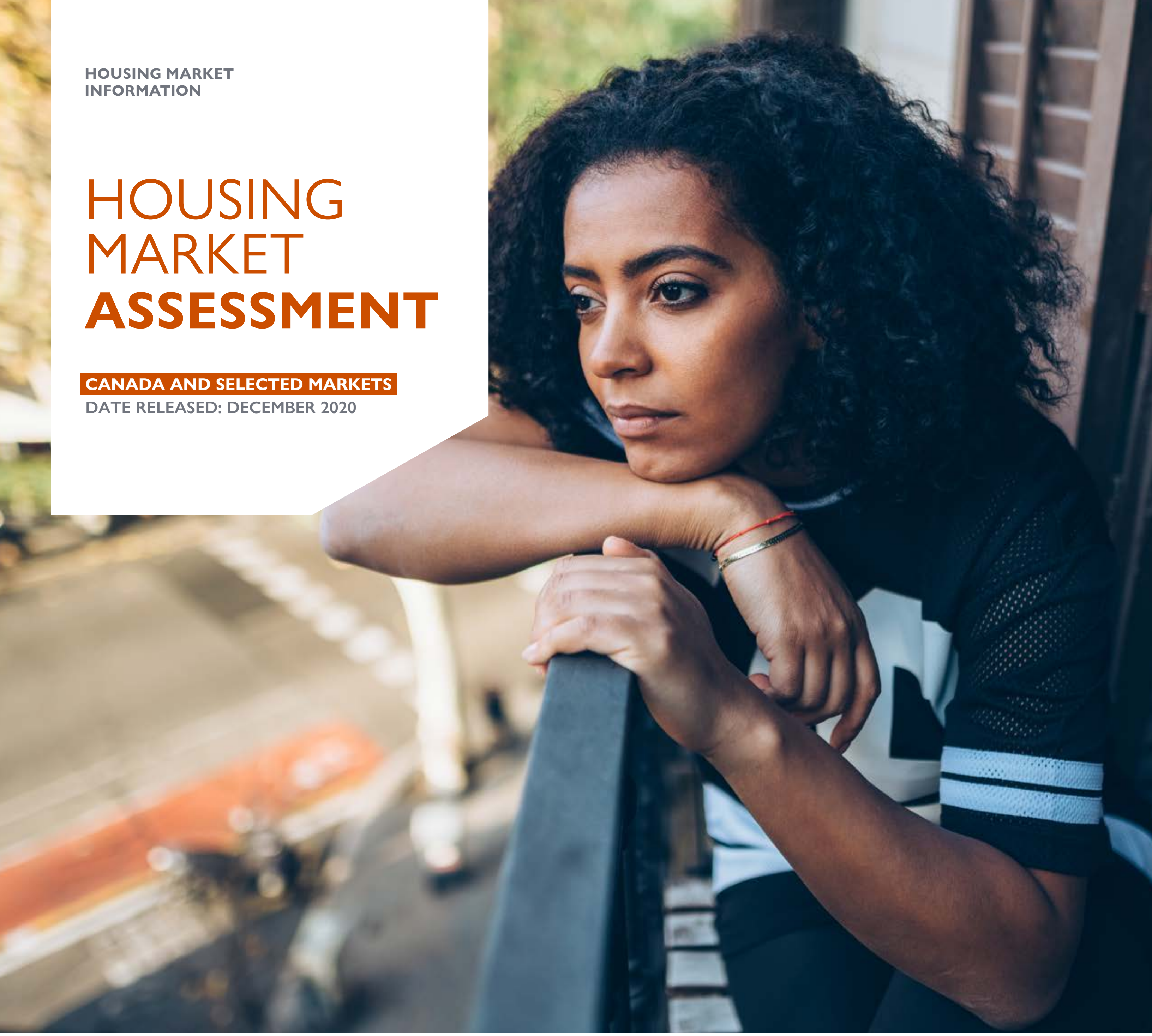
HOUSING MARKET INFORMATION

HOUSING MARKET **ASSESSMENT**

CANADA AND SELECTED MARKETS

DATE RELEASED: DECEMBER 2020



Welcome to the Housing Market Assessment (HMA)

You will find in this report an introduction reviewing the economic and housing market conditions in Canada and detailed analysis for 15 Census Metropolitan Areas (CMAs). You can use the menu on the next page to navigate to the latest Housing Market Assessment results in the region of your choice.

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Housing market assessment in select Census Metropolitan Areas (CMAs)

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What is the HMA?

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 imbalances across Canada.

The HMA considers four key factors: overheating, price acceleration, overvaluation and overbuilding. As the number of intense and persistent signals of imbalances increases, the degree of vulnerability of the housing market increases. See the Appendix: HMA Analytical Framework Methodology for more details.

The HMA is not a housing affordability assessment. The challenge of affordability is multi-faceted and may differ for segments of the population. In contrast, the HMA is aimed at assessing whether there are risks from the overall housing market that could ultimately affect financial stability. With the HMA, CMHC offers information and analysis that can help Canadians make informed decisions and contribute to an orderly adjustment of housing market imbalances.

Market vulnerabilities and COVID-19

With the economic, demographic and financial impacts of the COVID-19 pandemic, it is all the more important to keep track of emerging imbalances and vulnerabilities in the Canadian housing market. In a context of high uncertainty and data volatility, the HMA allows Canadians to keep a pulse on the overall state of the housing market in Canada and its metropolitan regions. The current assessment is based on preliminary data from the third quarter of 2020, and market intelligence up to November 2020.

The following section Overview of HMA Results provides the latest HMA results at the national level with regional highlights and additional context and interpretation considering the recent disturbances in the Canadian economy. A more detailed assessment is provided in subsequent sections for selected Census Metropolitan Areas (CMAs).

Comparisons between the September 2020 and December 2020 reports

	Overheating		Price Acceleration		Overvaluation*		Overbuilding		Overall Assessment	
	Sept. 2020	Dec. 2020	Sept. 2020	Dec. 2020	Sept. 2020	Dec. 2020	Sept. 2020	Dec. 2020	Sept. 2020	Dec. 2020
Canada	Low	Low	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	Low	Moderate	Moderate
Edmonton	Low	Low	Low	Low	Low	Low	Moderate	Moderate	Low	Low
Calgary	Low	Low	Low	Low	Low	Low	Moderate	Moderate	Low	Low
Saskatoon	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low
Regina	Low	Low	Low	Low	Low	Moderate	Moderate	Moderate	Low	Moderate
Winnipeg	Low	Low	Low	Low	Low	Low	Moderate	Low	Low	Low
Hamilton	Moderate	Moderate	Low	Moderate	Low	Moderate	Low	Low	Moderate	High
Toronto	Low	Low	Low	Low	Low	Low	Low	Low	Moderate	Moderate
Ottawa	Moderate	Moderate	Moderate	Moderate	Low	Low	Low	Low	Moderate	Moderate
Montréal	Moderate	Moderate	Moderate	Moderate	Low	Low	Low	Low	Low	Moderate
Québec	Moderate	Moderate	Low	Low	Low	Low	Low	Low	Low	Low
Moncton	Moderate	Moderate	Low	Moderate	Moderate	High	Low	Low	Moderate	High
Halifax	Low	Low	Low	Low	Moderate	Moderate	Low	Low	Moderate	Moderate
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 December 2020 overvaluation ratings are based on 2020Q3 preliminary estimates.

Overview of HMA Results

Methodological notes

Before moving to the analysis of the latest HMA results for Canada, this first section presents two enhancements to the HMA methodology which help to provide more timely information and capture how the COVID-19 pandemic has affected the interpretation of data.

The use of preliminary data

In an effort to provide timely information, the Housing Market Assessment (HMA) includes preliminary data for some of the fundamental drivers of the housing market used to estimate overvaluation.[1] As such, the overvaluation framework in this edition relies on preliminary estimates for the third quarter of 2020. Final assessments of vulnerabilities for the third quarter will be presented in the next edition of the HMA as new data becomes available.

The use of adjusted disposable income

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

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. The income variable in this edition is referred to as the *adjusted* real personal disposable income, per capita. A detailed description is available in the appendix: Adjusted disposable income data in 2020.

HMA results for Canada[2]

Overall assessment

The economic consequences of the COVID-19 pandemic and subsequent necessary containment measures were reflected in data for the second quarter of 2020. They showed unprecedented job and labour income losses, a slowdown in international migration and a significant decline in housing market activity. Indicators of economic activity and the labour market partially recovered in the third quarter following the relaxation of restrictions to control the spread of the virus since mid-May. While Statistics Canada indicated that real GDP fell by 11.5% in the second quarter, advance estimates point to an approximate 10% increase in real GDP in the third quarter.[3] Meanwhile, many of the industries that were hardest hit by initial pandemic measures saw a rebound in employment but have not fully recovered to pre-pandemic levels for several sectors. These include wholesale and retail trade, transportation and warehousing services, information, culture and recreation related employment and accommodation and food services.[4]

In contrast with the second quarter of 2020 where the initial impact of the COVID-19 crisis was felt most acutely, housing market activity across the country increased significantly in the third quarter. While sales activity rebounded, new listings coming onto the market did not keep pace resulting in declining inventory levels and upward pressure on house prices in local housing markets across the country beyond what could be supported by fundamental factors. This led to an increase in the number of Census Metropolitan Areas (CMAs) exhibiting either a moderate or high degree of vulnerability in the third quarter.

Evidence of rising imbalances in local housing markets, driven by strong price increases not supported by fundamentals, results in a moderate degree of overall vulnerability being maintained for Canada.

Overvaluation

Moderate evidence of overvaluation was still detected at the national level in the third quarter. The impact of COVID-19 on economic conditions in Canada resulted in some weakening in key fundamentals used in the HMA framework since the second quarter of 2020. While there was some improvement in key housing market determinants in the third quarter,

1 Preliminary data includes disposable income, population, and labour productivity.

2 The current assessment is based on preliminary data from the third quarter of 2020, and market intelligence up to November 2020.

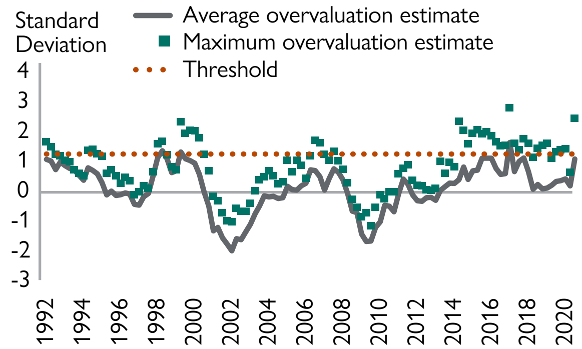
3 https://www150.statcan.gc.ca/n1/daily-quotidien/201030/dq201030a-eng.htm

4 Source: Statistics Canada - Table: 14-10-0355-01

a significant number of Canadians remain unemployed and receiving government support while fundamental factors underpinning house prices have not yet recovered to pre-pandemic levels.[5]

Despite some recovery in fundamentals, the estimate for average overvaluation moved close to the critical threshold in the third quarter as the majority of individual estimates of overvaluation increased significantly. Upward movement in individual and average estimates of overvaluation in the third quarter was the result of increases in observed house prices outpacing a recovery in the fundamental price level supported by key housing market determinants. In particular, as pandemic restrictions eased and economic activity improved in the third quarter, growth in headline CPI inflation turned modestly positive while nominal mortgage rates continued to decline resulting in lower real mortgage rates. Declining real mortgages rates combined with continued population growth in the third quarter led to an improvement in the fundamental price level. Meanwhile, despite the adjusted real personal disposable income of Canadians improving slightly in the third quarter, it contributed less to the improvement in the fundamental price level. Overall, at the National level, observed house price growth in the third quarter significantly outpaced growth in the fundamental price, resulting in a widening of the overvaluation gap (Figure 1). The estimate for average overvaluation has now moved close to its critical threshold and will be closely monitored.

Figure 1: Moderate Evidence of Overvaluation in Canada



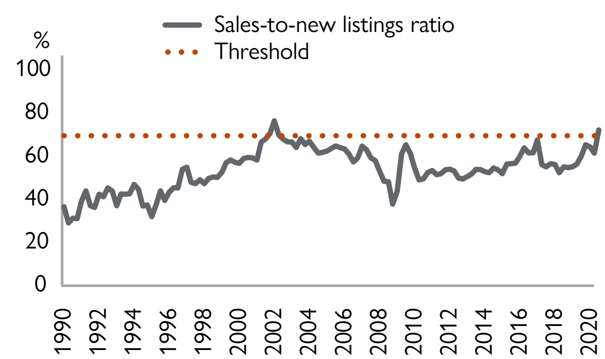
Sources: CREA, Statistics Canada, Teranet and National Bank of Canada, and calculations by CMHC
Last data point: 2020Q3

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

The initial impact of the COVID-19 crisis on resale market conditions was a significant decline in sales in the second quarter while new listings coming onto the market also plummeted as in-person property showings declined with the implementation of pandemic mitigation measures.[6] As pandemic measures were gradually rolled back over the spring and summer, resale market transactions in many CMAs across the country increased significantly in the third quarter as the initial uncertainty of the pandemic passed. Meanwhile, new listings coming onto the market also recovered but not to the same magnitude. With sales rebounding more than new listings coming onto the market in each month, the sales-to-new listings ratio in Canada increased to 73% in the third quarter, relative to 62% in the second quarter (Figure 2). At this level, it moved above the critical threshold set to signal overheating but had not yet remained there for the required two quarters. Therefore, the evidence of overheating remains low for the time being.

Figure 2: Low Evidence of Overheating in Canada



Sources: Sources: CREA and calculations by CMHC
Last data point: 2020Q3

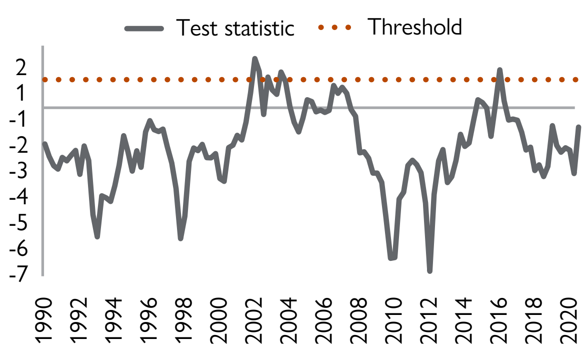
[5] Labour Force Survey – September 2020: https://www150.statcan.gc.ca/n1/daily-quotidien/201009/dq201009a-eng.htm

[6] Seasonally-adjusted MLS® Sales in Canada declined by over 33% between the first and second quarter of 2020 while seasonally-adjusted new listings declined by approximately 29%.

Price acceleration

The immediate impact of COVID-19 on house prices was seen in the second quarter where, after four consecutive quarters of price growth prior to the pandemic, the inflation-adjusted MLS® national average price declined by over 4%. However, given the strong rebound in sales in the third quarter relative to new listings, and a corresponding tightening in resale market conditions, the inflation-adjusted MLS® national average price grew significantly. Besides strong sales and tightening resale market conditions, price growth in the third quarter also reflected a sudden shift among prospective homebuyers as demand for ground-oriented housing increased in many CMAs across Canada.[7] Therefore, some of the perceived price growth in the third quarter was attributable to a shift in the composition of sales as opposed to an underlying, market conditions driven, increase in prices. Nevertheless, the test statistic for price acceleration remained below the critical threshold in the third quarter and, subsequently, evidence of price acceleration also remains low (Figure 3).

Figure 3: Low Evidence of Price Acceleration in Canada



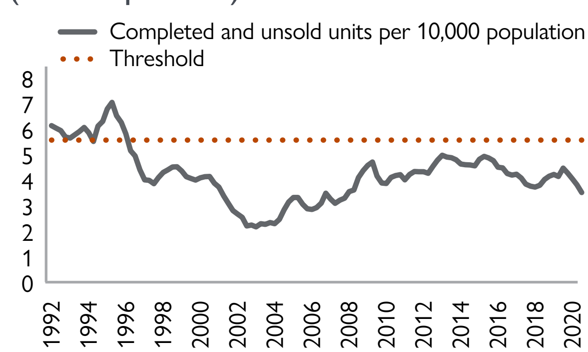
Sources: CREA and calculations by CMHC
Last data point: 2020Q3

Overbuilding

Evidence of overbuilding, as characterized by the inventory of completed and unsold homeowner units per 10,000 population (Figure 4) and the primary rental apartment vacancy rate (Figure 5), remains low in Canada as both indicators remained below their respective overbuilding thresholds in the third quarter. Prior to the pandemic, the inventory of completed and unsold homeowner units per 10,000 population had begun trending downward as the pace of absorptions began to improve.[8] Since the onset of the COVID-19 crisis, the pace of absorptions has continued to increase across all segments of the market without interruption, which is in contrast to the initial disruption seen in the resale market. Additionally, the percentage of new homes absorbed at completion had been trending upward since mid-2019 and as of the third quarter sat at approximately 82% which is a level consistent with past periods of strength in the ownership side of the market.

Meanwhile, conditions in the rental market were more difficult to ascertain as at the end of September, six months into the COVID-19 crisis. A key driver of rental demand in Canada's major housing markets historically has been international migration flows. As pandemic measures continue to remain in place, international migration flows have slowed significantly while, at the onset of the pandemic, the net number of non-permanent residents entering Canada went significantly negative as individuals sought to return home prior to travel restrictions being implemented.[9] Overall, this is likely to have a direct impact on population growth nation-wide and impact near-term demand for rental units. Given the potential for stark differences in housing market conditions in the rental market, versus ownership, the overbuilding indicator will continue to be closely monitored as new data becomes available.

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



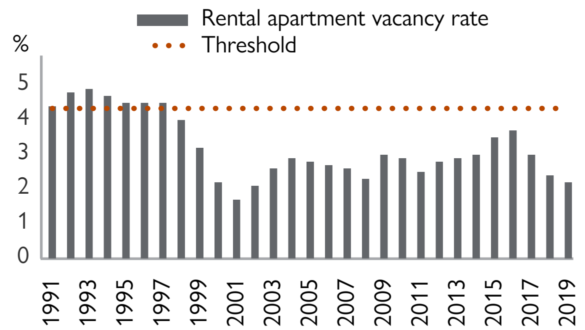
Sources: Statistics Canada and CMHC
Last data point: 2020Q3

[7] Ground-oriented housing is a term that generally refers to housing types that have direct access to the street or ground level (e.g. via their own front door). This would include single-detached homes, semi-detached homes and row housing or townhomes.

[8] CMHC's data for new home sales is generally referred to as 'absorptions'.

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

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



Source: CMHC
Last data point: 2019

Regional overview

After a volatile second quarter where many CMAs across the country saw sales fall significantly, the third quarter of 2020 was characterized by a recovery in housing market activity that was relatively broad-based across CMAs. As initial pandemic measures began to be lifted near the end of the second quarter, Vancouver, Toronto and Montréal saw a significant rebound in sales activity that outpaced a recovery in new listings coming onto the market. In Toronto and Montréal, this led to price appreciation beyond what could be justified by fundamentals in the third quarter. In contrast, Vancouver benefitted from more subdued price appreciation and a stronger rebound in key fundamentals such as the adjusted real personal disposable income per capita. Overvaluation estimates increased in Toronto and Montréal in the third quarter while estimates of overvaluation in Vancouver declined. All three markets exhibit a moderate degree of overall vulnerability in the third quarter. Close attention will continue to be paid to current and emerging imbalances in these markets as we continue to navigate the COVID-19 crisis.

Many centres across the country also saw a broad-based recovery in sales activity in the third quarter which outpaced new listings in many cases. Prior to the onset of the pandemic, sales activity in Victoria, Winnipeg, Ottawa, Hamilton, Québec City, Halifax and Moncton was strengthening and market conditions were tightening resulting in price appreciation and emerging imbalances in some cases. After a brief slowdown in market activity in the second quarter, the rebound in sales activity in these markets by September had led to an overall increase in sales volumes for the year to date, continued price appreciation, and the further detection of housing market imbalances in certain markets. Data up to the third quarter show that Hamilton now exhibits evidence of price acceleration as well as moderate evidence of overvaluation since observed price appreciation outpaced growth in fundamentals. The overall assessment for Hamilton also moved from a moderate to a high degree of vulnerability in the third quarter. Additionally, Moncton now exhibits evidence of price acceleration, a high degree of overvaluation and an overall high degree of vulnerability as well.

Notably, there were some markets in Atlantic Canada and the Prairies that, prior to COVID-19, were not seeing strong market activity but have since reversed course and are now showing elevated sales levels and price appreciation including Regina, Saskatoon and St. John's. As a result, Regina now exhibits moderate evidence of overvaluation as well as a moderate degree of overall vulnerability. Meanwhile, overvaluation estimates in Saskatoon and St. John's have also trended upwards and will be monitored closely.

Elsewhere in the Prairies, Calgary and Edmonton also saw market activity rebound but not to the same extent as other markets across Canada in the third quarter. The dual impact of the COVID-19 pandemic and oil price softness on the economy and jobs in Alberta's two largest centres continues to weigh on housing market activity with year to date sales down by 5% and 2% in Calgary and Edmonton, respectively.[10] Both centres continue to exhibit moderate evidence of overbuilding as of the end of the third quarter.

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.

[10] In contrast, year to date sales (up to September) in other Prairies markets like Winnipeg, Saskatoon and Regina were up 8%, 18% and 15%, respectively.

COVID-19 supports

There exists a wide range of government programs to assist individuals and businesses experiencing financial hardship during the COVID-19 pandemic.[11] These include, but are not limited to, mortgage payment deferrals, Employment Insurance (EI) and the Canada Recovery Benefit (CRB), the Canada Emergency Wage Subsidy (CEWS), and the Canada Emergency Commercial Rent Assistance (CECRA) program. The Canada Emergency Response Benefit (CERB), which provided income support to employed and self-employed Canadians directly affected by COVID-19 at the onset of the pandemic, has now ended. Coverage has transitioned to either the EI program or the CRB. CMHC will continue to closely monitor housing markets as these programs are either withdrawn or transitioned to other programs.

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[11] https://www.canada.ca/en/department-finance/economic-response-plan.html

Victoria

Pershing Sun
Senior Analyst, Economics

The housing market in Victoria remained as moderately vulnerable in Q3 2020 due to the moderate vulnerability detected in overvaluation. While ratings of overheating, price acceleration, and overbuilding remained low, evidence of rising imbalance among submarkets, as well as the disconnection between heightened demand and the elevated unemployment, warrant potential vulnerabilities in the near future.

Results Overview*
Victoria CMA

	Sept. 2020	Dec. 2020
Overheating	Low	Low
Price Acceleration	Low	Low
Overvaluation	Moderate	Moderate
Overbuilding	Low	Low
Overall Assessment	Moderate	Moderate

Degree of vulnerability Low Moderate High

* Results are based on data as of the end of September 2020 (the annual rental apartment vacancy rates are from October 2019) and market intelligence up to November 2020. In an effort to provide timely information, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of the housing market in the third quarter of 2020. Final assessments of vulnerabilities for the third quarter will be presented in the next edition of the HMA as new data becomes available.

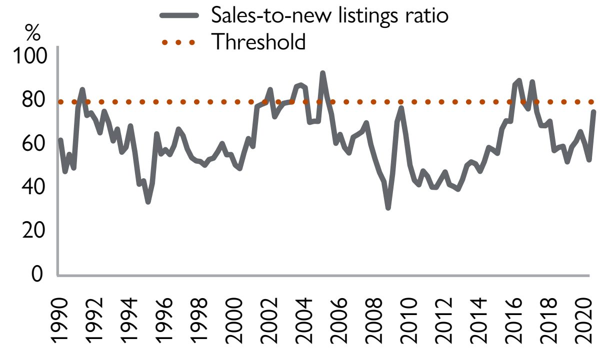
- The ratings of vulnerability in the overall assessment, and each of the individual indicators remained the same in Q3 as the previous quarter in Victoria. Overvaluation continued to signal moderate vulnerability, but the gap between home price and economic fundamentals narrowed as model-estimated price level increased, primarily supported by the low and stable mortgage environment.
- Price acceleration maintained low vulnerability rating despite of trending upwards, as demand for single-detached homes persisted in Q3 and supply of condo/apartment prevailed. This formed a growing imbalance between the two segments as motivated homebuyers took actions on the short-term benefit of low mortgage rate.
- Inventory remained below the overbuilding threshold, although the ever-expanding share of condo/apartment inventory continues to project downward pressure on rent and potentially excessive supply in the post-pandemic era.

Evidence of Overheating Remained Low

The rating of overheating remained low in the Victoria Census Metropolitan Area (CMA) in the third quarter of 2020, as sales-to-new-listing ratio (SNLR) remained below the critical threshold (Chart 1). It is worth noting that the indicator has been trending upward since the April lows and has surpassed the same quarter in 2019 and 2018 as the market continued to recover from the pandemic lock-down period in Q2 across all segments. Year-over-year (YOY) growth of monthly sales in the single-detached segment averaged at over 50%[12] in Q3, comparable to the peak sales level in 2016. On the contrary, new listings of single-detached homes have slowed down in September after resurging in July and August when lock-down measures were relaxed. In the condominium market, year-over-year growth in sales outpaced the same period in 2019 and 2018. New listings, however, grew faster than sales throughout Q3, reaching elevated levels not seen in the past decade. As a result, for the first time since 2008, the inventory (active listings) level of single-detached homes dipped below that of the condominium homes in June and continued to decline further into Q3. Consequently, the sales-to-active-listing ratio (SALR) in the single-detached market not only surpassed pre-pandemic levels in Q3 2019, but continued to increase to levels similar to the summer of 2017. Although all segments have recovered by various degrees from the trough during the lock-down, the dominating demand for single-detached homes was intensified with historically low mortgage rate as well as low and stable interest rate expectations. For potential homebuyers, this effectively shrunk the financial cost differential between purchasing a condominium or a single-detached home. Such financial incentives could explain the persistent uproar of single-detached sales, in addition to the pent-up demand factor from homebuyers.

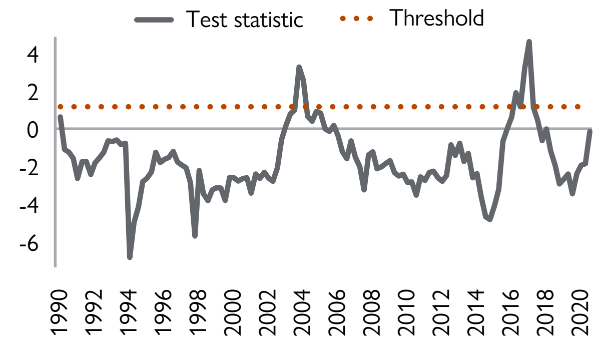
[12] MLS® residential sales, seasonally adjusted.

Figure 1: Low Evidence of Overheating in Victoria



Sources: CREA and calculations by CMHC
Last data point: 2020Q3

Figure 2: Low Evidence of Price Acceleration in Victoria



Sources: CREA and calculations by CMHC
Last data point: 2020Q3

Evidence of Price Acceleration Remained Low

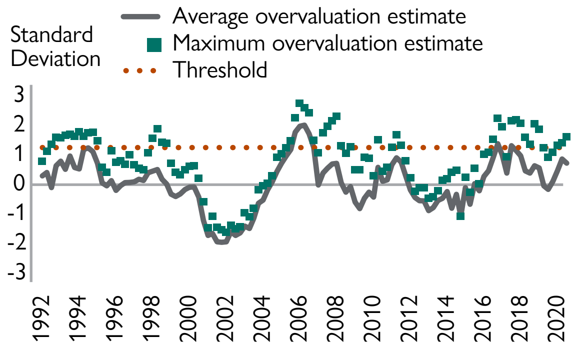
The rating of price acceleration remained low in Q3 2020. The test for price acceleration remained under the critical threshold for the 14th consecutive quarter since it first surpassed the threshold in Q1 2017, therefore the low rating is maintained for Victoria.

Home 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 (up 9% QTQ and 18% YOY), the inflation adjusted Teranet® House Price Index (down 1% QTQ and up 2% YOY), the inflation adjusted Statistics Canada New Housing Price Index (remained stable QTQ and up 2% YOY) and the inflation adjusted CMHC Home Price Index (up 1% QTQ and 6% YOY). The largest submarket in terms of sales are Victoria city core condominiums and the single-detached in Victoria city core, Saanich East, and Langford. The latter three accounted for more than a quarter of total sales across all segments in Victoria in Q3. This led to a year-over-year single-detached price increase of between 3-5% in the Victoria city core region in the three months in Q3, and over 7% in the Westshore area (including Langford, Sooke, etc). Demand surpassed supply in the relatively more expensive single-detached segment, driving up the overall home price in Victoria.

Moderate Evidence of Overvaluation

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 Q3. The model's estimation supported a greater price increase compared to the growth of actual home price in Q3. Comparatively, in the previous quarter, the model estimation supported a price decline whereas the actual price increased. Therefore, the gap between model estimated home price and actual home price narrowed in Q3 after an expansion in the previous quarter.

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: 2020Q3

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 model-estimated home price is based on a number of factors, including population growth and demographics, inflation adjusted personal disposable income, mortgage rates and amortization period, carrying cost for homeowners, and labor productivity (construction sector). The maximum overvaluation gap remained above the threshold in Q3 2020, for the third time in the past four-quarter period, indicative of a need to monitor for persistent signs of overvaluation in the near future.

It is worth noting that one of the contributing factors of the model-estimated price, inflation adjusted personal disposable income[13], has since declined in Q3 after a brief increase in Q2. This could be attributed to the transition of multiple COVID-19 benefit programs, and the slow recovery of the job market in Victoria. Unemployment rate in Q3 was elevated at over 10% whereas the pre-pandemic level was stable at 3-4%. For the 25-44 years-old age group, the unemployment rate was at over 8% in Q3, possibly forcing some potential first-time homebuyers to suspend their home purchase plan. The pause of population growth, primarily supported by international migrations in the pre-pandemic times, could lead to a demand slowdown if cross-border restriction continues. The greatest contributor to the growth of theoretical home price in Victoria is low mortgage rates, which somewhat explains the disconnection between the bleak job market and heightened demand for traditionally less affordable homes during economic uncertainties. Victoria's homebuyers seem to have very little connection with the hardest hit industries and are mostly motivated by the low and stable mortgage rates.

Low Evidence of Overbuilding

Victoria continued to indicate low evidence of overbuilding. The vacancy rate remained at 1% as of October 2019, well below the critical threshold. Inventory of completed and unsold units (per 10,000 population) was below the threshold, although the indicator has been slowly trending upwards in recent years. Condominium/Apartment units dominate both of the completed/unabsorbed inventory and the under construction inventory. This composition pattern started in 2019 and was amplified by the pandemic because of the dwelling preference shift as well as mortgage-incentivised demand increase. Depending on the prospect of the public health crisis, multiple headwind factors including stalled population growth in the homebuyers' age cohort, as well as tenant's dwelling preference change could put downward pressure on rent in the post-pandemic era.

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[13] 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.

Vancouver

Braden T. Batch
Senior Analyst, Economics

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

Results Overview*
Vancouver CMA

	Sept. 2020	Dec. 2020
Overheating		
Price Acceleration		
Overvaluation		
Overbuilding		
Overall Assessment		

Degree of vulnerability **Low** **Moderate** **High**

* Results are based on data as of the end of September 2020 (the annual rental apartment vacancy rates are from October 2019) and market intelligence up to November 2020. In an effort to provide timely information, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of the housing market in the third quarter of 2020. Final assessments of vulnerabilities for the third quarter will be presented in the next edition of the HMA as new data becomes available.

- CMHC's Housing Market Assessment (HMA) reflects 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 vulnerability in the housing market.
- CMHC's analytical framework maintained its ratings for each individual indicator, as the framework did not detect specific vulnerabilities in those areas.
- Local economic conditions predicted increased prices, narrowing the gap between the fundamental price level and the observed price level. However, there is reason to believe fundamental economic strength is not equally distributed in the market.
- The supply of new homes did not outpace demand, and inventory buildup slowed in the new home market.

Backlog of transactions likely cause of strong sales in third quarter

Overheating was not detected for Vancouver. The most notable trend in the third quarter is the return of both buyers and sellers to the market. The data suggests that a certain amount of both groups chose to "wait and see" during the initial COVID-19 lockdown in the second quarter. Both sales and new listings were unseasonably high in the third quarter. It is our opinion that this is because the market is processing both a backlog of second quarter transactions as well as the third quarter transactions that would have happened anyway.

The difficulty for analysis is that this backlog obscures our ability to identify a trend, however, in general, sales grew faster than new listings in most submarkets. The sales-to-available 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. Port Coquitlam and Langley had the largest drawdown of single-detached inventory, with about 30% or more of available homes sold. Typically, this implies a rise in prices as buyers face greater competition for scarce homes. More expensive areas such as West Vancouver and the West side of the City of Vancouver were notable for much less inventory drawdown.

Table 1: Sales-to-Available Ratio

	Single-Detached		Condo (Attached + Apartment)	
	End Q3 2020	End Q3 2019	End Q3 2020	End Q3 2019
Burnaby	21%	13%	20%	19%
Coquitlam	26%	15%	25%	21%
Delta	24%	14%	20%	17%
New Westminster	26%	14%	26%	20%
North Vancouver	28%	16%	22%	20%
Port Coquitlam	37%	17%	31%	21%
Port Moody	23%	11%	29%	27%
Richmond	16%	9%	20%	14%
M Ridge P Meadows	33%	17%	31%	22%

	Single-Detached		Condo (Attached + Apartment)	
	End Q3 2020	End Q3 2019	End Q3 2020	End Q3 2019
Vancouver DT	-	-	15%	18%
Vancouver East	23%	13%	23%	23%
Vancouver West	14%	9%	19%	18%
West Vancouver	12%	7%	9%	7%
Langley	32%	19%	26%	22%
Surrey	26%	15%	24%	19%
S. Surrey / White Rock	18%	9%	24%	17%
Vancouver CMA	23%	13%	22%	19%

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

A balanced market is between 10 and 18%.

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

Price acceleration was not detected in 2020 Q3. MLS® prices increased 10% after adjusting for inflation, a level not seen since 2017. Price growth was not enough to breach the threshold for price acceleration, however.

Apartments in the City of Vancouver, the largest submarket, were in relatively higher demand than those in municipalities further away from the downtown core. Price growth for the City's apartments was in line with the average for the region overall. Meanwhile, apartments further from the core did not see the same appreciation. Surrey single-detached, the next largest sub-market, also saw price growth near the CMA average. In the single-detached markets, the larger price gains were in Delta, White Rock, and Port Moody.

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

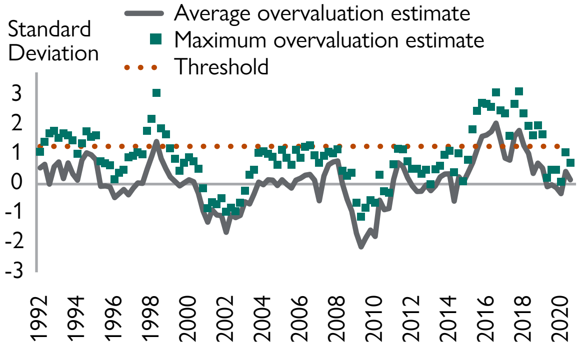
Overvaluation was not detected for Vancouver. While there was considerable price growth in the third quarter, fundamentals predicted a stronger increase than what was observed.

Household incomes increased in Vancouver, even after accounting for net government transfers[14]. 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 actually observed in the data. Given that the observed price level had historically been above the predicted price level, the overvaluation gap narrowed.

With a narrowing gap, 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 recently 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.

[14] 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 1: Low Evidence of Overvaluation in Vancouver



Sources: CREA, Statistics Canada, Teranet and National Bank of Canada, and calculations by CMHC
Last data point: 2020Q3

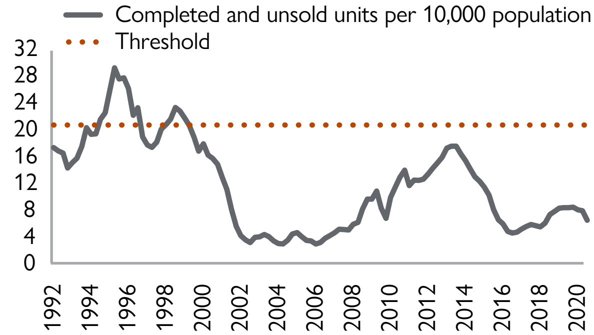
Note: The average estimate of overvaluation is the average gap between actual house prices and their fundamental level estimated from a group of selected models. There are five models in total, each of which is estimated using four measures of house prices to generate twenty unique estimates of overvaluation.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

Overbuilding is not a factor in this quarter's assessment. A low elasticity of supply decreases the likelihood of Vancouver facing overbuilding[15].

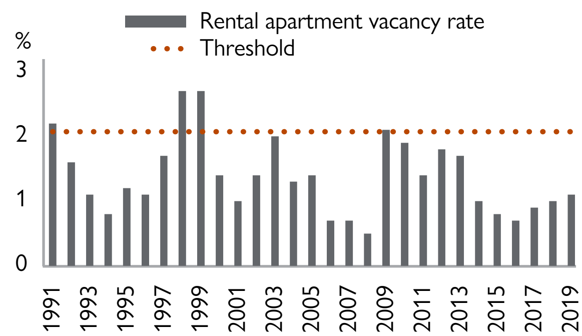
Inventories of multifamily structures declined even before figuring in the per capita level, some of this is due to lower completions of condo structures. For single- and semi-detached structures, the inventory held flat into the third quarter with flat completion levels, maintaining the status quo from the second quarter. Overall, the completed and unsold stock remains low relative to the local population in the Vancouver. As the purpose-built rental apartment vacancy rate is reported annually, there was no change in status this quarter and it remains below the threshold.

Figure 2: Low Evidence of Overbuilding in Vancouver (ownership market)



Sources: Statistics Canada and CMHC
Last data point: 2020Q3

Figure 3: Low Evidence of Overbuilding in Vancouver (purpose-built rental market)



Source: CMHC
Last data point: 2019

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[15] CHMC (2018), Examining Escalating House Prices in Large Canadian Metropolitan Centres

Edmonton

Christian Arkilley
Senior Analyst, Economics

Overbuilding continues to be assessed as moderate even though inventories declined due to high demand for housing units. The high demand was notwithstanding COVID-19 restrictions and economic uncertainties in Edmonton.

Results Overview*
Edmonton CMA

	Sept. 2020	Dec. 2020
Overheating	Low	Low
Price Acceleration	Low	Low
Overvaluation	Low	Low
Overbuilding	Moderate	Moderate
Overall Assessment	Low	Low

Degree of vulnerability Low Moderate High

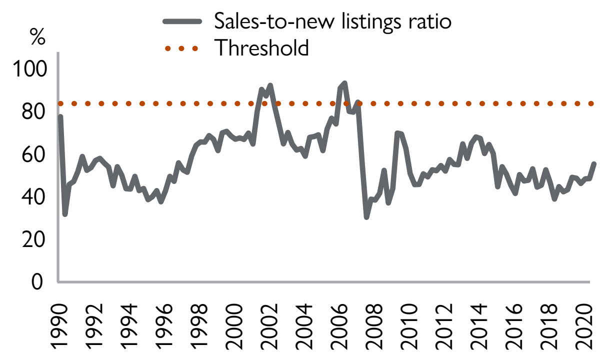
* Results are based on data as of the end of September 2020 (the annual rental apartment vacancy rates are from October 2019) and market intelligence up to November 2020. In an effort to provide timely information, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of the housing market in the third quarter of 2020. Final assessments of vulnerabilities for the third quarter will be presented in the next edition of the HMA as new data becomes available.

- The overall vulnerability assessment for the Edmonton market remained low in Q3-2020
- Overvaluation is assessed as low, unchanged from previous quarter as fundamental demand factors trended lower
- Overbuilding was maintained as moderate despite the number of completed and unabsorbed units per capita remaining above the critical threshold (persistence rule)
- Overheating and price acceleration continue to exhibit low evidence of vulnerabilities

Low evidence of overheating

In Q3 2020, both sales and new listings trended up sharply. With lower nominal mortgage rates, demand for existing homes went up in the third quarter of 2020 when the COVID-19 restrictions were eased resulting in increased sales. Stronger demand was met with growth in supply, as new listings also increased. However, the increase in sales was sharper than that of new listings. This resulted in the seasonally adjusted sales-to-new listings (SNL) ratio trending up to an average 56.7%, 6.9 percentage points higher than what was observed in the previous quarter. Despite the increase, the SNL ratio was still well below the 85% threshold set for overheating. Therefore, the evidence of overheating continued to be low in the Edmonton CMA.

Figure 1: Low Evidence of Overheating in Edmonton

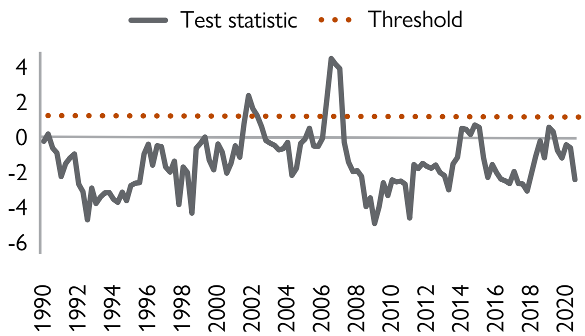


Sources: CREA and calculations by CMHC
Last data point: 2020Q3

Low Evidence of Price Acceleration

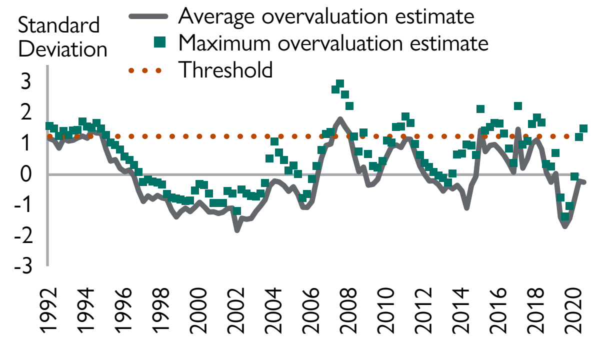
The HMA framework detected low evidence of price acceleration in the Edmonton housing market. Resale prices bounced back in the third quarter of 2020, with the MLS® average price increasing by 2.9% compared to same period the previous year. When adjusted for inflation, real MLS® average price increased by 6%. Rising demand for single-detached homes drove average home prices upwards. The decline in the real 5-year discounted mortgage rate, gains in the labour market in the third quarter compared to the previous quarter coupled with the decline in inventories in the new home market also contributed to the upward pressure on home prices in the CMA. With both sales and new listings increasing in the third quarter of 2020, as well as the decrease in inventories, there is an indication that the Edmonton housing market is heading towards balance.

Figure 2: Low Evidence of Price Acceleration in Edmonton



Sources: CREA and calculations by CMHC
Last data point: 2020Q3

Figure 3: Low Evidence of Overvaluation in Edmonton



Sources: CREA, Statistics Canada, Teranet and National Bank of Canada, and calculations by CMHC
Last data point: 2020Q3

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

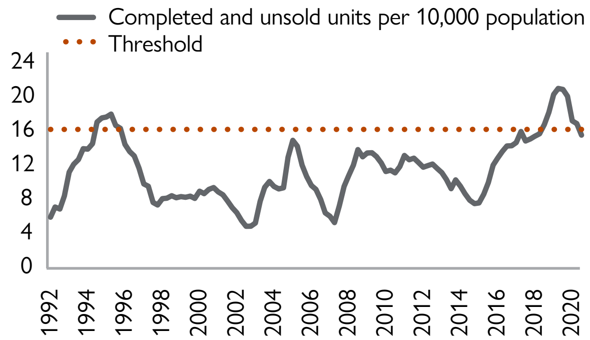
There were decreases in fundamental demand factors such as the share of population of young adults (aged 25-34) and COVID-19 adjusted real personal income[16] in the third quarter of 2020 compared to the previous quarter. However, the decrease in the real 5-year discounted mortgage rate provided some support for fundamental prices. The improvement in the labour market in the third quarter of 2020 due to the easing of COVID-19 restrictions also impacted housing market demand. As a result, the real MLS® average price increased in the third quarter of 2020 compared to the same quarter of 2019. The maximum overvaluation estimate from the individual selected models is slightly above the critical threshold in Q3-2020. However, there needs to be two quarter above threshold in the past four quarters to detect moderate evidence of overvaluation. The gap between actual house prices and price levels predicted by economic fundamentals remain below the critical threshold for the average overvaluation gap. Evidence of overvaluation therefore, remains low in Edmonton.

Moderate evidence of overbuilding

The moderate rating on overbuilding is unchanged from the previous release. In the third quarter of 2020, the number of completed and unabsorbed units per 10,000 population declined below the overbuilding threshold (Figure 4). However, since there is still at least two data points above threshold in the past four quarters, evidence of overbuilding is judged to moderate. Inventory of completed and unabsorbed units declined by 25% in the third quarter of 2020 compared to same quarter the previous year. There were decreases in all housing types with single-detached decreasing by 23% while apartment inventories fell by 28%. The fall in inventories was despite increase in completions.

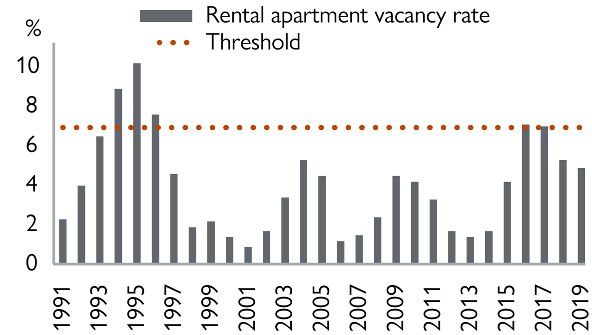
[16] The COVID-19 pandemic has triggered atypical variations in several economic indicators, including disposable income. In order to generate more reliable results, the real (inflation-adjusted) disposable income data included in the HMA overvaluation framework in this edition was adjusted to capture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

Figure 4: Evidence of Overbuilding in Edmonton (ownership market)



Sources: Statistics Canada and CMHC
Last data point: 2020Q3

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



Source: CMHC
Last data point: 2019

The vacancy rate in Edmonton decreased to 4.9% in 2019 from 5.3% in 2018 and remains below the critical threshold for overbuilding. Travel restrictions due to the COVID-19 pandemic has limited International migration. This means that rental demand is likely to be impacted since international migration is a major contributor to rental demand in the CMA.

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Calgary

Michael Mak
Senior Analyst, Economics

Calgary's housing market continues to show moderate levels of overbuilding as high levels of unsold inventory persist, and inventory under construction remains elevated. Current economic conditions from the pandemic and energy sector impact continue to dampen housing demand, especially in multi-family units.

Results Overview*
Calgary CMA

	Sept. 2020	Dec. 2020
Overheating	■	■
Price Acceleration	■	■
Overvaluation	■	■
Overbuilding	■	■
Overall Assessment	■	■

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

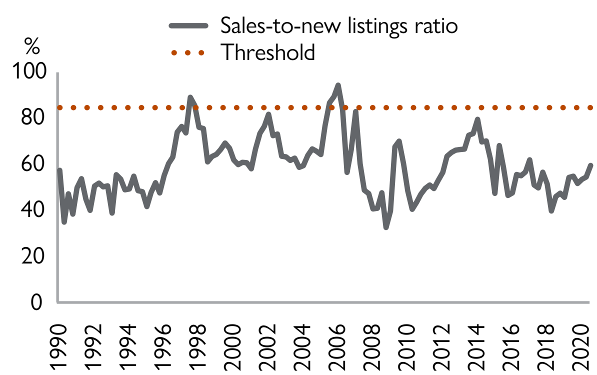
* Results are based on data as of the end of September 2020 (the annual rental apartment vacancy rates are from October 2019) and market intelligence up to November 2020. In an effort to provide timely information, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of the housing market in the third quarter of 2020. Final assessments of vulnerabilities for the third quarter will be presented in the next edition of the HMA as new data becomes available.

- The Housing Market Assessment (HMA) model continues to detect a low degree vulnerability in the Calgary Census Metropolitan Area (CMA).
- Evidence of price acceleration continues to be low, despite a rise in average sales price.
- Overvaluation continues to not be detected, as fundamental economic factors supporting home price growth rose, shrinking the gap between the fundamental valuation home price level and actual prices.
- Unsold home inventories fell slightly, but remained above the overbuilding threshold.

Overheating

The Calgary CMA continues to display low evidence of overheating, according to the HMA model. In the third quarter of 2020, the Sales-to-New-Listings Ratio (SNLR) pointed higher, reaching 60%, a level last seen in early 2017. While this ratio remains 25% below what is considered the overheating threshold, the SNLR continues to trend higher since recent lows in early 2019. This increase from last quarter's measure of 55% is largely driven by an increase in sales activity as pandemic related lockdown measures were lifted in the summer months together with a more certain economic outlook. When adjusted for seasonality, quarterly sales were up 77%, while the same adjustment for new listings were up 59%, compared to the second quarter. Sales in the single detached segment were especially strong in the third quarter with higher sales compared to the same time last year. The Apartment/Condo segment, however, remains relatively flat compared to Q3 2019.

Figure 1: Low Evidence of Overheating in Calgary

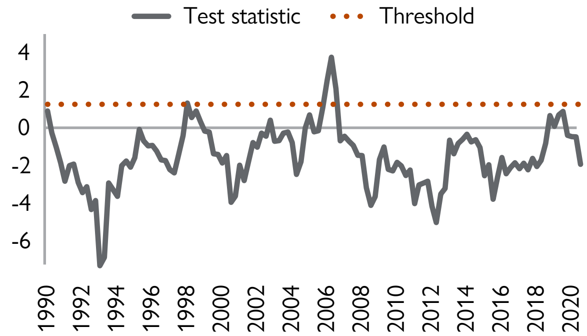


Sources: CREA and calculations by CMHC
Last data point: 2020Q3

Price Acceleration

The HMA model continues to detect low level of evidence in price acceleration. While the inflation adjusted average price was up over 8% this quarter, the test statistic has moved further away from the threshold for accelerating prices, indicating a lower likelihood of accelerating growth occurring in the Calgary CMA. In the third quarter of 2020, the MLS® average price was $471,363, up 5.6% from the previous quarter. Adjusted for seasonality, average prices were up almost 8.9%. At these levels, both unadjusted and seasonally adjusted average prices were higher than the same time last year, at 3.6% and 6.2% respectively. The increase in average prices were however, caused by a compositional shift in sales. As lockdown measures eased over the summer months, sales increased in single family detached homes located in the more expensive North-Western and Western sectors of Calgary. At the same time, cheaper Apartment/ Condo units did not fare so well, making up a smaller share of overall sales.

Figure 2: Low Evidence of Price Acceleration in Calgary

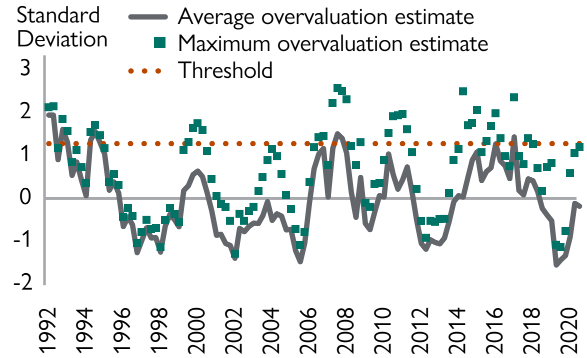


Sources: CREA and calculations by CMHC
Last data point: 2020Q3

Overvaluation

The HMA model continues to show low evidence of overvaluation in the Calgary CMA. Different from the second quarter, both the observed home prices and fundamentally predicted home prices rose compared to the previous quarter. The level of overvaluation was relatively flat compared to the previous quarter, as the gap between observed and predicted prices shrank. This quarter, the rise in the fundamental home price measure was largely driven by decreases in both the inflation adjusted and nominal five-year discounted mortgage rates. While other economic factors, such as a lower real personal disposable income,[17] and a lower share of population growth in the 25-34 segment, these factors were not enough to offset the greater effect driven by mortgage rates. The gaps between actual house prices and price levels supported by fundamentals remain below the critical threshold (for both the maximum overvaluation gap and the average overvaluation gap).

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: 2020Q3

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.

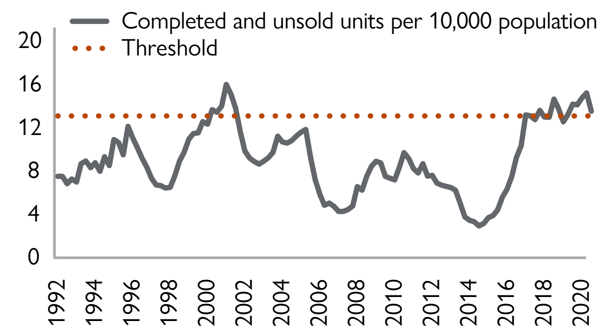
Overbuilding

The HMA measure of overbuilding continues to show a moderate level of evidence. Completed and unsold ownership units per 10,000 population slightly dipped compared to the previous quarter, but remained above the overbuilding critical threshold. Continuation of unsold inventory per capita above the threshold has led to the fourth consecutive quarter where evidence of overbuilding has been rated as moderate. Overbuilding persists in the Calgary CMA largely due to the consistent level of starts over previous quarters, combined with an elevated level of under construction inventory, indicating higher levels of near future supply. As of the end of the third quarter, there were over 6,600 apartment units under construction, making up the bulk of the 10,000 total housing units under construction in the CMA. Completed and unsold inventory decreased in the third quarter across all segments except for row-type housing, which remained relatively flat.

[17] 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.

Total completed and unsold inventory at the end of Q3 was down 12% from the end of the second quarter. Seasonally adjusted, this figure was down 11% from the previous quarter. The share of unsold apartment units remains high, at 40% of total unsold inventory in Calgary. Although the overbuilding indicator declined closer to the threshold in the summer, when row and apartment type housing are isolated, the gap between unsold units per capita and the overbuilding threshold is higher compared to the total. This points to multi-family housing continuing to be the main driver of the overbuilding metric in Calgary. Economic uncertainty and pandemic impacts continue to dampen the demand for new housing, but overbuilding largely remains as a supply-side imbalance. With a continued moderate rating for four consecutive quarters, the measure of overbuilding is on watch for a move higher if completed unsold inventory does not decrease.

Figure 4: Evidence of Overbuilding in Calgary (ownership market)



Sources: Statistics Canada and CMHC
Last data point: 2020Q3

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Saskatoon

Goodson Mwale
Senior Analyst, Economics

There is continued evidence that overvaluation imbalances are emerging in the Saskatoon market, signaled by stronger observed house prices than those estimated from housing fundamentals. While we have retained the low overvaluation rating for the moment, we will closely monitor this indicator over the next several quarters.

Results Overview*
Saskatoon CMA

	Sept. 2020	Dec. 2020
Overheating	■	■
Price Acceleration	■	■
Overvaluation	■	■
Overbuilding	■	■
Overall Assessment	■	■

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

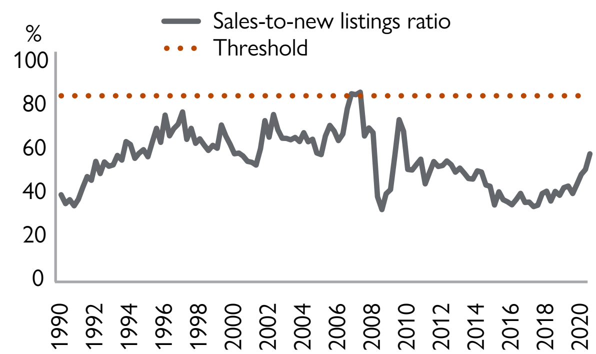
* Results are based on data as of the end of September 2020 (the annual rental apartment vacancy rates are from October 2019) and market intelligence up to November 2020. In an effort to provide timely information, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of the housing market in the third quarter of 2020. Final assessments of vulnerabilities for the third quarter will be presented in the next edition of the HMA as new data becomes available.

- Overall, there continues to be a low degree of vulnerability in the Saskatoon housing market.
- Despite rebounding resale activity, evidence of overheating and accelerating house prices remains low.
- We have maintained the low rating on overvaluation. However, emerging overvaluation imbalances warrant close monitoring.
- There continues to be low evidence of overbuilding as new housing inventory and the rental vacancy rate remain below their respective critical thresholds.

Market has tightened, but evidence of overheating remains low

Saskatoon's housing market moved further into balance in Q3 2020, with home sales trending much higher than new listings. Buyers have remained enthusiastic despite the prospect of continued restrictions surrounding COVID-19, particularly in light of the Bank of Canada's recent forward guidance of a low interest rate environment through 2022. Additionally, employment among the population aged 25-44 years was up 4.9% through September 2020, compared to the same period of 2019. Collectively, these factors supported a sharp increase in seasonally adjusted MLS® sales to 1,776 units in Q3 2020 from 1,139 in Q2 2020. On the other hand, new listings trended lower, with fewer sellers willing to conduct property showings during a pandemic. Given low resale inventory and surging demand, the sales-to-new listings ratio (SNLR) trended up to 58.4% in Q3 2020 from 51.2% in Q2 2020. However, at this level, the SNLR was still below the critical threshold of 85% set to signal overheating. Therefore, we have maintained the low rating for this factor in the current release.

Figure 1: Low Evidence of Overheating in Saskatoon

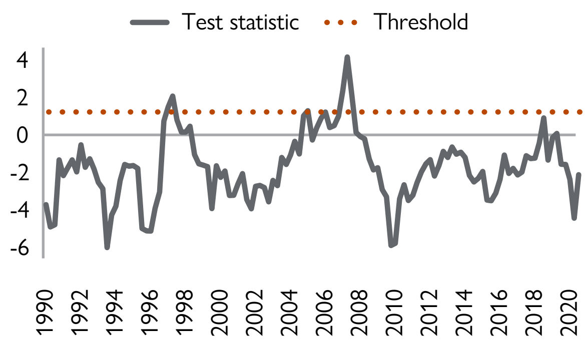


Sources: CREA and calculations by CMHC
Last data point: 2020Q3

Low rating on price acceleration is maintained

While the market experienced upward pressure on prices in Q3 2020, evidence of a sustained increase in the growth rate of house prices remained low, as indicated by the test statistic that remained below the critical threshold (Figure 2). Nonetheless, a balanced market resulted in positive price gains, with Saskatoon's inflation-adjusted average MLS® price rising 3.76% in Q3 2020 from Q2 2020, and up 5.43% on a year-over-year basis. Similarly, the MLS® HPI composite benchmark price[18] rose 3.15% in Q3 2020 to $300,021 from $290,856 in the same quarter of 2019. Overall, the majority of sold listings have occurred in the low-to-mid range of the market, where demand for lower-priced options has been increasing. In the submarkets, the benchmark price for condominium apartments was up the most, rising 3.47% in Q3 2020 from a year earlier. Under the same comparison, prices for single-detached homes and townhouses rose 2.95% and 2.06%, respectively.

Figure 2: Low Evidence of Price Acceleration in Saskatoon

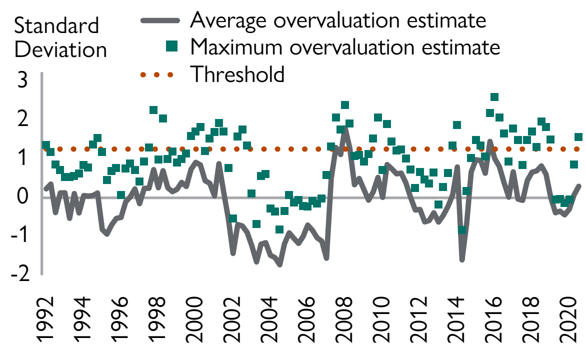


Sources: CREA and calculations by CMHC
Last data point: 2020Q3

Emerging overvaluation imbalances remain a concern

While we have maintained our low rating on overvaluation, observed prices in the Saskatoon market in Q3 2020 were much stronger than the price level predicted by housing fundamentals. The weakness in the fundamental price was largely due to a fall in the adjusted real personal disposable income[19] per capita, which more than offset the positive effects of a decline in the real mortgage rate. Figure 3 indicates that the maximum overvaluation estimate from the individually selected models was above the critical threshold in Q3 2020. In addition, the average of the gaps from all selected models was above zero, although it remained below its critical threshold. At the very least, this seems to suggest an increasing level of vulnerability in the market, albeit not yet sufficient to warrant a change in the overvaluation rating. For all these reasons, we will closely monitor the evolution of these imbalances over the next several quarters.

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: 2020Q3

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.

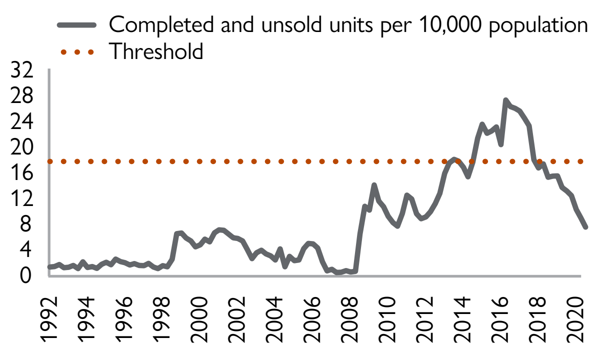
[18] Source: CREA. The MLS® HPI is based on a hybrid model that merges repeat-sales and hedonic price approaches, and reflects the contribution made by various quantitative and qualitative housing features towards the home price.

[19] 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.

Evidence of overbuilding remains low

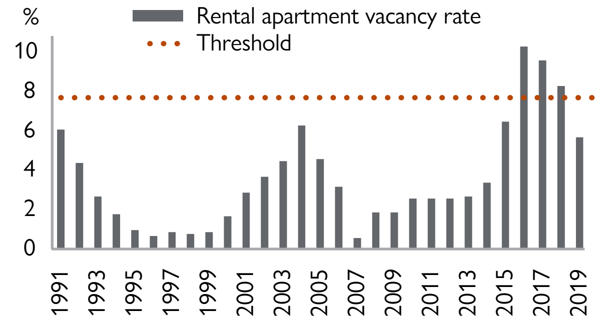
The HMA framework continued to detect low evidence of overbuilding in Q3 2020. The inventory of completed and unsold units per 10,000 population in the Saskatoon CMA remained below its critical threshold, where it has been since early 2018. From a historical point of view, new housing inventory peaked in Q2 2016 and has trended lower ever since. At the end of September 2020, homebuilders had managed to drawdown their inventory to levels not seen since 2012. Along with a resilient resale market, the low inventory has allowed builders to initiate new projects this year, with new home construction in the Saskatoon CMA rebounding sharply to date from a 14-year low reached in 2019.

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



Sources: Statistics Canada and CMHC
Last data point: 2020Q3

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



Source: CMHC
Last data point: 2019

Given that our rental vacancy rate indicator was also below its critical threshold in 2019, it is our judgement that there exists very little evidence of vulnerabilities in the Saskatoon housing market that can be associated with overbuilding.

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Regina

Taylor Pardy
Senior Analyst, Economics

Moderate evidence of overvaluation was detected in the Regina CMA in the third quarter of 2020 as increases in house prices as well as declines in key fundamentals supporting prices contributed to widening the overvaluation gap. As a result, the Regina CMA now exhibits a moderate degree of overall vulnerability.

Results Overview*
Regina CMA

	Sept. 2020	Dec. 2020
Overheating	Low	Low
Price Acceleration	Low	Low
Overvaluation	Low	Moderate
Overbuilding	Moderate	Moderate
Overall Assessment	Low	Moderate

Degree of vulnerability **Low** **Moderate** **High**

* Results are based on data as of the end of September 2020 (the annual rental apartment vacancy rates are from October 2019) and market intelligence up to November 2020. In an effort to provide timely information, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of the housing market in the third quarter of 2020. Final assessments of vulnerabilities for the third quarter will be presented in the next edition of the HMA as new data becomes available.

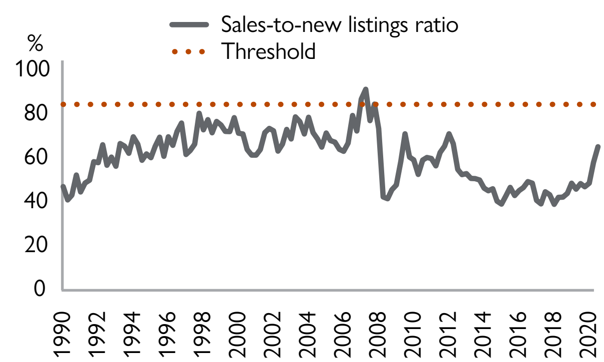
- There continues to be low evidence of overheating and price acceleration in the Regina CMA.
- Moderate evidence of overvaluation in house prices was detected as of Q3 2020 with significant upward movement in the average overvaluation estimate. This was largely a result of both increases in house prices as well as declines in key fundamental factors underpinning prices.
- The Regina CMA maintained moderate evidence of overbuilding in the third quarter as the purpose-built apartment vacancy rate remained above its critical threshold.
- Overall, the Regina CMA now exhibits a moderate degree of vulnerability as of Q3 2020.

Low Evidence of Overheating

At the onset of the COVID-19 pandemic, the overheating indicator in the Regina CMA trended upward as the decline in new listings outpaced the decline in sales activity in the second quarter. Near the end of the second quarter, as pandemic restrictions began to relax going into the summer, a rebound in sales activity which outpaced a simultaneous recovery in new listings resulted in the overheating indicator continuing to trend upward in third quarter.[20] In particular, seasonally-adjusted sales activity in the Regina CMA was up approximately 56% in the third quarter while new listings increased by 37%. The result was the sales-to-new-listings ratio (SNLR) moving upward to 66%, a level historically indicative of balanced market conditions, while continuing to remain below the HMA framework's critical threshold of 85% for overheating.

It is also worth noting that the overall pace of sales in the Regina CMA has been quite strong since June with seasonally-adjusted monthly sales consistently coming in approximately 40% above the previous peak pace of sales seen in 2012 when the pace of population growth was strong and the unemployment rate was low.[21] Notably, ground-oriented housing options have seen the strongest sales activity since the onset of the pandemic. In particular, despite a rebound in sales of all housing types, single-detached home sales in the third quarter were up approximately 50% relative to the same period last year. On a year to date basis, with data up to September, sales of single-detached, attached and apartment units were up 14%, 9% and 5%, respectively.

Figure 1: Low Evidence of Overheating in Regina



Sources: CREA and calculations by CMHC
Last data point: 2020Q3

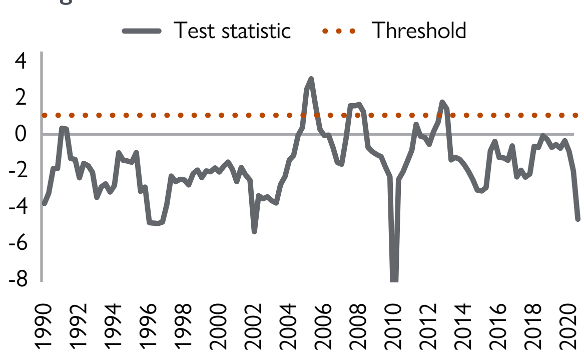
[20] The Overheating indicator is represented by the sales-to-new-listings ratio (SNLR).

[21] This trend has remained consistent with data up to October 2020 depicting equally strong sales.

Low Evidence of Price Acceleration

The Regina CMA continued to exhibit low evidence of price acceleration in the third quarter of 2020 as the test statistic did not exceed the critical threshold (see Figure 2). The inflation-adjusted MLS® average price increased by approximately 4% in the third quarter, relative to the second quarter where the average price declined by 2% as the pandemic took hold. On a year-over-year basis, the inflation-adjusted MLS® average price was up approximately 1.4% in the third quarter, relative to the same quarter in 2019. Since 2014, average prices have been slowly trending downward in the Regina CMA due to softer economic conditions and elevated inventories in both the existing and new home markets. However, given the strong pace of sales since June and the subsequent decline in inventories in the existing and new home markets, the return of price growth is indicative of more balanced market conditions in most segments of the market (see Figure 4). While most segments of the market have seen a shift in market conditions and a return to price growth, apartment condo prices were down on a year-over-year basis as of the third quarter. In particular, year-over-year MLS® HPI Benchmark price growth for single-detached, attached and apartment condos was +3.7%, +3.5% and -8.1%, respectively.

Figure 2: Low Evidence of Price Acceleration in Regina

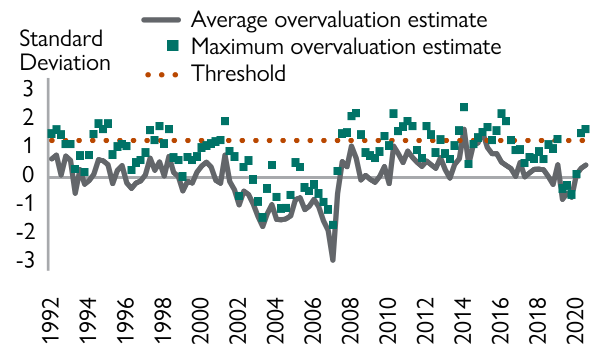


Sources: CREA and calculations by CMHC
Last data point: 2020Q3

Moderate Evidence of Overvaluation

Moderate evidence of overvaluation was detected for the Regina CMA in the third quarter of 2020 following three years of low evidence of overvaluation. While the estimate for average overvaluation remained below the critical threshold in the third quarter, at least one of the individual models used to assess overvaluation moved above the critical threshold necessitating a change in the rating.

Figure 3: Moderate Evidence of Overvaluation in Regina



Sources: CREA, Statistics Canada, Teranet and National Bank of Canada, and calculations by CMHC
Last data point: 2020Q3

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.

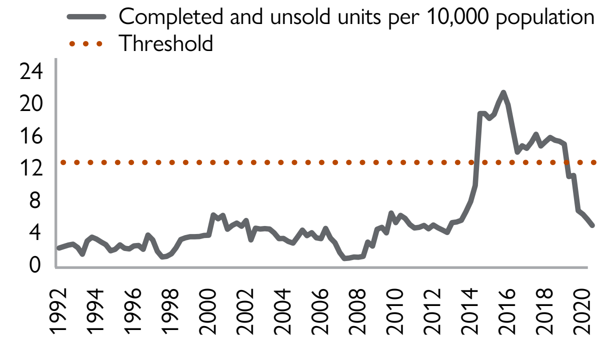
In particular, upward movement in the individual and average estimates of overvaluation in the third quarter was a function of both upward movement in selling prices in the third quarter as well as downward pressure on key fundamental factors underpinning prices. In particular, despite continued (albeit slower) population growth as well as lower mortgage rates supporting borrowing capacity for prospective buyers, declines in the adjusted real personal disposable income per capita and a decline in the share of the population aged 25 to 34 were key contributors to a decline in the price level that could be supported by fundamentals in the third quarter. Given that actual selling prices increased in the third quarter, a decline in the price level that could be supported by fundamentals resulted in the overvaluation gap widening in the Regina CMA, with some individual models actually moving above the critical threshold signaling moderate evidence of overvaluation. Notably, the move towards using adjusted real personal disposable income per capita in the third quarter also influenced estimates of overvaluation in the third quarter.[22]

Moderate Evidence of Overbuilding

The HMA framework continued to detect moderate evidence of overbuilding in the Regina CMA as of the third quarter of 2020. On the ownership side of the market, inventories of completed and unsold homes have continued to decline at a steady pace since the onset of the pandemic as the pace of absorption for new units coming onto the market has remained stable while the pace of new home completions has been cyclically low. A slower pace of completions relative to absorptions is the result of builders scaling back on new projects significantly in 2019 in order to sell off unsold inventories which were elevated at the time. Given the steady pace of new home absorptions relative to completions in the first nine months of 2020, declining inventories have resulted in the overbuilding indicator on the ownership side of the market remaining significantly below its critical threshold as of the third quarter.

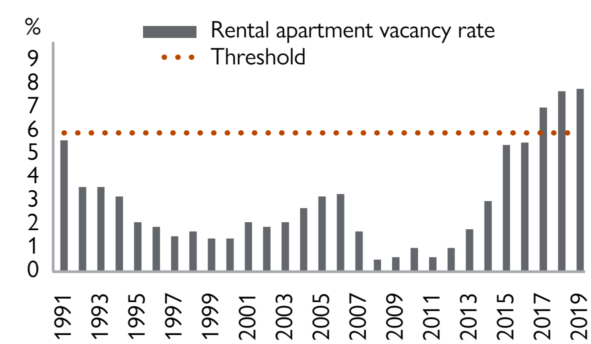
While vulnerabilities related to overbuilding have diminished on the ownership side of the market, the purpose-built apartment vacancy rate in the primary rental market remained above its critical threshold in the third quarter, contributing to the moderate overbuilding rating in the Regina CMA. In contrast with the ownership side of the market, imbalances related to overbuilding in the rental market persist at a time when fundamentals that typically support rental demand have been impacted significantly by the COVID-19 pandemic. In particular, international migration into the Regina CMA has historically been a key source of rental demand; however, international migration has slowed significantly since the onset of the pandemic. As a result, there is the potential for an elevated level of vulnerability in the rental market in the short-run. CMHC will continue to monitor and report on conditions in the primary rental market in the coming months.

Figure 4: Evidence of Overbuilding in Regina (ownership market)



Sources: Statistics Canada and CMHC
Last data point: 2020Q3

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



Source: CMHC
Last data point: 2019

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[22] 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.

Winnipeg

Heather Bowyer
Senior Analyst, Economics

Continued declines in inventory levels has moved the degree of overbuilding to low in the Winnipeg CMA. While evidence of imbalances remain low among other indicators, a rising sales-to-new listings ratio could put pressure on the level of overheating in the future.

Results Overview*
Winnipeg CMA

	Sept. 2020	Dec. 2020
Overheating	Low	Low
Price Acceleration	Low	Low
Overvaluation	Low	Low
Overbuilding	Moderate	Low
Overall Assessment	Low	Low

Degree of vulnerability Low Moderate High

* Results are based on data as of the end of September 2020 (the annual rental apartment vacancy rates are from October 2019) and market intelligence up to November 2020. In an effort to provide timely information, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of the housing market in the third quarter of 2020. Final assessments of vulnerabilities for the third quarter will be presented in the next edition of the HMA as new data becomes available.

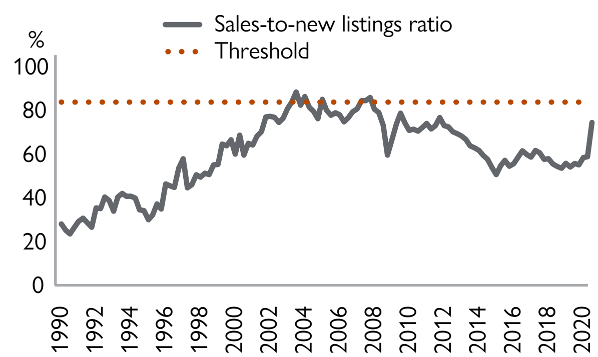
- Overall, a low degree of vulnerability was detected in Winnipeg's housing market, unchanged from the previous assessment.
- The degree of overbuilding moved from moderate to low as inventory levels continued to decline.
- While there continued to be low evidence of overheating, the sales-to-new listings ratio increased sharply in the third quarter of 2020. Potential future imbalances in this indicator will be closely monitored.
- Factors such as price acceleration and overvaluation continue to show low evidence of vulnerabilities.

Overheating

While there continued to be low evidence of overheating in the Winnipeg CMA, the seasonally adjusted sales-to-new listings (SNL) ratio increased sharply, moving up towards the 85% threshold as indicated in Figure 1. The seasonally adjusted SNL ratio was 76% in the third quarter of 2020, an increase from the 60% in the second quarter. The upwards movement in the seasonally adjusted SNL is a result of sales increasing faster than new listings.

Demand for homes increased as many of the temporary shutdown measures were relaxed, and individuals took advantage of historically low mortgage rates. In the third quarter of 2020, seasonally adjusted sales increased 53% compared to the previous quarter, while new listings increased 22%.

Figure 1: Low Evidence of Overheating in Winnipeg



Sources: CREA and calculations by CMHC
Last data point: 2020Q3

Price Acceleration

The HMA framework detected low evidence of price acceleration. In the third quarter of 2020, the seasonally adjusted average MLS® price was $324,965, an increase of 7% compared to the previous quarter. The seasonally adjusted CREA benchmark price also increased, up 4% over the same time period. All housing types posted gains, as single-family homes increased 4% while apartment units increased 3%. Strong demand for housing, particularly on the single-family side, has contributed to the upwards movement in house prices.

Overvaluation

The evidence of overvaluation remained low in the Winnipeg CMA in the third quarter of 2020 as the gap between observed home prices and those predicted by current fundamentals remained below the critical threshold[23]. Low mortgage rates led to an increase in the fundamental house price, while observed house prices also increased, which resulted in an increase in the overvaluation gap from the previous quarter.

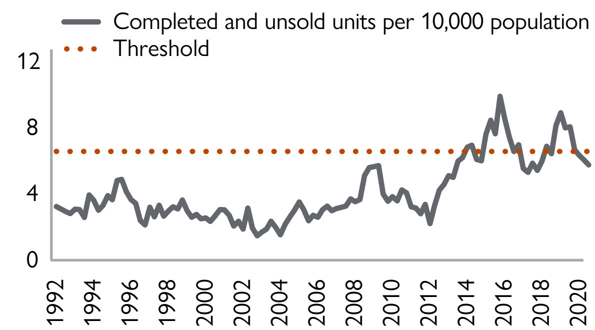
The majority of the labour market in the Winnipeg CMA continues to face challenges, and has yet to recover to pre-pandemic levels in February. Despite the easing of pandemic restrictions, employment fell by 9,000 positions in the third quarter of 2020 on a year-over-year basis. However, employment levels have fared better in some industries than others. The professional services industry, many of which were deemed as essential services during the initial shutdowns, posted strong employment gains in the third quarter on a year-over-year basis, up 14%. Unaffected by job losses, households employed in this sector may have chosen to purchase a home, contributing to increased sales and the gain in observed home prices.

Overbuilding

Evidence of overbuilding moved from moderate to low in the Winnipeg CMA as the inventory of completed and unsold units per 10,000 population remained below the threshold as indicated in Figure 2. In the third quarter of 2020, total units in inventory reached 442, a decrease of 28% compared to the same time period last year and the lowest inventory level since the third quarter of 2017.

There was a large drop in condominium apartment units in inventory, which fell 43% in the third quarter of 2020 compared to the same quarter in 2019. There has been a significant slowdown in the number of newly completed condominium apartment units, which has contributed to limiting the growth of inventory levels. In addition, inventories of single-detached units also posted a considerable decline of 25% over the same time period. Similar to the resale market, single-detached homes typically comprise more of the demand for new construction, reflected in a higher number of absorbed units. In the third quarter of 2020, outlying areas of the Winnipeg CMA experienced the highest number of new absorptions.

Figure 2: Low Evidence of Overbuilding in Winnipeg (ownership market)



Sources: Statistics Canada and CMHC
Last data point: 2020Q3

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[23] 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

House prices accelerated in Hamilton and became increasingly more detached from economic and demographic fundamentals in the third quarter, triggering a change in the overall degree of vulnerability from moderate to high.

Results Overview* Hamilton CMA

	Sept. 2020	Dec. 2020
Overheating	Moderate	Moderate
Price Acceleration	Low	Moderate
Overvaluation	Low	Moderate
Overbuilding	Low	Low
Overall Assessment	Moderate	High

Degree of vulnerability Low Moderate High

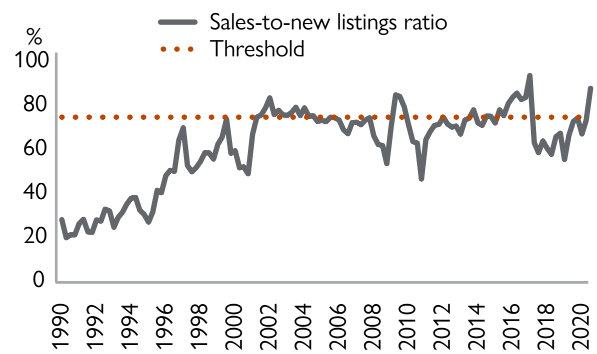
* Results are based on data as of the end of September 2020 (the annual rental apartment vacancy rates are from October 2019) and market intelligence up to November 2020. In an effort to provide timely information, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of the housing market in the third quarter of 2020. Final assessments of vulnerabilities for the third quarter will be presented in the next edition of the HMA as new data becomes available.

Overall Assessment for Hamilton Changed from Moderate to High

Overheating

The overheating rating was maintained due to the resale market being near or above the threshold since late 2019, as exhibited in Figure 1. Resale market conditions became even more favourable to sellers since our last assessment, with the sales-to-new-listings ratio increasing to nearly 90%. Between the second and third quarters of 2020, the number of sales increased far more than the number of new listings. Homeownership demand rebounded strongly due to a combination of factors. Hamilton's economy moved into stage 2 and 3 of re-opening[24], social distancing measures were relaxed and mortgage rates decreased. Some temporary restrictions remained on property showings in the third quarter, likely discouraging some homeowners from listing.

Figure 1: Evidence of Overheating in Hamilton



Sources: CREA and calculations by CMHC
Last data point: 2020Q3

The disproportionate increase in sales compared to new listings suggests that a greater number of transactions were made by either local first-time buyers, local property investors or buyers from other regions, such as Toronto CMA. These buyers only add to the number of sales in Hamilton, not the number of listings. Among them, buyers from pricier neighbouring areas of Toronto CMA likely had the greatest impact on sales activity, since the strongest sales growth occurred in some of Hamilton's most expensive neighbourhoods in Burlington, Ancaster and Stoney Creek.

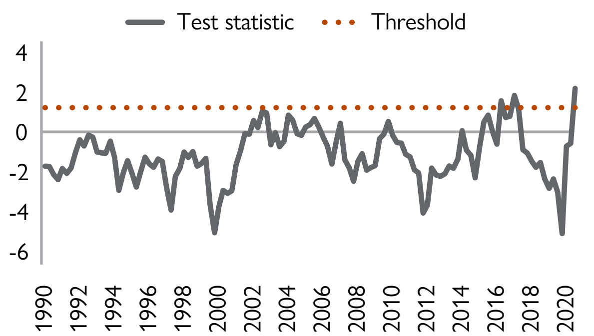
Market conditions did not change significantly between the third quarter and the first two months of the fourth quarter. Sales and new listings both decreased by similar amounts over that time. While sales activity diminished, it remained well above levels that typically occur in the October-November period. This suggests that pent-up demand was still being exhausted. The number of new listings decreased to levels that were consistent with recent historical data for those months.

[24] Government of Ontario. (2020). Archived - Reopening Ontario in stages. Retrieved from https://www.ontario.ca/page/reopening-ontario-stages

Price acceleration

As shown in figure 2, price acceleration was signalled due to a sustained increase in the growth rate of Hamilton's real average MLS® price[25]. Year-over-year price growth rates not only increased, they were in double-digit territory in each of the first three quarters of 2020. The strongest price growth occurred in the third quarter, when an already tight resale market became more favourable to sellers and a larger percentage of sales were in Hamilton's most expensive neighbourhoods.

Figure 2: Evidence of Price Acceleration in Hamilton



Sources: CREA and calculations by CMHC
Last data point: 2020Q3

Prices of single-detached homes grew far more than prices of multi-unit homes, a category that includes apartments and townhomes. While sales activity increased for both categories of dwellings, the number of new listings in each group moved in opposite directions. Fewer single-detached homes were put up for sale, exerting strong upward pressure on prices for that dwelling type. In contrast, a larger number of multi-unit homes, particularly apartments, were listed. This constrained price growth in the multi-unit home category.

Year-over-year price growth in both October and November was similar to the third quarter. Market conditions were relatively unchanged, since sales and new listings decreased by proportional amounts in each month.

Overvaluation

In the second quarter of 2020, house prices became more detached from economic and demographic fundamentals. This trend continued in the third quarter, triggering the detection of moderate evidence of overvaluation. Most fundamentals improved since our last assessment, with the exception of real personal disposable income[26] per capita. However, house price measures increased more than could be supported by these strengthening fundamentals.

The greatest improvement in fundamentals was to the borrowing capacity of potential buyers. A significant decrease in mortgage rates, due to interest rate cuts by the Bank of Canada, more than offset borrowers having slightly less income. While Hamilton's unemployment rate decreased, owing to its economy moving into stages 2 and 3 of re-opening, it remained well above-average at nearly 9%. This high level of unemployment did not lead to higher labour income, a major component of personal disposable income. Labour incomes also failed to increase because a smaller than usual share of Hamilton's employment consisted of people working in some of its highest paying industries, most notably Professional, Scientific and Technical Services.

Demographic fundamentals continued to improve, including the size of Hamilton's overall population and the share of the population made up by people aged 25-to-34. Additional importance is placed on this age group, since it has historically made up a large portion of first-time buyers in Hamilton.

Overbuilding

Evidence of overbuilding remained low as the inventory of completed and unsold new homes per 10,000 population and the rental apartment vacancy rate remained below their respective overbuilding thresholds.

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[25] To assess price acceleration, the HMA framework uses a statistical test to identify periods of accelerating growth in asset prices. A detailed description of the methodology and reference materials for the test are presented in the appendix of this report.

[26] 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.

Toronto

Dana Senagama
Senior Specialist, Market Insights

The economic fallout of the pandemic continues to negatively affect the service and hospitality industries, but other sectors of the economy are holding steady. This has helped to sustain housing demand – particularly for ground-oriented homes. The greatest negative impact so far has been felt in the rental market and that has, to some extent, expanded to the secondary rental condominium apartment market.

Results Overview*
Toronto CMA

	Sept. 2020	Dec. 2020
Overheating	Low	Low
Price Acceleration	Low	Low
Overvaluation	Low	Low
Overbuilding	Low	Low
Overall Assessment	Moderate	Moderate

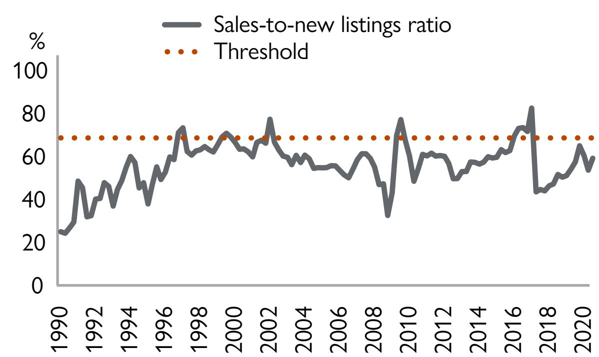
Degree of vulnerability Low Moderate High

* Results are based on data as of the end of September 2020 (the annual rental apartment vacancy rates are from October 2019) and market intelligence up to November 2020. In an effort to provide timely information, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of the housing market in the third quarter of 2020. Final assessments of vulnerabilities for the third quarter will be presented in the next edition of the HMA as new data becomes available.

Overheating

In 2020Q3, evidence of overheating remained low in the Greater Toronto Area (GTA) housing market as the sales-to-new-listings-ratio (SNLR) was below the threshold set for overheating (70%) (Figure 1). Both seasonally adjusted sales and new listings grew substantially relative to the previous quarter, by 131.3% and 107.7% respectively. Sales grew more than new listings, which drove SNLR up to 60.5%. Pent up demand from the previous quarter fueled this growth as newly relaxed pandemic restrictions boosted homebuyer confidence and facilitated more home showings and open houses. The SNLR for condominium apartments remained low (42%), favouring buyers. New listings of condominium apartments grew as some investors listed their properties for sale due to the secondary rental market being weakened by pandemic job losses as well as regulatory changes to short-term rentals. Additionally, the COVID-19 pandemic created a preference shift towards home buying (particularly low-rise) in the suburbs, possibly as a result of increased telecommuting and a desire to live in less densely populated neighbourhoods. For instance, total sales in the 905 region grew by 45% on a year-over-year basis, while they grew by 21% in the 416 region. The SNLRs for each segment of low-rise houses were above or near the threshold set for overheating, with townhouses (the most affordable form of low-rise housing) showing the highest SNLR at 90%. The SNLRs in relatively more suburban areas of the GTA - Durham (83%), Halton (72%) and Peel (68%) – were much higher than their more urban counterparts – Toronto (48%) and York (57%).

Figure 1: Low Evidence of Overheating in Toronto

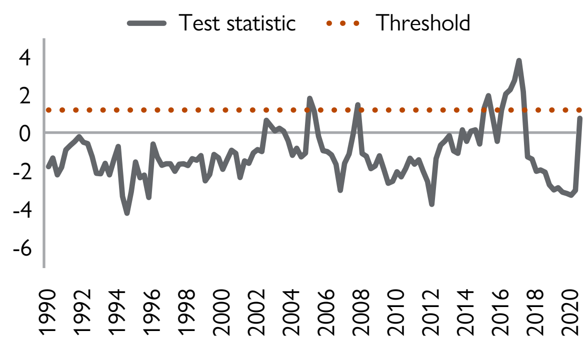


Sources: CREA and calculations by CMHC
Last data point: 2020Q3

Price Acceleration

In 2020Q3, evidence of price acceleration in GTA housing market remained low as the test statistic for the factor was below its critical threshold (Figure 2). However, the seasonally adjusted MLS® average price did grow substantially (11.8%) relative to the previous quarter. Therefore, while evidence of price acceleration remained low, it is worth noting that this strong quarterly price growth did cause the test statistic to increase sharply and near its critical threshold. Low-rise housing dominated price growth during the third quarter: single-detached (13.7%), semi-detached (8.4%), townhouses (14.6%), condominium apartments (1.4%). Price growth was strong across the GTA – Durham (13.2%), Toronto (11.3%), Peel (10.5%), Halton (10.3%) – aside from York region, where prices grew by 5.4%. A driving force behind the price growth in the City of Toronto was a more pronounced compositional shift from condominium apartments to ground-oriented home sales[27].

Figure 2: Low Evidence of Price Acceleration in Toronto

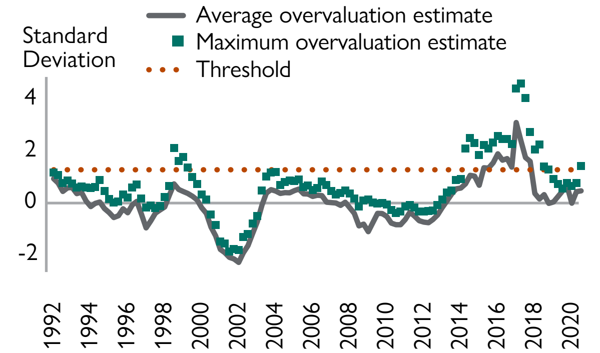


Sources: CREA and calculations by CMHC
Last data point: 2020Q3

Overvaluation

Evidence of overvaluation in the GTA remained low based on the average of the overvaluation gaps from all selected models remaining below its critical threshold in 2020Q3 (see Figure 3). The maximum overvaluation gap was above the threshold in 2020Q3. However, as only one data point in the last four-quarter period was above the threshold, this would not represent enough persistence to warrant a change to the indicator. Despite low evidence of overvaluation, job losses incurred due to the economic fallout of the pandemic, particularly in the services and hospitality sectors, has led to a widening overvaluation gap, where observed price levels were moving away from prices supported by economic fundamentals. The real average observed house price increased relative to the previous quarter, while incomes[28] declined and the population of individuals aged 25-34 grew slightly.

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: 2020Q3

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.

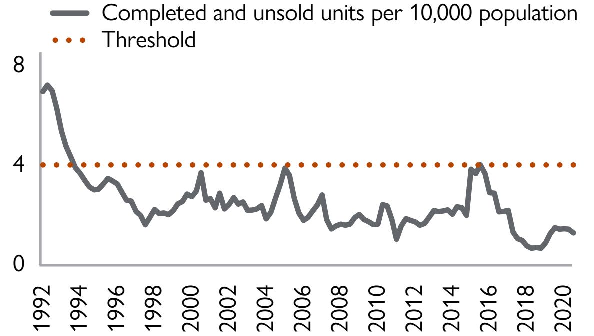
Overbuilding

Low evidence of overbuilding is maintained as both the number of completed and unabsorbed units per 10,000 population and the purpose-built rental apartment vacancy rate (last data point in October 2019 was at 1.5%) remained below their respective critical thresholds. Despite low evidence of overbuilding, regulatory changes in some municipalities within the Toronto CMA (restricting short-term rentals) have brought on an increase in new listings of condominium apartments in the resale market. Job losses among first-time buyers have also led to softening demand and thus fewer sales in condominium apartments in the resale market. The new home market, however, has not experienced a similar increase in supply.

[27] 2020Q3 saw low-rise housing account for 50.6% of all sales in the City of Toronto, up from 43.5% in 2019Q3.

[28] 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 Overbuilding in Toronto (ownership market)



Sources: Statistics Canada and CMHC
Last data point: 2020Q3

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Ottawa

Anne-Marie Shaker
Senior Analyst, Economics

Overheating and price acceleration pressures remained elevated in Q3-2020.

Results Overview*
Ottawa CMA

	Sept. 2020	Dec. 2020
Overheating	Moderate	Moderate
Price Acceleration	Moderate	Moderate
Overvaluation	Low	Low
Overbuilding	Low	Low
Overall Assessment	Moderate	Moderate

Degree of vulnerability Low Moderate High

* Results are based on data as of the end of September 2020 (the annual rental apartment vacancy rates are from October 2019) and market intelligence up to November 2020. In an effort to provide timely information, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of the housing market in the third quarter of 2020. Final assessments of vulnerabilities for the third quarter will be presented in the next edition of the HMA as new data becomes available.

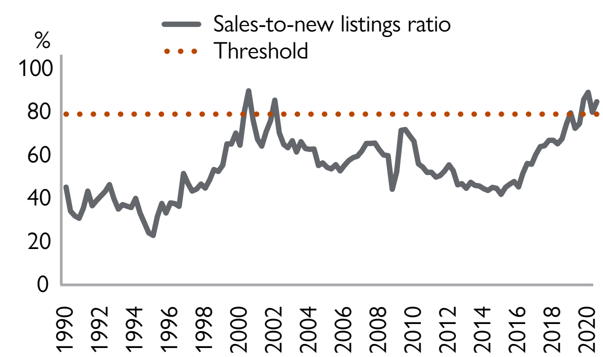
The overall assessment for the Ottawa CMA remained at moderate degree of vulnerability as overheating and price acceleration pressures continued to prevail in Q3-2020 due to the persistent imbalance between supply and demand.

Since the onset of the COVID-19 pandemic, housing demand in Ottawa has been supported by the relative stability of public administration employment (roughly 23% of total CMA employment) as well as a strong IT sector. Job losses[29] have been strongest for part-time employment, and relatively more concentrated in lower paying[30] sectors, therefore affecting current homeownership demand to a lesser extent. Job losses have also been more pronounced for the younger 15-24 age group, who are less likely to buy a home, while the employment of the 25-44 age group declined at a more modest pace. Together all these forces have supported a rebound in demand (post lockdown months) and put upward pressure on prices as supply (although improving) continued to trail. In October, overall employment stood 6.3%[31] lower than February prior to the onset of the COVID-19 pandemic, but still stands 8.7% lower relative to the same month last year.

Overheating intensifies as demand outstrips supply growth

We detect evidence of overheating in Q3-2020 for the Ottawa CMA, with a seasonally adjusted sales-to-new-listings (SNL) ratio of 85%. Although supply grew in Q3-2020, demand growth outstripped it, pushing the SNL ratio higher than Q2-2020. By market segment, both freehold[32] and condominium transactions continued to favor sellers[33] despite weaker growth in demand for condominium apartments Noteworthy is that although new listings trended higher in the post-lockdown months, active listings at the end of October 2020 remained at historic lows highlighting the imbalance between supply and demand.

Figure 1: Evidence of Overheating in Ottawa



Sources: CREA and calculations by CMHC
Last data point: 2020Q3

[29] In Q3-2020, unemployment stood at 9.1% compared to 4.8% in 2019.

[30] 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.

[31] Three month moving average.

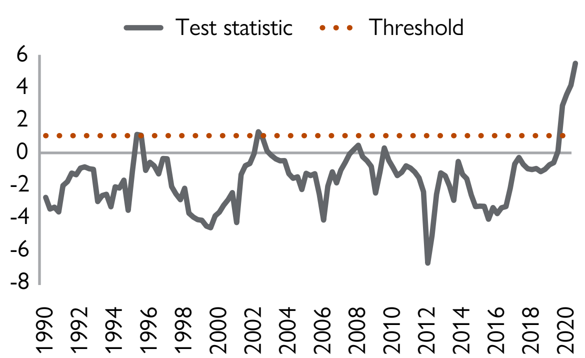
[32] Freeholds include homeowner single-detached homes, semis and rows.

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

Supply and demand imbalances spur price acceleration

Stronger growth in demand on the resale market relative to supply put further upward pressure on prices continuing to signal moderate vulnerability for the price acceleration indicator in Q3-2020. The MLS® price has been rising at double-digit[34] rates since Q4-2019. By market segment, freehold prices grew at a stronger rate once more in Q3-2020 compared to condominium prices as supply and demand imbalances were more pronounced on the freehold side, especially for row homes. The relative affordability of rows compared to single-detached homes have increased their popularity in the CMA.

Figure 2: Evidence of Price Acceleration in Ottawa



Sources: CREA and calculations by CMHC
Last data point: 2020Q3

Overvaluation is low supported by lower mortgage rates

Average overvaluation remained below the problematic threshold so that a low vulnerability for the overvaluation indicator was detected for Ottawa in Q3-2020. Low mortgage rates have dampened the effect of income[35] declines on overvaluation. The divergence between income and price movements has however raised the potential for overvaluation moving forward. Recent data in October point to continued stronger price growth, weaker earnings, but some improvement in the unemployment rate.

Low unsold inventory keeps overbuilding pressures at bay

The number of completed and unsold dwelling units has trended lower, signaling low vulnerability for this indicator. However, there is a high number of apartments (rental and condominium) under construction, which could trigger some imbalances over the short and medium terms if demand does not hold up and the vacancy rate rises.

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[34] The MLS® price grew at 11.5%, 19.3%, 13.4% and 24.3% year-over-year in Q4-2019, Q1-2020, Q2-2020 and Q3-2020 respectively.

[35] 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 are still being detected, and overvaluation is approaching the problematic threshold. As such, the degree of vulnerability of the Montréal CMA housing market is increasing from low to moderate.

Results Overview*
Montréal CMA

	Sept. 2020	Dec. 2020
Overheating	Moderate	Moderate
Price Acceleration	Moderate	Moderate
Overvaluation	Low	Low
Overbuilding	Low	Low
Overall Assessment	Low	Moderate

Degree of vulnerability Low Moderate High

* Results are based on data as of the end of September 2020 (the annual rental apartment vacancy rates are from October 2019) and market intelligence up to November 2020. In an effort to provide timely information, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of the housing market in the third quarter of 2020. Final assessments of vulnerabilities for the third quarter will be presented in the next edition of the HMA as new data becomes available.

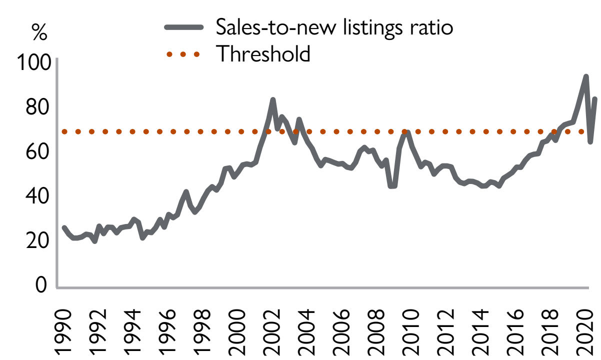
According to the Housing Market Assessment (HMA) analytical framework, the degree of vulnerability of the housing market has increased from low to moderate in the Montréal census metropolitan area (CMA) in the third quarter of 2020. The Montréal resale market continues to show evidence of overheating, which is putting upward pressure on prices. Indeed, there is evidence of price growth acceleration. The change in the overall assessment is the result of the maximum overvaluation gap exceeding the critical threshold, and the average gap approaching it. The possible emergence of additional imbalances between real prices and those dictated by the fundamental factors will continue to be closely monitored.

After a loss of approximately 18% of jobs[36] in the Montréal CMA between February and April 2020, the number of jobs in October was within 1% of the pre-COVID-19-pandemic level. For 25-to-44-year-olds, an age group whose workers are a major source of housing demand, the number of full-time jobs in October 2020 was less than 1% lower than at the same time in 2019. Some sectors with higher average earnings, such as wholesale trade, construction, finance and insurance, and manufacturing, have seen increased employment since February. Thus, the groups least affected by job losses since the beginning of the pandemic are also those that account for a significant portion of housing demand, which favours a rapid recovery in this market.

Evidence of overheating is still detected on the Montréal housing market

During the third quarter of 2020, overheating continued to be signaled in the Montréal CMA, after the sales-to-new listings ratio (seasonally adjusted data) rose above the problematic threshold.[37] The ratio had remained above this threshold in eight of the previous nine quarters (see figure 1).

Figure 1: Evidence of Overheating in Montréal



Sources: QPAREB and calculations by CMHC
Last data point: 2020Q3

[36] Statistics Canada (Labour Force Survey).
[37] This threshold is set at 70%.

Demand, represented by sales, fell sharply in the second quarter of 2020 due to the lockdown measures related to the COVID-19 pandemic. From the third quarter onwards, sales rebounded sharply, exceeding their pre-pandemic pace. Sales from January to September 2020 are up compared to the same period in 2019. This can be explained by a catch-up in transactions after the market reopened in May, as well as by the improvement in employment conditions among the age groups that represent a large proportion of property buyers. New supply, represented by new listings, also rebounded in the third quarter of 2020, but to a lesser extent than sales. As such, the ratio between the two tightened and rose above the problematic threshold. For these reasons, moderate evidence of overheating is still being detected on the Montréal housing market.

Evidence of price growth acceleration remains moderate

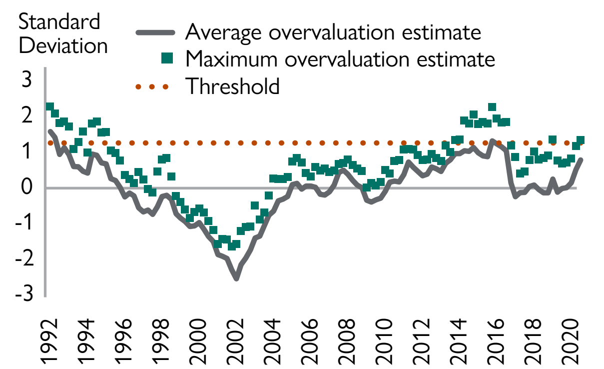
Evidence of price acceleration in the Montréal CMA remained moderate during the third quarter of 2020, as the pace of growth in house prices continues to increase rapidly. Price acceleration had shifted from low to moderate in the previous quarter. The average Centris® price for existing homes increased by 19.1% compared to the same period in 2019, the strongest growth in 18 years. This price increase follows increases of 11.8% in the second quarter of 2020 and 11.7% in the first quarter.

The recovery began after the COVID-19 pandemic lockdown in Greater Montréal and housing demand has since resumed. With supply at its lowest level in at least 16 years, market conditions remain tight, putting further upward pressure on prices. Price growth acceleration will therefore continue to be monitored in the coming months.

Evidence of overvaluation has remained low

During the third quarter of 2020, economic and demographic indicators continued to justify the prices observed on Montréal's housing market, and the HMA models detected no notable signs of overvaluation. The average gap between real house prices[38] and price levels dictated by the fundamental factors remains below the critical threshold. However, the maximum overvaluation[39] gap slightly exceeded the critical threshold, and the average overvaluation gap increased further, coming ever closer to the critical threshold (see figure 2). This resulted in the overall assessment rating changing from low vulnerability to moderate vulnerability.

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: 2020Q3

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.

Indeed, while real (inflation-adjusted)[40] house prices were all rising sharply, some of the fundamentals that support price increases were weakening. In recent quarters, declining personal disposable income,[41] slow population growth due to reduced migration, and the upward trend in the real five-year mortgage rate were the main factors behind the widening gap. Overvaluation will therefore need to continue to be monitored closely in the coming months.

[38] Observed prices adjusted for inflation.

[39] Obtained from the model that has the largest gap between real prices and estimated prices.

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

[41] 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.

Evidence of overbuilding has remained negligible

In the third quarter of 2020, the two indicators of overbuilding—the number of completed and unsold units per 10,000 population and the vacancy rate for conventional rental units—pointed to weak evidence of overbuilding.

The number of completed and unsold units per 10,000 population reached its lowest level in nearly 20 years in the Montréal CMA during the second quarter of 2020 and increased only slightly in the third quarter. Over the past few years, the increase in demand, combined with the slowdown in housing starts for freehold and condominium units,[42] has allowed the inventory of unsold new homes to decline.

As for the vacancy rate for conventional rental housing, it experienced a third consecutive annual decline in 2019 (falling from 3.9% in 2016 to 1.5% in 2019[43]). This situation is due to the increase in demand for conventional rental housing, supported in particular by a marked increase in net migration. The impact of pandemic-related border restrictions will therefore merit further monitoring in 2020.

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[42] Freehold and condominium housing starts averaged at 12,500 units annually from 2015 to 2019, compared to about 17,000 from 2010 to 2014.

[43] Rental Market Survey, CMHC.

Québec

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Senior Analyst, Economics

The overall degree of vulnerability of the Québec-area housing market remains low. However, the resale market continues to show evidence of overheating as a result of the significant tightening between supply and demand.

Results Overview*
Québec CMA

	Sept. 2020	Dec. 2020
Overheating	Moderate	Moderate
Price Acceleration	Low	Low
Overvaluation	Low	Low
Overbuilding	Low	Low
Overall Assessment	Low	Low

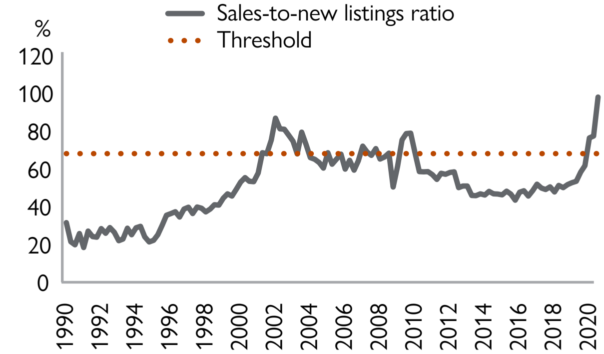
Degree of vulnerability Low Moderate High

* Results are based on data as of the end of September 2020 (the annual rental apartment vacancy rates are from October 2019) and market intelligence up to November 2020. In an effort to provide timely information, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of the housing market in the third quarter of 2020. Final assessments of vulnerabilities for the third quarter will be presented in the next edition of the HMA as new data becomes available.

Evidence of overheating

During the third quarter of 2020, the supply of properties in the Québec census metropolitan area (CMA) remained low relative to demand, allowing evidence of overheating to persist in the region (figure 1).

Figure 1: Evidence of Overheating in Québec



Sources: QPAREB and calculations by CMHC
Last data point: 2020Q3

While employment in some sectors (tourism being a notable example) continues to show a decline from levels seen prior to the COVID-19 pandemic, other sectors remained robust. Employment in the Québec area therefore rebounded in the third quarter of 2020 after reaching a historical low in the second quarter. Thus, the partial reopening of the economy likely contributed to maintaining housing demand in the area. Property sales were particularly supported in the third quarter by the "catching up" of transactions that could not occur in the spring given the lockdown measures.

In the third quarter of 2020, residential sales posted a historic rebound[44] across all market segments (single-family, condominium and plex). New listings also increased significantly,[45] although not to pre-pandemic levels. The rebound in new listings was smaller than that in sales, causing the resale market to tighten further. It should be noted that this market tightening was observed across all sectors of the CMA, but that the sectors of the Québec agglomeration remained the tightest. Thus, despite the rebound in supply, housing demand has remained higher than supply since the beginning of the year in the Québec market, and overheating is still signaled.[46]

[44] In the third quarter of 2020, sales increased by 85.2% compared to the second quarter of 2020 (seasonally adjusted data).
[45] In the third quarter of 2020, new listings increased by 47.8% compared to the second quarter of 2020 (seasonally adjusted data).
[46] In the third quarter of 2020, the sales-to-new listings ratio was 99.9%, well above the 70% overheating threshold for the Québec CMA.

Low evidence of price acceleration

The tightening of the Québec resale market has recently exerted strong upward pressure on the Centris® price. In the third quarter of 2020, the average Centris® price of residential properties increased by 10.2% compared to the third quarter of 2019, its strongest growth in 10 years. Thus, strong demand for properties relative to supply appears to have supported stronger price growth. Nevertheless, this increase was observed over a single quarter and does not, for the time being, suggest the presence of intense or persistent imbalances linked to price growth acceleration.

Low evidence of overvaluation

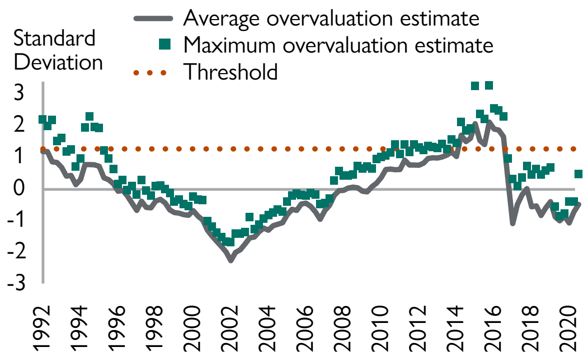
Despite strong price growth in the third quarter of 2020, evidence of overvaluation in the Québec area remains low (figure 2). In fact, this increase follows a few years of relatively weak price growth in Québec, despite a particularly dynamic economic environment. While some fundamentals such as population and income[47] growth have recently been weakened by the pandemic, none of the models used in the HMA analytical framework suggest that house prices would now exceed the levels supported by the economic and demographic fundamentals of the housing market in the area.

Low evidence of overbuilding

The inventory of completed and unsold single-family homes and condominiums[48] remains below the threshold that would indicate evidence of overbuilding. In the third quarter of 2020, the inventory of unsold new homes, mainly semi-detached properties, reached its lowest level since 2009. In addition, evidence of overbuilding was also low on the rental market. According to the latest measure, taken in October 2019, the vacancy rate for conventional rental housing in the Québec area stood at 2.4%, which is below the threshold for overbuilding.

In conclusion, while the HMA analytical framework continued to detect evidence of overheating in the Québec CMA in the third quarter of 2020, the overall degree of vulnerability of the housing market remained low, since evidence of price growth acceleration, overvaluation and overbuilding stayed low.

Figure 2: Low Evidence of Overvaluation in Québec



Sources: QPAREB, Statistics Canada, Teranet and National Bank of Canada, and calculations by CMHC
Last data point: 2020Q3

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.

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[47] 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.

[48] Inventory of completed and unsold freehold and condominium housing units per 10,000 population.

Moncton

Tad Mangwengwende
Senior Analyst, Economics

Moncton is now assessed with an overall high degree of vulnerability due to moderate evidence of price acceleration and high evidence of overvaluation imbalances. However, overheating remains at a moderate degree and there continues to be low overbuilding vulnerability.

Results Overview*
Moncton CMA

	Sept. 2020	Dec. 2020
Overheating	Moderate	Moderate
Price Acceleration	Low	Moderate
Overvaluation	Moderate	High
Overbuilding	Low	Low
Overall Assessment	Moderate	High

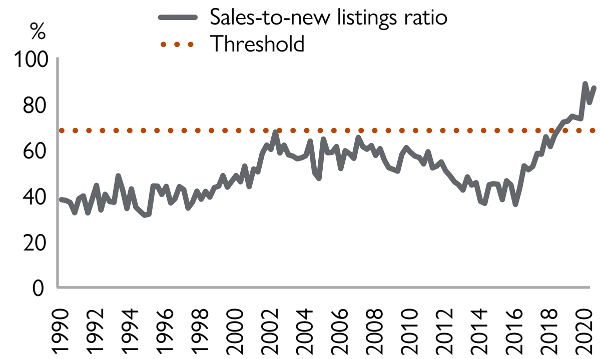
Degree of vulnerability Low Moderate High

* Results are based on data as of the end of September 2020 (the annual rental apartment vacancy rates are from October 2019) and market intelligence up to November 2020. In an effort to provide timely information, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of the housing market in the third quarter of 2020. Final assessments of vulnerabilities for the third quarter will be presented in the next edition of the HMA as new data becomes available.

Overheating persists

The sales-to-new listings ratio remained well above the overheating threshold in Q3 2020. While both sales and listings increased as restrictions imposed by interventions to combat COVID-19 were eased, sales grew faster than listings. The year-over-year sales for the quarter were 31% higher than last year while active listings grew by 10%. Pent-up demand, low interest rates and the comparatively mild impact of COVID-19 restrictions on unemployment supported strong sales activity.

Figure 1: Evidence of Overheating in Moncton

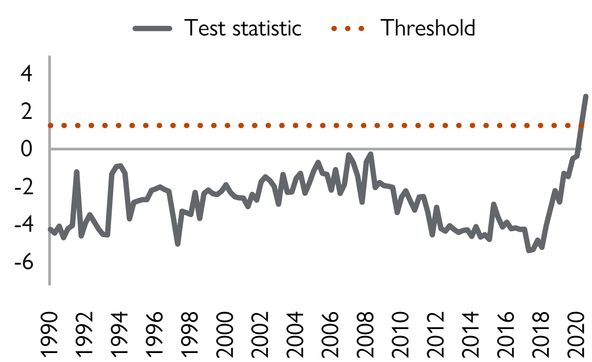


Sources: CREA and calculations by CMHC
Last data point: 2020Q3

Price Acceleration crosses critical threshold

Average house prices have been on a sustained increase since Q1 of 2018, but they had not yet risen to a level reflecting price acceleration until recently. In Q3 2020 prices were 15% higher than they were over the same period in 2019. This was a result of the substantial surge in sales relative to the modest rebound in active listings. Price increases that were just below the critical threshold for price acceleration in the Q2 HMA have now breached the threshold, hence the new assessment.

Figure 2: Evidence of Price Acceleration in Moncton

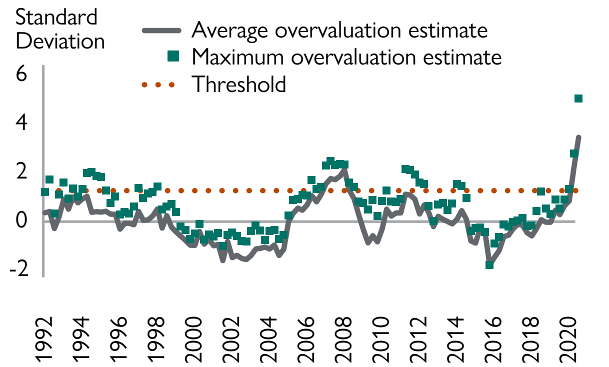


Sources: CREA and calculations by CMHC
Last data point: 2020Q3

Moncton now reflecting a high degree of overvaluation

The level of house prices in Q3 was significantly higher than the price level supported by changes in housing market fundamentals. While interest rates remain low and there was some recovery in employment following the Q2 disruption, these boosts to housing demand were not enough to explain the significant rise in prices.[49] As this is now the second quarter within the last four in which overvaluation is flagged, Moncton is now assessed with high evidence of overvaluation.

Figure 3: High Evidence of Overvaluation in Moncton



Sources: CREA, Statistics Canada, Teranet and National Bank of Canada, and calculations by CMHC
Last data point: 2020Q3

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.

Continued low evidence of overbuilding vulnerability

Both the inventory of newly completed and unsold units, and the apartment vacancy rate (October 2019) remain at historic lows, well below the overbuilding thresholds. As such, the market continues to show low evidence of overbuilding.

Overall, a high degree of vulnerability in Moncton

With high evidence of overvaluation and a moderate level of price acceleration, Moncton is now assessed with an overall high degree of vulnerability.

In a year characterised by significant disruptions to both the housing market and the broader economy we will continue to closely monitor the market and determine if the present assessment persists.

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[49] 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.

Halifax

Kelvin Ndoro
Senior Analyst, Economics

Evidence of overvaluation is maintained for Halifax CMA as house prices continue to be higher than levels supported by fundamentals.

Results Overview*
Halifax CMA

	Sept. 2020	Dec. 2020
Overheating	Low	Low
Price Acceleration	Low	Low
Overvaluation	Moderate	Moderate
Overbuilding	Low	Low
Overall Assessment	Moderate	Moderate

Degree of vulnerability Low Moderate High

* Results are based on data as of the end of September 2020 (the annual rental apartment vacancy rates are from October 2019) and market intelligence up to November 2020. In an effort to provide timely information, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of the housing market in the third quarter of 2020. Final assessments of vulnerabilities for the third quarter will be presented in the next edition of the HMA as new data becomes available.

Overall Moderate degree of vulnerability

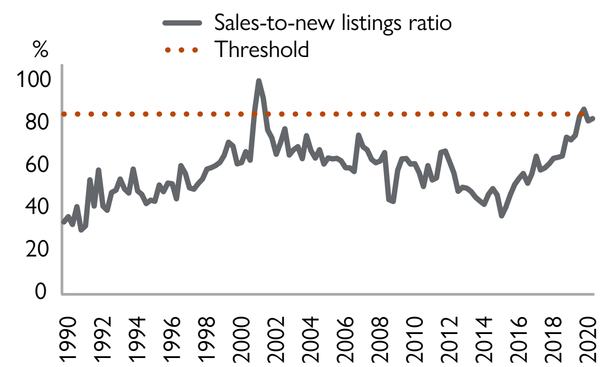
Overall, there is a moderate degree of vulnerability in the Halifax housing market. Overvaluation imbalances that were first assessed last quarter have persisted into the third quarter of 2020. In addition, the price acceleration indicator is slightly below the threshold that would signal vulnerabilities.

Despite some travel restrictions due to the COVID-19 pandemic, positive net interprovincial migration is contributing to increased demand in the Halifax resale market. Even though house prices in the city have recently increased significantly, the Halifax market remains affordable relative to other Canadian markets, and continues to attract in-migrants from regions with higher home prices.

Increased new listings keep overheating vulnerabilities low

The third quarter of 2020 marked two consecutive quarters that the sales-to-new listings ratio remained below the threshold that would signal overheating vulnerabilities (Figure 1). A rating of low overheating risk was maintained since the indicator was above threshold only once in the last three years. The year-over-year increase in sales in the third quarter was the highest on record for Halifax. Concurrently, the rebound in new listings was comparatively strong, following a significant drop in the second quarter of 2020 due to COVID-19 restrictions. However, the number of new listings so far this year remains lower than the level observed during the same period last year. This is despite more newly completed homeowner units on the market this year.

Figure 1: Low Evidence of Overheating in Halifax

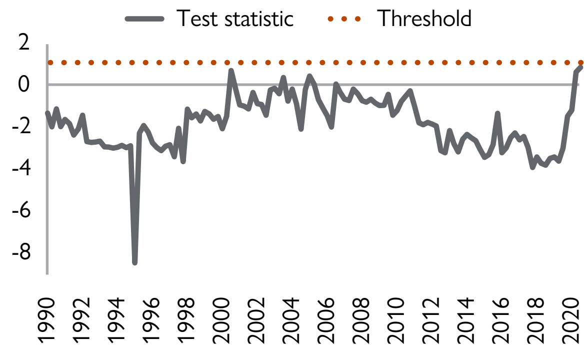


Sources: CREA and calculations by CMHC
Last data point: 2020Q3

Evidence of price acceleration remains at a low rating

Evidence of price acceleration risks remains low. However, the indicator is still slightly below the threshold that would signal vulnerabilities (Figure 2). Average MLS® house prices increased 19% in the third quarter of 2020 compared to the same period last year. The more comprehensive Teranet-National Bank House Price Index grew 11%, while Statistics Canada's New Housing Price Index was up 5% over the same period. The continued increase in house prices is due to a decade low inventory of houses for sale whilst demand for homes continues to increase. The pandemic has likely contributed to higher demand for larger homes that can accommodate a home office and extra space for home schooled children, as well as extended families. Houses in the higher price ranges have seen higher sales growth so far this year in Halifax. This compositional effect probably explains the more pronounced price growth observed in the average MLS® price relative to other house price measures.

Figure 2: Low Evidence of Price Acceleration in Halifax

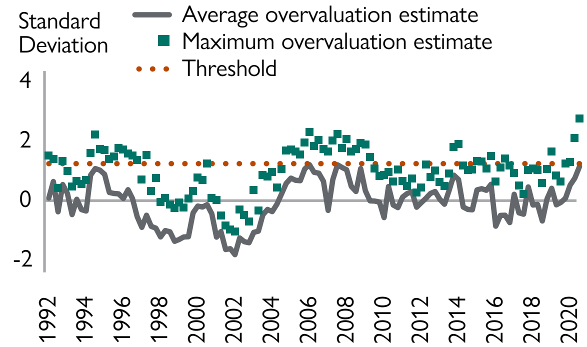


Sources: CREA and calculations by CMHC
Last data point: 2020Q3

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). A slight increase in population and continued low mortgage interest rates were not enough to support the observed increase in house prices. Adjusted real personal disposable income[50] continues to slide down and remains 1.1% lower than it was in the third quarter of 2019. Halifax's employment has almost fully recovered to levels observed before the onset of the pandemic. However, most of this recovery is from an increase in part-time employment while full-time employment remains lower. In addition, there are elevated numbers of employed persons reporting a significant reduction in hours worked. Reduced work hours could also imply reduced income and a potentially worse situation than the employment figures would suggest which further supports the overvaluation assessment in Halifax.

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: 2020Q3

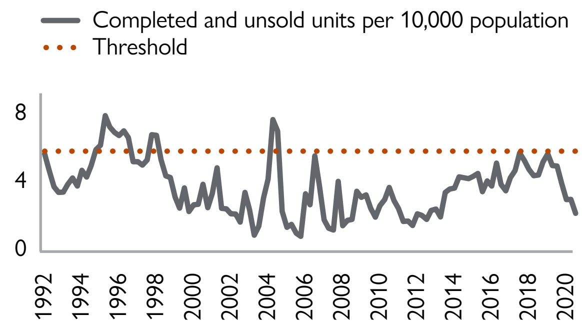
Note: The average estimate of overvaluation is the average gap between actual house prices and their fundamental level estimated from a group of selected models. There are five models in total, each of which is estimated using four measures of house prices to generate twenty unique estimates of overvaluation.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

Overbuilding indicator slides down as absorption increases

The risk from overbuilding is still low as the indicator remains well below the threshold that would signal problematic conditions. The overbuilding indicator continued to improve in the third quarter of 2020 due to increased absorption rates of newly completed homeowner units. This marks a significant improvement from the first quarter of 2019, when it was just below the threshold that would indicate vulnerabilities (Figure 4). This improvement is despite slower population growth in 2020 compared to 2019, which would otherwise have led to an increase in the indicator. In the third quarter of 2020, 86% of newly completed homeowner units were absorbed, compared to 66% in the same period last year.

[50] 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 Overbuilding in Halifax (ownership market)



Sources: Statistics Canada and CMHC
Last data point: 2020Q3

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St. John's

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There continues to be low evidence of housing market vulnerability in St. John's with none of the four Housing Market Assessment indicators showing intense or persistent imbalances. As such, the overall assessment remains one of low vulnerability.

Results Overview*
St. John's CMA

	Sept. 2020	Dec. 2020
Overheating	■	■
Price Acceleration	■	■
Overvaluation	■	■
Overbuilding	■	■
Overall Assessment	■	■

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

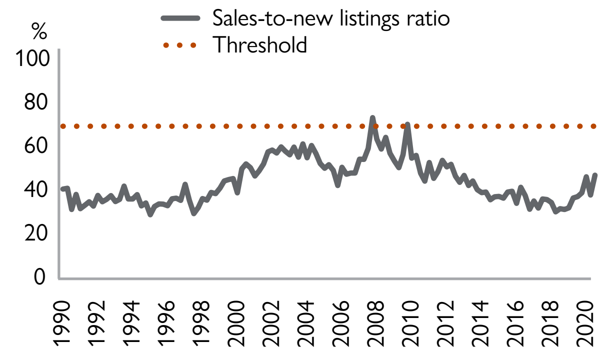
* Results are based on data as of the end of September 2020 (the annual rental apartment vacancy rates are from October 2019) and market intelligence up to November 2020. In an effort to provide timely information, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of the housing market in the third quarter of 2020. Final assessments of vulnerabilities for the third quarter will be presented in the next edition of the HMA as new data becomes available.

Low evidence of vulnerability

Overall, there is low evidence of vulnerability in the St. John's housing market. Following the easing of COVID-19 restrictions in Q3 2020, the anticipated pent-up-demand driven market rebound led to an average MLS® price increase of 4.3%. However, this increase did not breach the threshold for price acceleration and price levels were not significantly different from those supported by housing market fundamentals. As such there was low evidence of price acceleration and overvaluation in St. John's.

The Q3 rebound also saw an increase in sales by a near record 33%, buoyed by low interest rates. Coming against declining listings, these sales led to an increase in the sales-to-listing ratio. However, this increase did not rise to the level of overheating and so the assessment remains one of low vulnerability.

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



Sources: CREA and calculations by CMHC
Last data point: 2020Q3

There is also low evidence of overbuilding because of the persistence of the downward trend in housing starts and a declining inventory of completed and unsold units. In combination with rental vacancy rates that have remained below vulnerability thresholds, the market shows low evidence of overbuilding.

While the overall assessment of the housing market remains one of low vulnerability, low oil prices, reduced immigration and constrained provincial fiscal space mean that the emergence of potential imbalances continues to be closely monitored.

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Appendix: Housing Market Assessment (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[51].

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) overbuilding 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[52] 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.[53] 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.

Overbuilding

Overbuilding is detected when the supply of readily available housing units significantly exceeds demand. In such a context, downward pressure on house prices would occur until the excess supply is eventually absorbed. To assess signs of overbuilding in the housing market, the HMA framework uses two indicators that relate to the supply of readily available housing units: the rental apartment vacancy rate, and the inventory of completed and unsold housing units per 10,000 population. The HMA framework compares the current levels and recent trends in these indicators with thresholds.

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.

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

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

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

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 overbuilding. 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 evidence 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: 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. **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.[54]

- **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 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.

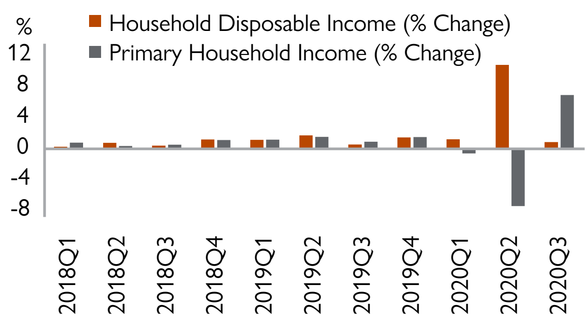
[54] The framework was tested against CMHC's mortgage insurance claims rate. The results show that the detection of more than one HMA factor is more problematic for insurance claims than the detection of just one factor. Therefore, the individual factors are jointly analysed to provide an overall assessment of the state of a given housing market, which is rated on our three-coloured scale (green, yellow, and red).

Adjusted disposable income data in 2020

The COVID-19 pandemic has triggered atypical variations in several economic indicators, including household disposable income. In order to generate results more consistent with 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 try to capture long-term income available to households that forms the foundation of buying a home.

The steep economic contraction and decline in employment and hours worked in Canada in March and April 2020 amid the first wave of COVID-19 led to a sharp decline in household labour income. However, this decline was more than offset by the unprecedented levels of financial support from governments,[55] which led to an increase in overall household disposable income in the second quarter of 2020 and which was sustained into the third quarter (see Figure 1).[56]

Figure 1: Disposable and Primary Household Income Growth in Canada



Sources: Statistics Canada and calculations by CMHC
Note: The last data point (2020Q3) is a preliminary estimate.

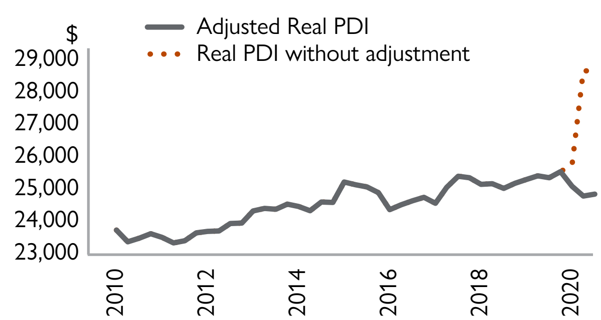
Employment levels bounced back as activity reopened in many sectors of the economy in mid-May, but the labour market has not fully recovered. It remains vulnerable to negative economic events and further COVID-19 containment measures.

Disposable income is a key fundamental determinant of housing prices. Higher levels of real disposable income support higher prices in the housing markets. However, since the recent record levels of income were buoyed in great part by temporary income sources, the current data overstate the level of income relevant for housing purchase decisions. In this context, without any adjustment, the HMA models would very likely underestimate overvaluation imbalances in Canada.

Nonetheless, the various exceptional financial measures put in place to soften the economic downturn helped affected households with financing their basic expenditures and sustain their current rent or mortgage payments. Consequently, removing all temporary income sources from the data in the HMA models would have likely overestimated the level of overvaluation imbalances.

In order to mitigate the effects on our estimates from abnormal income variations in recent quarters and generate reliable results, the HMA overvaluation models in this edition were estimated after removing the cyclical component of the disposable income series in the three first quarters of 2020, which smoothed out the sharp variations in the data. This adjustment to income data is meant to capture lower labour compensation of households while still accounting for financial stimulus. The dotted red line in Figure 2 shows the effect of government transfers on real personal disposable income per capita in Canada while the blue 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.

Figure 2: Real Personal Disposable Income (PDI) Per Capita in Canada



Sources: Statistics Canada and calculations by CMHC
Last data point: 2020Q3
Note: The last data point (2020Q3) is a preliminary estimate.

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[55] https://www150.statcan.gc.ca/n1/daily-quotidien/200828/dq200828a-eng.htm

[56] The household disposable income consists of primary household income, plus transfers received by households (e.g. employment insurance benefits, Canada Recovery Benefit, etc.), minus transfers paid by households (e.g. personal income tax).

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