HOUSING MARKET INFORMATION

HOUSING MARKET ASSESSMENT

Canada

Date Released: Third Quarter 2019

Canada

CMHC SCHL

Highlights

- The Housing Market Assessment (HMA)[1] continues to indicate a moderate degree of overall vulnerability at the national level. However, imbalances between house prices and housing market fundamentals have narrowed over the past year.
- After being flagged with a high degree of vulnerability for twelve consecutive quarters, the overall assessment of the Vancouver housing market has been changed to moderate as evidence of price acceleration has eased to low.
- The degree of overall vulnerability remains high for Toronto, Hamilton and Victoria. But, conditions of overheating, price acceleration and overvaluation are showing signs of easing in all three centres.
- Edmonton, Calgary, Saskatoon, Regina and Winnipeg continue to see a moderate degree of vulnerability in the overall assessment, where evidence of overbuilding continues to be observed.
- A low degree of overall vulnerability is maintained for Ottawa, Montréal, Québec City, Moncton, Halifax and St. John's. However, overheating conditions persist in Montréal and Moncton, as does overbuilding in St. John's.

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 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 is intended to identify imbalances in the housing market; it is not a framework to identify long-term challenges related to housing affordability. 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 March 2019 (the annual rental apartment vacancy rates are from October 2018) and market intelligence up to the end of June 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 May 2019 and August 2019 reports

	Overheating		Price Acceleration		Overvaluation		Overbuilding		Overall Assessment	
	May 19	Aug. 19	May 19	Aug. 19	May 19	Aug. 19	May 19	Aug. 19	May 19	Aug. 19
Canada	Low	Low	Low	Low	Moderate	Moderate	Low	Low	Moderate	Moderate
Victoria	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate	Low	Low	High	High
Vancouver	Low	Low	Moderate	Low	Moderate	Moderate	Low	Low	High	Moderate
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	Moderate	Moderate	Low	Low	Low	Low	Low	Low	Low	Low
Québec	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low
Moncton	Moderate	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.

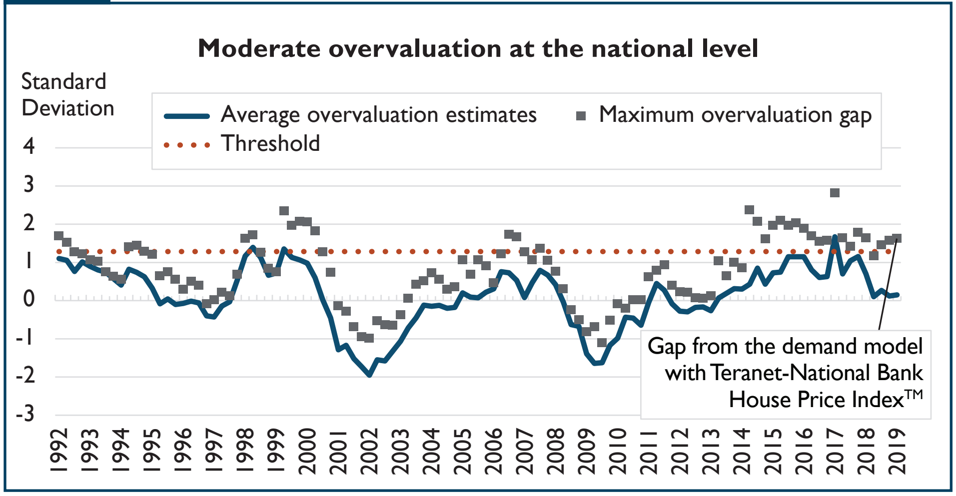
HMA Results for Canada

Canada: Moderate degree of vulnerability

The national housing market continues to exhibit a moderate degree of vulnerability in the overall assessment. This is the second quarter it received a moderate rating after being signaled with a high degree of vulnerability for ten straight quarters. Moderate evidence of overvaluation continues to be detected for Canada as a whole from the estimate of the demand model with Teranet-National Bank House Price Index™ [4]. However, house prices overall stayed in line with housing market fundamentals, as indicated by the average estimate of overvaluation (the solid line in Figure 1) staying close to zero over the past year.

Imbalances between house prices and housing market fundamentals have narrowed with prices continuing to adjust and fundamentals catching up. In the first quarter of 2019, the inflation-adjusted MLS® average price dropped by 5.6% from the same period in 2018, marking the fifth consecutive decline on a year-over-year basis. Over the same period, the young-adult population grew by 1.9%, continuing to enlarge the pool of potential first-time homebuyers. Meanwhile, after contracting for two quarters, the inflation-adjusted personal disposable income edged up by 0.2%. The increase in the pool of potential first-time homebuyers and in income help push up price levels supported by housing market fundamentals. Combined with declining home prices in the resale market, these dynamics contribute to maintaining the average estimate of overvaluation near zero.

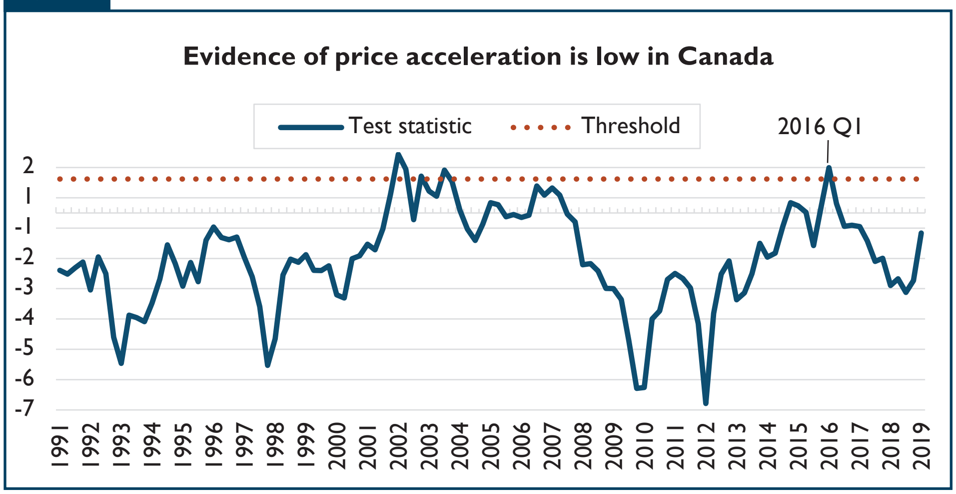
Figure 1



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 has the largest gap between the actual price and the estimated price. The threshold is fixed at a critical value of 1.285 for a confidence level of 80%. Overvaluation is signaled when overvaluation estimates lie above the threshold.

Figure 2



Sources: CREA and calculations by CMHC

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

With the MLS® average price continuing to moderate, the evidence of price acceleration remains low (Figure 2).[5] In addition, the sales-to-new listings ratio (Figure 3) has stabilized at around 56% over the past two years, indicating balanced conditions in the resale market. Evidence of overbuilding also remains low in both the homeownership (Figure 4) and the purpose-built rental markets (Figure 5).

[4] The Teranet-National Bank House Price Index™ increased by 0.3% in the first quarter of 2019 from the same period in 2018.

[5] To account for the possibility that excessive expectations of future house-price appreciation may persist for a period of time, price acceleration was signaled for almost three years since it was initially detected in the first quarter of 2016 (Figure 2). In the previous release, evidence of price acceleration has eased to low for Canada as a whole.

Regional disparities persist. Evidence of price acceleration has eased to low in Vancouver. As a result, the overall assessment for the Vancouver housing market has been changed to moderate after receiving a high degree of vulnerability for three years. A high degree of overall vulnerability is maintained for Toronto, Hamilton and Victoria, with overheating, price acceleration and overvaluation continuing to be flagged. However, conditions for these factors are showing signs of easing in all three centres.

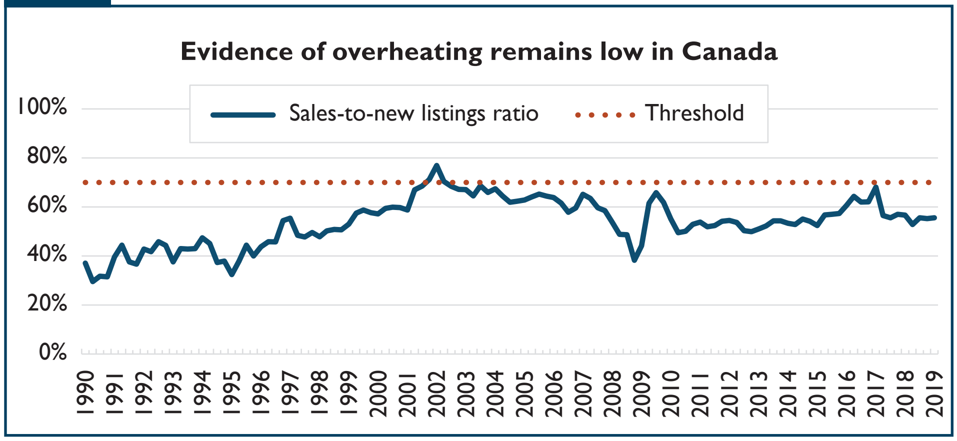
Meanwhile, the degree of overall vulnerability remains moderate for Edmonton, Calgary, Saskatoon, Regina and Winnipeg, where evidence of overbuilding continues to be observed. With house prices staying consistent with fundamentals, a low degree of overall vulnerability is maintained for Ottawa, Montréal, Québec City, Moncton, Halifax and St. John's. However, overheating conditions persist in the resale markets of Montréal and Moncton, as does overbuilding condition in the new homes market of St. John's.

HMA Summary Results for 15 Census Metropolitan Areas (CMAs)

Victoria: ■ High degree of vulnerability

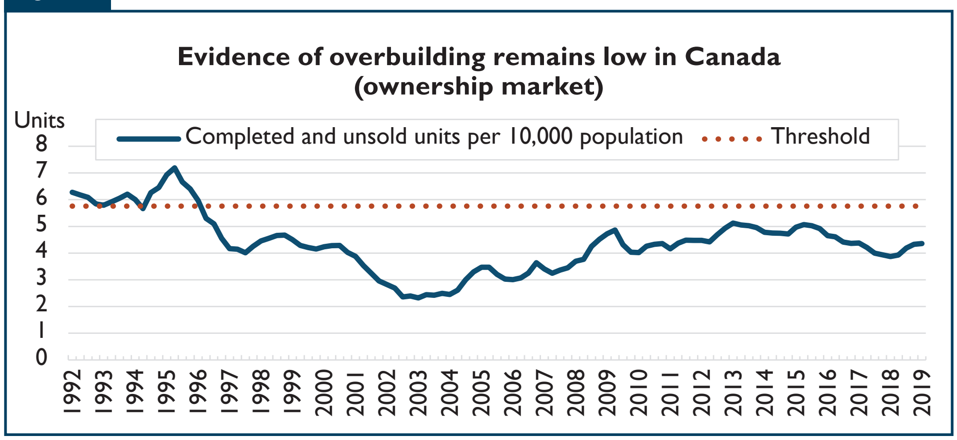
The HMA framework maintains a high degree of overall vulnerability for Victoria. Overheating and price acceleration are still signaled. Moderate evidence of overvaluation continues to be detected. However, after climbing up for fifteen consecutive quarters on a year-over-year basis, the inflation-adjusted MLS® average price dropped by 5.8% in the first quarter of 2019 from a year ago. Meanwhile, the young-adult population and the inflation-adjusted personal

Figure 3



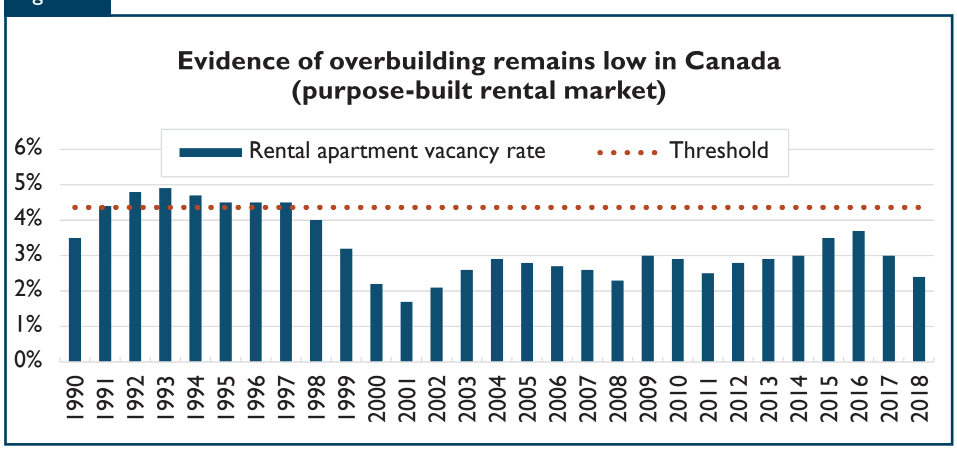
Sources: CREA and calculations by CMHC
Note: The sales-to-new listings ratio is the number of existing home sales divided by the number of new listings entering the market.

Figure 4



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.

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.

disposable income increased by 2.5% and 0.3%, respectively. The decline in price and growth in fundamentals have helped to narrow the average estimate of overvaluation in Victoria.

Vancouver: ■ Moderate degree of vulnerability

The Vancouver housing market is now assessed as showing a moderate degree of overall vulnerability. While home price growth over the past few years significantly outpaced levels supported by fundamentals, these imbalances have narrowed through growth in fundamentals and lower home prices in different segments of the resale market. While the HMA maintains its rating of moderate overvaluation in Vancouver, price acceleration is no longer signaled. Moderate sales and a greater availability of listings on the resale market continue to signal low evidence of overheating, while low inventories of completed and unsold new homes and a low vacancy rate in the rental market suggest that there is low evidence of overbuilding.

Edmonton: ■ Moderate degree of vulnerability

Moderate evidence of overbuilding continues to be observed in Edmonton while evidence of overheating, price acceleration, and overvaluation remains low. Demand in the homeownership market continues to soften as unemployment remains relatively high and the inflation-adjusted personal disposable income declines. As supply continues to outpace absorption, the inventory of completed and unsold units (per 10,000 population) reaches a record high of over 20. Meanwhile, the resale market continues to show signs of buyer-favored conditions with the sales-to-new listings ratio staying at the low vulnerability territory. Low evidence of overvaluation continues to be observed as home prices remain close to levels consistent with economic and demographic fundamentals.

Calgary: ■ Moderate degree of vulnerability

Moderate evidence of overbuilding continues to persist in Calgary, however inventory in the new homes market is gravitating towards the historical average. The number of completed and unsold units moved lower for the second consecutive quarter, largely due to declining apartment inventory. Recent monthly data show that inventories in other segments of the market are moving lower as well. While the pace of absorptions continues to face headwinds, such as a lack of growth in inflation-adjusted personal disposable income, builders have been adjusting their production in order to manage inventory levels. That is, total housing starts exhibited two-digit declines for the past two quarters on a year-over-year basis.

Saskatoon: ■ Moderate degree of vulnerability

The Saskatoon housing market continues to exhibit a moderate degree of overall vulnerability due to overbuilding signaled by an elevated rental apartment vacancy rate. Nonetheless, with the inventory of completed and unsold units remaining below the critical threshold during the first quarter of 2019, the HMA framework indicates moderate evidence of overbuilding in this market. In addition, evidence of overvaluation remains low as house prices trended lower while the young-adult population strengthened which helped raise price levels supported by fundamentals.

Regina: ■ Moderate degree of vulnerability

Regina's housing market continues to exhibit a moderate degree of overall vulnerability. Low evidence of overheating and price acceleration is maintained. Low evidence of overvaluation continues to be observed as house prices remain closely tied to economic and demographic fundamentals.
The HMA framework continues to detect high evidence of overbuilding as both the inventory of completed and unsold homes and the annual rental apartment vacancy rate remain above their respective critical thresholds. However, given a significant slowing in new construction in the latter half of 2018 and into 2019, inventory levels are beginning to show signs of moderation.

Winnipeg: ■ Moderate degree of vulnerability

Winnipeg's housing market continues to see a moderate degree of vulnerability in the overall assessment. Evidence of overheating and price acceleration remains low. While there is no evidence of overbuilding in the rental market, the inventory of completed and unsold new homes increased further and remained elevated in the first quarter of 2019, indicating evidence of overbuilding in the homeownership market. Given that the evidence of overvaluation is still marginal, the overall assessment has kept its moderate rating.

Hamilton: ■ High degree of vulnerability

The ratings for all four factors are maintained, leading to no change in the overall assessment. While overheating, price acceleration and overvaluation continued to be signaled, conditions for all three factors eased in the first quarter of 2019. Inflation-adjusted resale home prices grew modestly on a year-over-year basis. Price growth is supported by slightly higher sales activity than a year ago. 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 first quarter of 2019, the inflation-adjusted MLS® average price stayed about the same from a year earlier, while the inflation-adjusted disposable income edged lower by 0.6% and the young-adult population increased by 3.7%. The latter effect dominated, which helped to ease overvaluation conditions by supporting growth in price levels consistent with housing market fundamentals. The evidence of overbuilding remains low. Market activity has become stronger since the first quarter of 2019 with the sales-to-new listings ratio trending higher (albeit still remaining within balanced market territory) and the MLS® average price increasing since April 2019.

Ottawa: ■ Low degree of vulnerability

Low evidence of vulnerability for all factors is maintained for Ottawa. After showing little growth in most of 2018, sales in the resale market rebounded in the first quarter of 2019 as borrowing costs eased and the young-adult population exhibited strong year-over-year growth. As a result, the sales-to-new listings ratio climbed up and went above the level of concern in the first quarter of 2019. However, persistence of the evidence is not enough yet to signal overheating vulnerabilities. While the inflation-adjusted MLS® average price increased by 2.8% year-over-year, home prices overall stayed consistent with housing market fundamentals, showing low evidence of overvaluation.

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 new homes and the vacancy rate of rental apartments declining. However, Montréal's resale market continues to show evidence of overheating as a result of the tightening between supply and demand.

Québec: ■ Low degree of vulnerability

The HMA analysis framework continues to indicate a low degree of overall vulnerability in Québec City. Overall, data from the first quarter of 2019 do not raise concerns about overheating in the resale market or accelerating house price growth. 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 remain below their respective overbuilding thresholds.

Moncton: ■ Low degree of vulnerability

The latest results continue to support a low degree of overall vulnerability for Moncton. There is no evidence of overbuilding as the rental apartment vacancy rate remains low while almost all of the homeowner units have been absorbed upon completion. Housing demand continues to outpace supply in the resale market. As a result, overheating conditions persist. Low evidence of price acceleration and overvaluation is maintained with house prices remaining consistent with levels supported by housing market fundamentals.

Halifax: ■ Low degree of vulnerability

Halifax's housing market continues to exhibit a low degree of overall vulnerability. Sellers' market conditions intensified during the first quarter of 2019 as the sales-to-new listings ratio climbed, reaching the highest point since the first quarter of 2007. Strong migration growth, especially evident in the young-adult population, is boosting sales, while the number of new listings remains low. Nevertheless, the sales-to-new listings ratio is still below the overheating threshold. Despite population gains, the inventory of completed and unsold units recorded a sharp increase over the first quarter. This caused the overbuilding indicator to move upwards, edging closer to its critical threshold. Price growth began to pick up pace into 2019, although remaining in line with demographic and economic fundamentals, supporting low evidence of overvaluation.

St. John's: ■ Low degree of vulnerability

An overall low degree of housing market vulnerability is maintained for the St. John's market. Despite improving employment levels and gains in the inflation-adjusted personal disposable income, housing demand remains lackluster, affected by muted population growth. This has resulted in fewer sales, higher listings and flat price growth, therefore keeping the overheating, price acceleration and overvaluation below levels of concern. Moderate evidence of overbuilding continues to be observed in St. John's. An upward trend in the number of completed and unsold units remains, as demand is stagnant for higher-priced new home construction units and interprovincial out-migration impacts population growth.

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[6].

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[7] 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. **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.

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

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

Overall assessment: Assess the degree of market vulnerability considering the combination of multiple factors.[8]

- High: More than one factor of price acceleration, overvaluation or overbuilding 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 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.

[8] 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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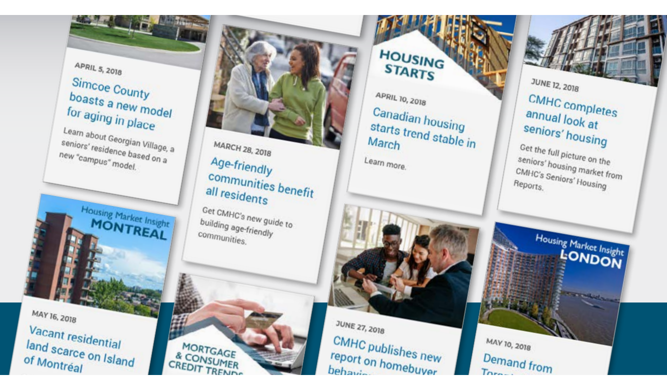

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