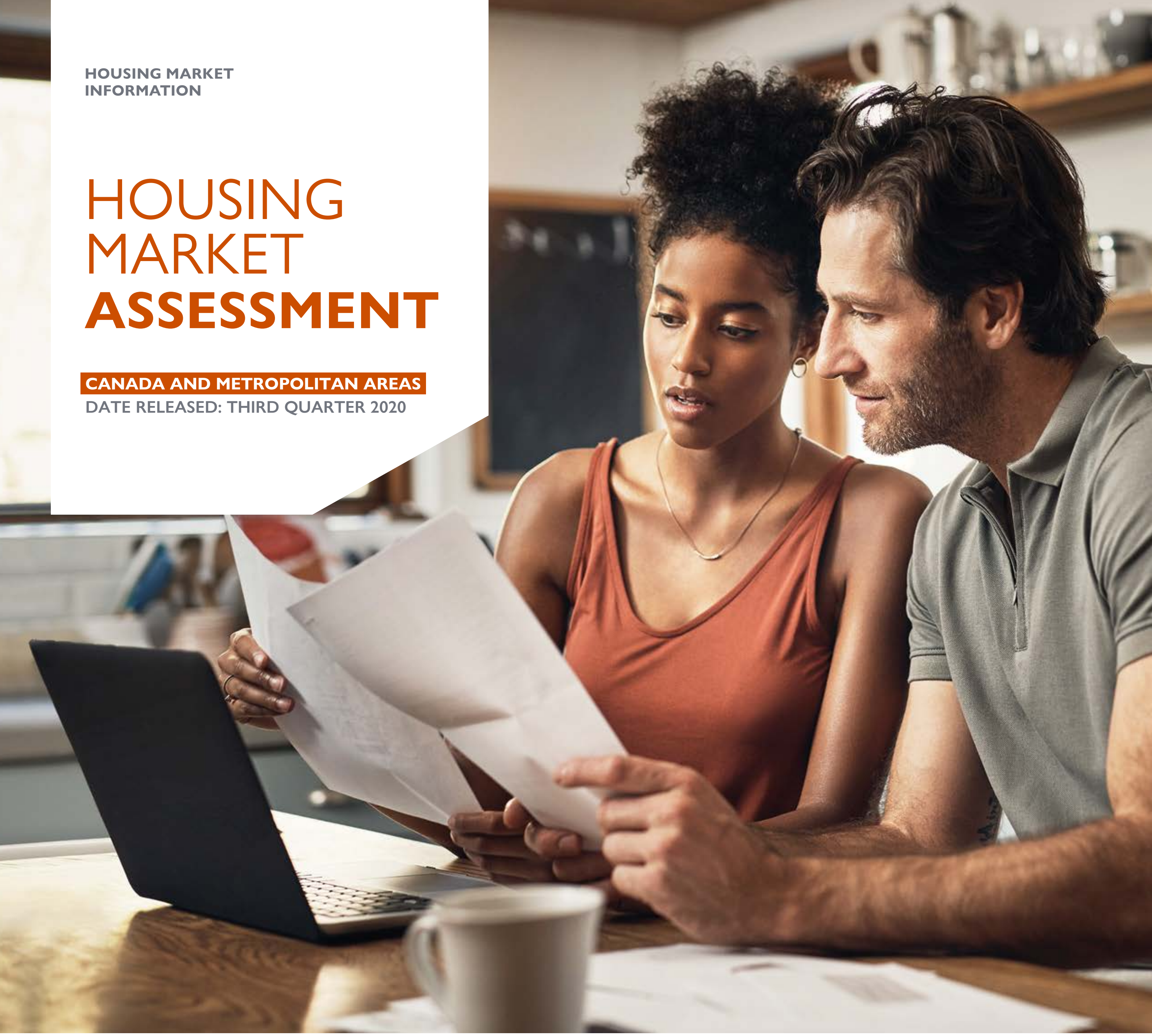
HOUSING MARKET
INFORMATION

HOUSING MARKET **ASSESSMENT**

CANADA AND METROPOLITAN AREAS

DATE RELEASED: THIRD QUARTER 2020



Welcome to the new Housing Market Assessment (HMA)

You will find, in this single report, an introduction reviewing the economic and housing market conditions in Canada and detailed analyses 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)

Click on CMA below for direct access.

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 becomes higher. A detailed description of the HMA methodology is presented in the appendix of this report.

The HMA is not a housing affordability assessment. The challenge of affordability is multi-faceted and may differ for segments of the population. Instead, 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

The last HMA was released in February, shortly before the COVID-19 pandemic led to significant and rapid changes in the economy. Due to the swift evolution of the situation and unprecedented level of uncertainty, the HMA was suspended until relevant and timely data were available again. The current assessment is based on preliminary data from the second quarter of 2020.

While the HMA framework still focuses on the same key factors in assessing the degree of housing market vulnerability (overheating, price acceleration, overvaluation and overbuilding), there exists a wider range of housing market vulnerabilities in the context of the COVID-19 crisis. The HMA nonetheless remains useful to keep a pulse on the state of the housing markets in Canada and to continue monitoring potential housing market imbalances.

The first section of this report presents the latest HMA results at the national level with additional context and interpretation considering the recent disturbances in the Canadian economy.

Comparisons between the February 2020 and September 2020 reports

	Overheating		Price Acceleration		Overvaluation*		Overbuilding		Overall Assessment	
	Feb. 2020	Sept. 2020	Feb. 2020	Sept. 2020	Feb. 2020	Sept. 2020	Feb. 2020	Sept. 2020	Feb. 2020	Sept. 2020
Canada	Low	Low	Low	Low	Moderate	Moderate	Low	Low	Moderate	Moderate
Victoria	Low	Low	Moderate	Low	Moderate	Moderate	Low	Low	High	Moderate
Vancouver	Low	Low	Low	Low	Moderate	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	Low	High	Moderate	Moderate	Low
Winnipeg	Low	Low	Low	Low	Low	Low	Moderate	Moderate	Low	Low
Hamilton	Moderate	Moderate	Moderate	Low	Low	Low	Low	Low	Moderate	Moderate
Toronto	Moderate	Low	Moderate	Low	Low	Low	Low	Low	Moderate	Moderate
Ottawa	Low	Moderate	Low	Moderate	Low	Low	Low	Low	Low	Moderate
Montréal	Moderate	Moderate	Low	Moderate	Low	Low	Low	Low	Low	Low
Québec	Low	Moderate	Low	Low	Low	Low	Low	Low	Low	Low
Moncton	Moderate	Moderate	Low	Low	Low	Moderate	Low	Low	Low	Moderate
Halifax	Low	Low	Low	Low	Low	Moderate	Low	Low	Low	Moderate
St. John's	Low	Low	Low	Low	Low	Low	Moderate	Low	Low	Low

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

Degree of vulnerability: Low / Moderate / High

* The September 2020 overvaluation ratings are based on preliminary estimates.

National Highlights

Risks surrounding overvaluation estimates in the second quarter of 2020

The use of estimated data

To ensure timely information for market participants, beginning with this edition, CMHC will now be releasing the Housing Market Assessment (HMA) earlier than usual. To do this, we must rely on estimated data for some of the fundamental drivers of the housing market used to estimate overvaluation[1]. As such, our calculations and colour-coded ratings for overvaluation are preliminary estimates for the second quarter of 2020. Final calculations and colour-coded ratings for overvaluation for the second quarter will be presented in the next edition of the HMA as finalized data for these fundamental drivers becomes available.

The impact of unprecedented government financial supports on the level of overvaluation

Real personal disposable income is a key fundamental determinant of house prices and one of the input variables in our econometric models used to estimate the fundamental level of house prices and, hence, the level of overvaluation.

The unprecedented income supports from Canadian governments to households (such as the Canada Emergency Response Benefit and the Employment Insurance Benefits) provide relief to individuals experiencing financial hardship due to the COVID-19 crisis. These sources of income are, however, temporary. Consequently, reported levels of disposable income, which include these temporary income supports, may overstate the level of long-term, permanent disposable income available to households that forms the foundation of buying a home. As a result, the level of overvaluation in the second quarter of 2020, both nationally and across the Census Metropolitan Areas, is likely underestimated.

HMA results for Canada

Overall assessment

The health and economic consequences of COVID-19 on Canada were most evident in the second quarter of 2020 as much of the country was under lockdown. Necessary shutdowns, which halted all non-essential activity and restricted travel, resulted in unprecedented job losses, declining incomes, and a slowdown in international migration. By mid-May, the success of containment measures in most regions allowed for the gradual relaxation of restrictions and, correspondingly, a gradual recovery reflected in some economic indicators by the end of June. Nevertheless, Statistics Canada indicated that real GDP fell by 11.5%[2] in the second quarter, which was the steepest quarterly decline on record.

Housing market activity across the country slowed significantly between the first and second quarters due to the combined effects of the COVID-19 driven economic decline and social distancing measures put in place to curb the spread of the virus. The sharp pullback in new listings and the resultant low levels of inventory, however, maintained some pressure on observed house prices in the local housing markets that were seeing strong activity prior to the crisis. Along with the downturn in economic fundamentals, this led to an increase in the number of Census Metropolitan Areas[3] (CMAs) exhibiting a moderate degree of vulnerability in their respective housing markets. As well, nearly all CMAs experienced an increase in average overvaluation estimates between the first and second quarters this year.

The evidence of rising imbalances in some local housing markets coupled with the general weakening of housing market fundamentals results in a moderate degree of overall vulnerability being maintained for the Canadian housing market.

Overvaluation

Moderate evidence of overvaluation is detected at the national level. After peaking in 2016 and 2017, overvaluation imbalances in Canada had gradually resolved by the end of 2019. However, the recent COVID-19 disturbance to the economy weakened some of the fundamental determinants of the housing market in the second quarter of 2020. In particular, steep declines in employment and hours worked lowered income in most regions[4]. Additionally, the real (inflation-adjusted) 5-year fixed

1 Estimated data included disposable income, population, and labour productivity.

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

3 In reference to the 15 Census Metropolitan Areas covered in this report.

4 The decline in income would have likely been greater without the significant, temporary financial support from the governments (i.e., The Canada Emergency Response Benefit, Employment Insurance Benefits, etc.).

mortgage rate increased. In line with action taken by the Bank of Canada in March to support the economy, the nominal 5-year mortgage rate declined. In normal circumstances, this action would support the housing market. The COVID-19 pandemic has changed many behaviours, however, and resulted in growth in the headline Consumer Price Index declining. Such a decline resulted in an increase in the real mortgage rate.

The weakness in some key housing market determinants led to a decline in the level of house prices supported by fundamentals in almost all CMAs between the first and second quarters this year. In contrast, observed house prices had increased in most centers over the same period. As a result, most CMAs experienced an increase in their respective average overvaluation estimates. This led to an increase in the number of centers now exhibiting moderate evidence of overvaluation. The emergence of evidence of overvaluation imbalances at the national level will continue to be closely monitored.

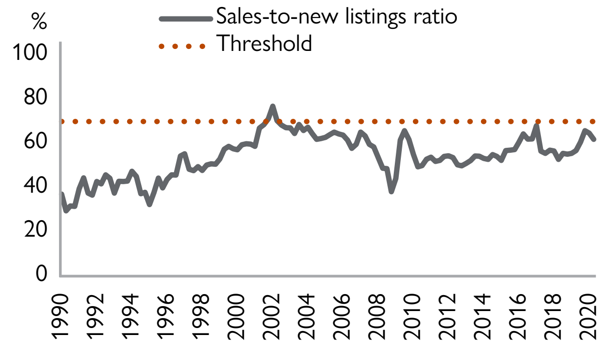
Overheating

Since mid-2019, the resale market had been tightening, evidenced by a rising sales-to-new-listings ratio. However, resale market activity in the second quarter of 2020 plummeted due to the COVID-19 crisis. Social distancing measures curtailed in-person property showings while employment losses and declines in income created uncertainty over the future path of the price of housing. The simultaneous occurrence of both caused the number of transactions and the number of new listings entering the market to fall at a record pace. With sales falling by slightly more than new listings, the sales-to-new-listings ratio dropped to 61.9% from a recent high of 65.8% in the fourth quarter of 2019 (Figure 1). At this level, it remained below the critical threshold set to signal overheating. Therefore, the evidence of overheating remains low.

Price acceleration

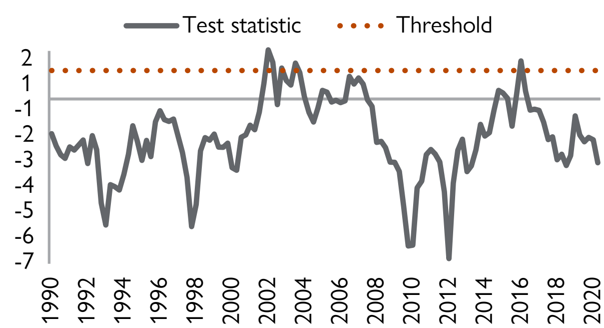
Consistent with the prior tightening of the resale market, the inflation-adjusted MLS® national average price experienced four consecutive quarters of growth through to the first quarter of 2020. By the second quarter of 2020, following the sudden shock to housing market fundamentals and two quarterly declines of the sales-to-new-listings ratio, the real average price had fallen. Consequently, evidence of price acceleration also remains low (Figure 2).

Figure 1: Low Evidence of Overheating in Canada



Sources: CREA and calculations by CMHC
Last data point: 2020Q2

Figure 2: Low Evidence of Price Acceleration in Canada

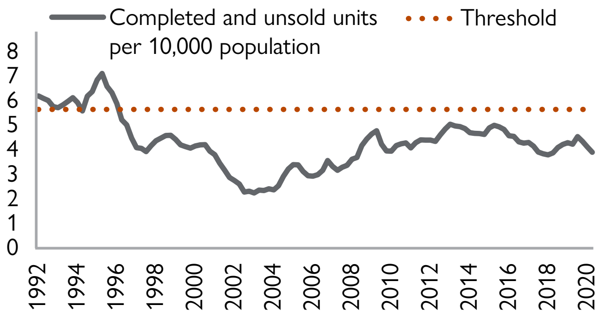


Sources: CREA and calculations by CMHC
Last data point: 2020Q2

Overbuilding

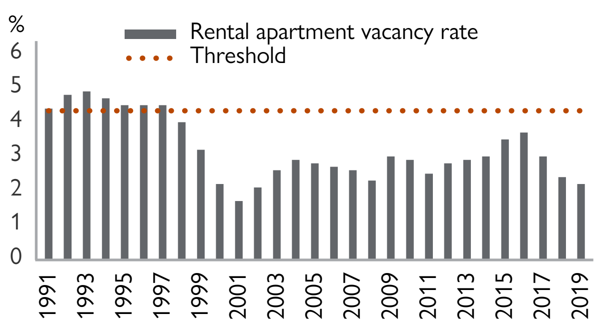
Finally, the evidence of overbuilding remains low as the inventory of completed and unsold homeowner units per 10,000 population (Figure 3) and the rental apartment vacancy rate (Figure 4) remained below their respective overbuilding thresholds.

Figure 3: Low Evidence of Overbuilding in Canada (ownership market)



Sources: Statistics Canada and CMHC
Last data point: 2020Q2

Figure 4: Low Evidence of Overbuilding in Canada (purpose-built rental market)



Source: CMHC
Last data point: 2019

According to CMHC Starts and Completions Survey data, nearly 80% of homeowner units completed in the second quarter of 2020 were sold at completion; a figure consistent with the recent five-year average. It is worth noting, however, that many of these units, particularly condominium apartments, were likely sold prior to the implementation of containment measures in most regions in mid-March 2020. This may have kept the inventory of completed and unsold homeowner units per 10,000 population at a lower level than it otherwise would have been. Additionally, the impact to the rental apartment market of reduced migration flows, the disproportionate loss of part-time and seasonal jobs, and lifted eviction moratoria[5] in several regions are not yet reflected in the vacancy rate (which reflects data as at October 2019). Given the recency of these developments, the overbuilding indicator will continue to be closely monitored as more data becomes available.

Regional overview

All regions of the country were affected by the COVID-19 pandemic. Vancouver and Toronto entered the second quarter of 2020 with a general unwinding of housing market imbalances. However, both experienced an increase in observed house prices for some price measures in the second quarter despite the COVID-19 driven decline in the estimated (fundamental) house price. This has led to an increase in average overvaluation estimates in both housing markets.

Conversely, in eastern Canada, Ottawa, Montréal, Moncton, and Halifax entered the second quarter of 2020 with emerging imbalances in their respective housing markets. Observed house prices in all four had been growing prior to the onset of COVID-19 and continued growing in the second quarter, despite the general weakness in housing market fundamentals. This has led to the detection of moderate evidence of overvaluation in Moncton and Halifax while a sustained increase in the rate of house price growth has led to the signalling of price acceleration in Ottawa and Montréal. The Ottawa, Moncton, and Halifax housing markets are all now assessed at an overall moderate degree of vulnerability.

In the Prairies, Edmonton and Calgary's recent economic woes due to oil price softness were further aggravated by the COVID-19 pandemic and the oil price decline it inspired. Observed house prices in these centers fell in the second quarter, but the rate of decline was below that suggested by housing market fundamentals. This has led to an increase in average overvaluation estimates in both housing markets between the first and second quarters this year. Additionally, evidence of overbuilding, which was first detected in 2015, is still present in both markets.

COVID-19 supports

There exist a wide range of government programs to assist individuals and businesses experiencing financial hardship during the COVID-19 crisis[6]. These include, but are not limited to, mortgage payment deferrals, the Canada Emergency Response Benefit (CERB), the Canada Emergency Wage Subsidy (CEWS), and the Canada Emergency Commercial Rent Assistance (CECRA) program. CMHC will continue to closely monitor housing markets as these programs are either withdrawn or transitioned to other programs.

[5] Many provinces and territories had announced measures to suspend evictions at the outset of the COVID-19 crisis (consult the following link for additional details: https://www.cmhc-schl.gc.ca/en/rental-housing/COVID-19-eviction-bans-and-suspensions-to-support-renters).

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

Victoria

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The overall degree of vulnerability in the Victoria housing market is reduced to moderate in the second quarter of 2020, as evidence of price acceleration eased from moderate to low while signs of overvaluation remained moderate. Ratings on overheating and overbuilding continued to be low.

Results Overview*
Victoria CMA

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

Degree of vulnerability Low Moderate High

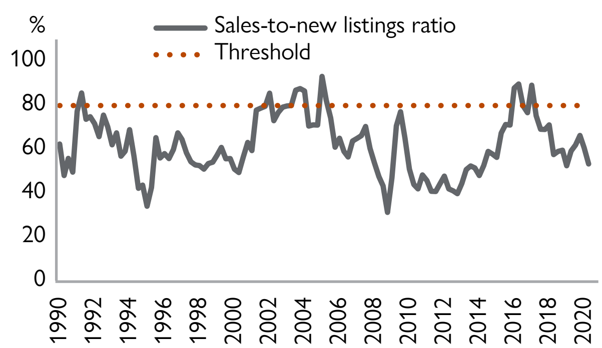
* Results are based on data as of the end of June 2020 (the annual rental apartment vacancy rates are from October 2019) and market intelligence up to August 2020. To ensure timely information for market participants, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of the housing market in the second quarter of 2020. Final calculations and ratings for overvaluation will be presented in the next edition of the HMA as finalized data for these fundamental drivers becomes available.

- The overall assessment for Victoria moved to a moderate degree of vulnerability in Q2 2020, as price acceleration now signaling a low degree of vulnerability.
- Evidence of overvaluation remained moderate due to the expanding imbalance between growing home price and weakened economic fundamentals, amidst pandemic-induced economic uncertainties.
- Single-family homes entered seller's market condition, as demand for detached units heightened and supply stalled amidst public health concerns and economic uncertainties.
- Contrary to the inventory composition seen in the past three years, there are now higher inventories of apartments than single-family homes. Construction activities continued to focus on apartments in Q2 2020, which could lead to growing supply in this sector in the coming quarters.

Low Evidence of Overheating

The rating on overheating remained low in Victoria in the second quarter of 2020, as the sales-to-new-listing ratio (SNLR) remained below the critical threshold (Figure 1). During the second quarter, the SNLR declined to its lowest level since 2019, after a brief rebound in the beginning of 2020 prior to the pandemic induced market contraction occurred. Quarterly sales (CREA) have been trending downward since Q2 2019 and flattened out in Q2 2020, registering a 31% year-over-year decline. However, as the pandemic lockdown intensified in Q2 2020 with growing public health concerns, new listings (CREA) also declined 25% year-over-year. As sales incurred a greater contraction compared to new listings, market conditions eased somewhat as both supply and demand are adjusting to a slower market amidst unprecedented market uncertainties in 2020.

Figure 1: Low Evidence of Overheating in Victoria



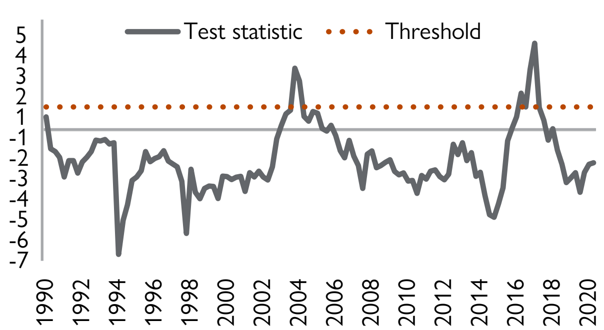
Sources: CREA and calculations by CMHC
Last data point: 2020Q2

Out of the various socio-economical abnormalities in the first half of 2020, one characteristic of Victoria's sales remained unchanged: single-family homes not only accounted for the majority of sales in Q2, their share reached the highest level since 2016. On the supply side, active listings of single-family homes began to decline at the end of Q4 2019 and remained low in 2020. By the end of Q2 2020, the heightened demand of single-family homes combined with low listing levels have led to a market condition that's only been seen at year-end 2009: fewer single-family homes left for sale than apartments. It's worth noting that the gap between single-family and apartment homes in active listings was 29 and -30 at the end of Q1 and Q2 this year, while the 10-year (2009-2019) average of the gap is 270 and 380. This rare market condition reveals heightened demand in traditionally less affordable home types, potentially due to the low nominal mortgage rate environment, as well as the health concerns surrounding shared facilities in apartment buildings.

Evidence of Price Acceleration Transitioned to Low

The rating on price acceleration moved from moderate to low in Q2 2020. The test for price acceleration remained under the critical threshold for the 13th consecutive quarter since it first surpassed the threshold more than 3 years ago in Q1 2017 (Figure 2).

Figure 2: Low Evidence of Price Acceleration in Victoria



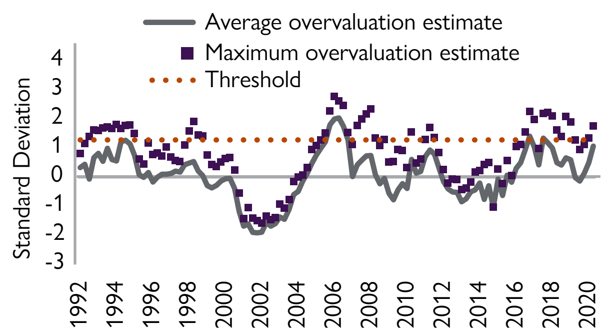
Sources: CREA and calculations by CMHC
Last data point: 2020Q2

Home prices increased both quarter-to-quarter (QTQ) and year-over-year (YOY), reflected by various price indexes adopted in the HMA framework. This includes the inflation adjusted MLS® average price (up 1% QTQ and 8% YOY), the Teranet® House Price Index (up 1% QTQ and 3% YOY), and the Statistics Canada New Housing Price Index (up 1% QTQ and 1% YOY). As the market entered the COVID-19 pandemic period, the heightened demand and sales in the high-priced single-family segment skewed the average price, resulting in a general price increase between Q3 2019 and Q2 2020. This upward trend in home prices could persist if homebuyers' preference shift were to take hold in the near future, which would be a focus of market monitoring effort.

Moderate Evidence of Overvaluation

The HMA framework continued to detect moderate evidence of overvaluation in Q2 2020. The average gap between actual home price and estimated home prices has increased past the negative range since Q3 2019, and has risen close to the critical threshold in Q2 2020 (Figure 3), indicating that the actual home price increased while the average of estimated home price models, based on economic fundamentals, declined since Q3 2019. The estimated home price models take into consideration several factors, including population growth and demographics, personal disposable income, mortgage rate and amortization period, carrying cost for homeowners, and labor productivity (construction sector). The maximum overvaluation gap was above the threshold in Q2 2020 for the second time in the past four-quarter period, signalling moderate evidence of overvaluation.

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: 2020Q2

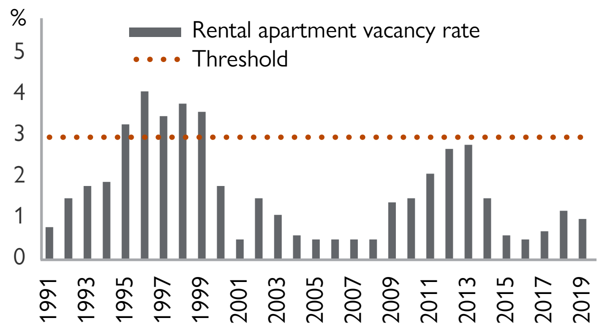
Note: The average estimate of overvaluation is the average gap between actual house prices and their fundamental level estimated from a group of selected models. There are five models in total, each of which is estimated using four measures of house prices to generate twenty unique estimates of overvaluation.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

It is worth noting the relatively sharp increase of the average gap since the last HMA release in Q3 2019. In a broader province and nation-wide context, rising unemployment, reduced income, contractions in the tourism and travel industry in BC, and significantly lower immigration that would support population growth and housing demand, are all contributors to a weaker estimated home price. In Victoria, the HMA framework identified that lower income and lower inflation contributed to a decline in the estimated home price. However, heightened demand for the more expensive detached sector in the environment of low nominal mortgage rate reveals a preference shift, and possibly less severe COVID-19 impacts on homebuyers financially compared to other parts of the country. The result is an ever-expanding gap between observed market price and economic fundamentals amidst the economic impacts of a public health crisis, indicating a growing imbalance between price levels and what can be justified by the local economy.

Low Evidence of Overbuilding

The HMA framework continued to detect low evidence of overbuilding in Victoria. The purpose-built rental vacancy rate in 2019 remained at 1% as of October 2019, well below its critical threshold (Figure 4). The tightness in the rental market seen in 2019 may not hold amidst the pandemic due to changes in factors including tenants' lifestyles, migration flows, and landlords' financial conditions, all of which could influence rental demand and supply.

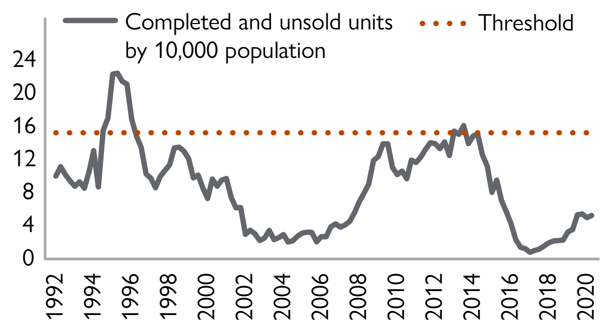
Figure 4: Low Evidence of Overbuilding in Victoria (purpose-built rental market)



Source: CMHC
Last data point: 2019

The inventory of completed and unsold units (per 10,000 population) stalled in Q2 2020, remaining below the critical threshold (Figure 5). Most of the inventories are apartments in Q2 2020, which had already surpassed single-family inventory levels pre-pandemic in Q4 2019 for the first time since mid-2017. This shift in inventory composition was later amplified by an emerging shift in dwelling preference from multi-family to single-family living in Victoria as the pandemic took hold. However, construction activities continued to follow an apartment-focused pattern in Q2 2020 as most of the housing starts in the first two quarters of this year were multi-family homes. This may lead to growing inventories in the coming quarters and possible downward pressure on prices.

Figure 5: Low Evidence of Overbuilding in Victoria (ownership market)



Sources: Statistics Canada and CMHC
Last data point: 2020Q2

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Vancouver

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Vancouver's housing market is assessed as being moderately vulnerable. While each individual indicator pointed to low evidence, growing vulnerabilities were observed in the data. After several quarters of improvement, the overvaluation gap between fundamental and market prices widened. This warrants a special level of caution, considering the unique economic conditions surrounding this change.

Results Overview*
Vancouver CMA

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

Degree of vulnerability Low Moderate High

* Results are based on data as of the end of June 2020 (the annual rental apartment vacancy rates are from October 2019) and market intelligence up to August 2020. To ensure timely information for market participants, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of the housing market in the second quarter of 2020. Final calculations and ratings for overvaluation will be presented in the next edition of the HMA as finalized data for these fundamental drivers becomes available.

- CMHC's Housing Market Assessment (HMA) framework detects a moderate degree of vulnerability for the Vancouver Census Metropolitan Area (CMA) housing market. The rating reflects a persistence rule in the classification of market vulnerabilities rather than a particular vulnerability detected.
- CMHC's analytical framework maintained its ratings for overheating, price acceleration, and overbuilding from the previous quarter.
- Overvaluation was not detected, resulting in a change from moderate to low evidence of vulnerability.
- The price level theoretically supported by local economic conditions declined, widening the gap between the theoretical price level and the observed price level.
- Inventories of homes have risen recently, but remain below threshold. Similarly, as apartment vacancy rates remain low, there continues to be low evidence of overbuilding.

Low Evidence of Overheating

The HMA framework indicated low evidence of overheating for the Vancouver CMA. The sales-to-new-listings ratio (SNLR) declined from the mid 60% range to the mid 40% range, well below the threshold of overheating, which is set at 75%. The SNLR indicator typically reflects movements in sales, since new listings tend to be more stable over time. The noteworthy trend is a fall in new listings, where the fall in listings nearly matched the fall in sales from the first to the second quarter of 2020. This tells us that a significant share of homeowners chose to abstain from selling their homes during the COVID-19 lockdown, and this corresponded with the number of buyers who abstained from the market. This makes the interpretation of the SNLR less straight forward than usual, and a movement away from the threshold should not be taken as a decline in vulnerability. What is observable is that the market shrank from both the buy side and the sell side. 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 that market conditions shifted slightly to favour sellers in the single detached market, but otherwise the balance between the buy and the sell side was relatively unchanged.

Table 1: Sales-to-Available Ratio

	Single-Detached		Condo (Attached + Apartment)	
	End Q2 2020	End Q2 2019	End Q2 2020	End Q2 2019
Burnaby	14%	11%	15%	15%
Coquitlam	16%	12%	18%	17%
Delta	16%	12%	12%	17%
New Westminster	17%	14%	18%	18%
North Vancouver	18%	16%	19%	18%
Port Coquitlam	26%	17%	26%	23%

	Single-Detached		Condo (Attached + Apartment)	
	End Q2 2020	End Q2 2019	End Q2 2020	End Q2 2019
Port Moody	15%	14%	21%	22%
Richmond	9%	8%	13%	11%
M Ridge P Meadows	18%	15%	21%	20%
Vancouver DT	-	-	13%	13%
Vancouver East	16%	12%	19%	20%
Vancouver West	11%	9%	14%	14%
West Vancouver	8%	7%	9%	6%
Langley	22%	16%	18%	21%
Surrey	15%	15%	18%	20%
S. Surrey / White Rock	11%	9%	16%	16%
Vancouver CMA	14%	12%	16%	17%

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%.

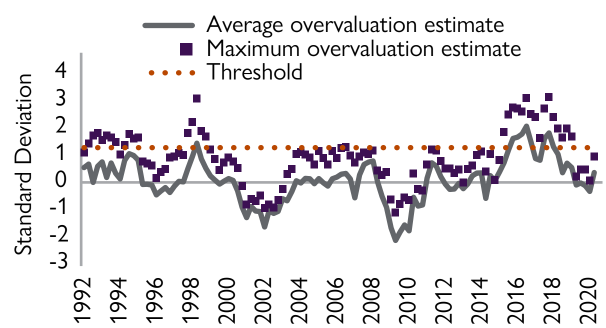
Low Evidence of Price Acceleration

Price acceleration was not detected in 2020 Q2. MLS® prices declined during the COVID-19 lockdown after adjusting for inflation, however the change was small and year-over-year price growth remained positive. In the two largest submarkets, Vancouver apartments and Surrey single – detached, there was positive year-over-year price growth in nominal terms. Vancouver apartments increased by 3%, while Surrey single-detached increased 10%. Most submarkets experienced some form of price increase above what was recorded in the nominal aggregate for the CMA; however, there appears to be a greater share of sales in areas like Langley, where the average price is lower, and this contributed to the slower overall average price growth than what the submarket data indicates. This means that aggregate price movements in the average price data reflected a compositional shift and understated the actual price growth in the market.

Low Evidence of Overvaluation

The HMA framework did not detect evidence of overvaluation for the Vancouver CMA. A rating of moderate evidence was downgraded since the overvaluation indicator did not breach the threshold determined by historical imbalances (Figure 1). That said, the fundamental price level did decline. A small bump in young adult population supported price growth, holding all things equal, however the largest impact on fundamental price levels was an increase in the inflation adjusted mortgage rate coupled with a fall in income. The end result was a weakened household budget, and this meant that fundamentals were more consistent with falling prices rather than what we actually observed, which was a rise in the real price level. The gap in observed and fundamental prices tells us that vulnerability increased in Vancouver, although it did not trigger a rating of moderate evidence of vulnerability. One factor that is not easily isolated in our data is the effect of emergency government transfers during the pandemic. Certainly, household budgets would have declined even more absent these government transfers, and given the fact that vulnerabilities increased in relation to household budgets, we believe this fact bears special consideration when considering the possibility of imbalances in the housing market.

Figure 1: Low Evidence of Overvaluation in Vancouver



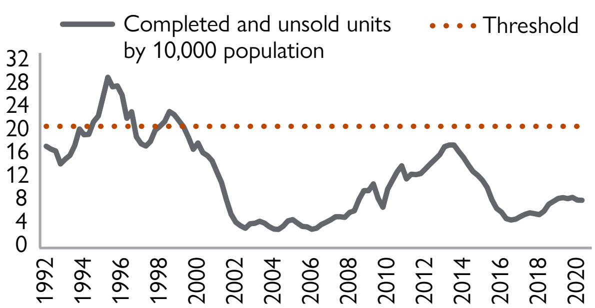
Sources: CREA, Statistics Canada, Teranet and National Bank of Canada, and calculations by CMHC
Last data point: 2020Q2

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

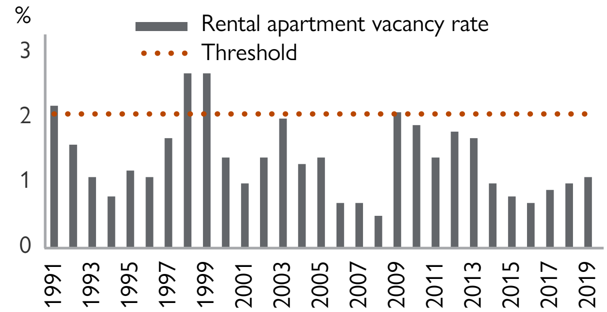
The HMA framework continued to detect low evidence of overbuilding in Metro Vancouver's housing market. Inventories of multi unit dwellings continued to increase, while those for single detached units declined. New construction inventory mirrored active listings, showing a draw down in inventory for single-detached units continuing into the COVID-19 lockdown, as sales for single detached grew as a share of total sales. Overall, the completed and unsold stock is low relative to the local population in the Vancouver CMA (Figure 2). The purpose-built rental apartment vacancy rate remains well below the threshold for the detection of overbuilding (Figure 3).

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



Sources: Statistics Canada and CMHC
Last data point: 2020Q2

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



Source: CMHC
Last data point: 2019

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Edmonton

Christian Arkilley
Senior Analyst, Economics

Weak economic and labour market conditions owing to the COVID-19 pandemic and the fall in oil prices are constraining the absorption of newly completed units, keeping inventories elevated.

Results Overview*
Edmonton CMA

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

Degree of vulnerability Low Moderate High

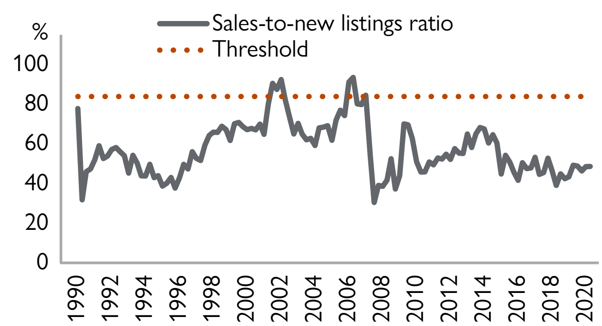
* Results are based on data as of the end of June 2020 (the annual rental apartment vacancy rates are from October 2019) and market intelligence up to August 2020. To ensure timely information for market participants, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of the housing market in the second quarter of 2020. Final calculations and ratings for overvaluation will be presented in the next edition of the HMA as finalized data for these fundamental drivers becomes available.

- The overall assessment for the Edmonton CMA is maintained as having a low degree of overall vulnerability.
- Overvaluation was maintained as low as fundamental demand factors trended lower.
- Overbuilding was maintained as moderate as economic uncertainties constrained the absorption of newly completed units.
- Low evidence of overheating and price acceleration were maintained, unchanged from previous quarters.

Low evidence of overheating

The Housing Market Assessment (HMA) framework detected low evidence of overheating in the Edmonton CMA housing market. During the second quarter of 2020, the sales-to-new listing ratio averaged 49.7%, unchanged from what was observed in the previous quarter (Figure 1). This ratio, which compares the number of new homes entering the market to the number being sold, remained well below the 85% threshold, indicating that demand kept pace with supply. Adjusted for seasonality, resale market activity worsened within the quarter with both sales and new listings decreasing, resulting in the stable seasonally adjusted sales-to-new listings ratio.

Figure 1: Low Evidence of Overheating in Edmonton



Sources: CREA and calculations by CMHC
Last data point: 2020Q2

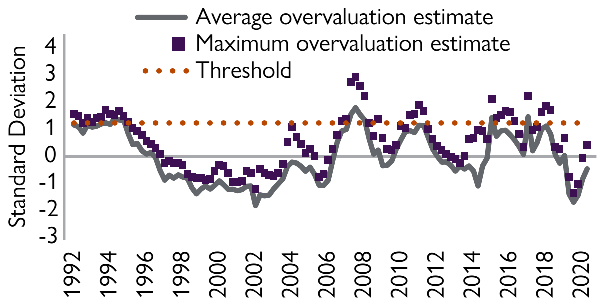
Low Evidence of Price Acceleration

There continued to be low evidence of price acceleration in the Edmonton CMA. The slower recovery of the Edmonton job market coupled with the elevated inventories in the new home market resulted in downwards pressure in resale prices in the CMA. The real MLS® average price in the second quarter of this year was down 2.9% compared to the same period of 2019 and down 1.8% quarter-over-quarter. The existing home market conditions continued to favour the buyer, and future price growth is expected to remain soft due to sufficient choices in both the new and the existing home markets.

Low Evidence of Overvaluation

Evidence of overvaluation remains low in the Edmonton CMA. The gap between actual house prices and price levels predicted by economic fundamentals remain below the critical threshold for both the maximum overvaluation gap and the average overvaluation gap. Fundamental demand factors such as the population of young adults (aged 25-34), income, and real five-year discounted mortgage rate all decreased as economic uncertainties and job losses due to COVID-19 and lower oil prices impacted housing market demand. The decreases in the fundamental demand factors resulted in the easing of some house price growth and narrowed the overvaluation gap (Figure 2).

Figure 2: Low Evidence of Overvaluation in Edmonton



Sources: CREA, Statistics Canada, Teranet and National Bank of Canada, and calculations by CMHC
Last data point: 2020Q2

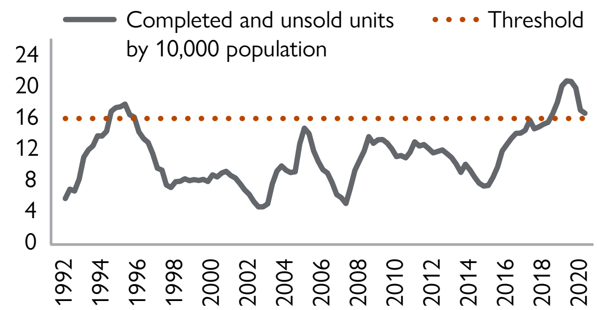
Note: The average estimate of overvaluation is the average gap between actual house prices and their fundamental level estimated from a group of selected models. There are five models in total, each of which is estimated using four measures of house prices to generate twenty unique estimates of overvaluation.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

Moderate evidence of overbuilding

Evidence of overbuilding in the Edmonton CMA housing market remained moderate in the second quarter of 2020 as the number of completed and unabsorbed units per capita remained above the critical threshold. This market imbalance is largely driven by increased construction activity of single-detached units coupled with rising choices for buyers in the resale market. However, the completed and unabsorbed units of row and apartment per capita declined below the threshold for significant overbuilding of row and apartment. Weak economic and labour market conditions due to the COVID-19 pandemic and the fall in oil prices are constraining the absorption of newly completed units and keeping inventories elevated, resulting in the persistence of overbuilding imbalances in the Edmonton market.

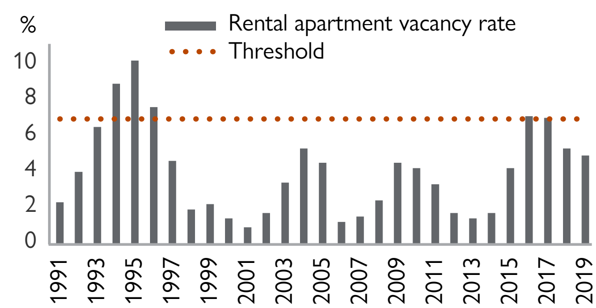
The relatively stronger demand for purpose-built rentals and rental condominium units has helped move Edmonton's rental market towards more balanced conditions. The vacancy rate has been falling since 2017. Uncertainties and job losses caused by the current economic climate have amplified the demand for rental units.

Figure 3: Evidence of Overbuilding in Edmonton (ownership market)



Sources: Statistics Canada and CMHC
Last data point: 2020Q2

Figure 4: Evidence of Overbuilding in Edmonton (purpose-built rental market)



Source: CMHC
Last data point: 2019

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Calgary

Michael Mak
Senior Analyst, Economics

While the Calgary CMA continues to show low degree of vulnerability, there is moderate evidence of overbuilding as new home inventories continue to grow among weaker economic drivers.

Results Overview*
Calgary CMA

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

Degree of vulnerability Low Moderate High

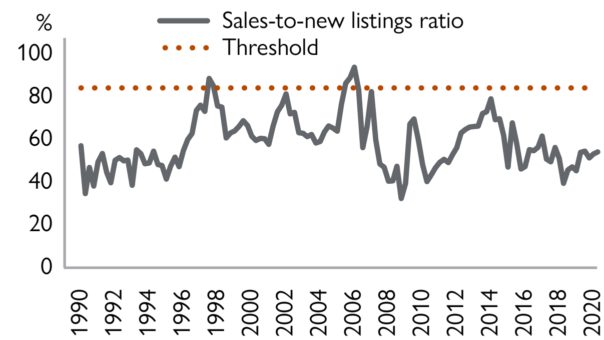
* Results are based on data as of the end of June 2020 (the annual rental apartment vacancy rates are from October 2019) and market intelligence up to August 2020. To ensure timely information for market participants, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of the housing market in the second quarter of 2020. Final calculations and ratings for overvaluation will be presented in the next edition of the HMA as finalized data for these fundamental drivers becomes available.

- Calgary continues to exhibit low levels of evidence of overheating, with the seasonally adjusted sales to new listing ratio (SNLR) of 55% being well below the threshold.
- There continues to be a moderate level of evidence of overbuilding in the Calgary CMA, with the number of completed and unsold ownership units in the second quarter approaching a historic high.

Overheating

Under the HMA model, Calgary continues to exhibit low levels of evidence of overheating, with the seasonally adjusted sales to new listing ratio (SNLR) well below the overheating threshold of 85% (Figure 1). Compared to the previous HMA, the SNLR has remained relatively flat at 55%. In the second quarter of 2020, both new listings and sales significantly fell compared to the previous quarter due to a combination of a weakening economy, as well as pandemic measures that limit resale transaction accessibility, and general uncertainty. However, as seasonally adjusted new listings fell slightly more at 31% compared to the 30% drop in seasonally adjusted sales, the ratio was able to remain relatively flat. While this is a special circumstance, the SNLR continues to be higher than recent lows in 2018, pointing to a strengthening buyer's market.

Figure 1: Low Evidence of Overheating in Calgary



Sources: CREA and calculations by CMHC
Last data point: 2020Q2

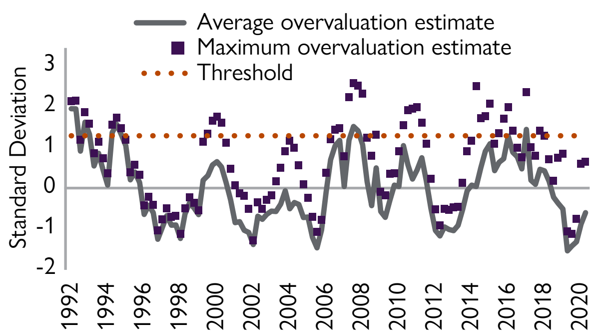
Price Acceleration

There is a low level of evidence of price acceleration in the Calgary CMA, as the HMA maintains its rating from the previous report. Average prices in the Calgary CMA continue to decline as buyers' market conditions prevail, as well as among weaker sales activity. The MLS® average price was $423,311 in the second quarter of 2020, down 4% from the same period in 2019. Seasonally adjusted, average prices were lower by 4% from the first quarter of 2020.

Overvaluation

Results from the HMA model continue to show low evidence of overvaluation, as the difference between actual house prices and predicted houses prices from fundamental factors remain below the overvaluation threshold (Figure 2). The recent decline in economic activity is in line with the decline in house prices. Labour income has been decreasing since the fourth quarter of 2019. Calgary continues to be affected by slower population growth, especially among the 25-34 age cohort. Although the overall population is still growing, the share of the 25-34 age cohort continues to shrink. As they are more likely to be first time home buyers, this continued change in demographic profile has dampened housing demand.

Figure 2: Low Evidence of Overvaluation in Calgary



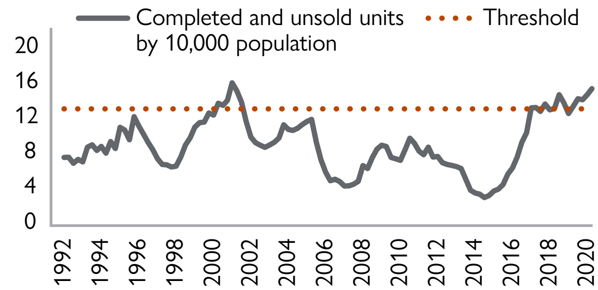
Sources: CREA, Statistics Canada, Teranet and National Bank of Canada, and calculations by CMHC
Last data point: 2020Q2

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

There continues to be a moderate level of evidence of overbuilding in the Calgary CMA. Completed and unsold ownership units per 10,000 population continue to trend upwards above a critical level in the second quarter of 2020, approaching a historic high in the first quarter of 2001 (Figure 3). The unabsorbed inventory of single detached units continued to increase, reaching 627 at the end of the second quarter of 2020, up 9% from the same period in 2019. The inventory of unabsorbed semi-detached and row units reached 738 in the recent quarter, while lower than the high of 801 in 2019, continue to trend higher. Together, they make up 59% of total unabsorbed inventory in Calgary. As these units tend to be more expensive, they are more likely to be affected by a decrease in employment and higher paying jobs due to competition from lower price condos.

Figure 3: Evidence of Overbuilding in Calgary (ownership market)



Sources: Statistics Canada and CMHC
Last data point: 2020Q2

The current level of overbuilding is partially driven by recent weakness in the oil and energy markets. The recent oil shock pushed prices lower, leading the energy sector, a major exporter in Calgary, to cut back on growth and current levels of employment. This has led to a steeper decline in the young working age population (25-34), a cohort likely to absorb new home inventory. While oil prices have somewhat recovered, energy companies are still limited by production quotas, limiting any job growth and potentially slowing the pace of absorption of new home inventories.

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Saskatoon

Goodson Mwale
Senior Analyst, Economics

Overall, the degree of vulnerability in the Saskatoon's housing market remained low in Q2 2020. However, the gap between fundamental and observed house prices widened due to rising unemployment and declining household incomes brought on by the COVID-19 pandemic. As such, we will continue to monitor our overvaluation indicator over the next several quarters.

Results Overview*
Saskatoon CMA

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

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

* Results are based on data as of the end of June 2020 (the annual rental apartment vacancy rates are from October 2019) and market intelligence up to August 2020. To ensure timely information for market participants, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of the housing market in the second quarter of 2020. Final calculations and ratings for overvaluation will be presented in the next edition of the HMA as finalized data for these fundamental drivers becomes available.

A low degree of vulnerability remains for the Saskatoon market

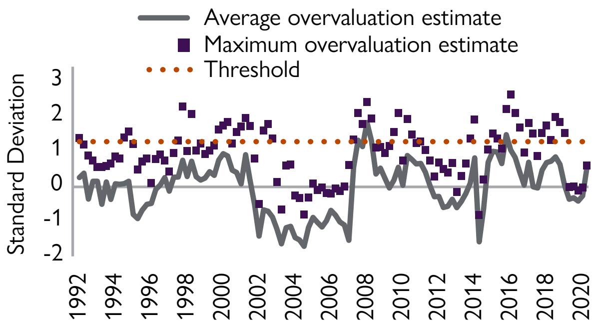
- Evidence of overheating remains low. After increasing in the preceding two quarters, seasonally adjusted MLS® sales fell 8.3% in Q2 2020 from Q1 2020. By comparison, the decline in new listings from Q1 2020 was more pronounced, at 12.7%. This helped push up the sales-to-new listings ratio (SNLR) to 51% in the second quarter from 48.9% in the first quarter of 2020. At this level, the SNLR remained below the HMA framework's overheating threshold of 85%.
- The low rating on price acceleration is unchanged. While Saskatoon's inflation-adjusted MLS® average price rose by 2.4% in Q2 2020 from Q1 2020, it was up by only 1.4% from Q2 2019. In addition, the MLS® HPI composite benchmark price[7] declined by 0.6% in Q2 2020, on a year-over-year basis, despite edging higher from the preceding quarter.
- Low evidence of overbuilding is still detected. The trend in Saskatoon's inventory of completed and unsold units declined further in Q2 2020, a pattern that has been in effect since Q3 2016. In addition, the purpose-built rental vacancy rate fell to 5.7% in October 2019 from 8.3% in the previous year. Both indicators were below their critical thresholds for overbuilding in the second quarter of 2020.

The low rating on overvaluation is maintained but warrants monitoring

The HMA framework continued to detect low evidence of overvaluation in the Saskatoon housing market. Overvaluation, based on the maximum overvaluation gap and the average of the gaps from all selected models, was below its critical threshold in Q2 2020. However, the gap between observed house prices and those estimated from fundamentals widened, as highlighted by the sharp increase in the average overvaluation gap between Q1 2020 and Q2 2020 in Figure 1. This could be an early indication of overvaluation imbalances forming in the Saskatoon market. It is also conceivable that house price gap estimates would have likely been higher, were it not for government financial support aimed at diminishing the negative impact of COVID-19 on employment and household incomes. Saskatoon's seasonally adjusted unemployment rate rose to 14.1% in the second quarter from 7.1% in the first quarter of 2020. The sharp declines in employment and hours worked contributed to a reduction in labour income in Q2 2020 from Q1 2020.

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

Figure 1: Low Evidence of Overvaluation in Saskatoon



Sources: CREA, Statistics Canada, Teranet and National Bank of Canada, and calculations by CMHC
Last data point: 2020Q2

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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Regina

Taylor Pardy
Senior Analyst, Economics

The rating for overbuilding in the Regina CMA moved from high to moderate evidence in the second quarter as a result of the inventory of completed and unsold homes remaining significantly below its critical threshold over the past year. Evidence of overheating, price acceleration and overvaluation remain low as of Q2 2020.

Results Overview*
Regina CMA

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

Degree of vulnerability Low Moderate High

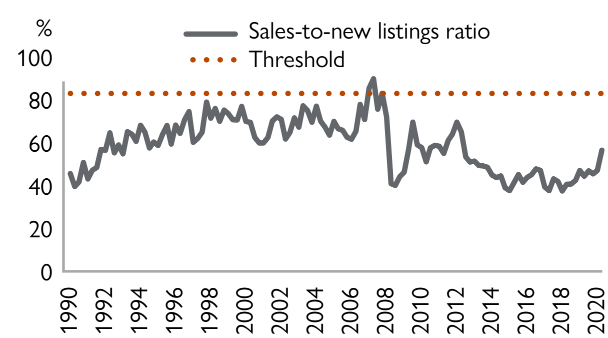
* Results are based on data as of the end of June 2020 (the annual rental apartment vacancy rates are from October 2019) and market intelligence up to August 2020. To ensure timely information for market participants, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of the housing market in the second quarter of 2020. Final calculations and ratings for overvaluation will be presented in the next edition of the HMA as finalized data for these fundamental drivers becomes available.

- There continues to be low evidence of overheating and price acceleration in the Regina CMA.
- Low evidence of overvaluation in house prices was maintained as of Q2 2020 with limited movement in the average overvaluation estimate. This was largely a result of declines in both house prices as well as fundamental factors underpinning prices.
- The Regina CMA moved from high to moderate evidence of overbuilding as a result of unsold new home inventories remaining significantly below the critical threshold over the past year. Meanwhile the purpose-built apartment vacancy rate remained above its critical threshold as of Q2 2020 at the onset of the COVID-19 pandemic.

Low Evidence of Overheating

Following the onset of the COVID-19 pandemic, the overheating indicator in the Regina CMA displayed an upward trend between Q1 and Q2 2020 while remaining well below the critical threshold for signaling overheating (Figure 1). Under normal circumstances, an upward trend in the overheating indicator would indicate bargaining power beginning to move in favour of sellers and upward price pressure could be expected if the trend were to hold. However, given the unprecedented impact of the pandemic[8], this measure requires further dissection to provide greater context on market conditions. The sales-to-new-listings ratio (SNLR), which underlies the overheating indicator, moved upward in the second quarter largely due to the fact that the number of new listings coming onto the market between April and June dropped significantly relative to MLS® sales. For perspective, MLS® sales declined 3.6% in Q2 2020 relative to the same quarter in 2019 while new listings declined approximately 24% in the second quarter relative to the same period the previous year. Additionally, while MLS® sales only saw a modest decline relative to Q1, the seasonally adjusted pace of sales in Q2 2020 remained approximately 30% below the previous peak pace of sales seen in Q1 2012. Regarding the trend in new listings, significant uncertainty in economic conditions, as well as navigating the public health considerations of listing and showing one's home were likely contributors to the decline in listings at the onset of the pandemic.

Figure 1: Low Evidence of Overheating in Regina



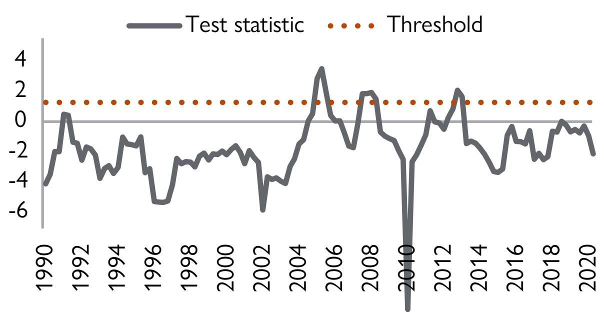
Sources: CREA and calculations by CMHC
Last data point: 2020Q2

[8] The seasonally-adjusted unemployment rate in the Regina CMA peaked at 11.6% in June relative to 7.2% in January 2020. Labour Force Survey: https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1410029401.

Low Evidence of Price Acceleration

There continued to be low evidence of price acceleration in the Regina CMA in the second quarter of 2020 as the test statistic did not exceed the critical threshold (Figure 2). Overall, the inflation-adjusted MLS® average price decreased by approximately 2% in Q2 2020, relative to Q1 2020 as the impact of the COVID-19 pandemic took hold. However, on a year-over-year basis, the inflation-adjusted MLS® average price saw somewhat small, yet positive growth of 0.21% in Q2 2020 relative to the same quarter in 2019. Relative price stability year-over-year is not entirely surprising, even in the context of the pandemic, given the listings-driven shift in market conditions previously mentioned combined with lower inventories of completed and unsold new homes on the market relative to one year ago (see Figure 4). It is also worth emphasizing that prior to the pandemic, the inflation-adjusted MLS® average prices had already been in decline due to softer economic conditions since 2015.

Figure 2: Low Evidence of Price Acceleration in Regina

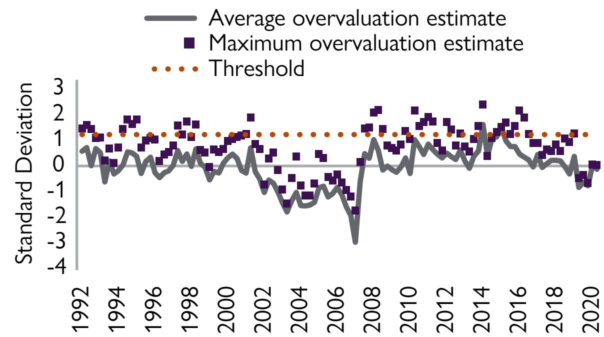


Sources: CREA and calculations by CMHC
Last data point: 2020Q2

Low Evidence of Overvaluation

Low evidence of overvaluation was detected for the Regina CMA in Q2 2020, marking 12 consecutive quarters where this rating has been maintained. The average of all overvaluation models as well as each of the individual overvaluation models remained significantly below the critical threshold for overvaluation (Figure 3).

Figure 3: Low Evidence of Overvaluation in Regina



Sources: CREA, Statistics Canada, Teranet and National Bank of Canada, and calculations by CMHC
Last data point: 2020Q2

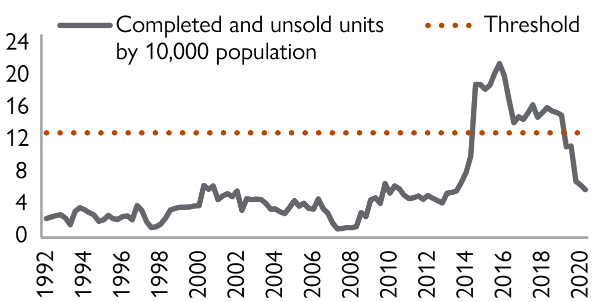
Note: The average estimate of overvaluation is the average gap between actual house prices and their fundamental level estimated from a group of selected models. There are five models in total, each of which is estimated using four measures of house prices to generate twenty unique estimates of overvaluation.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

Limited movement in the individual overvaluation models and, subsequently, average overvaluation was a function of both the downward movement in prices in the second quarter as well as downward pressure on key fundamental factors underpinning prices. In particular, while the inflation-adjusted MLS® average price declined by approximately 2% in the second quarter, declines in fundamentals such as the population aged 25-34, in addition to lower income contributed to a decline in the price level that could be justified by fundamental factors. As a result, there was limited movement in the average overvaluation estimate for the Regina CMA. However, it is possible that estimates of overvaluation may have been higher in Q2 2020 in the absence of government financial supports aimed at reducing the impact on households due to sudden loss of employment and income at the onset of the pandemic.

Moderate Evidence of Overbuilding

The HMA framework now detects moderate evidence of overbuilding in the Regina CMA as of Q2 2020. On the ownership side, inventories of completed and unsold homes have consistently declined since the beginning of 2019 as builders scaled back the number of new projects due to softer economic conditions. As a result, the inventory of completed and unsold homes has declined and remained significantly below the critical threshold for overbuilding over the past year, warranting a change in the rating for overbuilding (Figure 4).

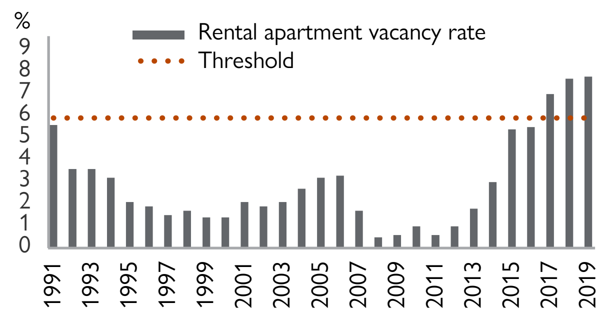
Figure 4: Evidence of Overbuilding in Regina (ownership market)



Sources: Statistics Canada and CMHC
Last data point: 2020Q2

While housing market vulnerabilities related to overbuilding diminished on the ownership side of the market prior to the pandemic, the purpose-built apartment vacancy rate in the primary rental market remained above its critical threshold, contributing to the moderate overbuilding rating in the Regina CMA (Figure 5). Imbalances related to overbuilding in the primary rental market come at a time when international migration into the Regina CMA, a key source of rental demand, has been significantly impacted by pandemic-related restrictions, signaling a potentially elevated level of vulnerability in the short-run. CMHC will continue to monitor and report on conditions in the primary rental market in the Regina CMA in the coming months.

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



Source: CMHC
Last data point: 2019

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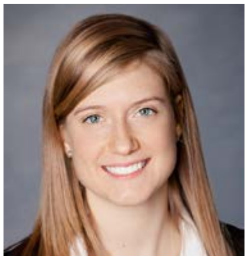
Winnipeg



Heather Bowyer
Senior Analyst, Economics

While the overall degree of vulnerability remained low in the Winnipeg CMA, moderate overbuilding continued to be detected. However, inventory levels have been trending lower and are now below the threshold.

Results Overview*
Winnipeg CMA

	Feb. 2020	Sept. 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 June 2020 (the annual rental apartment vacancy rates are from October 2019) and market intelligence up to August 2020. To ensure timely information for market participants, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of the housing market in the second quarter of 2020. Final calculations and ratings for overvaluation will be presented in the next edition of the HMA as finalized data for these fundamental drivers becomes available.

- Overall, a low degree of vulnerability was detected in Winnipeg's housing market, unchanged from the previous assessment.
- There continued to be a moderate degree of overbuilding, however inventory levels have improved as the number of newly completed units slowed.
- Factors such as price acceleration, overheating, and overvaluation continue to show low evidence of vulnerabilities.
- The emergence of evidence of imbalances will continue to be closely monitored during these unprecedented times.

Overheating

There continued to be low evidence of overheating in the Winnipeg CMA as the seasonally adjusted sales-to-new listings (SNL) ratio remained below the 85% threshold. The seasonally-adjusted SNL ratio was 60.0% in the second quarter of 2020, compared to 59.8% in the previous quarter. Resale market activity over the same period slowed as both sales and new listings decreased nearly 22.0%, which caused the seasonally adjusted SNL to remain relatively unchanged. Declining market activity was largely a result of the unprecedented economic conditions caused by the COVID-19 pandemic.

Price Acceleration

The HMA framework continued to detect low evidence of price acceleration. In the second quarter of 2020, the average MLS® price was $314,277, an increase of 0.3% compared to the same quarter in 2019. The MLS® HPI Index increased 1.9% in the second quarter of 2020 compared to the same quarter in 2019. However, certain housing types are seeing stronger gains than others. The CREA benchmark price for a single-family home increased 2.2% while the benchmark price for an apartment unit decreased 3.5% over the same period.

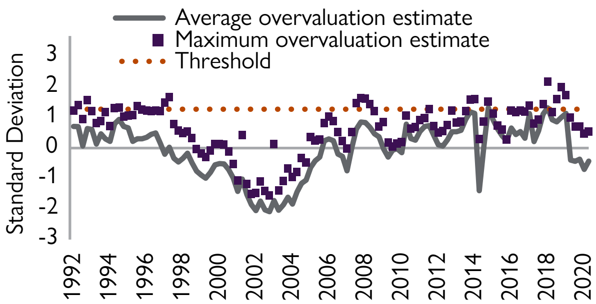
Overvaluation

The evidence of overvaluation remained low in the Winnipeg CMA in the second quarter of 2020 as the gap between actual home prices and those predicted by current fundamentals remained below the critical threshold. Weakened fundamentals led to a decrease in the fundamental house price, while observed house prices increased. This led to an increase in the overvaluation gap from the previous quarter as indicated in Figure 1.

In the labour market, employment decreased 6.6% in the second quarter of 2020 compared to the same quarter in 2019. The COVID-19 pandemic, which triggered economic shutdowns for much of the second quarter, largely contributed to the fall in employment with part-time positions enduring a larger impact than full-time positions. Considerable employment losses caused the unemployment rate to increase 4.7 percentage points to 9.9% in the second quarter of 2020.

In the second quarter of 2020, total population increased 1.3% on a year-over-year basis. Over the same period, the population aged 25 to 34 experienced slower growth, increasing 0.4%.

Figure 1: Low Evidence of Overvaluation in Winnipeg



Sources: CREA, Statistics Canada, Teranet and National Bank of Canada, and calculations by CMHC
Last data point: 2020Q2

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.

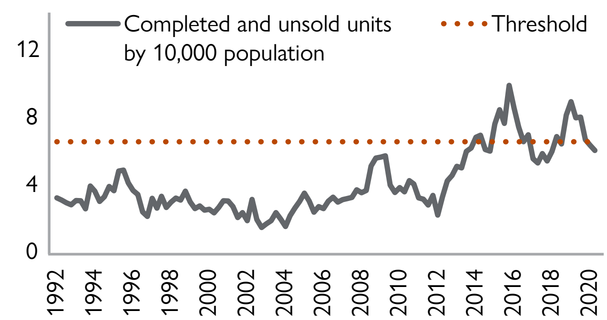
Overbuilding

There continued to be moderate evidence of overbuilding in the Winnipeg CMA. The inventory of completed and unsold units per 10,000 population trended lower and moved below the threshold for overbuilding as indicated in Figure 2.
In addition, inventory levels in both single-detached and multi-family units are now below their respective thresholds.

Total inventory levels decreased 22.9% in the second quarter of 2020 compared to the same quarter in 2019. Inventories decreased across all housing types as single-detached units in inventory decreased 7.6% while condominium apartment units decreased 39.9%. Overall, a slowdown in the number of newly completed units over the past several quarters has been contributing to the steady decline in inventory levels.

The vacancy rate in the Winnipeg CMA was well below the threshold for overbuilding. However, reduced migration flows from the COVID-19 pandemic may have a disproportionate effect on the rental market. As such, overbuilding in the rental market will be closely monitored going forwards.

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



Sources: Statistics Canada and CMHC
Last data point: 2020Q2

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Hamilton

Anthony Passarelli
Senior Analyst, Economics

While house prices became more detached from economic fundamentals in the second quarter, further persistence of these conditions is required to change our assessment of Hamilton's housing market.

Results Overview*
Hamilton CMA

	Feb. 2020	Sept. 2020
Overheating	Moderate	Moderate
Price Acceleration	Moderate	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 June 2020 (the annual rental apartment vacancy rates are from October 2019) and market intelligence up to August 2020. To ensure timely information for market participants, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of the housing market in the second quarter of 2020. Final calculations and ratings for overvaluation will be presented in the next edition of the HMA as finalized data for these fundamental drivers becomes available.

Overall Assessment for Hamilton Remained at Moderate

Overheating

The overheating rating was maintained due to sustained market imbalances since late 2019. Resale market conditions became more favourable to sellers since our last assessment. Between the first and second quarters of 2020, the number of new listings decreased more than sales. The high economic uncertainty and temporary public health and workplace safety restrictions placed on property showings caused a greater number of sellers to exit the market than buyers.

Some temporary restrictions remained on property showings in July and August, likely preventing the number of new listings from rebounding as much as sales. Demand rebounded strongly, as social distancing measures were relaxed, and Hamilton's economy moved into the latter stages of re-opening (stages 2 and 3 in Ontario).

Price acceleration

Price acceleration is no longer being signalled due to low evidence of a sustained increase in the growth rate of house prices in the past 12 quarters. The rating in our previous assessment was tied to the run-up in house price growth that occurred in the first half of 2017.

While price acceleration was not signalled, house prices in Hamilton have appreciated considerably since our last assessment. Year-over-year price growth for both single-detached and multi-unit homes was in the double digits in most geographic sub-areas of Hamilton CMA. Generally, the strongest price growth occurred in Hamilton Centre and Hamilton East.

Overvaluation

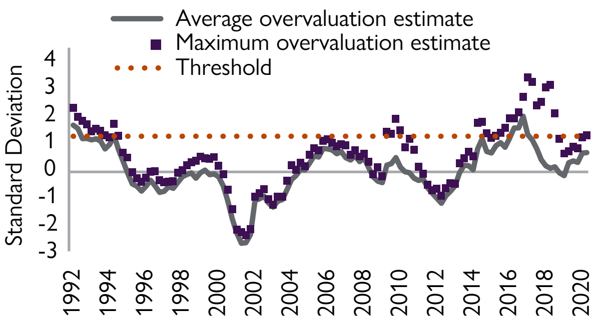
Figure 1 shows that, while average overvaluation remained low, actual house prices did become more detached from economic fundamentals in the second quarter. However, those conditions must persist over a longer period for evidence of overvaluation to be detected in Hamilton.

House prices increased despite weaker economic fundamentals, particularly lower labour income. The decrease in income can be attributed to the mandatory closure of non-essential businesses and the Hamilton economy remaining in the formative stage of re-opening (stage 1 in Ontario) for nearly the entire second quarter. A high number of people were either not working or working reduced hours. Hamilton's unemployment rate increased from 5.7% in the first quarter to 12.1% in the second quarter.

The borrowing capacity of potential buyers did not improve in the second quarter, since lower mortgage rates were offset by the decrease in income.

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

Figure 1: Low Evidence of Overvaluation in Hamilton



Sources: CREA, Statistics Canada, Teranet and National Bank of Canada, and calculations by CMHC
Last data point: 2020Q2

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

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

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Toronto

Dana Senagama
Senior Specialist, Market Analysis

While our overall assessment of the Toronto housing market continues to be a moderate degree of vulnerability, emerging evidence of further imbalances (particularly in overvaluation) will continue to be closely monitored in these unprecedented times.

Results Overview*
Toronto CMA

	Feb. 2020	Sept. 2020
Overheating	🟨	🟩
Price Acceleration	🟨	🟩
Overvaluation	🟩	🟩
Overbuilding	🟩	🟩
Overall Assessment	🟨	🟨

Degree of vulnerability 🟩 **Low** 🟨 **Moderate** 🟥 **High**

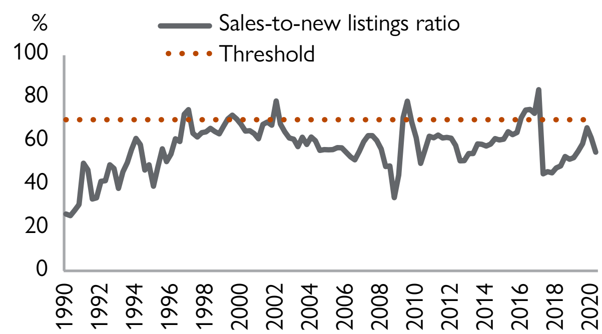
* Results are based on data as of the end of June 2020 (the annual rental apartment vacancy rates are from October 2019) and market intelligence up to August 2020. To ensure timely information for market participants, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of the housing market in the second quarter of 2020. Final calculations and ratings for overvaluation will be presented in the next edition of the HMA as finalized data for these fundamental drivers becomes available.

Overheating

In Q2 2020, overheating was no longer signalled for the Greater Toronto Area (GTA) housing market. This is due to the sales-to-new-listings-ratio (SNLR) for the GTA remaining below the threshold set for overheating (70%) for the past 12 quarters (Figure 1). Both seasonally adjusted sales and new listings declined substantially relative to the previous quarter, by 48% and 41% respectively – partly because of shutdowns resulting in fewer home showings and open houses. Since sales declined more than new listings, the SNLR fell to 55% in Q2 2020.

Housing market activity remained relatively similar to the previous quarter across all housing types except condominium apartments, which saw their SNLR drop to 43% (near to the threshold of below 40% which is typically considered a "buyer's market") from 68% (near the threshold set for overheating). Activity declined across all GTA housing markets, apart from Durham, which saw its SNLR rise about 10 percentage points to 72%. Since the beginning of Q3 2020, GTA housing market activity appeared to rebound because of pent up demand, with the overall SNLR increasing to 65%. The ground-oriented home market tightened while the condominium apartment market showed weaker market conditions. Easing demand for short-term rentals resulted in more condominium apartment units remaining unsold in the market, thus adding to inventory.

Figure 1: Low Evidence of Overheating in Toronto



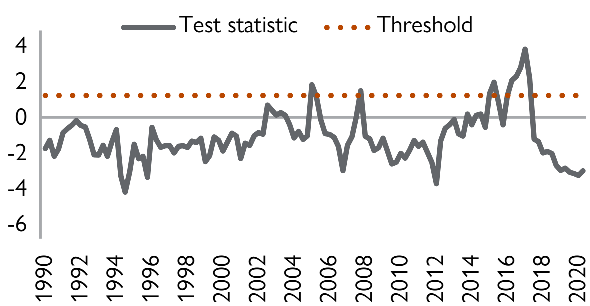
Sources: CREA and calculations by CMHC
Last data point: 2020Q2

Price Acceleration

In Q2 2020, price acceleration was no longer signalled for the GTA housing market. This was because the test statistic for the factor remained below its critical threshold for the entirety of the previous 12 quarters (Figure 2). The seasonally adjusted MLS® average price declined by 3.4% in Q2 2020, compared to the previous quarter. The largest price decline occurred for condominium apartments (7.3%) followed by single-detached units (4.0%) and row units (1.8%). In the GTA, only York Region saw price growth in Q2 2020 (2.9%) for all dwelling types relative to the previous quarter. The City of Toronto saw the largest price decline at 4.2%, followed by the Peel

Region at 2.1%, and Durham at 0.2%. It is worth noting that Q2 2020 was a period that included significant monthly declines and growth, with the latter being most recent. Specifically, April saw a month-to-month seasonally adjusted price decline of approximately 12%. However, as pandemic lockdown restrictions eased, pent up demand drove up housing prices by approximately 5% in May and 10% in June. The start of Q3 2020 (July) continued this trend of rising prices with price growth at approximately 6% relative to the previous month.

Figure 2: Low Evidence of Price Acceleration in Toronto



Sources: CREA and calculations by CMHC
Last data point: 2020Q2

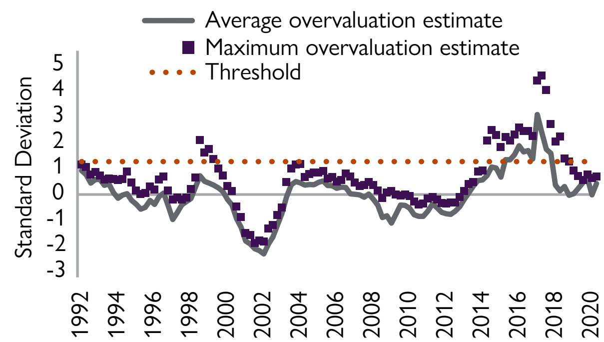
Overvaluation

Evidence of overvaluation in the GTA remained low in Q2 2020. However, the average overvaluation gap (between observed house prices and price levels predicted by housing market fundamentals) had widened this quarter (Figure 3). Given the significant job losses incurred in Toronto due to the economic fallout of the pandemic, the ensuing negative impacts to labour income led to growing market imbalances and a widened overvaluation gap. The real MLS® average house price increased by 7.6% in Q2 2020 year-over-year while income declined and the youth adult population (individuals aged 25-34 years, an important first-time homebuyer demographic) increased.

Overbuilding

Low evidence of overbuilding is maintained as both the number of completed and unabsorbed units per capita (Figure 4) and the GTA purpose-built rental apartment vacancy rate (1.5% in October 2019) remained below their respective critical thresholds in Q2 2020. While increased listings in the condominium apartment market (due to economic impacts of the pandemic and regulatory changes to short-term rentals) led to increased inventory, these effects did not spillover to the new home market during Q2 2020.

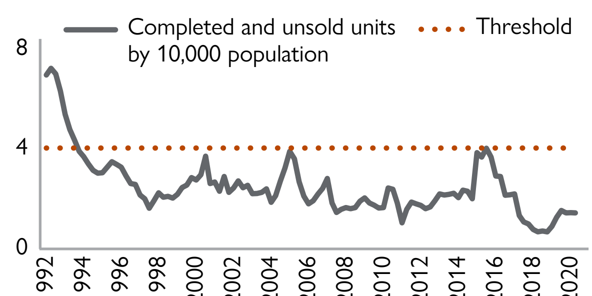
Figure 3: Low Evidence of Overvaluation in Toronto



Sources: CREA, Statistics Canada, Teranet and National Bank of Canada, and calculations by CMHC
Last data point: 2020Q2

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.

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



Sources: Statistics Canada and CMHC
Last data point: 2020Q2

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Ottawa

Anne-Marie Shaker
Senior Analyst, Economics

Overheating and price acceleration pressures intensify for Ottawa's housing market.

Results Overview*
Ottawa CMA

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

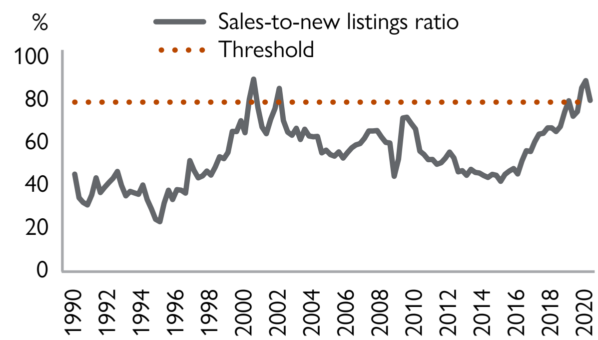
Degree of vulnerability **Low** **Moderate** **High**

* Results are based on data as of the end of June 2020 (the annual rental apartment vacancy rates are from October 2019) and market intelligence up to August 2020. To ensure timely information for market participants, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of the housing market in the second quarter of 2020. Final calculations and ratings for overvaluation will be presented in the next edition of the HMA as finalized data for these fundamental drivers becomes available.

Overheating due to limited supply during lockdown

We detect evidence of overheating in Q2-2020 for the Ottawa CMA, with a seasonally adjusted sales-to-new-listings (SNL) ratio of 81% (Figure 1). Market conditions had shifted to a sellers' market[9] in Q2-2017, and have remained as such in all following quarters. Overheating conditions were present already prior to the COVID-19 crisis. Although demand tumbled during the lockdown[10] months (April and May), new listings declined at an even sharper rate, so that the SNL ratio remained in sellers' territory. Activity for both the freehold[11] and condominium segments of the market also favored sellers. The relative stability of public administration employment (roughly 23% of total CMA employment) during the lockdown, as well as a strong IT sector, likely dampened the demand decline. Consequently, some households unaffected by job losses[12], or who had been waiting on the sideline prior to COVID-19, may have decided to buy a home during the lockdown. Although supply grew in July (from June and year-over-year), demand increased at a stronger rate pushing the SNL ratio higher.

Figure 1: Evidence of Overheating in Ottawa



Sources: CREA and calculations by CMHC
Last data point: 2020Q2

Supply and demand imbalances spur price acceleration

Tight resale market conditions put upward pressure on prices, signaling moderate vulnerability for the price acceleration indicator (Figure 2). The MLS® price has been rising at double-digit[13] rates since Q4-2019. By market segment, freehold prices grew at a stronger rate in Q2-2020 compared to condominium prices as demand and supply 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.

[9] Balanced market bounds are 40% to 60%. Lower than 40%, the ratio implies a buyer's market; 60% to 80% implies a seller's market, 80% and above implies overheating.

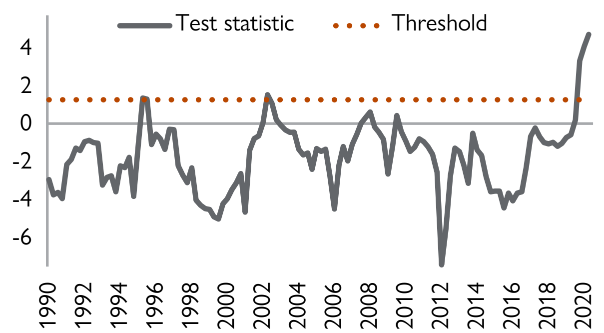
[10] Lockdowns began on March 19th, however, strength in the first three weeks of March kept sales from falling in that month.

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

[12] Although the unemployment rate rose in Ottawa in Q2-2020 to 9.4% compared to 5.7% the same time last year, it remained the lowest among the major Ontario CMA's.

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

Figure 2: Evidence of Price Acceleration in Ottawa



Sources: CREA and calculations by CMHC
Last data point: 2020Q2

Overvaluation is low supported by fundamentals

Average overvaluation remained below the problematic threshold in Q2-2020 continuing to signal low vulnerability in Ottawa's housing market for this indicator. Robust growth of the young adult population (aged 25-34) and low mortgage rates kept overvaluation pressures at bay although income trailed price growth. However, with weaker income, and robust price growth, the potential for overvaluation has increased, particularly once COVID-19 financial supports are removed. Recent data in July point to continued stronger price growth, a slightly higher unemployment rate, and some further slight weakening in earnings.[14]

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, the seasonally adjusted number of condominium apartments under construction trended up to 3,156 units in July, its highest level since August 2014. This could raise the potential for overbuilding if demand doesn't hold up and the vacancy rate rises over the short to medium terms. We therefore continue to monitor closely the market for changes in this indicator.

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[14] We do not have recent data on income, so average weekly earnings are used here as a proxy for income. Note, a decline in earnings in Q4-2019 preceded the onset of the COVID-19 crisis and was mainly driven by a decline in earnings for professional and scientific services and retail trade. By Q2-2020, both sectors continued to see a decline in earnings but were joined by the remaining sectors with few exceptions.

Montréal

Lukas Jasmin-Tucci
Senior Analyst, Economics

Price growth in the Montréal CMA is accelerating and has exceeded the threshold where evidence of price acceleration is problematic for the past two quarters.

Results Overview*
Montréal CMA

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

Degree of vulnerability Low Moderate High

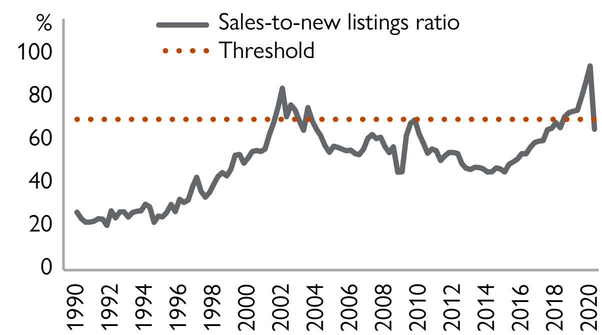
* Results are based on data as of the end of June 2020 (the annual rental apartment vacancy rates are from October 2019) and market intelligence up to August 2020. To ensure timely information for market participants, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of the housing market in the second quarter of 2020. Final calculations and ratings for overvaluation will be presented in the next edition of the HMA as finalized data for these fundamental drivers becomes available.

According to the Housing Market Assessment (HMA) analytical framework, the degree of vulnerability of the Montréal census metropolitan area (CMA) housing market remained low during the second quarter of 2020. However, the Montréal resale market continued to show evidence of overheating, which put upward pressure on prices, as evidence of price growth acceleration has now emerged. The possible emergence of additional imbalances will continue to be closely monitored.

Evidence of overheating still detected on the Montréal housing market

In the second quarter of 2020, there continued to be evidence of overheating in the Montréal CMA, even though the seasonally adjusted sales-to-new listings ratio fell below the threshold for problematic conditions.[15] This ratio had remained above this threshold over the previous seven quarters (see Figure 1).

Figure 1: Evidence of Overheating in Montréal



Sources: QPAREB and calculations by CMHC
Last data point: 2020Q2

Demand, represented by sales, dropped sharply as a result of the confinement measures related to the COVID-19 pandemic. New supply, represented by new listings, also declined, but to a lesser extent than sales. This sudden decline in the ratio may be only temporary, as the July data already indicate. In addition, supply remains limited in the Greater Montréal area. For these reasons, moderate evidence of overheating was still detected on the Montréal housing market.

In addition, the active listings-to-sales ratio,[16] another indicator of market conditions, continued to favour sellers[17] despite the few sudden and temporary changes resulting from the pandemic. Market conditions have favoured sellers of single-family dwellings for close to four years, while they have favoured sellers of condominiums for a little over two years.

[15] This threshold is set at 70%.

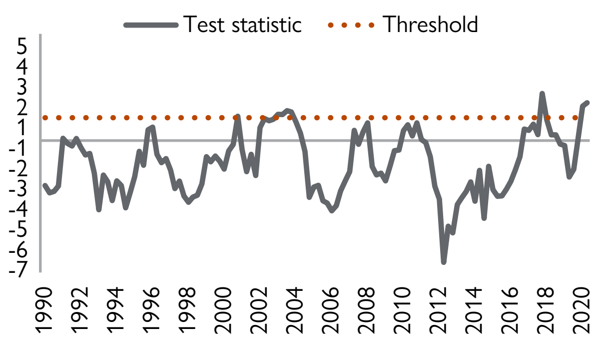
[16] While the sales-to-new listings ratio tells us about sales in relation to the pace of new listings on the resale market, the active listings-to-sales ratio provides information on the status of inventories relative to the rate of sales.

[17] In a sellers' market, the ratio is below 8 sellers (active listings) per buyer (Centris® sales). In a sellers' market, sellers have greater negotiating power relative to buyers, such that price increases are usually higher.

Evidence of price growth acceleration now moderate

In the second quarter of 2020, evidence of price acceleration went from low to moderate in the Montréal CMA, as the pace of house price growth increased rapidly. The average Centris® price of existing homes increased by 11.8% compared to the same period in 2019, the strongest growth in over 15 years. This increase in prices followed an 11.7% increase in the first quarter of 2020. Price growth has now exceeded the threshold where evidence of price acceleration is problematic for the past two quarters (see Figure 2).

Figure 2: Evidence of Price Acceleration in Montréal



Sources: QPAREB and calculations by CMHC
Last data point: 2020Q2

Despite the job losses and measures related to the COVID-19 pandemic that put the market on hold, demand picked up after the lockdown in Greater Montréal. With supply not having been this low in at least 16 years, the rate of price growth therefore also returned to its pre-pandemic level; market conditions remained tight, adding to the upward pressure on prices. The price growth acceleration indicator will therefore continue to be monitored over the coming months.

Evidence of overvaluation remained weak

In the second quarter of 2020, the economic and demographic indicators remained at levels justifying the prices observed on the Montréal housing market. The HMA model did not identify any significant imbalance between real house prices[18] and the price levels dictated by housing market fundamentals, such as personal disposable income and population. As a result, the model revealed no significant evidence of overvaluation.

However, the gap between real prices and those dictated by the fundamentals has increased in recent quarters, approaching the critical threshold. Indeed, while real house prices (adjusted for inflation)[19] were all rising sharply, smaller gains were seen in some of the fundamentals that support the increase in prices, such as growth in the population aged 25 to 34 and personal disposable income. Furthermore, this gap would have likely widened without the government's financial support measures. We will therefore have to keep monitoring the overvaluation indicator closely over the coming months.

Evidence of overbuilding remained negligible

In the second quarter of 2020, both overbuilding indicators, namely, the inventory of completed and unsold housing units per 10,000 population and the vacancy rate for conventional rental housing, suggested low evidence of overbuilding.

The inventory of completed and unsold housing units per 10,000 population reached its lowest level in nearly two decades in the Montréal CMA. In recent years, rising demand combined with a slowdown in both freehold and condominium housing starts[20] allowed the inventory of unsold new homes to fall. While sales of new condominiums dropped sharply in the second quarter of 2020,[21] the number of unsold new units remained far from the threshold where there would be evidence of overbuilding.

The vacancy rate for conventional rental units went down for the third consecutive year in 2019 (falling from 3.9% in 2016 to 1.5% in 2019[22]). This decrease resulted from an increase in conventional rental housing demand, driven more specifically by a marked upswing in net migration. The impact of border restrictions related to the pandemic will therefore have to continue being monitored for this indicator in 2020.

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[18] Observed prices adjusted for inflation.
[19] Several different price indicators are used in order to get a more comprehensive market assessment.
[20] Freehold and condominium housing starts averaged at 12,500 units annually from 2015 to 2019, compared to about 17,000 from 2010 to 2014.
[21] Source: Altus Group.
[22] Rental Market Survey, CMHC.

Québec

Nathan R. Lea
Senior Analyst, Economics

The overall degree of vulnerability of the Québec CMA housing market remains low. However, the Québec resale market is now showing evidence of overheating, as a result of the significant tightening between supply and demand.

Results Overview*
Québec CMA

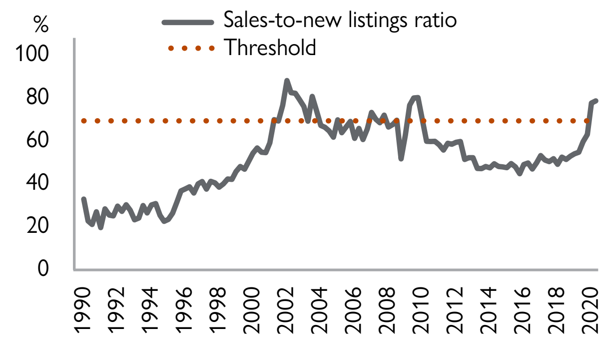
	Feb. 2020	Sept. 2020
Overheating	Low	Moderate
Price Acceleration	Low	Low
Overvaluation	Low	Low
Overbuilding	Low	Low
Overall Assessment	Low	Low

Degree of vulnerability Low Moderate High

* Results are based on data as of the end of June 2020 (the annual rental apartment vacancy rates are from October 2019) and market intelligence up to August 2020. To ensure timely information for market participants, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of the housing market in the second quarter of 2020. Final calculations and ratings for overvaluation will be presented in the next edition of the HMA as finalized data for these fundamental drivers becomes available.

Driven by a dynamic economic and demographic context, residential sales in the Québec census metropolitan area (CMA) saw a sharp increase in 2019 and at the start of 2020.[23] This resulted in a significant tightening of the resale market, such that the sales-to-new listings ratio rose considerably and evidence of overheating appeared on the horizon in the first quarter of 2020.[24] In the second quarter, the confinement measures and economic disruptions related to the COVID-19 pandemic led to a record decline in sales. However, new listings also experienced an unprecedented decrease,[25] resulting in the sales-to-new listings ratio remaining stable and above the threshold for overheating for a second consecutive quarter (Figure 1). Despite the market slowdown, housing demand has therefore remained fairly strong relative to supply since the beginning of the year in the Québec market, and evidence of overheating has now emerged.

Figure 1: Evidence of Overheating in Québec



Sources: QPAREB and calculations by CMHC
Last data point: 2020Q2

Nevertheless, this tightening of the Québec resale market has not yet exerted strong upward pressure on prices. In the second quarter of 2020, the real average Centris® price (adjusted for inflation) increased by 0.56% from the second quarter of 2019, which was still relatively low. As a result, there was no evidence of price growth acceleration.

Moreover, this weak growth and resulting low level of prices meant that evidence of overvaluation remained weak. As such, there was still no indication that house prices exceeded the levels supported by the economic and demographic fundamentals of the housing market in the area, such as personal disposable income. Nonetheless, given the unprecedented financial support from the government during the pandemic, personal disposable income was likely more affected than current figures show. We will therefore need to monitor the overvaluation indicator carefully over the coming quarters.

[23] During 2019, Centris® residential sales increased by about 16% compared to 2018. Source: QPAREB.

[24] In the first quarter of 2020, the sales-to-new listings ratio was 79.8%, well above the 70% overheating threshold for the Québec CMA.

[25] In the second quarter of 2020, sales and new listings were down 27.2% and 26.8%, respectively, from the first quarter of 2020 (seasonally adjusted), representing historic declines.

Lastly, the inventory of completed and unsold houses and condominiums[26] and the vacancy rate for rental apartments remained below the thresholds that would indicate evidence of overbuilding.

While the Housing Market Assessment (HMA) analytical framework detected evidence of overheating in the Québec CMA in the second quarter of 2020, the overall degree of vulnerability of the housing market remained low, as evidence of price growth acceleration, overvaluation and overbuilding stayed low.

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

Moncton

Kelvin Ndoro
Senior Analyst, Economics

Overall, there is moderate risk of vulnerabilities in Moncton due to moderate evidence of overvaluation and overheating while price acceleration and overbuilding risks remain low.

Results Overview*
Moncton CMA

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

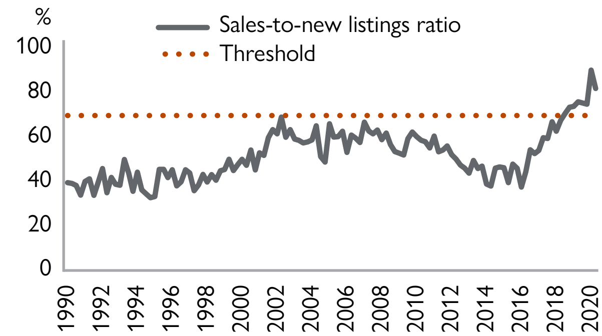
Degree of vulnerability Low Moderate High

* Results are based on data as of the end of June 2020 (the annual rental apartment vacancy rates are from October 2019) and market intelligence up to August 2020. To ensure timely information for market participants, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of the housing market in the second quarter of 2020. Final calculations and ratings for overvaluation will be presented in the next edition of the HMA as finalized data for these fundamental drivers becomes available.

Overheating persists as demand remains elevated relative to supply

Moncton home sales declined in the second quarter of 2020 compared to the same period in 2019, due to measures implemented to stem the spread of COVID-19. However, new listings declined faster than sales during the same period. As a result, the sales-to-new-listing ratio was still above the rate observed in the second quarter of 2019, and above the threshold that would indicate overheating vulnerabilities (Figure 1). A moderate degree of overheating vulnerability is thus maintained for the Moncton market because the sales-to-new listing ratio has persistently been above the critical threshold for eight consecutive quarters.

Figure 1: Evidence of Overheating in Moncton



Sources: CREA and calculations by CMHC
Last data point: 2020Q2

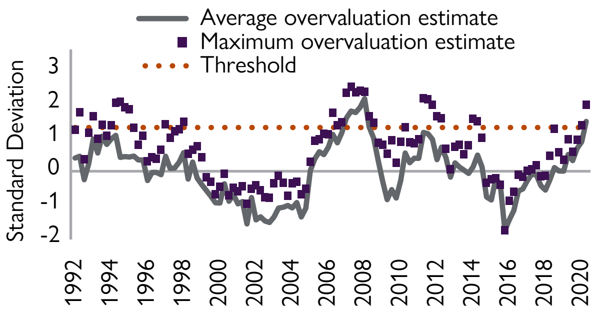
Moderate overvaluation detected in Moncton

The Moncton market now displays moderate evidence of overvaluation as price levels remain elevated. The widening gap between observed house prices and levels supported by housing market fundamentals was driven by a significant and sustained increase in MLS® house prices while overall population growth and other housing market fundamentals weakened or remained relatively unchanged. The gap between observed and fundamental prices could potentially have been larger without financial support programs to mitigate the fallout of restrictions to stem the spread of COVID-19. It is possible for Moncton to be assessed with high evidence of overvaluation if current price growth persists and the average overvaluation gap stays above threshold once again in the next three quarters (Figure 2).

Price acceleration marginally below critical threshold

MLS® house prices increased 9% in the second quarter of 2020 compared to the same period in 2019. There has been a sustained increase in Moncton home prices since the first quarter of 2018. The price acceleration indicator increased sharply in the second quarter of 2020 and was just below the critical threshold that would signal price acceleration vulnerabilities, indicating there may be excessive expectations of future house-price appreciation (Figure 3). The low rating of price acceleration vulnerabilities is maintained because the indicator is still below the critical threshold, albeit marginally.

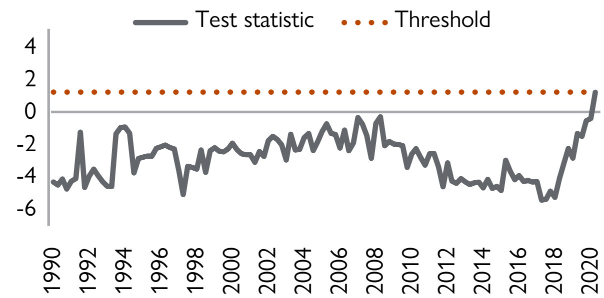
Figure 2: Moderate Evidence of Overvaluation in Moncton



Sources: CREA, Statistics Canada, Teranet and National Bank of Canada, and calculations by CMHC
Last data point: 2020Q2

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.

Figure 3: Low Evidence of Price Acceleration in Moncton



Sources: CREA and calculations by CMHC
Last data point: 2020Q2

Overall moderate degree of vulnerability

Overbuilding vulnerabilities in Moncton remain low as the inventory of unsold single-family homes relative to the population is virtually zero. Nonetheless, there is a moderate degree of vulnerability in the overall Moncton market due to moderate overheating and overvaluation vulnerabilities while price acceleration is at the margin above which vulnerabilities will be flagged. The market will be closely monitored for further evidence of imbalances.

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Halifax

Kelvin Ndoro
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Moderate overvaluation is flagged for Halifax CMA as observed prices are higher than levels supported by housing market fundamentals, which have weakened.

Results Overview*
Halifax CMA

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

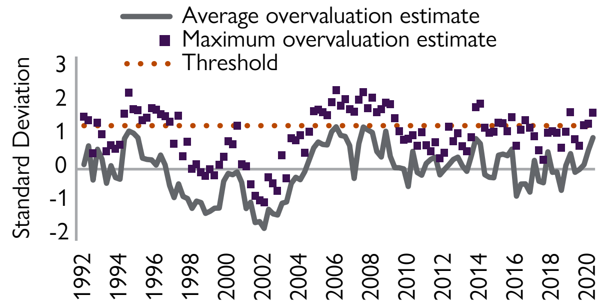
Degree of vulnerability Low Moderate High

* Results are based on data as of the end of June 2020 (the annual rental apartment vacancy rates are from October 2019) and market intelligence up to August 2020. To ensure timely information for market participants, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of the housing market in the second quarter of 2020. Final calculations and ratings for overvaluation will be presented in the next edition of the HMA as finalized data for these fundamental drivers becomes available.

Moderate overvaluation detected in Halifax

The HMA framework has now signalled moderate overvaluation in the Halifax CMA (Figure 1). The widening gap between observed house prices and levels supported by housing market fundamentals was driven by an increase in MLS® house prices while housing fundamentals weakened. Declines in employment had lowered income in Halifax before COVID-19 restrictions. The gap between observed and fundamental prices could have potentially been larger without financial support programs to mitigate effects of COVID-19 lockdown measures.

Figure 1: Moderate Evidence of Overvaluation in Halifax



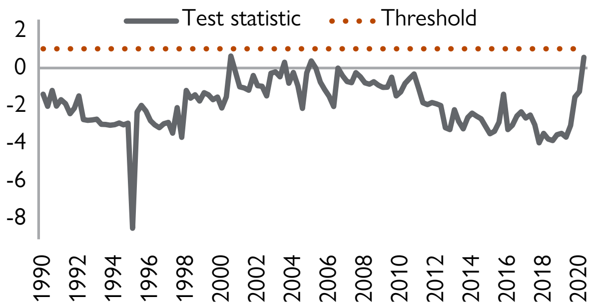
Sources: CREA, Statistics Canada, Teranet and National Bank of Canada, and calculations by CMHC
Last data point: 2020Q2

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.

Sharp increase in prices due to pent-up demand

MLS® house prices increased 10% in the second quarter of 2020 compared to the same period last year. However, the indicator is still slightly below threshold and thus a low rating of price acceleration risk is maintained. There has been a sharp increase in the price acceleration indicator since the second quarter of 2019, when the Halifax home market entered sellers' market territory (Figure 2). In June 2020, sales rebounded faster than listings after an initial dip in April and May due to COVID-19 restrictions. This led to an even steeper increase in prices as some houses were selling above asking price.

Figure 2: Low Evidence of Price Acceleration in Halifax

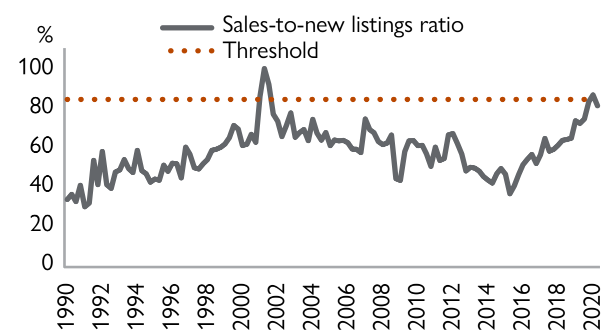


Sources: CREA and calculations by CMHC
Last data point: 2020Q2

Low overheating risk maintained despite exceeding threshold in 2020 Q1

Demand for homes in Halifax continues to be very strong relative to supply. As a result, the overheating indicator passed the threshold that would signal vulnerabilities in the first quarter of 2020, before dropping below threshold in the second quarter of 2020 (Figure 3). A rating of low overheating risk was maintained since the indicator was above threshold only once in the last three years. However, moderate evidence of overheating will be flagged if the threshold is breached in the next quarter.

Figure 3: Low Evidence of Overheating in Halifax

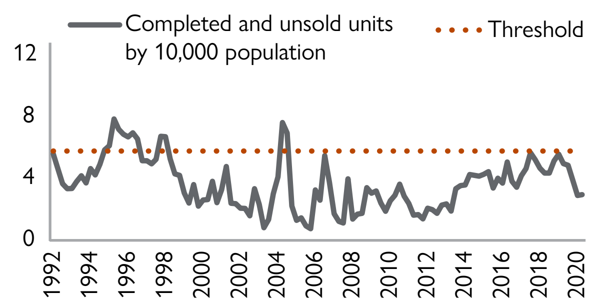


Sources: CREA and calculations by CMHC
Last data point: 2020Q2

Improvement in overbuilding indicator

Since the first quarter of 2019, the overbuilding indicator has improved significantly from when it was just below the threshold that would indicate vulnerabilities (Figure 4). Strong home sales in 2019 and the first quarter of 2020 helped absorb elevated inventories of unsold single-detached and condominium units. Completions had increased in the last quarter of 2019 as builders ramped up projects to take advantage of strong demand and increased prices. However, the previously booming population of Halifax took a hit in the second quarter of 2020 as immigration and interprovincial migration declined. Consequentially, the number of completed and unsold homeowner units relative to the population increased in the second quarter of 2020 compared to the previous quarter. However, the risk from overbuilding is still low as the indicator remains well below the threshold that would signal problematic conditions.

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



Sources: Statistics Canada and CMHC
Last data point: 2020Q2

Overall Moderate degree of vulnerability

Overall, there is a moderate degree of vulnerability in the Halifax housing market due to moderate overvaluation, recent sharp increase in the price acceleration indicator and the overheating indicator being above the critical threshold at least once in the first quarter of 2020. The emergence of further evidence of imbalances in the above-mentioned three indicators will continue to be closely monitored in these unprecedented times.

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St. John's

Tad Mangwengwende
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There is low evidence of housing market vulnerability in the St. John's area. Overheating, price acceleration and overvaluation assessments remained low while evidence of overbuilding subsided.

Results Overview*
St. John's CMA

	Feb. 2020	Sept. 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 June 2020 (the annual rental apartment vacancy rates are from October 2019) and market intelligence up to August 2020. To ensure timely information for market participants, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of the housing market in the second quarter of 2020. Final calculations and ratings for overvaluation will be presented in the next edition of the HMA as finalized data for these fundamental drivers becomes available.

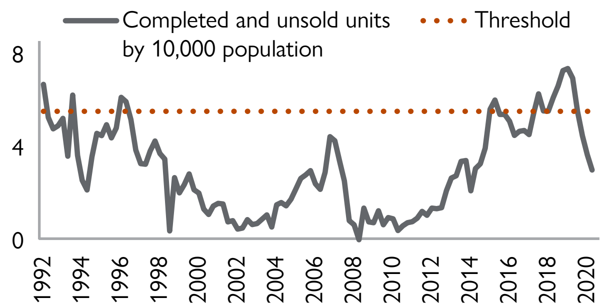
Low evidence of vulnerability

Despite a decline in listings over the first two quarters of 2020 as measures to combat COVID-19 came into place, evidence of overheating remained low as sales also declined over the same period. Consequently, the sales to listing ratio remained stable. There was low evidence of overvaluation as price changes were in keeping with lower incomes and a population decline. These changes in housing market fundamentals were driven by economic slowdown and reduced migration in the wake of the COVID-19 lockdown. The market also continued to display low evidence of price acceleration.

Overbuilding, which had reached moderate levels of vulnerability due to the lower demand for relatively higher priced new homes in recent quarters, has now fallen below the threshold set by the Housing Market Assessment Framework. A decline in the inventory of newly completed units in the second quarter – the result of lower completions in 2020 – and rental vacancy rates that have remained below vulnerability thresholds have prompted the reevaluation (Figure 1).

While the overall assessment of the housing market remains one of low vulnerability, the emergence of potential imbalances will be closely monitored in these unprecedented times.

Figure 1: Low Evidence of Overbuilding in St. John's (ownership market)



Sources: Statistics Canada and CMHC
Last data point: 2020Q2

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Appendix: Overview of the Housing Market Assessment Analytical Framework

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[27].

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[28] 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.[29] 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

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

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

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

becomes higher. The framework takes into account demographic, economic, and financial determinants of the housing market. The framework also takes into account recent developments in both resale and residential construction markets.

The final results are reported via a colour code system indicating the degree of evidence of market vulnerability related to overheating, price acceleration, overvaluation and 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.[30]

- **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.

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

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