HOUSING MARKET INFORMATION

HOUSING MARKET ASSESSMENT

Canada

Date Released: Second Quarter 2019

Canada

CMHC SCHL

Highlights

- After being flagged with a high degree of vulnerability for ten consecutive quarters, the national housing market has been changed to moderate for the overall assessment. Evidence of price acceleration has eased to low for Canada as a whole.[1]
- Vancouver, Victoria, Toronto and Hamilton continue to see a high degree of vulnerability in the overall assessment, but house prices are moving closer to levels supported by housing market fundamentals in these centres. Most notably, the evidence of overvaluation has changed from high to moderate in Vancouver, while the conditions of overheating in Vancouver are easing as well.
- The degree of overall vulnerability remains moderate for Edmonton, Calgary, Saskatoon, Regina and Winnipeg, since evidence of overbuilding continues to be detected in these centres.
- A low degree of overall vulnerability is sustained for Ottawa, Montréal, Québec City, Moncton, Halifax and St. John's. However, as a result of a tightening between supply and demand, evidence of overheating has been detected in both Montréal's and Moncton's resale markets.

Overview of HMA Results

As Canada's authority on housing, CMHC contributes to market stability by providing information on potential imbalances that could affect housing markets. With the Housing Market Assessment (HMA), CMHC offers information and analysis that can help Canadians make more informed decisions and contribute to an orderly adjustment of housing market imbalances.

The HMA is an analytical framework that provides a comprehensive view of housing market vulnerabilities. It should be noted that it intends to identify imbalances in the housing market; it is not aimed at being a framework to identify long-term fundamental affordability challenges. It considers four main factors: overheating, price acceleration, overvaluation and overbuilding.

Overheating is detected when sales greatly outpace new listings in the market for existing homes. Price acceleration is signaled when the growth rate of house prices exhibits an upward trend. Overvaluation indicates that house prices are elevated compared to price levels supported by personal disposable income, population, interest rates, and other fundamentals.[2] Overbuilding is flagged when the rental apartment vacancy rate and/or inventory of newly built and unsold housing units are significantly above normal levels.

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

Colour codes indicate the degree of market vulnerability. The HMA is a comprehensive framework that considers both the intensity (magnitude) and the persistence of signals of imbalances. Generally, low intensity and persistence are associated with low evidence of vulnerability. As the number of intense and persistent signals increases, the associated degree of vulnerability becomes higher. Overheating and price acceleration are each assessed with a single indicator. Colour scales for these factors vary between green and yellow only. Overvaluation and overbuilding are assessed with multiple indicators. Their colour scales, as well as the colour scale for the overall assessment, change among green, yellow and red to reflect different degrees of imbalances.[3]

[1] Results are based on data as of the end of December 2018 (the annual rental apartment vacancy rates are from October 2018) and market intelligence up to the end of March 2019. This national report provides the housing market assessment at the national level and summary assessment results for 15 Census Metropolitan Areas (CMAs). For each of these CMAs, CMHC also issues a local report with more information and analysis.

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

[3] More technical details on the HMA are provided in the Appendix.

Table 1

Comparisons between the February 2019 and May 2019 reports

	Overheating		Price Acceleration		Overvaluation		Overbuilding		Overall Assessment	
	Feb.19	May 19	Feb.19	May 19	Feb.19	May 19	Feb.19	May 19	Feb.19	May 19
Canada	Low	Low	Moderate	Low	Moderate	Moderate	Low	Low	High	Moderate
Victoria	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate	Low	Low	High	High
Vancouver	Moderate	Low	Moderate	Moderate	High	Moderate	Low	Low	High	High
Edmonton	Low	Low	Low	Low	Low	Low	Moderate	Moderate	Moderate	Moderate
Calgary	Low	Low	Low	Low	Low	Low	Moderate	Moderate	Moderate	Moderate
Saskatoon	Low	Low	Low	Low	Low	Low	Moderate	Moderate	Moderate	Moderate
Regina	Low	Low	Low	Low	Low	Low	High	High	Moderate	Moderate
Winnipeg	Low	Low	Low	Low	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate
Hamilton	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate	Low	Low	High	High
Toronto	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate	Low	Low	High	High
Ottawa	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low
Montréal	Low	Moderate	Low	Low	Low	Low	Low	Low	Low	Low
Québec	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low
Moncton	Low	Moderate	Low	Low	Low	Low	Low	Low	Low	Low
Halifax	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low
St. John's	Low	Low	Low	Low	Low	Low	Moderate	Moderate	Low	Low

Degree of vulnerability Low Moderate High

Note 1: Colour codes indicate the degree of market vulnerability. The HMA is a comprehensive framework that considers both the intensity (magnitude) and the persistence of signals of imbalances. Generally, low intensity and persistence are associated with low evidence of vulnerability. As the number of intense and persistent signals increases, the associated degree of vulnerability becomes higher.

Note 2: Overheating and price acceleration are each assessed with a single indicator. Colour scales for these factors vary between green and yellow only. Overvaluation and overbuilding are assessed with multiple indicators. Their colour scales, as well as the colour scale for the overall assessment, change among green, yellow and red to reflect different degrees of imbalances.

HMA Results for Canada

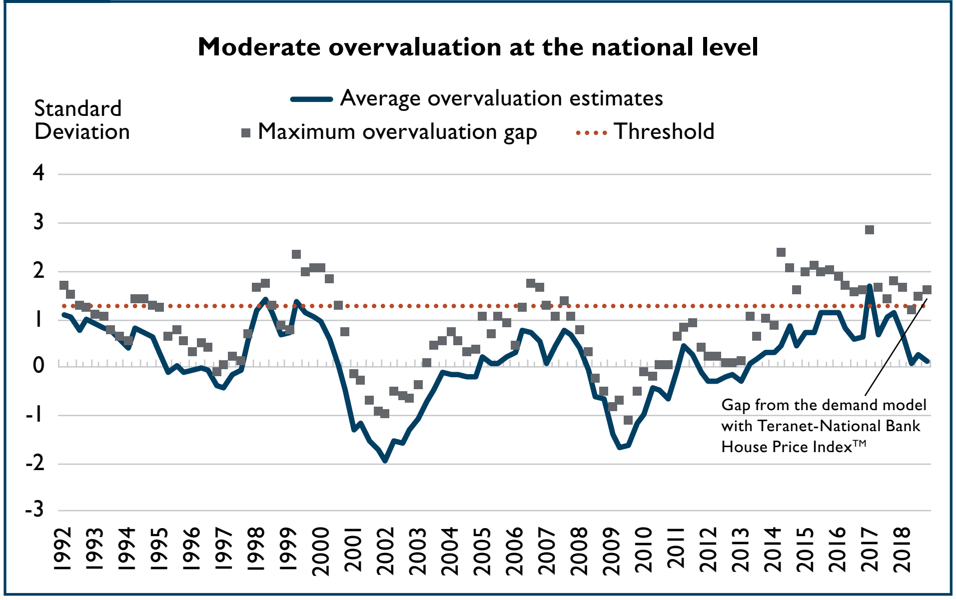
Canada: ☐ Moderate degree of vulnerability

After being flagged with a high degree of vulnerability for ten straight quarters, the state of the national housing market has been changed to moderate for the overall assessment. Even though moderate evidence of overvaluation continues to be detected for Canada as a whole, the average estimate of overvaluation (as represented by the solid line in Figure 1) has stayed close to zero over the past three quarters. This indicates improved alignment overall between house prices and housing market fundamentals in 2018 in comparison to the previous year.

Specifically, the inflation-adjusted MLS® average price decreased by 5.4% in the fourth quarter of 2018 from the same period in 2017. Tighter mortgage rules, likely reduced demand for housing, and contributed to the observed decline of house prices. While inflation-adjusted personal disposable income dropped by 1.2%, the young-adult population grew by 1.9%, continuing to increase the pool of potential first-time homebuyers. The growth of the young-adult population dominated such that there was a rise in price levels consistent with fundamental drivers. As a result, the combination of declining home prices and strong growth in the pool of potential first-time homebuyers reduced the average estimate of overvaluation in the last quarter of 2018.

At the same time, evidence of price acceleration has eased to low for Canada as a whole. Price acceleration has been signaled for almost three years since it was initially detected in the first quarter of 2016 (Figure 2).

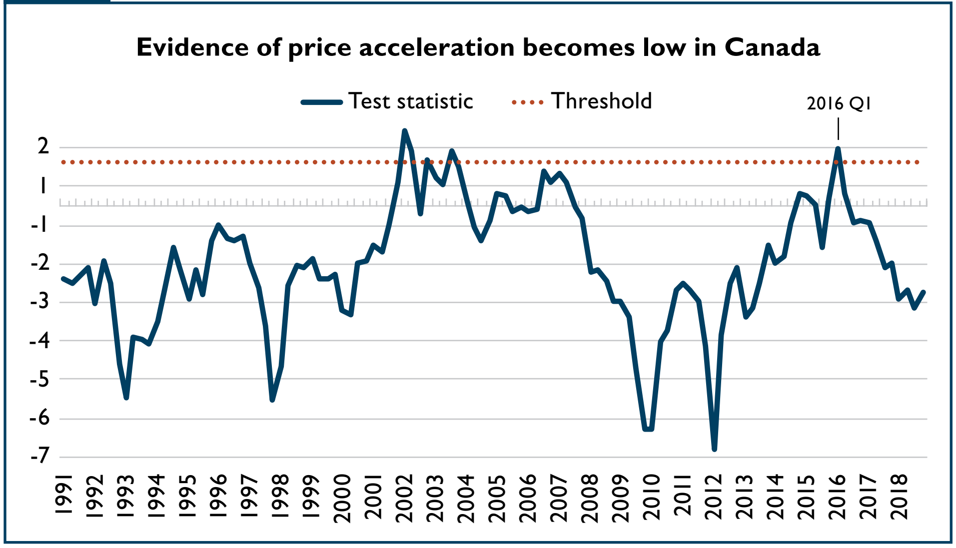
Figure 1



Sources: CREA, Statistics Canada, Teranet and National Bank of Canada, and calculations by CMHC

Note: The average estimate of overvaluation is the average gap between actual house prices and price levels estimated from a group of selected models. These include demand, supply, hybrid, and affordability models, each of which is estimated using four measures of house prices to generate sixteen unique estimates of overvaluation. The selection of models is conducted with a set of cointegration tests, and the selected models are estimated with Dynamic Ordinary Least Squares (DOLS). The maximum overvaluation gap is obtained from the model that shows the largest gap between the actual price and the estimated price. The threshold is fixed at a critical value of 1.285 for a confidence level of 80%. Overvaluation is signaled when overvaluation estimates lie above the threshold.

Figure 2



Sources: CREA and calculations by CMHC

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

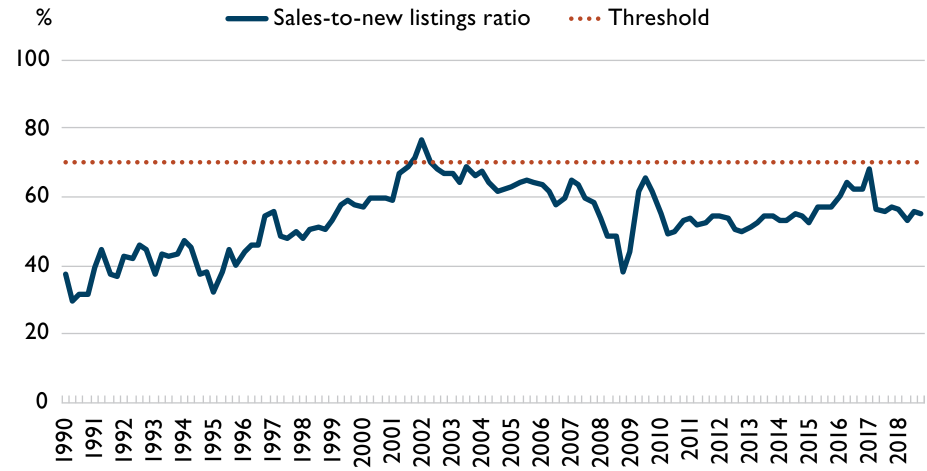
This is to account for the possibility that excessive expectations of future house-price appreciation may persist for a period of time. With the end of the three-year precautionary window approaching, and no further breaches of the test statistic likely to be observed, the assessment of price acceleration has been downgraded to low. With evidence of overheating and overbuilding remaining low as well (Figures 3, 4 and 5), the overall degree of vulnerability for the national housing market has changed from high to moderate.

Regional differences persist. With both price acceleration and overvaluation being flagged, a high degree of overall vulnerability is maintained for Vancouver, Victoria, Toronto and Hamilton. However, house prices continue to move closer to levels supported by housing market fundamentals in these centres. Most notably, the evidence of overvaluation has changed from high to moderate in Vancouver, while the conditions of overheating in its resale market are easing as well.

With evidence of overbuilding continuing to be signaled, the degree of overall vulnerability remains moderate for Edmonton, Calgary, Saskatoon, Regina and Winnipeg. A low degree of overall vulnerability is sustained for Ottawa, Montréal, Québec City, Moncton, Halifax and St. John's, where house prices remain consistent with fundamentals. However, evidence of overheating has been detected in both Montréal and Moncton, as a result of a tightening between supply and demand in their resale markets.

Figure 3

Evidence of overheating remains low in Canada

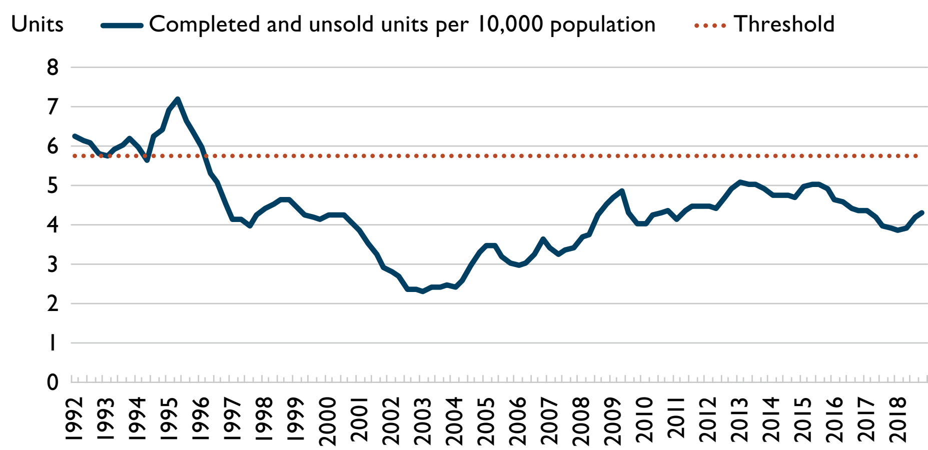


Sources: CREA and calculations by CMHC

Note: The sales-to-new listings ratio is the number of existing home sales divided by the number of new listings entering the market.

Figure 4

Evidence of overbuilding remains low in Canada
(ownership market)

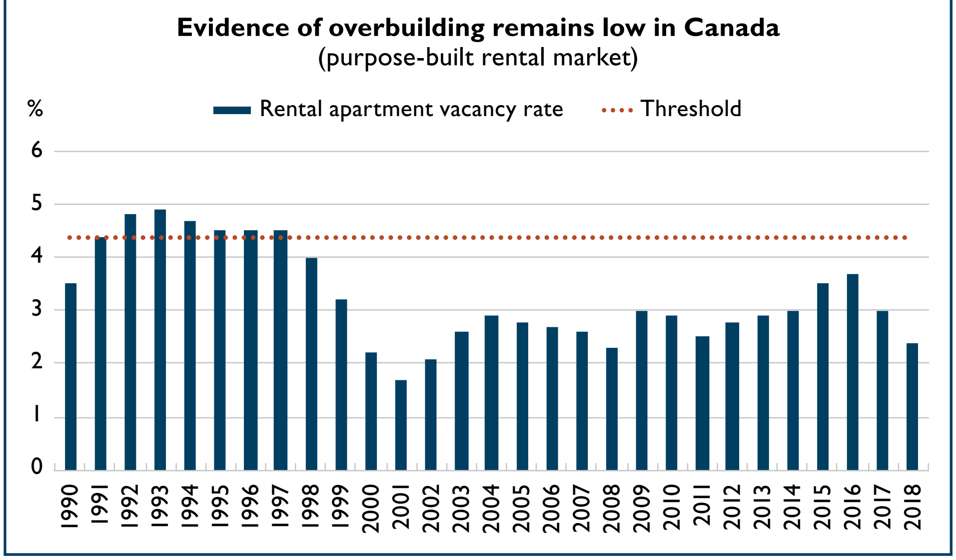


Sources: Statistics Canada and CMHC

Note: Overbuilding is signaled when the supply of readily available housing units significantly exceeds demand. This figure presents one of the two indicators the HMA uses to assess overbuilding conditions in the housing market: the inventory of newly completed but unsold housing units per 10,000 population.

HMA Summary Results for 15 Census Metropolitan Areas (CMAs)

Figure 5



Source: CMHC (Rental Market Survey)

Note: Overbuilding is signaled when the supply of readily available housing units significantly exceeds demand. This figure shows one of the two indicators the HMA uses to assess overbuilding conditions in the housing market: the rental apartment vacancy rate. CMHC conducts the Rental Market Survey every year in October. The last data point presented in this figure is from October 2018.

Victoria: ■ High degree of vulnerability

The results of our latest analysis continue to support a high degree of overall vulnerability for Victoria. The ratings for overheating and price acceleration are maintained. Moderate evidence of overvaluation continues to be detected. The young-adult population growth and easing price growth in the latest quarters have helped to bring actual prices and price levels consistent with fundamentals closer.

Vancouver: ■ High degree of vulnerability

The Vancouver housing market continues to be assessed as showing a high degree of overall vulnerability. While home price growth over the past few years significantly outpaced income growth, these imbalances are now narrowing based on continued growth in economic fundamentals and lower resale home prices. Our analysis indicates an easing of overheating and overvaluation conditions in Vancouver, while the ratings for price acceleration and overbuilding are maintained. A more moderate pace of activity on the resale market has eased the overheating indicator to low, while strengthening fundamentals combined with lower home prices have shifted the overvaluation indicator from high to moderate.

Edmonton: ■ Moderate degree of vulnerability

Moderate evidence of overbuilding continues to be observed in Edmonton. While the rental market has begun tightening in Edmonton, the imbalance between supply and demand in the ownership market widened. The pace of absorptions has been below new home production levels, pushing inventories higher. Completed and unsold units (per 10,000 population) reached 17.9 in the fourth quarter of 2018, just shy of the all-time high of 18 in 1995. As of February 2019, 61% of the total single- and semi-detached inventory in Alberta's seven largest markets combined were in Edmonton.

Calgary: ■ Moderate degree of vulnerability

Moderate evidence of overbuilding in Calgary continues to persist. Builders are generally slowing down production in the ownership market, however new home sales continue to decrease at a faster rate. The exception is condominium apartments, where inventories have been trending downwards since their peak in December 2017. Prospective buyers in Calgary face a number of demand headwinds, such as a high unemployment rate, a lack of growth in inflation-adjusted personal disposable income, and higher interest rates, prompting buyers to seek lower-priced options in the market.

Saskatoon: ■ Moderate degree of vulnerability

Saskatoon's housing market analysis continues to indicate a moderate degree of overall vulnerability. Moderate evidence of overbuilding continues to be signaled. The inventory of completed and unsold housing units was below the critical threshold during the final quarter of 2018. However, the annual rental apartment vacancy rate remains above its threshold for overbuilding. Low evidence of overvaluation is maintained as the gap between observed house prices and those estimated from underlying economic and demographic factors remains narrow. Overall, resale market conditions continued to favor buyers over sellers during the fourth quarter of 2018, with the sales-to-new listings ratio edging lower from the preceding quarter.

Regina: ■ Moderate degree of vulnerability

Regina's housing market continues to exhibit a moderate degree of overall vulnerability. Evidence of overvaluation remains low as house prices are closely aligned with underlying economic and demographic fundamentals. Despite fewer housing starts in the fourth quarter of 2018, the HMA continued to detect high evidence of overbuilding in Regina. Both the inventory of completed and unsold units and the annual rental apartment vacancy rate were above their respective critical thresholds.

Winnipeg: ■ Moderate degree of vulnerability

With a lack of growth in inflation-adjusted personal disposable income and in young-adult population, overvaluation continues to be assessed as moderate. While there is no evidence of overbuilding in the rental market, the inventory of completed and unsold new homes continues to indicate evidence of overbuilding in the ownership market. Given that the evidence of overvaluation and overbuilding is still marginal, the overall assessment has kept its moderate rating.

Hamilton: ■ High degree of vulnerability

The ratings for all four indicators are maintained, leading to no change in the overall assessment. House prices are steady in the resale market. Overheating and price acceleration continue to be flagged. Overvaluation rating is unchanged, though conditions of overvaluation continued to ease in the fourth quarter of 2018. The inventory of completed and unsold new homes remains small, providing low evidence of overbuilding.

Toronto: ■ High degree of vulnerability

Overheating, price acceleration and overvaluation continue to be flagged in Toronto. However, the conditions of overvaluation continue to ease as house prices are more in line with housing market fundamentals. In the fourth quarter of 2018, the inflation-adjusted MLS® average price stayed about the same from a year earlier. While inflation-adjusted disposable income declined by 2.7%, the young-adult population increased by 3.6%. The latter effect dominated, which helped to ease overvaluation conditions by supporting growth in price levels consistent with housing market fundamentals. Low evidence of overbuilding reflects the fact that the inventory of completed and unsold units declined to its lowest level on record in the fourth quarter of 2018. Market activity continued to cool during the first quarter of 2019, with the sales-to-new listings ratio remaining firmly in balanced market territory and the MLS® average price continuing to fall.

Ottawa: ■ Low degree of vulnerability

Low evidence of vulnerability for all indicators is maintained for Ottawa. The MLS® average price continued to grow in the fourth quarter of 2018 but at a more modest pace than in the previous quarter. However, for the year as a whole price growth was stronger than income growth. Sellers' market conditions also continued to intensify as listings trended down at a stronger rate while sales declined modestly. The evidence for price acceleration remains below the critical threshold, while the evidence for overbuilding also remains low.

Montréal: ■ Low degree of vulnerability

For about two years now, the degree of overall vulnerability has remained low for Montréal. House prices have remained in line with economic and demographic factors, such as personal disposable income and the young-adult population. Evidence of overbuilding also remains low, with both the inventory of completed and unsold housing units and the vacancy rate of rental apartments declining. However, due to the significant tightening between supply and demand in the resale market, evidence of overheating is now detected in Montréal.

Québec: ■ Low degree of vulnerability

The HMA analysis continues to indicate a low degree of overall vulnerability in Québec City. Evidence of overheating and price acceleration remains low. With house prices remaining in line with economic and demographic factors, evidence of overvaluation also remains low. In addition, both the inventory of completed and unsold new homes and the vacancy rate of rental apartments indicate no evidence of overbuilding.

Moncton: ■ Low degree of vulnerability

Evidence of overheating is detected in Moncton. Despite a slowdown in the last two months of the year, Moncton had a record number of sales in 2018 thanks to its population increasing at three times the provincial rate. While demand remains strong, new listings are declining to historic lows. In the last quarter of 2018, the inflation-adjusted MLS® average price was 7.4% higher compared to a year ago, converging to price levels supported by housing market fundamentals. The overall degree of vulnerability remains low as no other indicators show evidence of imbalances.

Halifax: ■ Low degree of vulnerability

With resale demand in Halifax remaining strong, sales by year-end 2018 reached the highest peak since 2012. Positive interprovincial migration trends, supported by both an influx into the province as well as a slowing in the outflow to other provinces, have reduced the number of new listings available on the market. This dynamic between strong sales and low listings has created an upward movement in the overheating indicator over the past five quarters. The limited resale inventory also continues to create demand for new construction, especially for semi-detached units and singles in lower price points. Despite muted growth in inflation-adjusted personal disposable income, elevated population growth and a rebound in employment levels throughout 2018 continue to support a low degree of overall vulnerability in Halifax.

St. John's: ■ Low degree of vulnerability

Overall, there is a low degree of vulnerability in the St. John's housing market. The market remains relatively stable, with both economic and housing activity affected negatively by volatile oil prices. In 2018, the MLS® average price and sales declined by 2.7% and 5.1%, respectively, while active listings increased by 9.5%. Housing starts were very low again in 2018 and declined by 17% with the average new single-detached house price remaining flat year-over-year. Weaker housing market activity overall is attributed to muted GDP growth and a flat young-adult population.

Appendix

What is CMHC's Housing Market Assessment?

To obtain an accurate picture of the overall state of the housing market, it is important to consider multiple data points and lines of evidence. The Housing Market Assessment (HMA) analytical framework provides a comprehensive and integrated view that relies on a combination of indicators to detect imbalances in housing markets for several metropolitan areas across Canada, and for Canada as a whole.[4]

Specifically, the framework considers four main factors that may provide an early indication of vulnerability in the housing market: overheating, price acceleration, overvaluation and overbuilding. For each factor, the framework tests for the intensity (magnitude) and the persistence of signals. Generally, a situation in which we detect few signals with low intensity or lack of persistence is associated with a low degree of vulnerability. Conversely, as the number, intensity, and/or persistence of the signals increases, so does the evidence of imbalances in the housing market. Overheating and price acceleration are each assessed with a single indicator. Colour scales for these factors vary between green and yellow only. Overvaluation and overbuilding are assessed with multiple indicators. Their colour scales, as well as the colour scale for the overall assessment, change among green, yellow and red to reflect different degrees of imbalances.

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:** Fast-rising prices often indicate that expectations of future house-price appreciation may be excessive.

   ■ Moderate: The Augmented Dickey-Fuller (ADF) test statistic[5] stands above the critical threshold for at least one quarter during the past three years.

   ■ Low: Otherwise.

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

[5] 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. **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. **Overbuilding:** 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.[6]

   High: More than one factor of price acceleration, overvaluation or overbuilding exhibits moderate or strong 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 overbuilding 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.

The framework takes into account demographic, economic, and financial determinants of the housing market such as population, personal disposable income, and interest rates to detect vulnerability. The framework also takes into account recent developments in both resale and residential construction markets.

The framework was developed on the basis of its ability to detect vulnerable housing market conditions in historical data, such as the house price bubble Toronto experienced in the late 1980s and early 1990s. The ability of the HMA to detect vulnerabilities relies on the assumption that historical relationships between prices and fundamental drivers of housing markets have not changed.

[6] 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).

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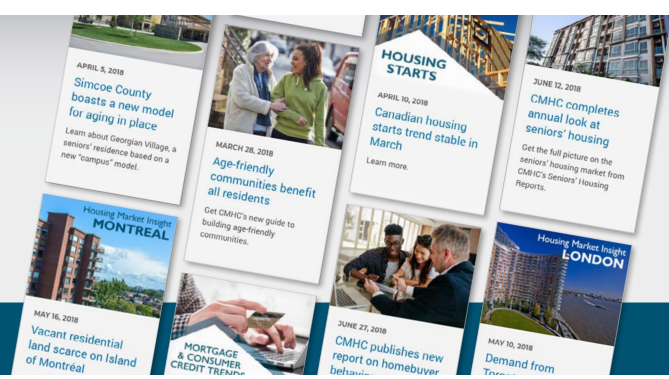

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