings trended higher, active listings at the end of December 2020, and into January 2021 remained at a historic low.

Price acceleration continued to prevail

In spite of a stronger growth in supply relative to demand from the previous quarter, supply levels remained low intensifying price acceleration pressures. The MLS® price has been rising at double-digit rates since Q4 2019 and over 20% in last two quarters. Increasingly homes are selling well above the list price due to the limited choice buyers face. By market segment, freehold prices grew at a stronger rate once more compared to condominium prices due to tighter market conditions on the freehold side, especially for single-detached homes. Pent up demand, low supply and remote working have increased price pressures for this dwelling type.

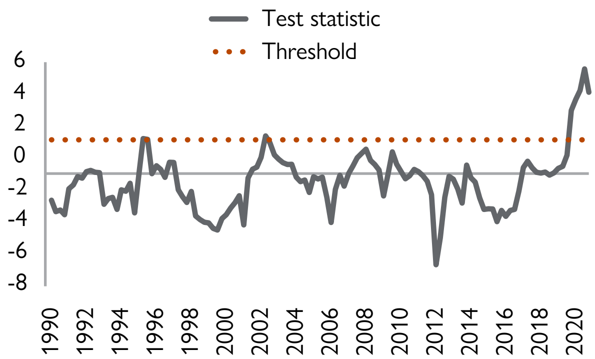
[1] Lower income households are more likely to rent than own; however, prolonged job losses in any sector would have negative economy-wide repercussions affecting household affordability for both rental and owned dwellings.

[2] The CMHC Rental Market Survey for Ottawa showed that the purpose-built vacancy rate rose to 3.9% in October 2020 from 1.8% in 2019.

[3] Freeholds include homeowner single-detached homes, semis and rows.

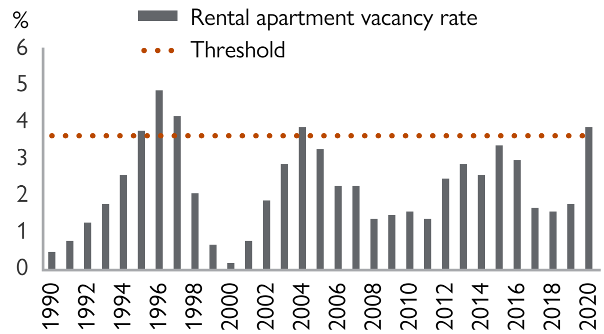
[4] Market conditions have been in sellers' market since Q2-2017.

Figure 1: Evidence of Price Acceleration in Ottawa



Sources: CREA and calculations by CMHC
Last data point: 2020Q4

Figure 2: Evidence of Excess Inventories in Ottawa (purpose-built rental market)



Source: CMHC
Last data point: 2020Q4

Moderate overvaluation detected

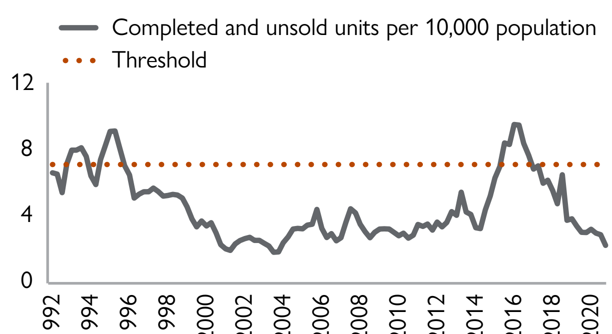
Ottawa's housing market witnessed strengthening homeownership demand and low supply in recent quarters spurring rapid double-digit price growth. In the meantime, income growth was sluggish.[5] Consequently, the gap between the price level supported by fundamentals such as population growth, employment and income growth and the actual price level widened giving rise to moderate overvaluation.

Higher rental vacancies signal a rise in inventories

A rise in purpose-built apartment completions coupled with COVID-induced reduction in demand for rental units pushed the vacancy rate higher in October 2020, and led to a rise in excess inventories of unoccupied units. This excess rental inventory is likely a short-term phenomenon brought on by reduced immigration, remote studying and working, as well as pent up demand for homeownership.

It must be noted that in the last two decades, roughly 10,000 new purpose-built rental units were completed in the CMA, which represent a small fraction (15%) of an ageing rental universe that was mostly built in the 60s and 70s. Prior to the pandemic rental market conditions had also been tight with limited choice for renters. In addition, the inventory of completed and unsold condominium apartment units remained low in Q4 2020, and sellers' market conditions prevail on the resale market pointing so far to low supply for these dwellings as well.

Figure 3: Low Evidence of Excess Inventories in Ottawa (ownership market)



Sources: Statistics Canada and CMHC
Last data point: 2020Q4

Go Back to Table of Content

[5] The COVID-19 pandemic has triggered atypical variations in several economic indicators, including disposable income. In order to generate more reliable results, the real (inflation-adjusted) disposable income data included in the HMA overvaluation framework in this edition was adjusted to capture more accurately the underlying economic and labour market conditions. A detailed description is available in the appendix of the report.

Montréal

Lukas Jasmin-Tucci
Senior Analyst, Economics

Evidence of overheating and price acceleration persists in the Montréal market as overvaluation measures approach the threshold for problematic conditions. Thus, the degree of vulnerability of the housing market in the Montréal CMA remains moderate.

Results Overview*
Montréal CMA

	Dec. 2020	March 2021
Overheating	▲	▲
Price Acceleration	▲	▲
Overvaluation	■	■
Excess Inventories	■	■
Overall Assessment	▲	▲

Degree of vulnerability ■ **Low** ▲ **Moderate** ● **High**

* Results are based on data as of the end of December 2020 (the annual rental apartment vacancy rates are from October 2020) and local market intelligence up to February 2021. In an effort to provide timely information, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of housing prices in the fourth quarter of 2020. Final assessments of vulnerabilities for this quarter will be presented in the next edition of the HMA as new data becomes available.

According to the Housing Market Assessment (HMA) analytical framework, the degree of vulnerability of the Montréal census metropolitan area (CMA) housing market remained moderate in the fourth quarter of 2020. In the resale market, evidence of overheating increased and signs of price acceleration continued to be detected. While evidence of overvaluation remains low for now, the indicator has moved closer to the threshold for problematic conditions. Consequently, the possible emergence of additional imbalances between actual prices and those dictated by the fundamentals will continue to be closely monitored in the coming quarters.

After being hit hard by the spring 2020 lockdown measures, employment levels rebounded over the summer.[1] However, in the fourth quarter, pandemic measures were put back in place, slowing employment growth in the region. Overall, the employment in 2020 was down 4.1% from 2019. As a result, a number of Montréalers remain unemployed and receive government assistance. However, for workers aged 25 to 44—a significant part of housing demand—the full-time employment rate has remained stable, as it has almost returned to 2019 levels. This has supported demand particularly in the resale market and helps explain recent developments in HMA indicators.

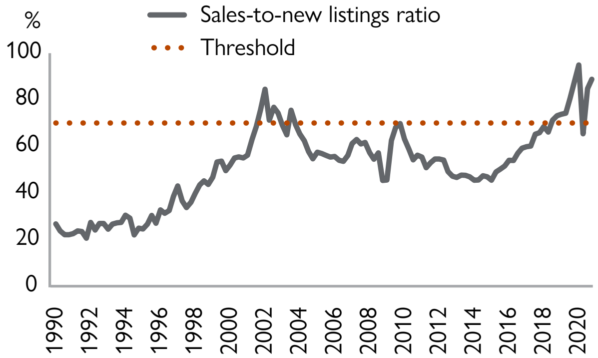
Evidence of overheating persists in the Montréal housing market

The sales-to-new listings ratio continued to grow beyond the threshold for problematic conditions,[2] meaning that evidence of overheating is still detected (see figure 1). In fact, with the exception of the second quarter of 2020, the ratio has been above the critical threshold for almost two and a half years.

The gap between demand and supply in the resale market continues to widen as sales outpace new listings. After dropping as a result of the spring 2020 lockdown measures, the number of transactions rebounded in the third quarter of 2020 and remained high thereafter, so that 2020 ended with strong sales growth. Demand in the resale market was supported by the resiliency of full-time employment among the 25–44 age group, which accounts for a significant share of homebuyers. Conversely, after rebounding in the third quarter of 2020, new listings declined, resulting in a tighter ratio that exceeded the threshold for problematic conditions. For all these reasons, moderate signs of overheating are still being detected in the Montréal housing market.

[1] All employment data are from Statistics Canada's Labour Force Survey.
[2] This threshold is set at 70%.

Figure 1: Evidence of Overheating in Montréal



Sources: QPAREB and calculations by CMHC
Last data point: 2020Q4

Signs of accelerating price growth remain moderate

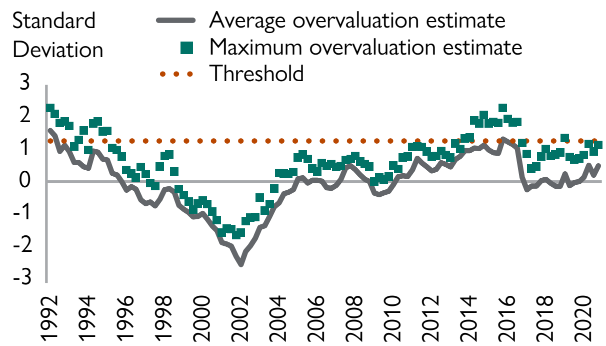
Evidence of accelerating prices remains moderate in the Montréal market. In fact, housing price growth continued to rise as the average Centris® price for existing homes in the fourth quarter increased by 20% compared to the same period in 2019. This price bump follows an increase of 19.1% in the third quarter of 2020, 11.8% in the second quarter and 11.7% in the first quarter.

Among other reasons, this situation stems from tightening market conditions, which increases upward pressure on prices. Thus, with the supply of existing homes remaining historically low and demand being relatively robust, signs of price acceleration persist.

Evidence of overvaluation remained low

Evidence of overvaluation remained low and observed prices were still justified by economic fundamentals. However, the average overvaluation gap grew and approached the threshold for problematic conditions (see figure 2). Actual house prices (observed prices adjusted for inflation) rose sharply, but price level growth driven by underlying economic and demographic factors was less pronounced. On the one hand, real five-year mortgage rates decreased, and on the other hand, personal disposable income[3] and population increased, but only slightly. Together, these factors helped support market price growth, but real observed growth was even stronger. This led to an increase in the average overvaluation gap.

Figure 2: Low Evidence of Overvaluation in Montréal



Sources: QPAREB, Statistics Canada, Teranet and National Bank of Canada, and calculations by CMHC
Last data point: 2020Q4

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. 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.

Evidence of excess inventories remained low

Evidence of excess inventories remained low, as both the number of completed and unsold units per 10,000 population, as well as the vacancy rate for conventional rental apartments, remained below their respective critical thresholds.

[3] The COVID-19 pandemic has triggered atypical variations in several economic indicators, including disposable income. In order to generate more reliable results, the real (inflation-adjusted) disposable income data included in the HMA overvaluation framework in this edition was adjusted to capture more accurately the underlying economic and labour market conditions. A detailed description is available in the appendix of the report.

On the one hand, the number of completed and unsold units per 10,000 population remained near the historical low reached in the second quarter of 2020. Due to the resiliency of demand combined with the relatively low number of freehold and condominium housing starts, the inventories continued to decline. On the other hand, the vacancy rate increased to 2.7% in October 2020 (vs. 1.5% in October 2019). The easing of the market was particularly evident on the Island of Montréal, where the vacancy rate doubled to 3.2%. However, in the suburbs, it remained stable at 1.2%. The easing of the market on the Island of Montréal stems in part to a substantial increase in vacancy rates in mid-to-large rental towers in Montréal's central areas. A decrease in international migration, the lack of in-person university courses and tourist rental units being returned to the long-term rental market all contributed to this vacancy rate increase. Despite this easing, the vacancy rate remained below the threshold for problematic conditions. As a result, overall evidence of excess inventories remained low.

Go Back to Table of Content

Québec

Mbea Bell
Senior Analyst, Economics

The overheating of the Québec area's housing market continued in the fourth quarter of 2020. This has led to evidence of price acceleration.

Results Overview*
Québec CMA

	Dec. 2020	March 2021
Overheating	▲	▲
Price Acceleration	■	▲
Overvaluation	■	■
Excess Inventories	■	■
Overall Assessment	■	■

Degree of vulnerability ■ **Low** ▲ **Moderate** ● **High**

* Results are based on data as of the end of December 2020 (the annual rental apartment vacancy rates are from October 2020) and local market intelligence up to February 2021. In an effort to provide timely information, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of housing prices in the fourth quarter of 2020. Final assessments of vulnerabilities for this quarter will be presented in the next edition of the HMA as new data becomes available.

The housing market's overall level of vulnerability remains low

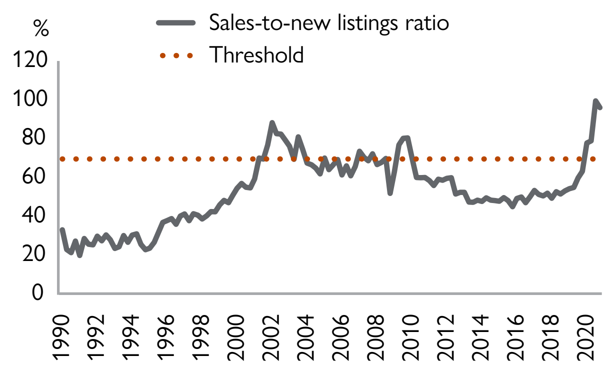
According to the Housing Market Assessment (HMA) analytical framework, the degree of vulnerability of the Québec census metropolitan area (CMA) housing market remained low in the fourth quarter of 2020. However, evidence of overheating has persisted for three quarters and is now compounded by signs of accelerated price growth. After the restrictions associated with the COVID-19 pandemic slowed things down in the spring, Québec's housing market rebounded impressively in the second half of 2020.

A number of factors helped drive housing demand. First, the employment rate continued to gain ground in the fourth quarter of 2020. After reaching an all-time low in the second quarter of 2020, the employment rate nearly returned to its pre-pandemic level by reaching 64.1% (vs. 65.0% in the fourth quarter of 2019). The employment rate increased in some industries, including professional services, construction, wholesale trade and transportation, compared to the fourth quarter of 2019. Moreover, the appeal of single-family dwellings and low interest rates continued to support housing demand.

Evidence of overheating persists

Resale market activity in the Québec area remained high. For a third consecutive quarter, evidence of market overheating was detected. This historic rebound in sales, which began with the end of lockdown measures in the third quarter, continued until the end of the year. Well beyond a mere catch-up effect, housing demand in the region has never been higher in more than 15 years. According to data from the Quebec Professional Association of Real Estate Brokers (QPAREB), sales grew by 28% in 2020, the strongest increase since at least 2003. As a result, this demand continues to outpace supply, reflected by new listings. The sales-to-new listings ratio (96%) remains well above the problematic level (70%), as shown in figure 1.

Figure 1: Evidence of Overheating in Québec



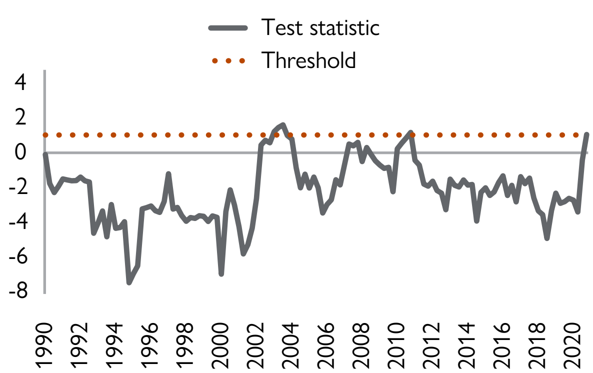
Sources: QPAREB and calculations by CMHC
Last data point: 2020Q4

Market conditions continue to tighten for all property types. The single-family dwelling segment, which was in particularly high demand at the end of the lockdown, remains mostly favourable to sellers. In the fourth quarter of 2020, the plex market also shifted in favour of sellers, while the condominium market is now balanced.

Emerging evidence of price acceleration

Evidence of price acceleration went from low to moderate in the Québec CMA, as the pace of house price growth continued to ramp up sharply. Strong sales growth and a drop in active listings have put significant pressure on house prices. In the fourth quarter of 2020, the average Centris® residential price increased by 11.1% compared to the fourth quarter of 2019, representing the strongest growth in 10 years. This increase follows a 10.1% bump in the previous quarter. For the past two quarters, price growth has exceeded the threshold where evidence of price acceleration is deemed problematic (see figure 2).

Figure 2: Evidence of Price Acceleration in Québec



Sources: QPAREB and calculations by CMHC
Last data point: 2020Q4

Evidence of overvaluation remained low

Price growth acceleration in the Québec region has not led to any evidence of overvaluation at this time. Indeed, HMA models still do not suggest that housing prices in the region would be higher than levels dictated by fundamental factors, such as the population aged 25 to 34 (primary first-time homebuyer pool), personal disposable income[1] and interest rates. The sharp price increase in 2020 followed several years of relative price stability in the region, despite particularly dynamic economic conditions. As a result, prices have been able to grow more steadily without increasing the Québec market's vulnerability for the time being.

Signs of excess inventories have remained low

The two indicators of excess inventories—the number of completed and unsold units per 10,000 population and the vacancy rate for purpose-built rental units—indicated a context of low signs of excess inventories.

The ratio of completed and unsold housing units per 10,000 population declined for the fourth consecutive quarter. The inventory of completed and unsold housing units is currently at its lowest level in over 10 years. The market's strength has thus reduced a relatively sizeable inventory, particularly in the condominium segment.

The rental apartment vacancy rate remained stable at 2.7% in October 2020 (vs. 2.4% in October 2019). This stability conceals contrasting geographic dynamics. Areas popular among students and newcomers (La Haute-Ville and Sainte-Foy–Sillery) saw an increase in their vacancy rates.

Go Back to Table of Content

[1] The COVID-19 pandemic has triggered atypical variations in several economic indicators, including disposable income. In order to generate more reliable results, the real (inflation-adjusted) disposable income data included in the HMA overvaluation framework in this edition was adjusted to capture more accurately the underlying economic and labour market conditions. A detailed description is available in the appendix of the report.

Moncton

Tad Mangwengwende
Senior Analyst, Economics

Moncton is still assessed with an overall high degree of vulnerability due to continued evidence of price acceleration and high overvaluation.

Results Overview*
Moncton CMA

	Dec. 2020	March 2021
Overheating	Moderate	Moderate
Price Acceleration	Moderate	Moderate
Overvaluation	High	High
Excess Inventories	Low	Low
Overall Assessment	High	High

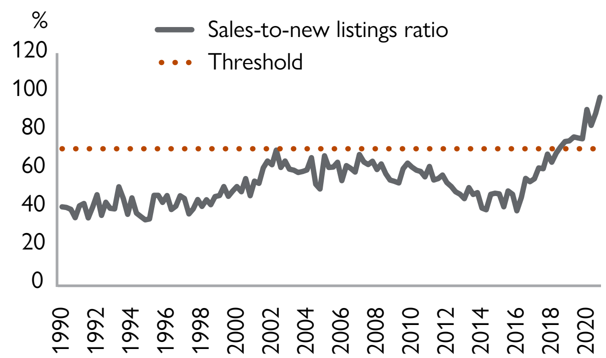
Degree of vulnerability Low Moderate High

* Results are based on data as of the end of December 2020 (the annual rental apartment vacancy rates are from October 2020) and local market intelligence up to February 2021. In an effort to provide timely information, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of housing prices in the fourth quarter of 2020. Final assessments of vulnerabilities for this quarter will be presented in the next edition of the HMA as new data becomes available.

Overheating continues

The sales-to-new listings ratio remained well above the overheating threshold (Figure 1). Sales were a record 37% higher than they were in the same quarter in 2019, while new listings were up 6%. Sales were supported by positive net interprovincial migration, low mortgage rates and a comparatively strong employment rebound in the third quarter that carried over to the start of the fourth. The relatively small increase in new listings maintained the 2020 trend in which new listings growth lagged sales growth.

Figure 1: Evidence of Overheating in Moncton



Sources: CREA and calculations by CMHC
Last data point: 2020Q4

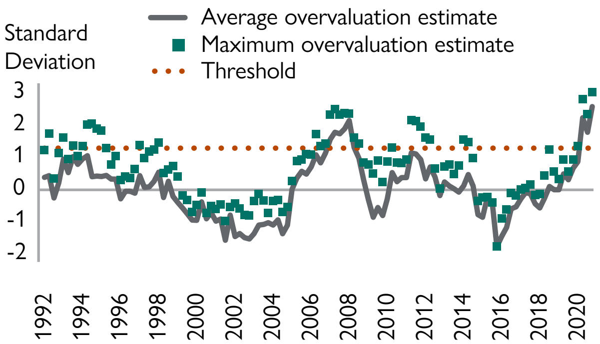
Price Acceleration persists

The rate at which prices grew in the last few quarters culminated in the detection of price acceleration in the third quarter of 2020. In the fourth quarter that growth rate declined. However, the market is still flagged as reflecting price acceleration because the Housing Market Assessment framework maintains the flag on price acceleration for 12 quarters after it has been signaled.

Evidence of overvaluation increased

The level of house prices was significantly higher than the price level warranted by changes in housing market fundamentals. Low mortgage rates and population growth drove up demand for houses, but their impact did not fully account for the price levels observed. As such, Moncton continues to reflect high evidence of overvaluation as the indicator has been above threshold twice in the last four quarters (Figure 2).

Figure 2: High Evidence of Overvaluation in Moncton



Sources: CREA, Statistics Canada, Teranet and National Bank of Canada, and calculations by CMHC
Last data point: 2020Q4

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. 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.

Low evidence of excess inventories

Both the inventory of newly completed and unsold units, and the apartment vacancy rate (October 2020) remain well below the excess inventories thresholds. As such, the market continues to show low evidence of excess inventories.

Overall, a high degree of vulnerability in Moncton

Moncton continues to be assessed with an overall high degree of vulnerability. There is high evidence of overvaluation and price acceleration persists.

Go Back to Table of Content

Halifax

Kelvin Ndoro
Senior Analyst, Economics

There is a high degree of vulnerability in the Halifax CMA due to a combination of overheating, price acceleration and overvaluation conditions.

Results Overview*
Halifax CMA

	Dec. 2020	March 2021
Overheating	■	▲
Price Acceleration	■	▲
Overvaluation	▲	▲
Excess Inventories	■	■
Overall Assessment	▲	●

Degree of vulnerability ■ **Low** ▲ **Moderate** ● **High**

* Results are based on data as of the end of December 2020 (the annual rental apartment vacancy rates are from October 2020) and local market intelligence up to February 2021. In an effort to provide timely information, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of housing prices in the fourth quarter of 2020. Final assessments of vulnerabilities for this quarter will be presented in the next edition of the HMA as new data becomes available.

Overall high degree of vulnerability

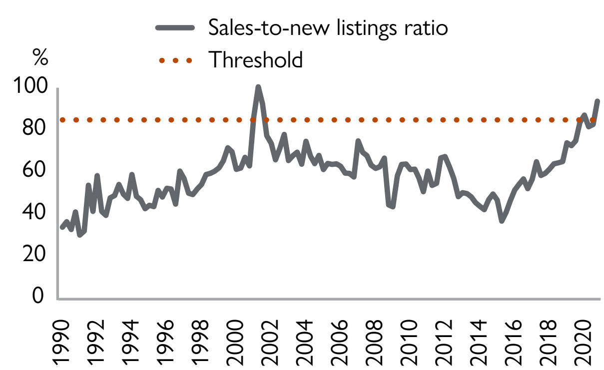
Overall, there is a high degree of vulnerability in the Halifax housing market. Overvaluation persisted into the fourth quarter of 2020. In addition, the price acceleration and overheating indicators passed the threshold that would signal vulnerabilities.

Buoyed by interprovincial migration, housing activity increased even further in the fourth quarter of 2020. Nova Scotia's net migration in 2020 was second only to British Columbia when compared with other provinces. This is quite significant considering the province's relative size. The 30-to 49-year age group, which includes your typical first time homebuyers, had the largest year-over-year gains in net migration to Nova Scotia in 2020.

Moderate overheating as growth in sales outpaced increase in new listings

The sales-to-new listing ratio increased above the overheating threshold in the first and fourth quarters of 2020 (Figure 1). There is now evidence of overheating in the Halifax CMA since the indicator was above the critical threshold twice in the last four quarters. The number of new listings has been increasing since it reached a 15-year record low in the fourth quarter of 2019. In the fourth quarter of 2020, new listings increased 28% from this record low position, surpassing the record year-over-year increase observed in the third quarter of 2020. Sales grew at a faster pace, increasing 42% in the fourth quarter of 2020 compared to the same period in 2019, which offset the increase in new listings.

Figure 1: Evidence of Overheating in Halifax

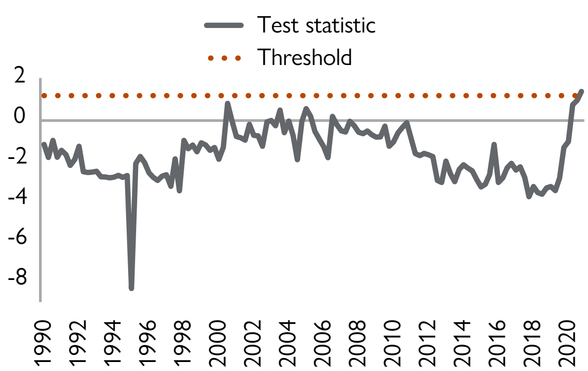


Sources: CREA and calculations by CMHC
Last data point: 2020Q4

Price acceleration indicator breaches critical threshold

The Halifax CMA is now assessed with evidence of price acceleration as the indicator passed the critical threshold in the fourth quarter of 2020 (Figure 2). MLS® house prices in the Halifax CMA have continuously increased since the first quarter of 2019. The growth rate intensified in the last two quarters with an average year-over-year MLS® price growth of 19% over this period. Buyers have been looking for homes with more space since the onset of the pandemic. Homes of 2,500 square footage and above had a year-over-year sales growth of 158%. This was four to eight times higher than comparatively smaller homes. This compositional effect contributes to the more pronounced price growth observed in the average MLS® price. The Teranet-National Bank House Price Index™ and Statistics Canada's New Home Price index control for compositional effects and show relatively slower price growth.

Figure 2: Evidence of Price Acceleration in Halifax

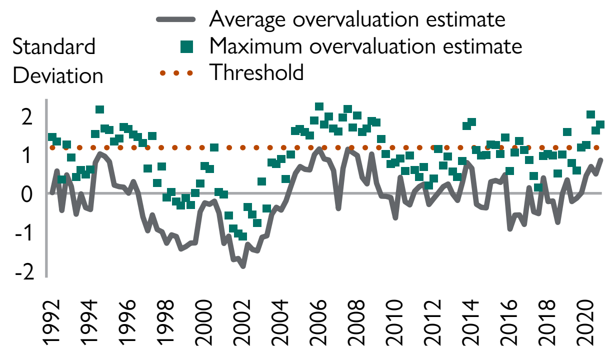


Sources: CREA and calculations by CMHC
Last data point: 2020Q4

Increased evidence of overvaluation in Halifax

The HMA framework still detected increased evidence of overvaluation in the Halifax CMA. The observed price level was higher than would be supported by housing market fundamentals (Figure 3). Real disposable income[1] dropped in the fourth quarter of 2020 compared to the previous quarter. The price level continued to increase at a much faster pace, further widening the overvaluation gap. Positive impacts from housing market fundamentals such as the overall population level or growth among typical first time homebuyers and low interest rates, are contributing to higher price levels. However, these positives are not enough to support the observed increase in house prices.

Figure 3: Moderate Evidence of Overvaluation in Halifax



Sources: CREA, Statistics Canada, Teranet and National Bank of Canada, and calculations by CMHC
Last data point: 2020Q4

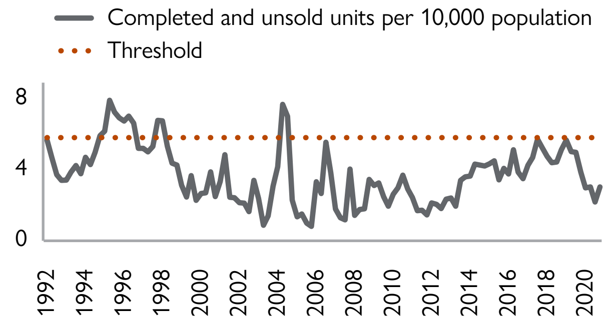
Note: The average estimate of overvaluation is the average gap between actual house prices and their fundamental level estimated from a group of selected models. There are five models in total, each of which is estimated using four measures of house prices to generate twenty unique estimates of overvaluation. 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.

[1] The COVID-19 pandemic has triggered atypical variations in several economic indicators, including disposable income. In order to generate more reliable results, the real (inflation-adjusted) disposable income data included in the HMA overvaluation framework in this edition was adjusted to capture more accurately the underlying economic and labour market conditions. A detailed description is available in the appendix of the report.

Excess inventories indicator slides down as absorption increases.

The risk from excess inventories is still low as the indicator remains well below the threshold that would signal problematic conditions. This marks a significant improvement from the first quarter of 2019, when it was just below the threshold that would indicate vulnerabilities (Figure 4). The indicator was slightly up in the fourth quarter of 2020 as the overall absorption rate dropped to 83% compared to 86% in the previous quarter. The decline was due to a drop in the absorption of newly completed condominium units. The absorption rate for other homeowner units increased 10 percentage points to 95%. The level of new construction is elevated in response to historic low vacancy rates, increased sales and price levels. Thanks to a healthy population growth, inventory of unsold and completed units has remained low.

Figure 4: Low Evidence of Excess Inventories in Halifax (ownership market)



Sources: Statistics Canada and CMHC
Last data point: 2020Q4

Go Back to Table of Content

St. John's

Chris Janes
Senior Analyst, Economics

With none of the four factors showing evidence of imbalances, there was no vulnerability identified within the St. John's area housing market during the fourth quarter of 2020. Accordingly, the overall assessment remains at a low degree of vulnerability.

Results Overview*
St. John's CMA

	Dec. 2020	March 2021
Overheating	■	■
Price Acceleration	■	■
Overvaluation	■	■
Excess Inventories	■	■
Overall Assessment	■	■

Degree of vulnerability ■ **Low** ▲ **Moderate** ● **High**

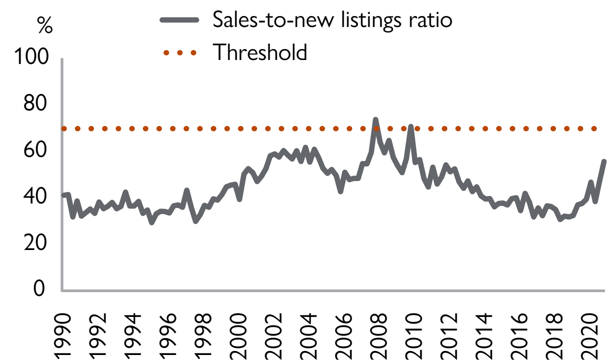
* Results are based on data as of the end of December 2020 (the annual rental apartment vacancy rates are from October 2020) and local market intelligence up to February 2021. In an effort to provide timely information, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of housing prices in the fourth quarter of 2020. Final assessments of vulnerabilities for this quarter will be presented in the next edition of the HMA as new data becomes available.

Low evidence of vulnerability

The St. John's area housing market continues to show low evidence of vulnerability. The ongoing easing of COVID-19 restrictions in the fourth quarter of 2020 enabled pent-up demand to continue to outpace available housing inventory. This led to further support and slight upward pressure on average MLS® prices. The increase did not go above the targeted threshold for price acceleration and so prices were not misaligned from economic and demographic fundamentals during the quarter. Accordingly, there is low evidence of both price acceleration and overvaluation.

The rebound that started mid-2020 continued into year-end, with a significant increase in MLS® sales, albeit relative to record lows in 2019. Sales activity was driven primarily by a combination of historically low interest rates and people relocating back to the perceived safety of the St. John's area because of the COVID-19 pandemic. Fewer new listings and higher sales led to an increase in the sales-to-new-listings ratio, but it did not go above the overheating threshold and so the assessment remains at low vulnerability (Figure 1).

Figure 1: Low Evidence of Overheating in St. John's



Sources: CREA and calculations by CMHC
Last data point: 2020Q4

There is low evidence of excess inventories because of the persistence of the downward trend in housing starts and declining inventory of completed and unabsorbed units. This, combined with rental market vacancy rates below the vulnerability threshold, has led to the market showing low evidence of excess inventories.

With the overall housing market assessment at low vulnerability for the St. John's area, supporting fundamentals such as the significant rebound in oil prices and increased immigration to the region paired with a highly constrained provincial fiscal situation, means the emergence of possible imbalances continues to be closely monitored.

Go Back to Table of Content

Appendix: HMA Analytical Framework Methodology

CMHC contributes to market stability by providing information on potential imbalances affecting housing markets. The Housing Market Assessment (HMA) is an analytical framework intended to detect evidence of current or emerging housing market imbalances across Canada's largest Census Metropolitan Areas, and for Canada as a whole.[1]

The HMA combines the results from a technical framework with insights gained through CMHC analysts' knowledge of local market conditions. These insights allow CMHC to provide additional context and interpretation to the results of the HMA framework.

Specifically, the analytical framework considers four main factors to assess the degree of vulnerability of 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; and, (4) excess inventories when the inventory of available housing units is elevated. A detailed description of these factors is presented thereafter.

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 evidence 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.

Price Acceleration

House price acceleration occurs when the growth rate in house prices continuously increases. Acceleration in house prices over an extended period could lead prices to unsustainable levels, hence increasing housing market vulnerability. To assess acceleration in house prices, the HMA framework uses a statistical test[2] that was developed to identify periods of accelerating growth in asset prices.

Overvaluation

Overvaluation is detected when house prices remain significantly and persistently above the levels warranted by personal disposable income, population, interest rates, and other housing market fundamentals.[3] 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 evidence of overvaluation. The use of different price measures and models improves the reliability of results.

Excess Inventories

Excess inventories are 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 inventory is eventually absorbed. To assess signs of excess inventories in the housing market, the HMA framework uses two indicators that relate to the number 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.

[1] The data for Canada include areas beyond the 15 CMAs covered in this report.

[2] See Phillips, Wu and Yu (2008) "Explosive Behaviour in the 1990s NASDAQ: When Did Exuberance Escalate Asset Values?" for further details on the methodology.

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

Degree of evidence of market vulnerability

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. For each factor, the HMA framework tests for 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. The framework takes into account demographic, economic, and financial determinants of the housing market. The framework also takes into account recent developments in both resale and residential construction markets.

The final results are reported via a colour code system indicating the degree of evidence of market vulnerability related to overheating, price acceleration, overvaluation and excess inventories. Overheating and price acceleration are each assessed with a single indicator. Colour scales for these factors vary between green and yellow only. Overvaluation and excess inventories 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 evidence of imbalances. The square, triangle and circle shapes respectively associated with these colours are meant to increase the readability of the colour scale, and do not have a meaning on their own.

1. **Overheating:** Sales greatly outpace new listings in the market for existing homes.
   - ▲ **Moderate:** Sales-to-new 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:** A sustained increase in the growth rate of prices over a given period often indicates 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. Excess Inventories: Inventory of newly built and unsold housing units and/or rental apartment vacancy rate are significantly above normal levels.
   - ● **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.[4]

- ● **High:** More than one factor of price acceleration, overvaluation or excess inventories exhibits moderate or high 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 excess inventories 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.

[4] 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).

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.

Results at the CMA level are not segmented by housing type or neighbourhood. They represent an assessment of the entire CMA. However, specific CMA sections provide further detailed analysis of these markets. Finally, 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.

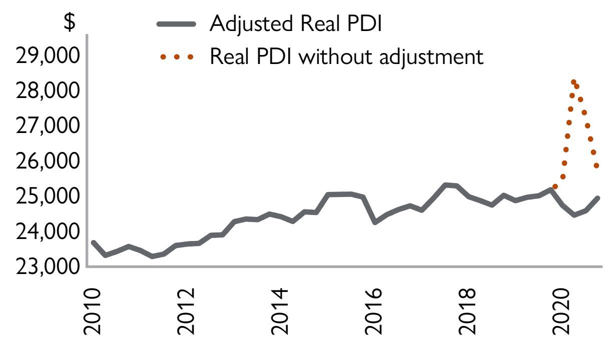
Adjusted disposable income data

The COVID-19 pandemic has triggered atypical variations in several economic indicators, including personal disposable income, which was boosted by the unprecedented levels of government financial support. This resulted in a historical increase in household disposable income nationally over the two first quarters of 2020, despite the lower labour market income. However, these sources of income are temporary, and likely not influencing the decision of households to purchase a property, and by mortgage lenders to provide the loan.

In order to generate results more consistent with the underlying economic and labour market conditions, the real (inflation-adjusted) personal disposable income data included in the HMA overvaluation framework in this edition was adjusted to better capture the long-term income available to households that forms the foundation of buying a home.

The HMA overvaluation models in this edition were estimated after removing the cyclical component of the disposable income series throughout the four quarters of 2020, which smoothed out the sharp variations in the data. This adjustment is meant to capture lower labour compensation of households while still accounting for financial stimulus. The dotted red line in Figure 1 shows the effect of government transfers on real personal disposable income per capita in Canada while the grey line shows the level of adjusted disposable income per capita used in this report to capture the overall financial situation of households. The income variable used in this edition is referred to as the adjusted real personal disposable income per capita.

Real Personal Disposable Income (PDI) Per Capita in Canada



Sources: Statistics Canada and calculations by CMHC
Last data point: 2020Q4
Note: The last data point (2020Q4) is a preliminary estimate.

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