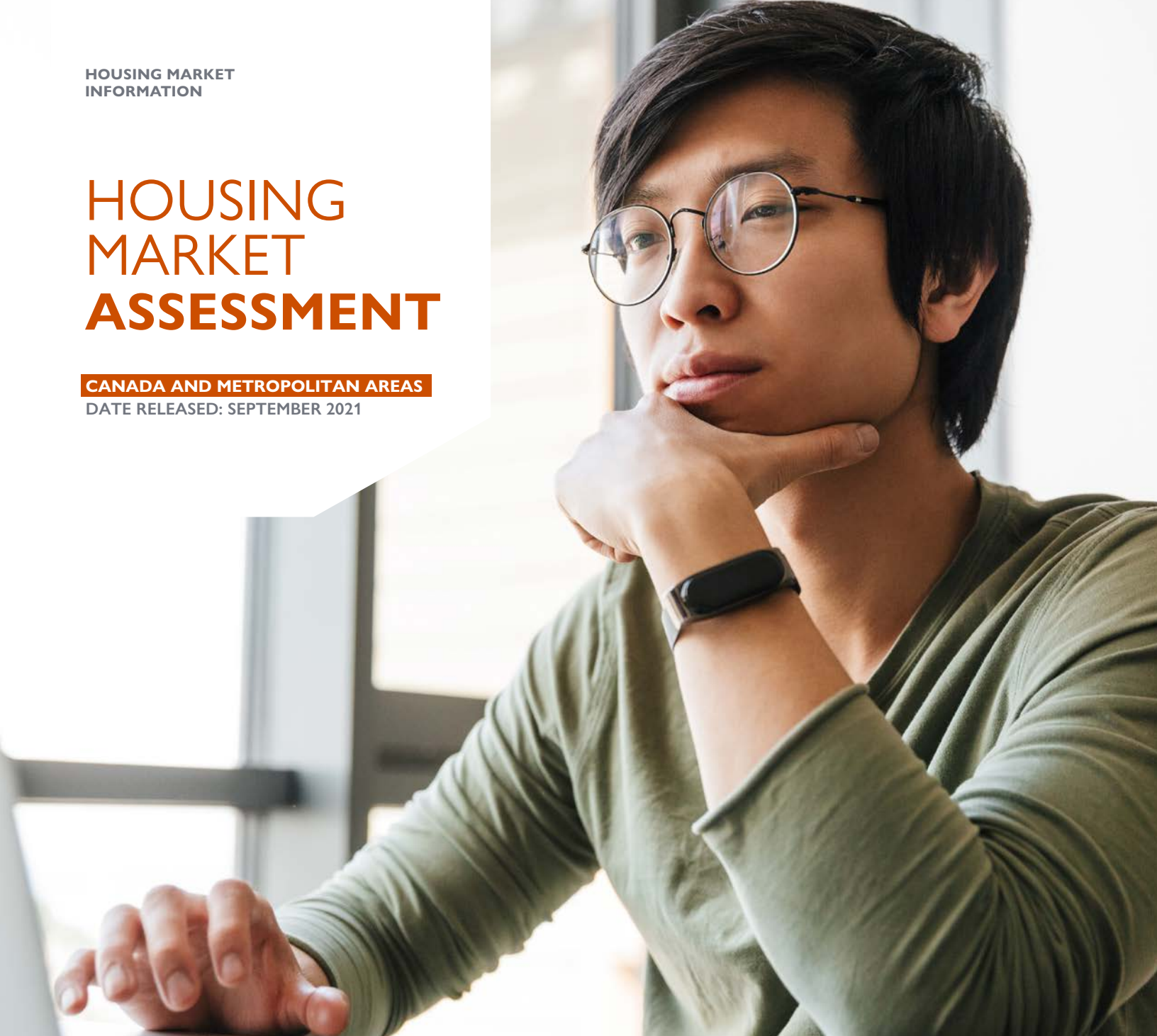


HOUSING MARKET  
INFORMATION

# HOUSING MARKET ASSESSMENT

CANADA AND METROPOLITAN AREAS

DATE RELEASED: SEPTEMBER 2021



## Welcome to the Housing Market Assessment (HMA)

CMHC contributes to market stability by providing information on potential housing market vulnerability. The HMA provides evidence of housing market imbalances across Canada. This, in turn, helps market participants to make better-informed housing-related decisions.

This report provides economic and housing market conditions for Canada and 14 Census Metropolitan Areas for the second quarter of 2021.

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## What's New

### This edition includes new and revised items.

- The introductory section “What is the HMA?” has been updated with a refined terminology clarifying the core objective of the HMA framework and highlights why the suite of indicators isn't appropriate to assess affordability.
- A “[Glossary of terms](#)” has been added at the end of the report to help readers navigate key concepts used throughout the report.
- The terminology in the results tables was strengthened to draw linkages between the objective of the HMA and key concepts to understand the assessment. Find their definitions in the [Glossary](#).

## What is the HMA?

The housing, financial and economic systems are closely linked. This connection can be seen in the global financial crisis of 2007-2008 and the ensuing Great Recession. Excesses in U.S. housing markets were a key factor contributing to this economic and financial instability of the late 2000s in the U.S. and abroad.




**The HMA identifies significant [imbalances](#) in the housing market that could potentially increase the risk and consequences of a housing market downturn.** This could include a price correction. Such scenarios can have significant negative impacts on households, housing industry and the economy more broadly.




The results contained in the HMA help key stakeholders and policy makers make appropriate decisions to generate a smooth transition towards more [balanced market conditions](#).<sup>1</sup>

The HMA framework looks at the overall state of the housing market. It looks for potential [imbalances](#) by assessing four key factors:

1. **Overheating:** when demand is significantly stronger than supply
2. **Price acceleration:** when house prices rise at an increasing pace over a sustained period
3. **Overvaluation:** when house prices differ significantly from their level consistent with [housing market fundamentals](#)
4. **Excess inventories:** when there is an unusually high level of vacant housing units

On their own, each factor is assigned a degree of [imbalance](#) following a three-point scale:

- Low 
- Moderate 
- High 

Together, the factors make up the state of a housing market's [vulnerability](#) (Low , Moderate , High ). Simply, the more [imbalances](#) there are, the more vulnerable the housing market is.

### The HMA isn't intended to assess affordability.

Affordability relates to the cost of housing that meets the needs of a household at a reasonable share of their income. This aspect of housing is not covered in the HMA.

Even in a [balanced housing market](#) with a low level of market [vulnerability](#), households in lower income brackets may still have difficulty finding shelter that is affordable and meets their needs.

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

Housing market assessment in select Census Metropolitan Areas (CMAs)

We've improved the HMA

[See what's changed.](#)



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# Overview of HMA Results in Canada

## HIGHLIGHTS

- The degree of vulnerability of the Canadian housing market has moved from moderate to high. The detection of price acceleration at the national level, alongside persistent overvaluation imbalances, prompted the change.
- Monetary and fiscal policy support, the global economic recovery, and the rollout of mass vaccination programs over the first half of 2021 have underpinned the ongoing economic recovery in Canada. This supported housing market fundamentals during this period.
- Recent episodes of price growth, however, were not fully explained by improving housing market fundamentals—evidenced by price acceleration and overvaluation imbalances at the national level.
- Existing home sales remained elevated relative to new listings, maintaining evidence of overheating in Canada.
- The degree of vulnerability of the housing market is high in Toronto and Montréal and low in Vancouver.

## Comparisons between the March 2021 and September 2021 reports

	<u>Evidence of Imbalances</u>								<u>Market Vulnerability</u>	
	<u>Overheating</u>		<u>Price Acceleration</u>		<u>Overvaluation*</u>		<u>Excess Inventories</u>		<u>Mar. 2021</u>	<u>Sep. 2021</u>
	<u>Mar. 2021</u>	<u>Sep. 2021</u>	<u>Mar. 2021</u>	<u>Sep. 2021</u>	<u>Mar. 2021</u>	<u>Sep. 2021</u>	<u>Mar. 2021</u>	<u>Sep. 2021</u>		
Canada	▲	▲	■	▲	▲	▲	■	■	▲	●
Victoria	■	▲	■	▲	▲	■	■	■	▲	▲
Vancouver	■	■	■	■	■	■	▲	▲	▲	■
Edmonton	■	■	■	■	▲	▲	▲	▲	▲	▲
Calgary	■	■	■	■	■	■	●	▲	▲	▲
Saskatoon	■	■	■	■	■	■	■	■	■	■
Regina	■	■	■	■	■	■	▲	▲	■	■
Winnipeg	■	▲	■	▲	■	■	■	■	■	■
Hamilton	▲	▲	▲	▲	▲	▲	■	■	●	●
Toronto	■	▲	▲	▲	■	■	▲	▲	●	●
Ottawa	▲	▲	▲	▲	▲	▲	▲	▲	●	●
Montréal	▲	▲	▲	▲	■	▲	■	■	▲	●
Québec	▲	▲	▲	■	■	■	■	■	■	■
Moncton	▲	▲	▲	▲	●	●	■	■	●	●
Halifax	▲	▲	▲	▲	▲	▲	■	■	●	●

The HMA methodology is presented in the [Appendix](#) of this report.

■ Low ▲ Moderate ● High

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

## Market assessment

### Housing market fundamentals improved over the first half of 2021

Economic and demographic indicators continued to show signs of improvement over the first half of this year following last year's COVID-19-induced recession.

The pandemic's third wave took hold in April 2021 and resulted in the reinstatement of virus containment measures. These measures were as stringent as those implemented at the onset of the pandemic in spring 2020, according to an index by the Bank of Canada<sup>1</sup>.

Their impact on economic activity was not as severe this year due to:

- the acclimation of consumers and businesses to the pandemic
- the rollout of mass vaccination programs across the country

Additionally, immigration recovered, and Canada welcomed 41,500 more permanent residents<sup>2</sup> over the first two quarters this year compared to the same period in 2020.

Despite a slowdown in April and May, preliminary estimates from Statistics Canada point to growth in economic activity in June and an increase in real GDP of 2.4% (annualized) in the second quarter<sup>3</sup>. This suggests a 4.0% annualized increase to real GDP since the fourth quarter of 2020 (i.e. since our previous assessment).

Labour market conditions have also improved, with broad-based gains in employment across all services-producing industries. Those most adversely affected by the pandemic were:

- youth aged 15-24
- part-time workers

They were the primary benefactors of this employment growth, though the level of employment for both groups in the second quarter of 2021 was still below its pre-pandemic level (fourth quarter of 2019).

Historically, these groups have been more active in the rental market.

### Improving fundamentals could not solely explain the recent growth in house prices

The number of home sales in Canada reached a historic high in the first quarter. They moderated in the second quarter, albeit to a still elevated level.

Exceptionally strong demand and home price appreciation over the course of the pandemic may have contributed to irrational expectations of continued price growth and, in turn, more buyers entering the market than was warranted.

A sustained increase in the rate of house price growth ensued. In the second quarter, at the national level, this led to the:

- emergence of price acceleration
- continued detection of overvaluation

Improving economic and demographic fundamentals—such as income, population, and mortgage rates—could not fully explain the acceleration in observed house prices.

The degree of vulnerability of the Canadian housing market evolved from moderate to high when compared to our previous assessment. Multiple lines of evidence support this change:

- persistent overvaluation imbalances
- and now price acceleration imbalances

High vulnerability at the national level is largely a reflection of problematic conditions in several local housing markets across Ontario and Eastern Canada (see the Regional Overview section for further context).

### Moderate evidence of overvaluation persists

The ongoing economic recovery from COVID-19 led to some improvement in housing market fundamentals by the second quarter.

We saw improvement in the fundamental house price level due to:

- growth in the adjusted real personal disposable income of Canadians<sup>4</sup> as a result of improved labour market conditions
- low mortgage rates

<sup>1</sup> Bank of Canada, COVID-19 stringency index: <https://www.bankofcanada.ca/markets/market-operations-liquidity-provision/covid-19-actions-support-economy-financial-system/covid-19-stringency-index/>

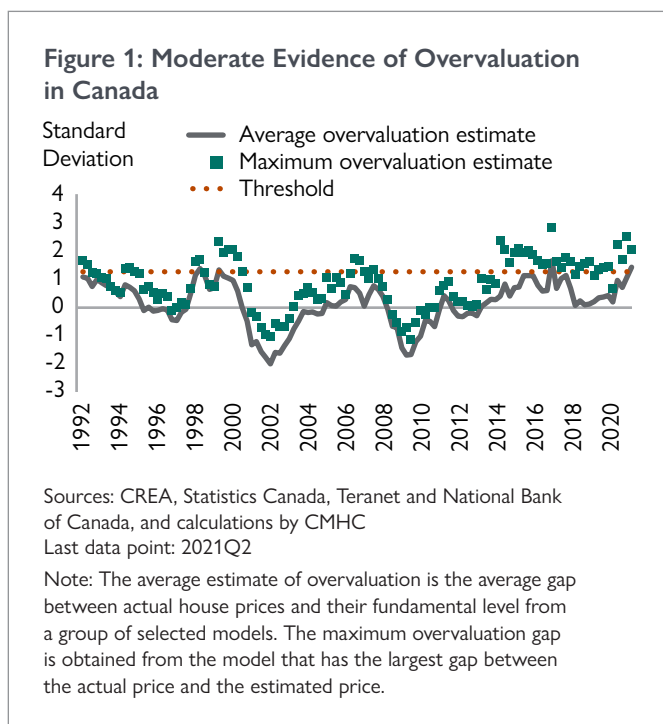
<sup>2</sup> Government of Canada, Permanent Residents – Monthly IRCC Updates: <https://open.canada.ca/data/en/dataset/f7e5498e-0ad8-4417-85c9-9b8aff9b9eda>

<sup>3</sup> Statistics Canada, Gross domestic product by industry, May 2021: <https://www150.statcan.gc.ca/n1/daily-quotidien/210730/dq210730a-eng.htm>

<sup>4</sup> Please consult the Appendix of this report to learn more about the adjustment made to personal disposable income in this edition of the HMA.

Nevertheless, moderate evidence of overvaluation continues to be detected at the national level.

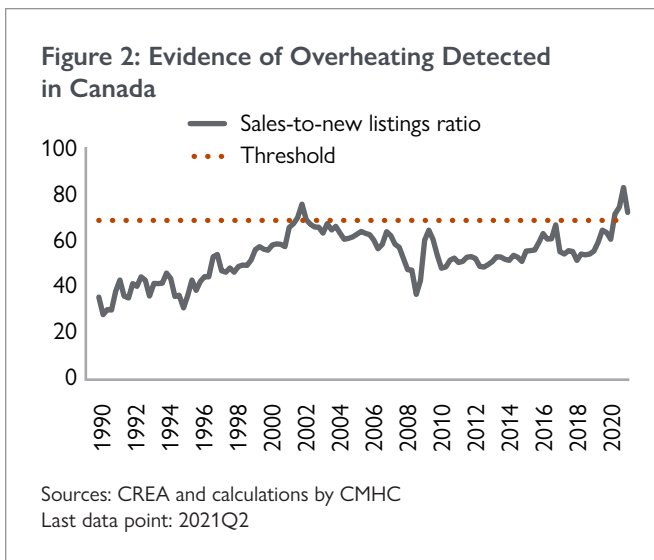
Observed house price growth significantly outpaced growth in house prices supported by fundamentals between the fourth quarter of 2020 and the second quarter of 2021. This resulted in a widening of Canada’s average overvaluation gap (Figure 1).



## Overheating continues to be detected

The sales-to-new listings ratio (SNLR) in Canada reached a historic high of 84.1% in the first quarter. In the second quarter, as the pace of sales slowed, the SNLR moderated to 73.5%.

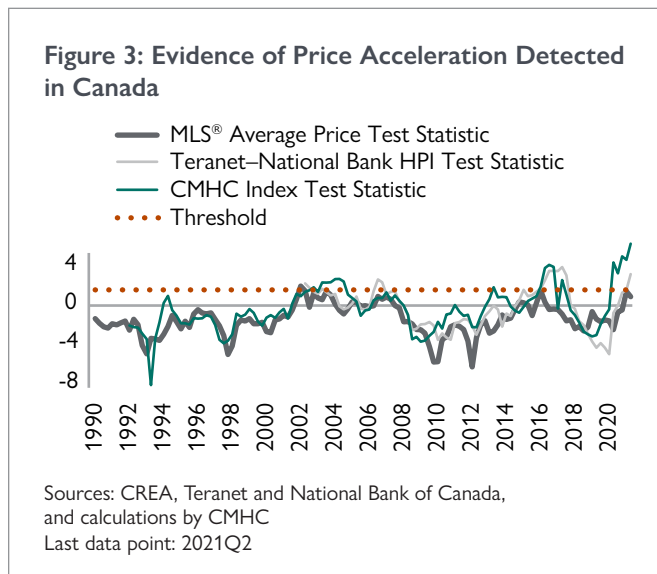
Despite the moderation in the second quarter, both data points for the SNLR remained above the critical threshold set to signal overheating (Figure 2). The persistence and intensity exhibited by this indicator of demand-supply imbalance leads us to continue detecting overheating at the national level.



## Price acceleration now detected

Price acceleration is now detected at the national level.

The indicators for the inflation-adjusted Teranet-National Bank House Price index™ and the CMHC Repeat Price Index exceeded the critical threshold set for price acceleration by the second quarter of 2021 (Figure 3). This was due to a sustained upward trend in the growth rates of these price measures.



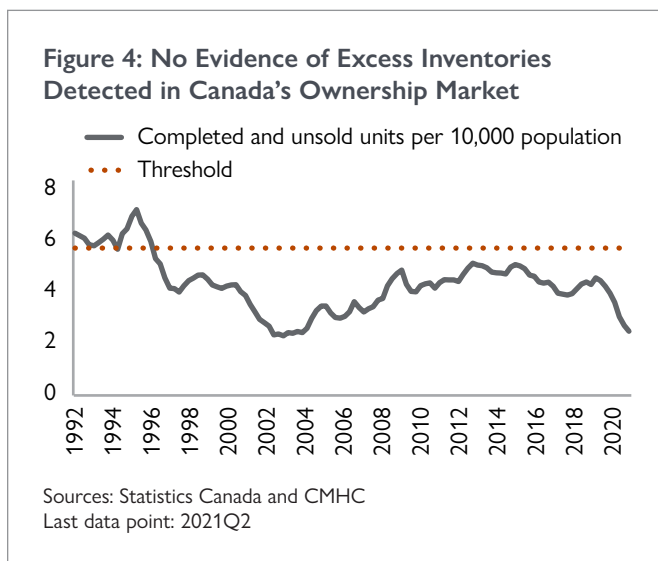


## Evidence of excess inventories remains low

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

The pace of new home absorptions remained strong through the first half of 2021, with 85% of newly built homeownership units selling upon completion in each of the first two quarters<sup>5</sup>—the highest this ratio has registered since the early 2000s.

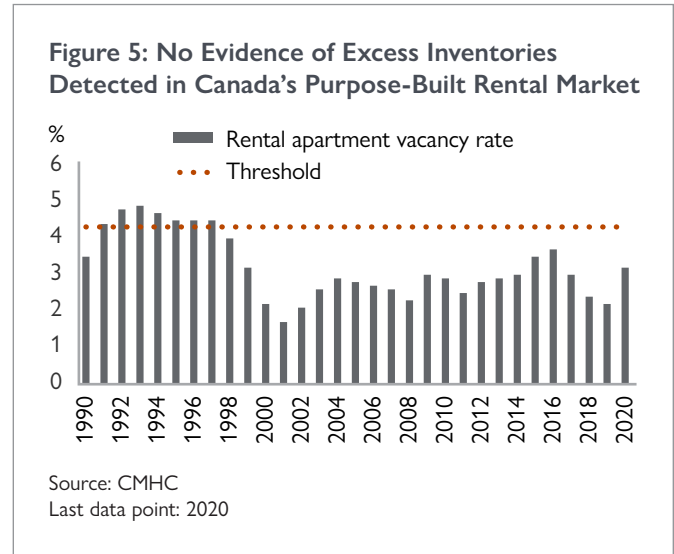
As conditions in the market for existing homes tightened, demand shifted to new construction resulting in a drawdown to the inventory of completed and unsold homes per 10,000 population.



Typical sources of rental demand improved since our previous assessment. Part-time and youth employment were both up as service-sector industries that disproportionately employ individuals in these groups were able to resume more normal operations. This largely transpired in June, following the acceleration of mass vaccination programs and eased pandemic containment measures in that month.

International migration numbers had increased by the midway point of the year in comparison to the first half of 2020. Higher levels of international migration are supportive of rental market demand as new migrants to the country typically rent in their

first few years. These recent developments are not reflected in the purpose-built rental apartment vacancy rate (which reflects data as of October 2020).



## Regional overview

The first quarter of 2021 was characterized by exceptionally strong housing market activity across CMAs, which carried over from the second half of 2020. Activity moderated slightly in the second quarter, albeit to a still much elevated level.

Over the first two quarters of 2021, existing home sales in Canada’s largest CMAs—Vancouver, Toronto, and Montréal—were either at or close to historical highs.

Exceptionally strong demand, relative to supply, leads us to signal overheating in Toronto and to continue detecting overheating in Montréal. This demand-supply imbalance perpetuates the price acceleration previously detected in both centers.

In Montréal, observed house prices have accelerated to a level not consistent with housing market fundamentals. As such, we now detect moderate evidence of overvaluation there.

Multiple lines of evidence—price acceleration and now overvaluation—lead us to elevate the degree of vulnerability of Montréal’s housing market from moderate to high.

The degree of vulnerability remains high in Toronto, while it has moved to low in Vancouver. Recent episodes of price growth in Vancouver, while certainly strong, were more consistent with fundamentals.

<sup>5</sup> On a seasonally adjusted basis.

Housing markets in Atlantic Canada witnessed the strongest growth in observed house prices since our previous assessment. This is where many migrants from other Canadian centers relocated over the pandemic.

Price growth and the level of prices were not consistent with housing market fundamentals in some Atlantic Canadian centers. As such, evidence of overvaluation persists in Moncton and Halifax, while both centers continue to be assessed at a high degree of vulnerability.

In the prairies, housing markets were not seeing strong activity prior to the pandemic, mostly due to softness in the oil sector. Following the onset of the pandemic, they experienced a resurgence in sales and house price growth in accordance with housing markets across the country.

Housing market imbalances in prairie centers were primarily attributable to excess inventories in the rental market. Calgary and Edmonton continue to exhibit a moderate degree of vulnerability.

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# Victoria



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Pershing Sun  
Senior Analyst, Economics

## Results Overview

	Mar. 2021	Sep. 2021
<b><u>Evidence of imbalances</u></b>		
Overheating	■	▲
Price Acceleration	■	▲
Overvaluation	▲	■
Excess Inventories	■	■
<b><u>Market Vulnerability</u></b>	▲	▲

■ Low ▲ Moderate ● High

## Highlights

- The degree of market vulnerability remained moderate in the second quarter of 2021. Evidence of overheating and price acceleration are now detected.
- Record low listings have kept the Victoria market at a sellers' market condition, albeit detached home sales are showing signs of slowing down.
- Price continued to accelerate as demand partially shifted from single-detached homes to attached homes and apartments. With limited inventory, competition remains fierce among buyers.
- Substantial gains in the job market in Victoria contributed to income growth and home value appreciation. Low mortgage rates remained the strongest driver for homeownership.

## Victoria overheated as inventory declines

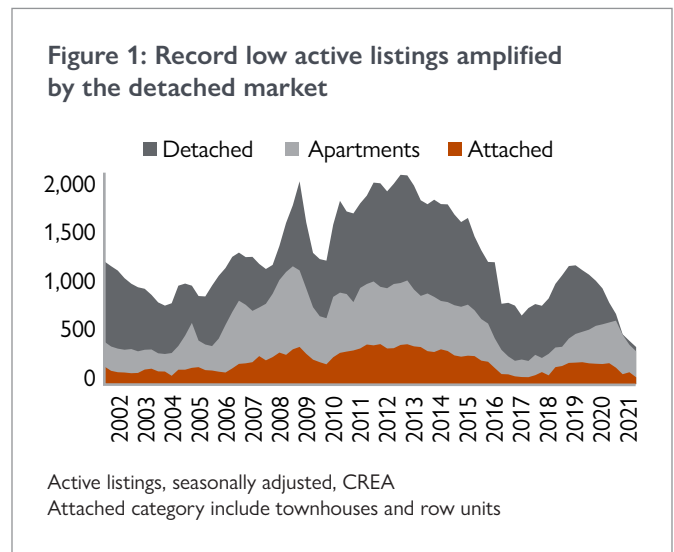
Evidence of overheating was detected in the Victoria Census Metropolitan Area (CMA) in the second quarter of 2021. The sales-to-new listings ratio (SNLR) has been hovering above the critical threshold for the past two quarters.

Sales were down 27% by the end of the second quarter, compared to March. The retrieval of sales is mostly attributable to a decline in detached homes—which was down 20% compared to the last quarter. Compared to pre-pandemic levels, sales in the second quarter were 40% higher than the same quarter in 2019.

On a year-over-year basis, sales remained substantially higher—up by 102%. This is driven by condominium sales that are up by 160%.

New listings declined since March across all home types. Attached listings saw the deepest drop at 31%. Condominiums declined by only 9%. The sustained sales depleted inventory of active listings to the lowest level in two decades, which is amplified by the detached segment. (Figure 1)

Greater Victoria home prices remained at a discount of many metro areas in lower mainland BC. Out-of-town buyers have been an additional force absorbing inventory. Along with the first-time homebuyers, this additional demand presents a greater impact to the market as their previous homes wouldn't be listed to replenish the supply within the Victoria CMA region.



## Evidence of price acceleration detected as detached home price remains elevated

Multiple price indices accelerated over the last two quarters:

- average price was up 22%
- median price increased by 19% year-over-year in the second quarter

Of all home types, detached homes continued to record the fastest price appreciation. The median price gap widened substantially between condominiums, attached and detached homes over the past four quarters.

The median price of detached homes is now \$350,000 higher than the attached. It's increased from \$232,000 in the second quarter of last year (Figure 2).

Condominiums in Saanich East and Langford have replaced detached homes in the city center and Sooke, and became two of the largest sub-markets of sales over the last two years. Both areas are within a 30-minute drive from the city center.

Urban condominiums and detached homes in Langford and Saanich East remained the top three largest submarkets. As a result, Greater Victoria continues to experience sellers' market conditions with fairly common competitions among buyers.

## Evidence of overvaluation is lowered as local job market recovers

The rating is lowered to low evidence of overvaluation. The average gap between actual home price and the fundamental home price remained below the critical threshold for the fourth consecutive quarter. Rising home prices widened the gap in the second quarter, which warrants close monitoring for any potential imbalance in the coming months.

Personal disposable income and mortgage rates are the main drivers of home value appreciation in Victoria. As the reopening plans evolve, employers began to expand their workforce, particularly for full-time jobs where 3,700 positions were filled in June. Sustained job growth has led the unemployment rate to decline to the lowest level since the first quarter of 2020:

- The food and accommodation services was one of the hardest-hit sectors and has fully recovered and reached record highs since 2016.
- Construction sector jobs remained 20% below the second quarter levels in 2020 and 2019, as a lack of skilled labour becomes prevalent across Victoria.

Rising labour demand and high job vacancy rates contributed to an increase of hourly wages that is higher than the provincial average. This income growth combined with low mortgage rates continue to fuel housing demand.

Despite an economic recovery in many sectors supporting fundamental price growth, actual home price outpaced economic gains.

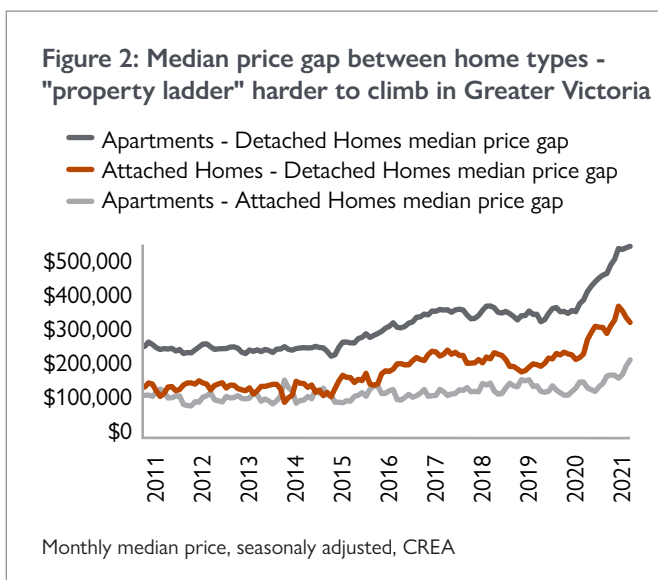
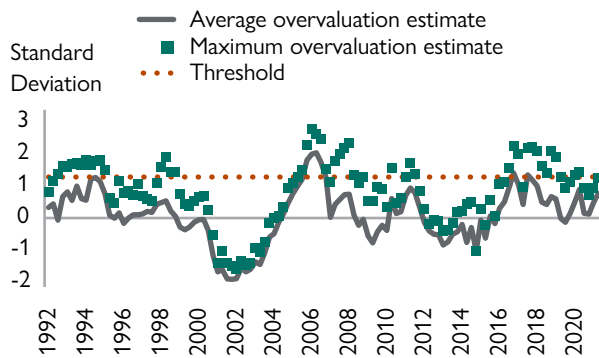


Figure 3: Low Evidence of Overvaluation in Victoria



Sources: CREA, Statistics Canada, Teranet and National Bank of Canada, and calculations by CMHC  
 Last data point: 2021Q2

Note: The average estimate of overvaluation is the average gap between actual house prices and their fundamental level from a group of selected models. The maximum overvaluation gap is obtained from the model that has the largest gap between the actual price and the estimated price.

## Evidence of excess inventories remained low

Inventory of completed and unsold units (per 10,000 population) remained well below the critical threshold in the second quarter this year:

- The completed and unabsorbed new homes were down 37% by the end of the second quarter compared to 2020.
- Apartments remain the majority of the completed and under-construction inventory.

As a result, builders have shifted focus and started more projects in the attached home segment. This increased by 50% year-over-year by the end of the second quarter. Residential building permits for the first half of the year reached the highest level since 2018 and signalled future supply gains.

Purpose-built rental starts led condominium starts by 30% by the end of the second quarter. With many post-secondary institutions starting in-person learning, an influx of rental demand would benefit from additional rental supplies. This is as long as existing rental stock is maintained and new units are completed in a timely manner.

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# Vancouver



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**Braden T. Batch**  
Senior Analyst, Economics

## Results Overview

	Mar. 2021	Sep. 2021
<b>Evidence of imbalances</b>		
Overheating	■	■
Price Acceleration	■	■
Overvaluation	■	■
Excess Inventories	▲	▲
<b>Market Vulnerability</b>	▲	■

■ Low ▲ Moderate ● High

## Highlights

- Vancouver’s rating was reduced from a moderate to a low degree of vulnerability suggesting a lower risk of a market downturn in the second quarter.
- Price growth has settled down in Vancouver as the pace of sales in the market has slowed.
- Young adult employment has improved considerably in the past two quarters as more businesses have opened.
- Homeowners have listed their homes in larger numbers than usual and eased the competition among buyers.

## Sellers entered the market in large numbers

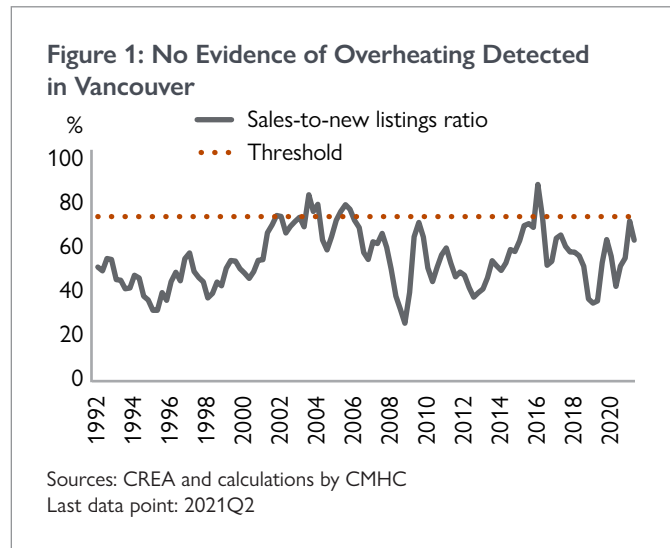
Total sales peaked at the end of the first quarter and have since fallen towards a more typical level. As new listings were strong, the sales-to-new listings ratio (SNLR) didn’t exceed the threshold of 75% used to indicate evidence of overheating during the past two quarters.

A trend of high new listings is a break from the norm. In past cycles of high sales, new listings didn’t change all that much.

New listings record the flow of new sellers to the market. In recent quarters we’ve observed new listings at levels that haven’t been recorded in recent memory. This could indicate a large share of move-up buyers who first listed and then sold a unit in order to make a down payment on their next home. This differs from periods dominated by first-time buyers or out of town buyers who do not create a local listing when purchasing a home.

Active listings provides a picture of the total number of homes for sale in a given period. The main trend in the active listings is that single-detached listings have risen from a trough. This indicates that the relative difficulty of finding a single-detached home to buy has declined. Overall, this has ended the drawdown in inventory in Vancouver and total listings are now stable.

We observed that the share of single-detached sales peaked in 2020. Apartment units have taken a large and growing share of total sales. Typically, this shift in composition will act to slow average house price growth.



## Strong price growth into the second quarter, but starting to slow in more recent data

Evidence of price acceleration wasn't detected as the rate of price growth wasn't out of the ordinary. As total listings have stabilised, sales have slowed and price growth has slowed.

Year-over-year gains remain in double-digit territory. Price growth from one quarter to the next was modest and shows little sign of picking up again.

The price of homes increased more than fundamentals, but not enough to cause concern

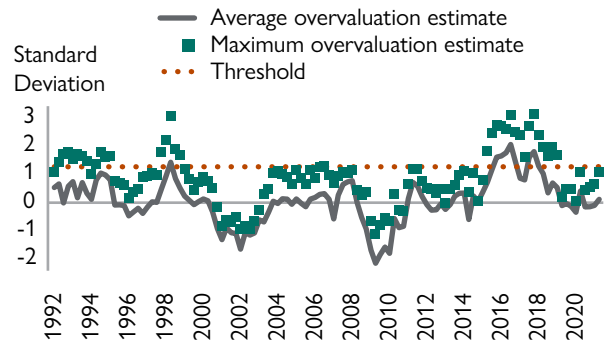
Economic conditions in Vancouver have improved in recent quarters:

- Total employment in the region is now nearing a pre-pandemic level.
- Young adult employment in particular has rebounded strongly as the entire service sector is now posting year-over-year gains in employment.

The data for the second quarter isn't tallied yet. That said, the number of active businesses in the metro area had exceeded pre-pandemic levels by April this year.

Overvaluation was not detected for Vancouver. Fundamentals such as income growth and low mortgage rates indicated some price growth was to be expected for the second quarter. While the price growth we saw was slightly stronger than expected, it wasn't enough for us to consider it evidence of overvaluation.

**Figure 2: Low Evidence of Overvaluation in Vancouver**



Sources: CREA, Statistics Canada, Teranet and National Bank of Canada, and calculations by CMHC  
Last data point: 2021Q2

Note: The average estimate of overvaluation is the average gap between actual house prices and their fundamental level from a group of selected models. The maximum overvaluation gap is obtained from the model that has the largest gap between the actual price and the estimated price.

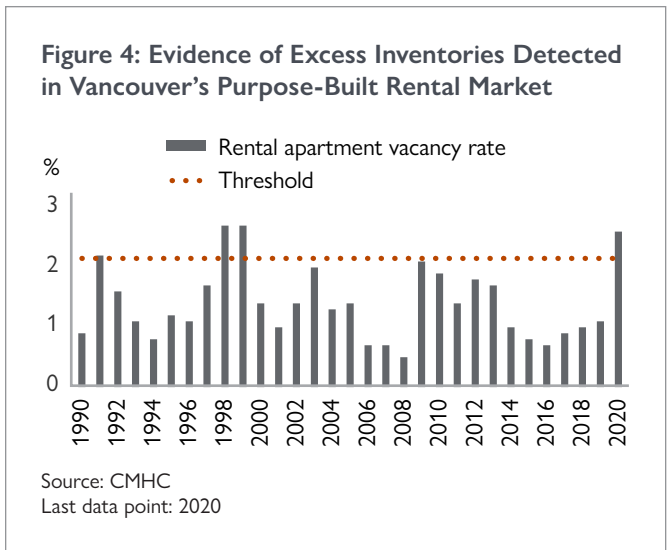
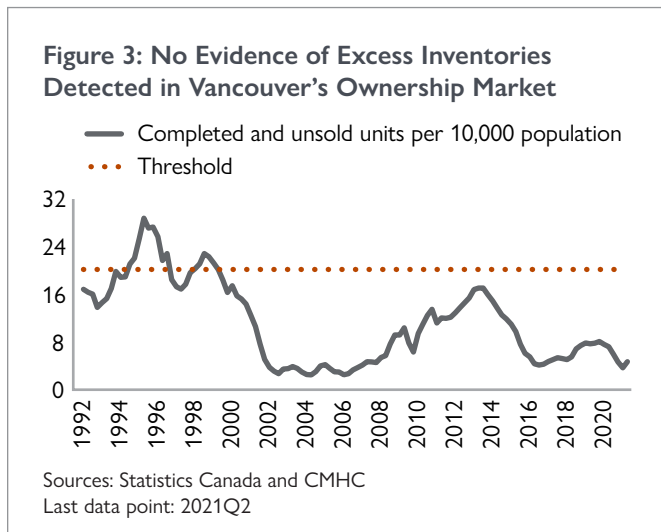
## Moderate evidence of excess inventories

A higher vacancy rate was found in CMHC's purpose-built rental market survey in the fall of 2020 that triggered a rating of moderate evidence in excess inventory. The high vacancy is likely related to a disruption of immigration and non-permanent residency in Vancouver. This was one of the measures taken to mitigate the risks of COVID-19.

In the long term, the region continues to face a shortage of rental housing options suitable for households with different levels of income. Additional new supply will be crucial in increasing housing affordability.

In the short term, there remains uncertainty regarding the level of migration into Vancouver leading to a temporary shortfall in rental demand. We continue to detect evidence of excess inventories in the rental market.

The other measure considered for inventories is the rate of completed and unsold units in the homeownership market. With inventories of new units remaining at low historical levels, there is more evidence of a shortage of units than an excess in the home ownership market.



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# Edmonton



**We've improved the HMA**   
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**Michael Mak**  
Senior Analyst, Economics

## Results Overview

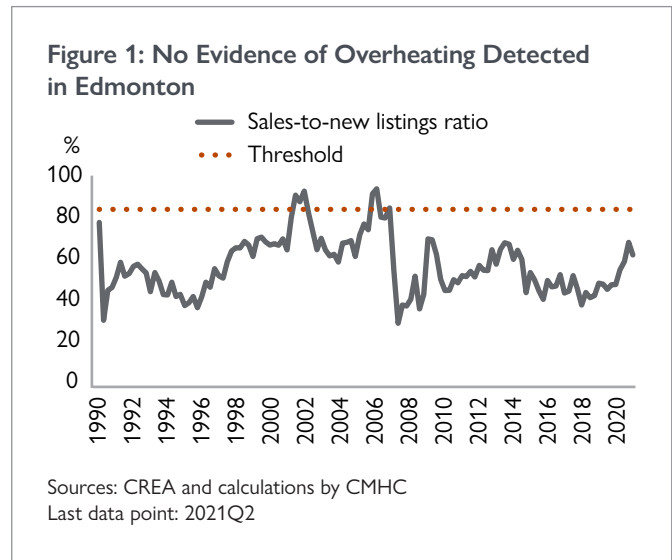
<u>Evidence of imbalances</u>	Mar. 2021	Sep. 2021
Overheating	■	■
Price Acceleration	■	■
Overvaluation	▲	▲
Excess Inventories	▲	▲
<u>Market Vulnerability</u>	▲	▲

■ Low ▲ Moderate ● High

## No evidence of overheating detected in the Edmonton

Evidence of overheating wasn't detected in Edmonton as the seasonally adjusted sales-to-new listings ratio (SNLR) remained below the critical threshold of 85%. The ratio itself trended higher from the fourth quarter of 2020, pointing to stronger seller's market conditions.

The current SNLR is 64%. Sales activity is reflective of 2014, the last period where the ratio was above 60%. Low mortgage rates continued to support demand, with elevated sales levels since March. We witnessed a quarterly all-time high in existing home sales in the second quarter of 2021. New listings also reached a quarterly all-time high, but at a slower pace than sales.



## Highlights

- We maintained our assessment of a moderate degree of market vulnerability in Edmonton.
- Moderate evidence of overvaluation is still detected.
- The pace of new home sales remains strong but moderate evidence of excess inventories persists.
- We didn't detect evidence of overheating or price acceleration, but market conditions show strong demand from buyers.



## No evidence of price acceleration detected

Evidence of price acceleration wasn't detected, despite recent price growth in the first half of the year.

The MLS® average price has risen 5.6% since the fourth quarter of 2020 to \$404,000. The CMHC Repeat Sales Price Index and the Teranet-National Bank House Price Index also saw slight growth over the same timeframe.

We can partly attribute the increase in average price to a compositional shift in sales since 2020, as expensive single-detached homes are in demand.

Between January and June of this year, 58% of single-detached homes sold transacted above \$400,000. This is a substantial increase as compared to 2020 where 47% of homes sold above \$400,000.

In the first half of 2021, homes sold at prices from \$500,000 to \$600,000 saw relative strength in demand compared to other price buckets.

## Evidence of overvaluation remains moderate

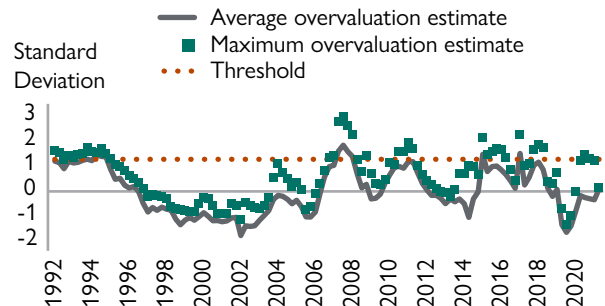
Marginal increases in fundamental house prices were supported by:

- population growth
- growth in inflation-adjusted disposable income per capita
- continued low mortgage rates

However, observed house price growth outpaced house prices supported by fundamentals in this time period.

As a result, the average overvaluation estimate in Edmonton is higher compared to the average estimate in the fourth quarter of 2020 but remains below the threshold. The evidence of overvaluation remains moderate as two of the overvaluation models were above the threshold for two quarters within the past year.

**Figure 2: Moderate Evidence of Overvaluation in Edmonton**



Sources: CREA, Statistics Canada, Teranet and National Bank of Canada, and calculations by CMHC  
Last data point: 2021Q2

Note: The average estimate of overvaluation is the average gap between actual house prices and their fundamental level from a group of selected models. The maximum overvaluation gap is obtained from the model that has the largest gap between the actual price and the estimated price.

## Moderate evidence of excess inventories

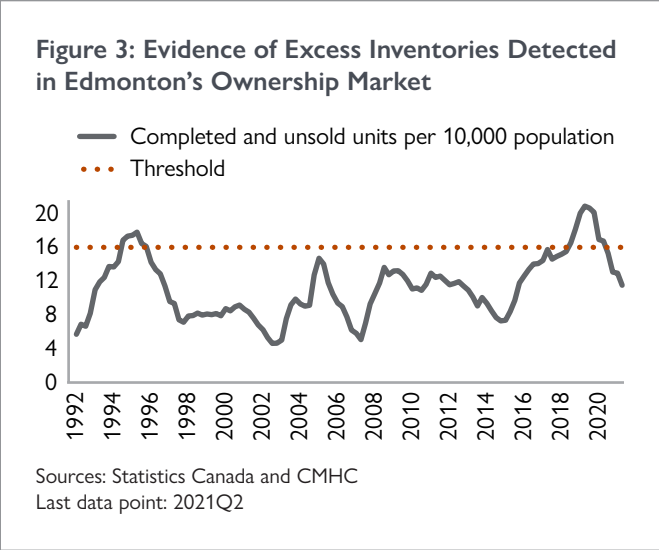
Evidence of excess inventories in Edmonton continued to be moderate as the last data point for rental vacancies exceeded the threshold. While rental data remains the same as the previous report in the fourth quarter of 2020, inventory of completed and unsold inventory has moved lower.

Demand for new homes is evident across all housing types:

- unsold single-detached homes moved to levels last seen in 2017
- row type housing decreased to 2014 inventory levels

Excess inventories continued to be monitored as over 900 single detached houses were added to the under-construction inventory and may signal increased future supply.

While elevated, condominiums and apartments continued to be absorbed throughout the first half of the year, despite a steady flow of new inventory coming to market.



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# Calgary



**We've improved the HMA**   
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**Michael Mak**  
Senior Analyst, Economics

## Results Overview

	Mar. 2021	Sep. 2021
<b>Evidence of imbalances</b>		
Overheating	■	■
Price Acceleration	■	■
Overvaluation	■	■
Excess Inventories	●	▲
<b>Market Vulnerability</b>	▲	▲

■ Low ▲ Moderate ● High

## Highlights

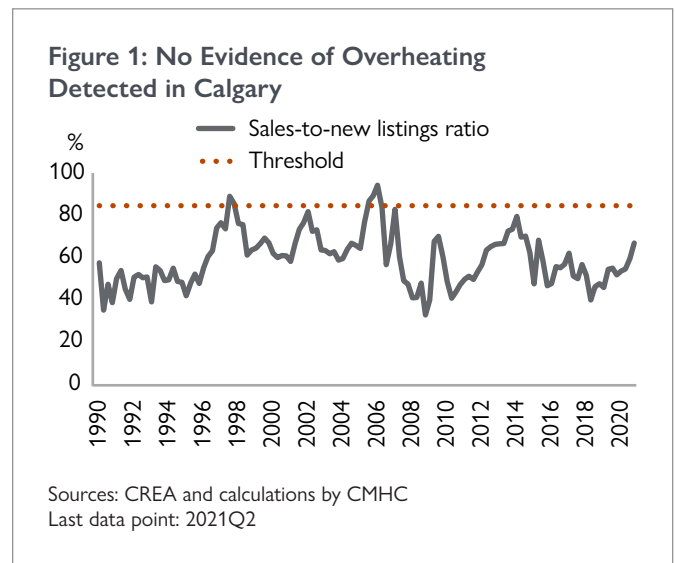
- A moderate degree of market vulnerability persists in Calgary.
- Evidence of overvaluation remains below threshold.
- Evidence of excess inventories drop to a moderate level with falling unsold inventories.
- Market trends are pointing to a strong sellers' market, although we didn't detect evidence of overheating.
- House price growth was relatively steady and evidence of price acceleration wasn't detected.

## No evidence of overheating detected in Calgary

The measure of overheating continues to be below the critical threshold in Calgary. While the seasonally adjusted sales-to-new listings ratio (SNLR) continued to be below 85%, the indicator trended higher in the second quarter of 2021.

Sales reached an all-time high in the second quarter, above quarterly levels last seen in 2014 and 2007. This trend reflects the current state of the Calgary resale market.

New listings have increased in the past two quarters, reflecting active levels of supply and demand in the market. Seasonal and timing effects, like warmer weather and COVID-19 reopening supported sales activity in the first half of 2021. Low mortgage rates and recovering employment continued to be the main driver for demand.



## No evidence of price acceleration detected as house price growth was stable

We didn't detect evidence of a sustained acceleration, despite recent growth in house prices in Calgary.

The MLS® average resale price was higher by 8% in the second quarter (seasonally adjusted) as compared to the fourth quarter of 2020. The CMHC Repeat Sales Price Index and the Teranet-National Bank House Price Index saw growth in the same period at 5% and 4% respectively.

A continued preference in single detached housing and a continued shift to more expensive homes drove price increases in the first half of 2021. We also saw notable year-to-date increases in sales of homes over \$500,000.

Homes selling for less than \$400,000 took a smaller proportion of total sales, compared to activity in 2020.

### Evidence of overvaluation is low

The average estimate of overvaluation remained below the critical threshold. That said, one model has now slightly exceeded the threshold as the measure of overvaluation increased compared to the fourth quarter of 2020.

The positive shift in the average overvaluation estimate was largely driven by the increase in observed house prices over the first half of 2021. Conversely, fundamental house prices decreased marginally over the same period largely due to a shrinking population estimate in the 25 to 34 age cohort.

Low mortgage rates continued to support housing activity, but not enough to support recent increases in observed home prices. This drove the overvaluation estimate higher.

### Moderate evidence of excess inventories

The excess inventory model takes into account two components:

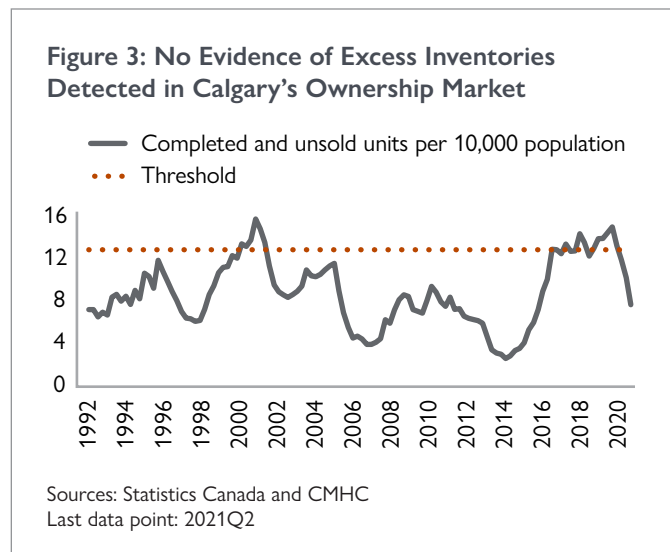
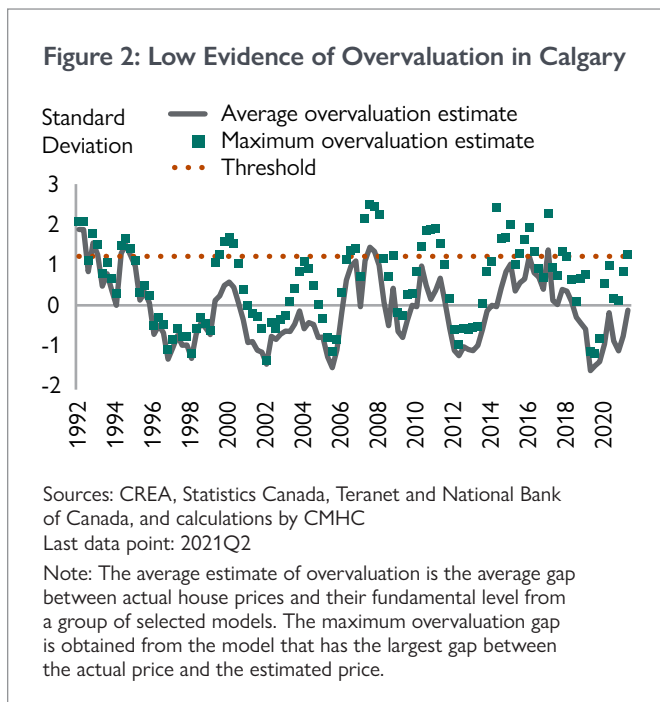
1. the inventory of completed and unsold housing units per 10,000 population
2. the rental vacancy rate

Previously, there was a high evidence of excess inventories. Unabsorbed homes in the ownership market persisted above the critical threshold and rental vacancies were above the critical level.

As of the second quarter of 2021, the level of unabsorbed inventories per 10,000 population has fallen rapidly below the threshold as strong demand led to higher absorption of completed inventory. The total inventory of unsold units continued to fall from a record high in 2020 with 1,236 units remaining unsold, a level last seen in 2016. Upon completion, close to 90% of single detached homes were absorbed in the first half of 2021.

In comparison, 80% of single-detached homes were absorbed on completion in 2020. Unsold inventory of condominiums fell the most from 911 to 566 units—a decrease of 44% at the end of Q2—signalling an increasing demand in newly constructed condos.

Recovering employment conditions supported by low mortgage rates continued to support absorption of new home inventory.



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# Saskatoon



**We've improved the HMA**  
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**Goodson Mwale**  
Senior Analyst, Economics

## Results Overview

	Mar. 2021	Sep. 2021
<b>Evidence of imbalances</b>		
Overheating	■	■
Price Acceleration	■	■
Overvaluation	■	■
Excess Inventories	■	■
<b>Market Vulnerability</b>	■	■

■ Low ▲ Moderate ● High

## Highlights

- There continues to be no evidence of overheating and price acceleration in the Saskatoon market.
- We've maintained the low overvaluation rating despite an increase in overvaluation conditions.
- Evidence of excess inventories was not detected in the second quarter of 2021.
- The degree of market vulnerability in Saskatoon remains low.

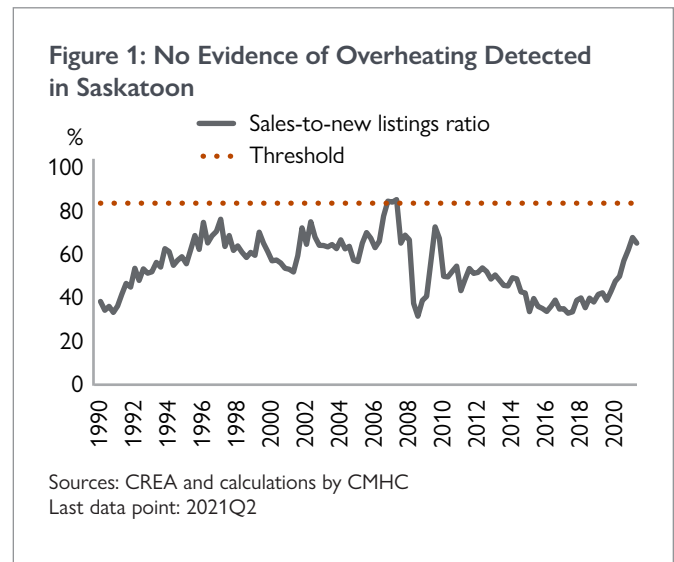
## No evidence of overheating detected despite record sales in the second quarter

Evidence of overheating wasn't detected in the Saskatoon housing market as the sales-to-new listings ratio (SNLR) remained below the critical threshold (Figure 1).

There were 2,405 resale homes sold in the second quarter of 2021—an increase of 63% from the previous year. This represented the highest quarterly total on record, driven in large part by surging demand for single-detached homes.

Low mortgage rates enabled first-time homebuyers to enter the market. A larger portion of buyers appear to have been those seeking larger square footage to work from home or simply looking to move up in the market.

By July, both resales and new listings were down 13% from the same month a year earlier, leaving market conditions relatively balanced.



## No evidence of price acceleration detected in the Saskatoon housing market

No evidence of accelerating price growth was found during the second quarter of 2021. This is in spite of strong price gains reported in the overall market led by the single-detached segment.

The MLS® House Price Index (HPI) composite benchmark price for Saskatoon rose 10% to just under \$330,000 in the second quarter from the same quarter of 2020.

In the submarkets:

- the benchmark price for single-family homes rose 11% from a year earlier
- prices for apartments and townhouses were up by just over 7% and 6%, respectively

On a monthly basis, growth in the composite benchmark price slowed in June and July compared to the previous year. This may be a sign that price pressures may be starting to ease.

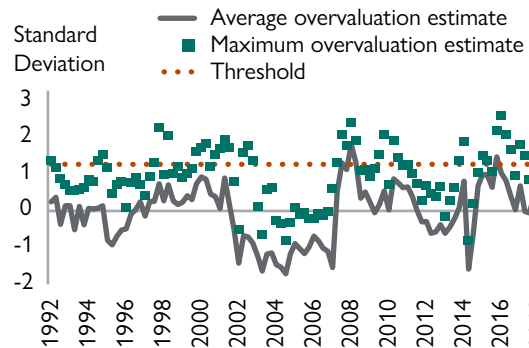
## The low rating on overvaluation is unchanged, but market warrants monitoring

We've maintained a low rating on overvaluation, despite our concerns that overvaluation conditions have increased in the Saskatoon housing market. The average real observed prices exceeded those estimated from housing fundamentals in the second quarter of 2021.

Overall employment in Saskatoon recovered to pre-pandemic levels in the second quarter, but was largely driven by growth in part-time roles. This could partly explain the weakness in real personal disposable income that contributed to a decline in our estimate of the fundamental real house price.

Figure 2 indicates that the maximum overvaluation estimate was still below the critical threshold in the second quarter of 2021. The average overvaluation estimate has risen over the past few quarters and is now above zero. This appears to suggest that potential vulnerabilities may be forming in the market and will require close monitoring.

**Figure 2: Low Evidence of Overvaluation in Saskatoon**



Sources: CREA, Statistics Canada, Teranet and National Bank of Canada, and calculations by CMHC  
Last data point: 2021Q2

Note: The average estimate of overvaluation is the average gap between actual house prices and their fundamental level from a group of selected models. The maximum overvaluation gap is obtained from the model that has the largest gap between the actual price and the estimated price.

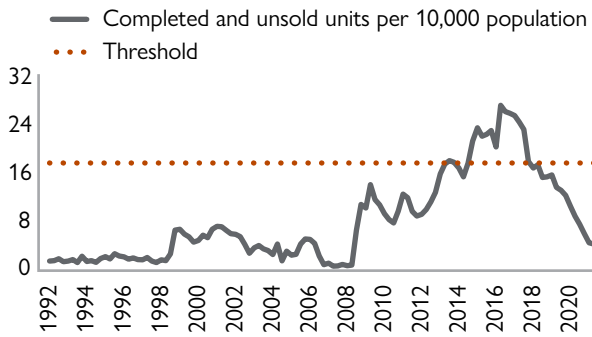
## Evidence of excess inventories remains low

The unsold stock of newly completed homes in the Saskatoon CMA dropped further in the second quarter of 2021 and remained below the critical threshold in the ownership market (relative to the local population). (Figure 3).

A low mortgage rate environment and strong demand for new housing units in expanding subdivisions to the southeast and northeast of Saskatoon have contributed to a surge in residential construction this year.

Total housing starts through July were up by nearly 35% over the previous year. Meanwhile, newly completed units are being absorbed quickly, with total inventory down 50% to 157 units in July 2021 from the same month a year earlier.

**Figure 3: No Evidence of Excess Inventories Detected in Saskatoon’s Ownership Market**



Sources: Statistics Canada and CMHC  
 Last data point: 2021Q2

Saskatoon’s apartment vacancy rate of 5.9% in 2020 was below the critical threshold of 7.74%. We don’t detect evidence of excess inventories in the rental market. That said, we’ll continue to monitor the level of rental supply that could potentially put upward pressure on the vacancy rate.

Since our last Rental Market Survey (conducted in October 2020):

- there have been more than 600 rental apartment completions in the Saskatoon CMA
- there were 1,070 rental apartments in the Saskatoon CMA at the end of July 2021, which were in various stages of construction.

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# Regina



**We've improved the HMA**   
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Taylor Pardy  
Senior Analyst, Economics

## Results Overview

	Mar. 2021	Sep. 2021
<b>Evidence of imbalances</b>		
Overheating	■	■
Price Acceleration	■	■
Overvaluation	■	■
Excess Inventories	▲	▲
<b>Market Vulnerability</b>	■	■

■ Low ▲ Moderate ● High

## Highlights

- There continues to be no evidence of overheating and price acceleration in Regina.
- Low evidence of overvaluation is detected in the second quarter of 2021.
- Moderate evidence of excess inventories is maintained in the second quarter as a result of ongoing imbalances in the rental market.
- The Regina CMA exhibits a low degree of market vulnerability as of the second quarter of 2021.

## Low mortgage rates driving resale market activity, including first-time homebuyers

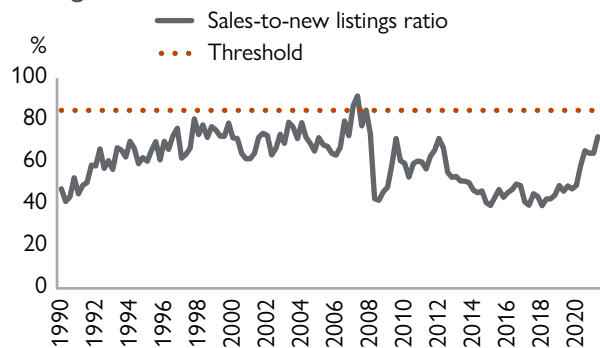
Overheating wasn't detected in the Regina CMA in the second quarter of 2021. The sales-to-new listings ratio (SNLR) indicator remains below the critical threshold at 67% (Figure 1). The pace of sales declined slightly in the second quarter from the record pace seen in the first quarter of 2021. It remains approximately 16% above the previous peak pace of sales seen in 2012.

First-time homebuyers appear to be back in force since the onset of the pandemic. They are contributing to stronger sales as households look to take advantage of the low mortgage rate environment. Labour market conditions have rapidly improved since the relaxation of pandemic measures in July. This is also likely also contributing to supporting housing market activity.

Elevated sales activity has led to the following:

- active listings (total available listings on the market) declining steadily since the onset of the pandemic
- prices are rising at a faster pace as more buyers chase fewer and fewer homes

**Figure 1: No Evidence of Overheating Detected in Regina**



Sources: CREA and calculations by CMHC  
Last data point: 2021Q2

## Price growth strong, but not strong enough to trigger evidence of price acceleration

Price acceleration wasn't detected in the second quarter of 2021. The MLS® average price shows a year-over-year increase of 11% in the Regina CMA as of the second quarter. This pace of price growth hasn't been seen since 2012-13. This price growth was not enough to breach the threshold for price acceleration.

Part of the increase in the MLS® average price was due to the composition of sales being weighted more toward single-detached. The MLS® House Price Index (HPI) benchmark price (composite) controls for composition issues indicated year-over-year price growth in the second quarter according to this measure was 7%. Prices have been growing across all segments of the market with HPI Benchmark price increases of 7%, 8% and 12% on a year-over-year basis for single-detached, townhome and apartment condo units, respectively.

## Low evidence of overvaluation persists

The pace of price growth has increased in recent quarters, but both the individual and average estimates of overvaluation remain below the critical threshold (see Figure 2). That said, overvaluation wasn't detected in the Regina CMA in the second quarter of 2021 (see [Appendix](#)).

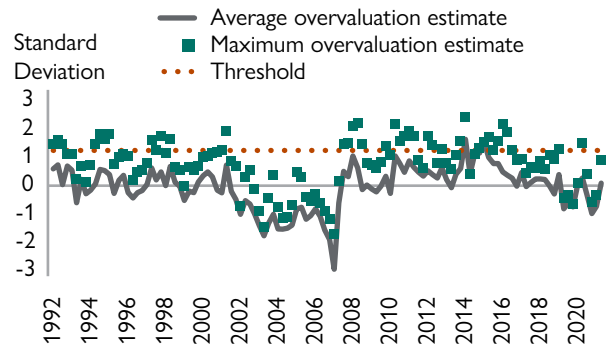
Although the low evidence of overvaluation rating has been maintained in the second quarter, we have seen:

- many of the individual estimates of overvaluation move upward
- the average estimate of overvaluation also began to trend upward in the second quarter
- some individual estimates getting closer to the threshold

Ongoing population growth and low mortgage rates were key contributors to growth in the price level that could be justified by fundamentals in the second quarter. Actual price growth outpaced what fundamentals could support.

If this trend were to continue, overvaluation could be detected in future. We will be closely monitoring the evolution of the overvaluation indicator in the Regina CMA in the coming quarters.

Figure 2: Low Evidence of Overvaluation in Regina



Sources: CREA, Statistics Canada, Teranet and National Bank of Canada, and calculations by CMHC  
Last data point: 2021Q2

Note: The average estimate of overvaluation is the average gap between actual house prices and their fundamental level from a group of selected models. The maximum overvaluation gap is obtained from the model that has the largest gap between the actual price and the estimated price.

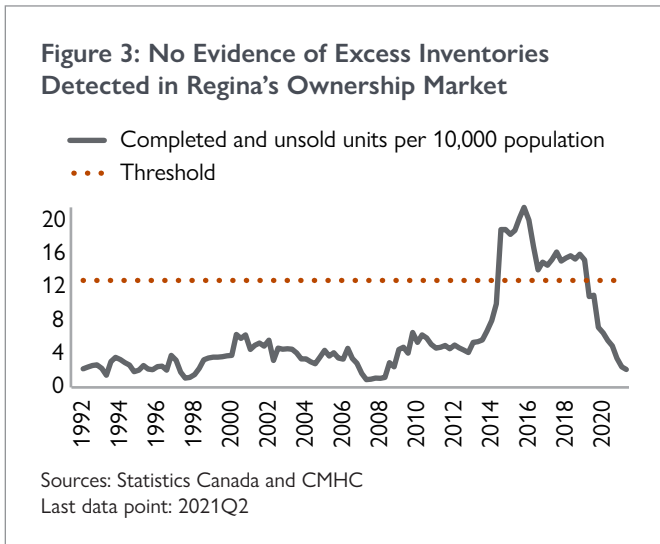
## Moderate Evidence of Excess Inventories

Overall, the HMA framework continued to detect moderate evidence of excess inventories in the Regina CMA in the second quarter of 2021.

In the rental market, imbalances related to excess inventories persist based on data as of October 2020 showed that the rental apartment vacancy rate was estimated at 7.5%, significantly above the critical threshold of 6.2%. CMHC will continue to monitor conditions in the rental market, particularly as the impact of the pandemic on population growth unwinds and/or returns to pre-pandemic levels.

In the ownership market, strong demand and low mortgage rates were driving inventories of newly completed and unsold homes significantly lower in recent quarters (see Figure 3). Inventory levels in the ownership side of the market are now comparable to those last seen in the mid-2000's when housing prices in the Regina area were rising at a rapid pace. As a result, inventory levels remain significantly below the critical threshold.

While housing starts were up approximately 50% in the first six months of 2021 relative to the same period in either 2020 or 2019, building activity has been a bit more subdued than anticipated. In particular, elevated lumber prices earlier in the year may have affected builders’ plans for how many projects to bring forward.



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# Winnipeg



**We've improved the HMA**   
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**Heather Bowyer**  
Senior Analyst, Economics

## Results Overview

	Mar. 2021	Sep. 2021
<b>Evidence of imbalances</b>		
Overheating	■	▲
Price Acceleration	■	▲
Overvaluation	■	■
Excess Inventories	■	■
<b>Market Vulnerability</b>	■	■

■ Low ▲ Moderate ● High

## Highlights

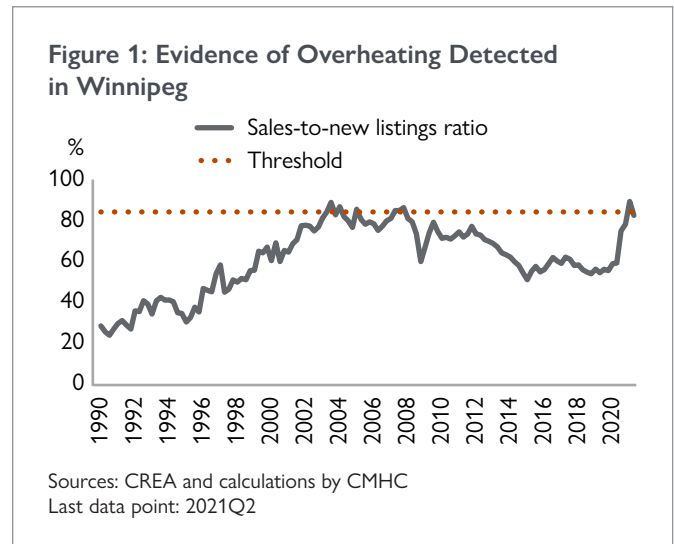
- There is a low degree of market vulnerability detected in the Winnipeg housing market.
- Overvaluation and excess inventories continue to show low evidence of imbalances.
- The continued tightening of resale market conditions has led to evidence of overheating.
- Considerable price growth in 2021 has led to evidence of price acceleration.

## Evidence of overheating detected

The heightened resale market demand has led to evidence of overheating in the Winnipeg CMA. The seasonally adjusted sales-to-new listings ratio (SNLR) dipped slightly below the threshold in the second quarter of 2021. As the ratio trended sharply upwards throughout 2020 and increased above the threshold in the previous quarter, overheating was detected.

Resales have seen historically strong growth while new listings have not kept the same pace. This trend started in the second half of 2020.

New listings remained below historical averages for this time, despite increasing in the second quarter of 2021. This has created a shift to more “sellers like” conditions and upwards pressure on the seasonally adjusted SNLR and overheating indicator.



## Evidence of price acceleration detected

Considerable price growth in recent quarters has led to evidence of price acceleration. Strong demand for resale homes continued and put upwards pressure on the average MLS® price. This was an increase of 14% on a year-over-year basis in the second quarter of 2021.

This was the second consecutive quarter with double-digit price increases. Single-family homes continue to be the largest source of demand and have in turn seen the largest price increases.

Over the same period, the CREA Benchmark Price for single-family homes increased 16% compared to 7% for apartments.

## Evidence of overvaluation remains low

There is low evidence of overvaluation in the Winnipeg CMA. That said, house prices increased considerably faster than what could be explained by fundamentals in the second quarter of 2021.

Employment has improved throughout 2021. Total employment remains below pre-pandemic levels and decreases in real personal disposable income have signified a slower recovery in the local economy.

This caused the fundamental house price level to fall. Tight resale market conditions led to considerable growth in observed prices. This considerable growth in observed prices follows years of price stability, allowing prices to grow steadily without creating current market imbalances.

If these trends continue, there may be evidence of overvaluation in the future.

## Evidence of excess inventories remain low

There is low evidence of excess inventories in Winnipeg in the second quarter of 2021.

New housing inventory peaked in early 2019 and has been trending lower ever since. In the second quarter of 2021, it was at the lowest levels seen since 2012.

Continued low interest rates and lower resale inventories have spurred demand in the new home market. Since the start of the pandemic, absorptions have outpaced that of newly completed homeownership units. This has resulted in a persistent decline of inventory levels.

This has supported an increase in new housing construction in 2021. Total housing starts were up 16% throughout the first seven months of the year compared to the same time in 2020, primarily on the single-detached side.

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# Hamilton



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**Inna Breidburg**  
Senior Analyst, Economics

## Results Overview

	Mar. 2021	Sep. 2021
<b>Evidence of imbalances</b>		
Overheating	▲	▲
Price Acceleration	▲	▲
Overvaluation	▲	▲
Excess Inventories	■	■
<b>Market Vulnerability</b>	●	●

■ Low ▲ Moderate ● High

## Highlights

- Hamilton continues to be assessed at a high degree of market vulnerability.
- Overheating, price acceleration and overvaluation have remained the same.
- Evidence of excess inventories remained low but the high number of condominium apartments under construction may add to inventories once completed.

## Evidence of overheating persisted

We continued to detect evidence of overheating in Hamilton in the second quarter of 2021. The seasonally adjusted sales-to-new listings ratio (SNLR) dropped to 76% but remained above its critical threshold of 75% (Figure 1). The decline in the number of sales amid a stable number of new listings resulted in the ratio's downward adjustment.

Despite some moderation, MLS® sales were at one of the highest levels in the past 10 years as:

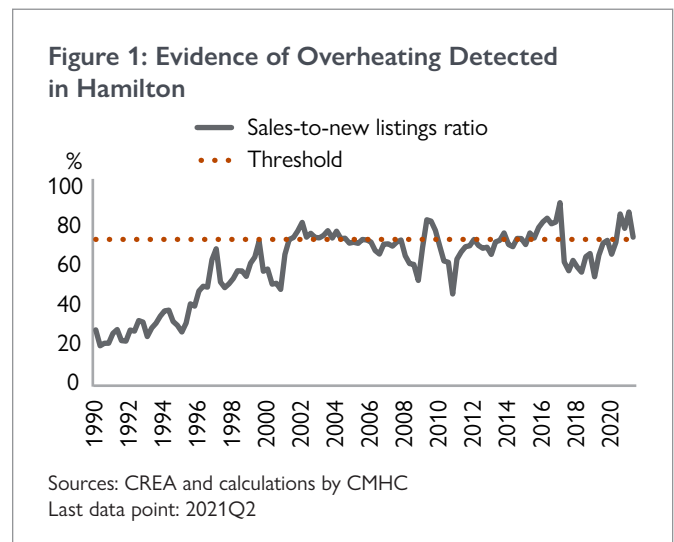
- low mortgage rates continued to generate strong demand for housing for first-time and move-up homebuyers
- pent-up demand generated during the earlier period of the pandemic continued to be released

The number of new listings coming to market over the past few quarters has plateaued. The lack of homeowners interested to list their homes may be due to:

- the growing costs associated with selling a home
- a shortage of suitable options where existing homeowners can move to
- expectations of strong future capital gains

Hamilton's sustained period of overheating can lead to irrational expectations. Households may expedite their decision to enter the market and buy before reaching optimal employment, income and savings levels, thus taking on larger mortgages relative to their incomes.

Price growth expectations may also entice a higher than usual number of investors, who would further contribute to demand and price pressures. While some of these risks have already materialized, they may intensify if demand and supply imbalances continue.



## Price acceleration detected

We have detected evidence of price acceleration for the fourth consecutive quarter. This is seen in the significant shortage of resale listings relative to demand limiting homebuyers' negotiating power. This prompted buyers to offer above advertised list prices.

We can assume that the expectation of a continuing strong price growth played a role in intensifying competition and bidding wars among buyers. A prolonged period of price acceleration could lead to a worse overvaluation imbalance in Hamilton.

We have seen price acceleration imbalances that were fueled by low-rise housing types, especially single-detached homes. In the second quarter, strong price growth also occurred in the condominium apartment segment.

Geographical shifts have also contributed to strong price growth. There was an increase in single-detached sales in more expensive, smaller communities such as Ancaster, Dundas, Stoney Creek and Waterdown. As a result, there was a significant increase in the number of homes selling in the \$1M to \$1.5M range. We saw the share of homes selling over the \$1M reach 23.6% in the second quarter of 2021, up from 9.4% in the second quarter a year ago.

Demand for single-detached homes in more expensive neighbourhoods was likely continued to be fuelled by out-of-region homebuyers looking for more space at below Greater Toronto Area (GTA) price points.

## Moderate evidence of overvaluation

We continued to detect moderate evidence of overvaluation. Housing market fundamentals strengthened since our last assessment. This provided some support for housing demand. We witnessed:

- some high-paying services-producing industries exceeded their pre-pandemic employment levels
- tightening labour market conditions generated increases in the real personal disposable income

However, nominal mortgage rates increased by 33 basis points since our last assessment, reducing the borrowing capacity of homebuyers. Despite overall robust increases in Hamilton's population, there was only incremental growth in the pool of prospective first-time homebuyers (young adults aged 25-34). While there was some improvement in housing market fundamentals, they could not fully explain the growth in observed house prices. This, in turn, maintained existing overvaluation imbalances.

## Low evidence of excess inventories

We continued to detect low evidence of excess inventories. Newly built homes have been absorbed due to the demand of homeownership. Unsold inventories have been below the critical threshold set for excess inventories in the homeownership market. The population-adjusted number of completed and unsold new homes has been trending down to reach the lowest level in almost seven years.

The rental apartment vacancy rate of 3.5% was also below the critical threshold set for excess inventories in the rental market. Demand for rental housing remained strong as rising homeownership costs keep more households in rentals.

It should be noted that the number of new homes under construction has been trending higher to reach 6,647 units in July 2021. This is the highest level since the 1970s.

This increase was driven by condominium apartments. This accounts for more than two thirds of this number. The high number of condominium apartment units under construction points to higher completions over the next couple of years. This may add to the supply of unsold units as well as to the resale listings.



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# Toronto



**We've improved the HMA**   
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**Dana Senagama**  
Senior Specialist, Market Insights

## Results Overview

	Mar. 2021	Sep. 2021
<b>Evidence of imbalances</b>		
Overheating	■	▲
Price Acceleration	▲	▲
Overvaluation	■	■
Excess Inventories	▲	▲
<b>Market Vulnerability</b>	●	●

■ Low ▲ Moderate ● High

## Highlights

- The Greater Toronto Area (GTA) housing market continues to be assessed at a high degree of market vulnerability. This is despite existing home sales starting to ease and the pandemic-induced buying frenzy dissipating during the second quarter of 2021.
- Existing home sales were still elevated relative to the number of new listings coming to market, even though moderating in the second quarter. A persistent tightness in market conditions lead us to detect evidence of overheating in Toronto.
- The demand-supply imbalance in the Toronto market for existing homes contributed to the persistence of price acceleration. Specifically, the decline in new listings in the more expensive ground-oriented segment kept market conditions tight and price growth elevated.

## Evidence of overheating is now detected

We see evidence of overheating in the GTA housing market. While the seasonally adjusted sales-to-new listings ratio (SNLR) for all housing types moved slightly lower in the second quarter of 2021, it remained persistently elevated.

Moreover, market conditions have tightened further since the second quarter, especially for ground-oriented homes, which account for most market activity in the GTA. The seasonally adjusted SNLR for this market segment was 80% in July 2021, well above the five-year historical average of 58%.

As well, condominium apartment sales have started to increase as regional reopenings resulted in workers and students returning to urban centers across the GTA looking to buy or rent, while the supply of new listings have been trending lower.

Demand has persisted in suburban markets amid the pandemic due to:

- increased prevalence of teleworking
- general desire among households to own larger homes while paying lower prices

During July 2021, the SNLRs in relatively more suburban areas of the GTA were above that of Toronto at 64%:

- 86% Durham
- 86% Halton
- 81% Peel

Demand for single-detached homes and townhouses in these markets continued to outstrip supply.

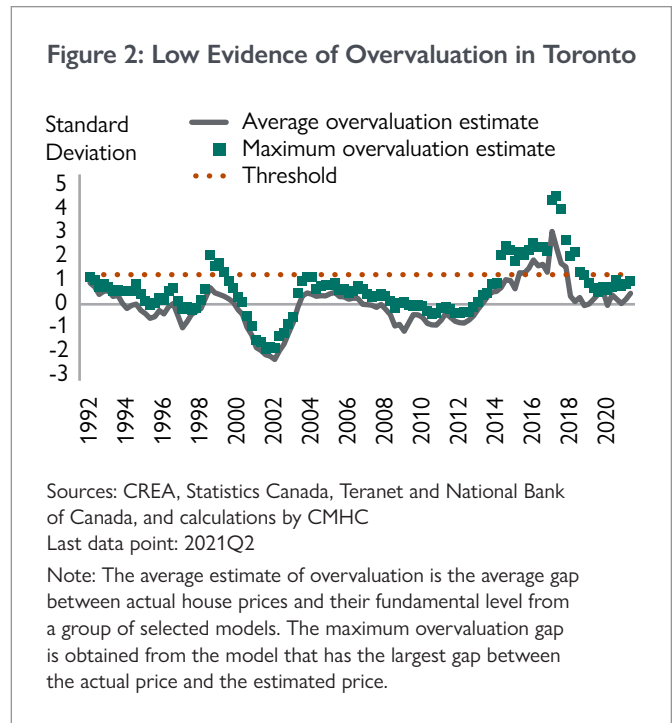
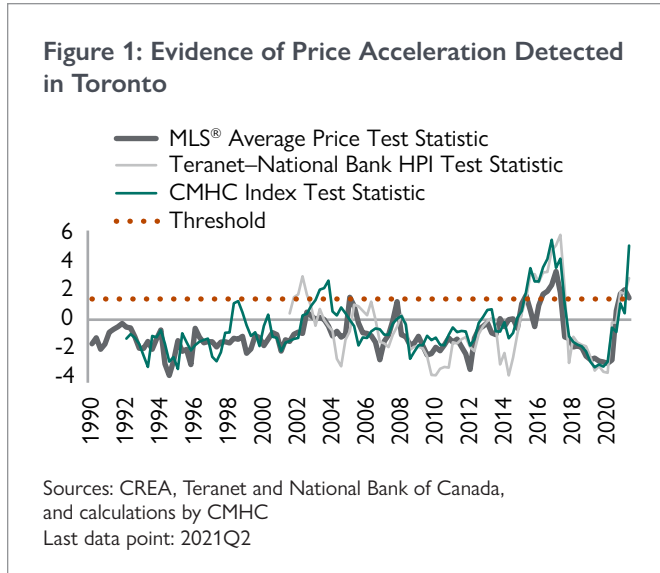
Supply constraints associated with ground-oriented homes extend to the pre-construction home market in the 905 areas as well. Inventory of unsold units has been trending lower in these areas. The average is at about 140 units per month so far this year compared to about 200 units per month in 2020.

## House prices acceleration persists

Sales growth started to ease during the second quarter of 2021 while lower trending new listings have supported persistent price growth.

All three test statistics used in our Housing Market Assessment framework were above the critical threshold set for price acceleration in the second quarter (see Figure 1). This resulted in continued evidence of price acceleration in Toronto.

Driven by tight market conditions for single-detached homes in suburban markets, average MLS® price growth was higher in places such as York, Halton and Durham regions. The City of Toronto's average MLS® price growth was less pronounced due to lower priced condominium apartments making up a larger share of sales.



## Evidence of overvaluation low

There is low evidence of overvaluation in Toronto. Employment among high-income earners was relatively strong and remained supportive of housing demand in the second quarter of 2021. High-income earners are more likely to own.

Despite low evidence of imbalances, the average overvaluation gap in Toronto was steadily increasing (Figure 2). This is because observed house price growth significantly outpaced growth in the fundamental house price level between the fourth quarter of 2020 and the second quarter of 2021.

Quite simply, the continued low interest rate environment and improvements to key local housing determinants couldn't entirely explain the very strong growth in observed house prices in Toronto.

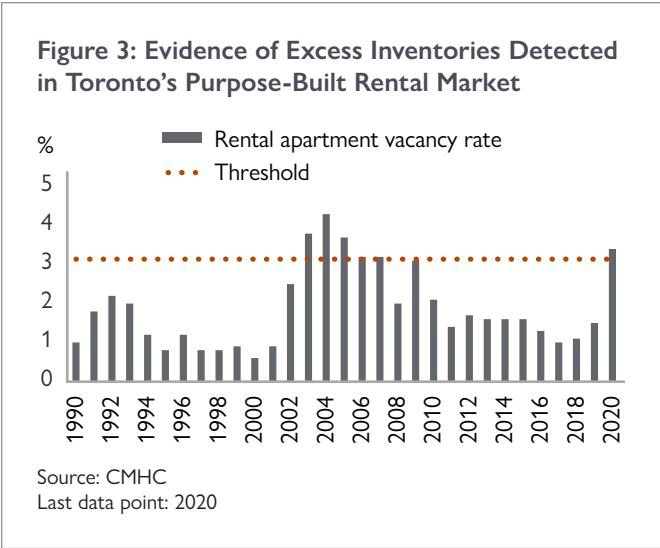
## Moderate evidence of excess inventories

We continue to detect evidence of excess inventories in the Toronto CMA housing market.

This is because the average purpose-built rental apartment vacancy rate of 3.4% exceeded its critical threshold (see Figure 3) based on our latest Rental Market Survey.

The gradual reopening of the economy and vaccine rollouts have led to job recovery and workers returning to previous places of employment. Market intelligence also indicates international post-secondary students have been returning to Toronto for the fall semester.

These returning workers and students will likely seek rental accommodation, which could place downward pressure on the vacancy rate.



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# Ottawa



Anne-Marie Shaker  
Senior Analyst, Economics

We've improved the HMA  
See what's changed.

## Results Overview

	Mar. 2021	Sep. 2021
<b>Evidence of imbalances</b>		
Overheating	▲	▲
Price Acceleration	▲	▲
Overvaluation	▲	▲
Excess Inventories	▲	▲
<b>Market Vulnerability</b>	●	●

■ Low ▲ Moderate ● High

## Highlights

- Employment recovery particularly in the public administration sector has supported the economy and the housing market.
- Sales began to trend down since April. Sellers' market conditions still prevail as inventory remains at historic lows, pressuring price growth.
- The high rental market inventory is only a temporary phenomenon, once student and immigration flows resume supply shortages may arise once more.
- Imbalances in all housing market indicators have maintained our assessment at high degree of vulnerability.

Housing market activity in Ottawa has been supported by the relative stability of public administration employment as well as a strong IT sector. Public administration employment, with almost a quarter of CMA employment, grew in 2020 as a whole and continued to grow into the second quarter of 2021.

Employment in the sector for the quarter and for July were above pre-pandemic levels.

Services sector employment has also been recovering since the start of the year. Recovery in the sector has been more sluggish than the public administration sector. We see employment still trailing 2019 levels. Employment recovery combined with low mortgage rates and people working from home has continued to support homeownership demand. It's put upward pressure on prices as supply continues to lag demand.

In the second quarter, homeownership demand remained robust even if buyer activity has been on a declining trend since April. Sales were down in July compared to the same time last year and slightly down relative to historical averages as pent-up demand is coming to a draw-down.

In July, sales declined for all dwelling types with a stronger decline for condominium apartment sales. Activity in ex-urban areas is slowing down in recent months as households who wanted to move may have already moved and activity in these areas will be capped by limited supply.

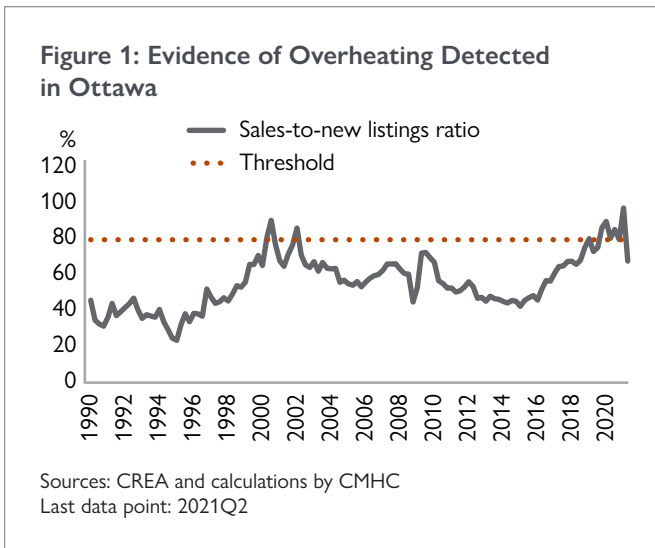
Year-to-date to July sales in Ottawa and surrounding areas still remain higher than the same time last year.

## Overheating pressures showing signs of easing

We continue to signal an imbalance between supply and demand, despite a decline in the sales-to-new listings ratio (SNLR) below the critical threshold. The housing market remains in sellers' market territory and MLS® price is still growing at double-digit rates compared to the same time last year.

The pace of price growth has been trending lower since the start of the year as sales growth moderated. The SNLR continued to decline as sales declined at a stronger rate than listings. Listings had been growing since February and declines in July.

Both freehold and condominium transactions continued to favor sellers in July and supply and demand dynamics were similar in both market segments. Active listings remain at historic lows presenting a risk of continued overheating pressures if demand strengthens again with further opening of the economy.



## Evidence of price acceleration continues

Supply levels remained at historic lows contributing to price acceleration pressures despite a stronger growth in listings compared to sales. The MLS® price has been rising at double-digit rates since the fourth quarter in 2019.

Since the onset of the pandemic, homes had been selling well above the list price due to the limited choice buyers were facing. The Ottawa Real Estate Board July news release suggested that multiple offer situations are waning. July prices declined relative to June, but still grew at double-digit rates compared to the same time last year.

## Moderate overvaluation remains a concern

Strong and rising homeownership demand since the onset of the pandemic with limited and declining supply spurred double-digit price growth.

Income growth paled in comparison growing below 1% on average in recent quarters. Consequently, the gap between the price level and the actual price level widened pointing to evidence of moderate overvaluation. This is supported by fundamentals such as population growth, employment and income growth.

Overvaluation remains a concern as these dynamics remained in July, despite the moderation in prices.

## Temporary high rental apartment inventories, but demand improving

A rise in purpose-built apartment completions coupled with COVID-19 induced reduction in demand for rental units had:

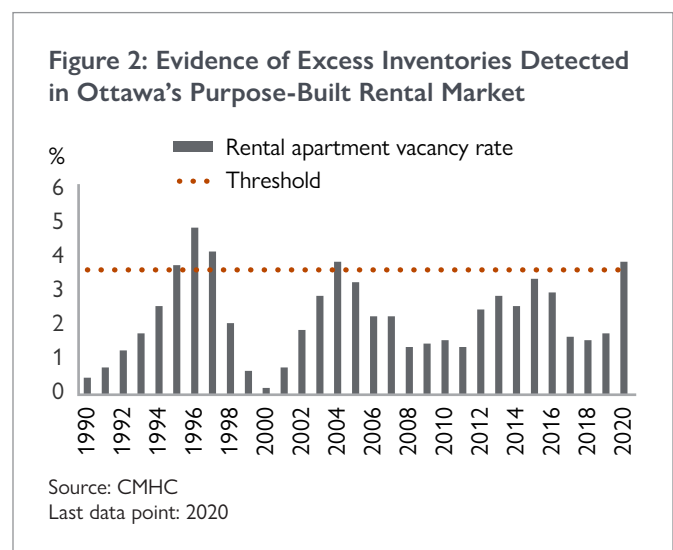
- pushed the vacancy rate higher in October 2020
- led to a rise in excess inventories of unoccupied units

We contend—as we did in our last published report—that the excess rental inventories are likely a short-term phenomenon brought on by:

- reduced immigration
- remote studying and working
- pent up demand for homeownership during the pandemic

Local intelligence suggests that although vacancies remain higher than pre-pandemic rates, demand for rental units has been improving since March. Ottawa's strong employment performance coupled with rising ownership costs have aided demand for rental units.

In the last two decades, new purpose-built rental units represent only 15% of the total rental universe highlighting the importance of more rental supply. In addition, the inventory of completed and unsold condominium apartment units remained at historic lows and sellers' market conditions prevail on the resale market pointing to low supply for these dwellings as well.



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# Montréal



We've improved the HMA  
See what's changed.

Lukas Jasmin-Tucci  
Senior Analyst, Economics

## Results Overview

	Mar. 2021	Sep. 2021
<b>Evidence of imbalances</b>		
Overheating	▲	▲
Price Acceleration	▲	▲
Overvaluation	■	▲
Excess Inventories	■	■
<b>Market Vulnerability</b>	▲	●

■ Low ▲ Moderate ● High

## Highlights

- Downward sales momentum and more properties for sale, but evidence of overheating persists.
- Prices continue to rise at an increasing rate due to persistent imbalances between supply and demand.
- Fundamentals do not justify the current price level; evidence of overvaluation is now rated as moderate.
- The market is showing evidence of overheating, price growth acceleration and overvaluation. Montréal's housing market vulnerability is shifting from moderate to high.

## The market is cooling off, but still showing evidence of overheating

In the months following the beginning of the pandemic, many households in the Greater Montréal area decided to buy a property. Many of them opted for a suburban single-family home. This allowed them to live in larger spaces during the various lockdown measures. The opportunity to work from home also facilitated the transition from the city to the suburbs. A recent Housing Market Insight for the Montréal CMA details the extent of this migration.

However, since peaking between July and September of last year, Centris® sales (seasonally adjusted data) have been declining. The pool of potential buyers in Greater Montréal seems to be shrinking. This is due to the fact that full-time workers aged 25 to 44 were relatively less affected during the pandemic. A significant number of households in this age group who wanted to acquire a home probably did so in the first few months after the pandemic began, thus reducing the number of customers currently on the market.

Although it is true that employment has increased in the Greater Montréal area since the beginning of the year, that growth has been much more significant among people aged 15 to 24. The various health measures had a particularly negative effect on labour market conditions for this group. These young households, the vast majority of whom are renters, do not make up a significant component of the demand for homeownership.

On the supply side, new Centris® listings (seasonally adjusted data) surged. We would need to go back to 2016 to see such a large number of new listings in a single quarter. Significant price increases in the market may have prompted homeowners to sell their property. For now, this increase has been limited to a single quarter. We will need to monitor it carefully over the coming months before drawing any definitive conclusions.

With sales declining and new listings on the rise, the sales-to-new listings ratio (SNLR) fell sharply, while remaining above the critical threshold. As such, evidence of overheating is still detected on the Montréal housing market. This ongoing imbalance between supply and demand has continued to exert strong upward pressure on prices.

## Evidence of price acceleration persists

Between January and June 2021, the average Centris® price grew by 25% compared to the same period the year before. In 2019 and 2020, annual price growth was lower, at 6% and 17%, respectively. In addition to Centris® data, other price indicators newly added to our analytical framework are:

- Teranet-National Bank House Price Index™
- CMHC repeat-sales index

They also point to evidence of price acceleration in Montréal's real estate market.

This upward market context could lead to more quick resales (within a year). These buyers' only goal is a quick and significant financial gain upon reselling. Such speculative purchases could therefore amplify price acceleration on the market. However, a recent *Housing Market Insight on this topic* showed that quick resales are currently not the main source of this sustained acceleration.

## Evidence of overvaluation is now moderate

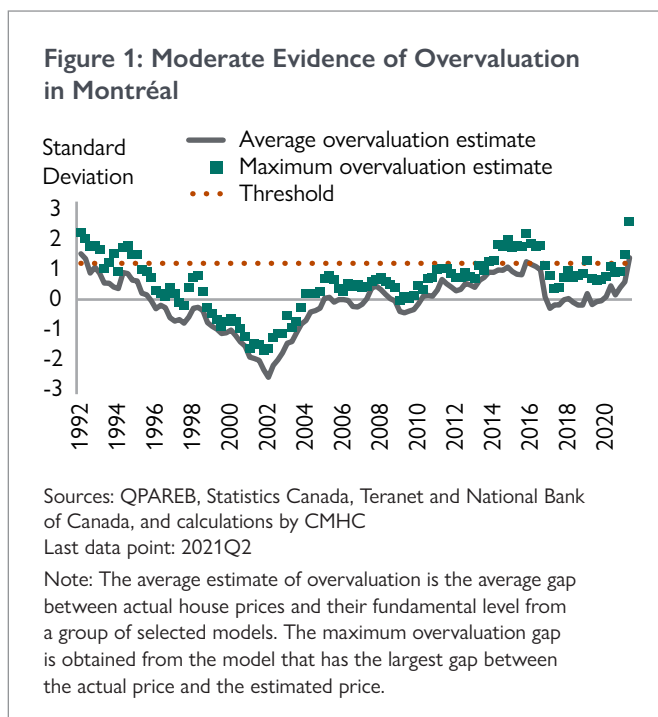
Evidence of overvaluation has shifted from low to moderate. This is due to the maximum overvaluation gap exceeding the critical threshold over the past two quarters. The average overvaluation gap exceeding this threshold in the past quarter also explains this change (see Figure 1).

This means that house prices are well above the level warranted by fundamentals (for example, personal disposable income or the population aged 25 to 34). These factors would justify much weaker price growth than real house prices, which have risen sharply. This has led to an increase in the average overvaluation estimate beyond the critical threshold. If this situation were to persist, the rating could go from moderate to high. We will be monitoring the overvaluation indicator closely over the coming months.

## Degree of vulnerability moves from moderate to high for the Montréal housing market

The overvaluation rating has increased from low to moderate. This now brings to three the number of factors that show evidence of imbalances. With evidence of overvaluation now moderate, the overall assessment rating for the Montréal housing market moves from a moderate to a high degree of vulnerability.

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# Québec



**We've improved the HMA**  
See what's changed.

**Nathan R. Lea**  
Senior Analyst, Economics

## Results Overview

	Mar. 2021	Sep. 2021
<b>Evidence of imbalances</b>		
Overheating	▲	▲
Price Acceleration	▲	■
Overvaluation	■	■
Excess Inventories	■	■
<b>Market Vulnerability</b>	■	■

■ Low ▲ Moderate ● High

## Highlights

- Demand for properties remained relatively higher than supply in the Québec market. Evidence of overheating persists.
- The degree of housing market vulnerability nevertheless remains low.
- Evidence of price acceleration has not been detected, and evidence of overvaluation and excess inventories is low.

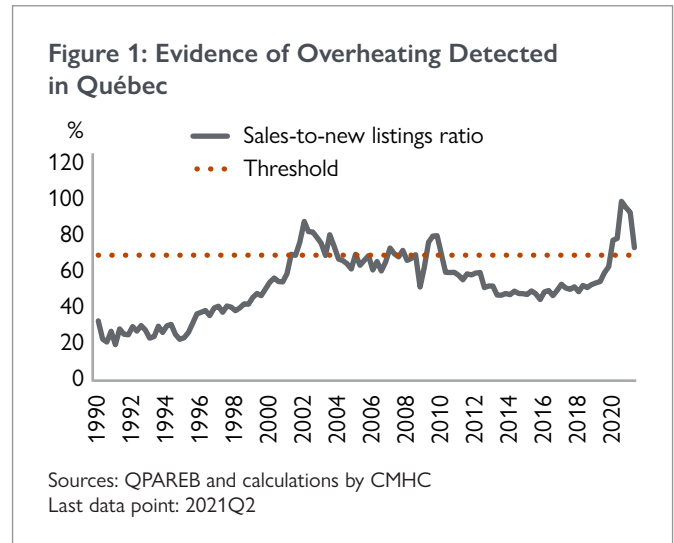
### Evidence of overheating persists

In the second quarter of 2021, market conditions favoured sellers for all housing types, including condominiums (which had been the case since the first quarter of 2021). Indeed, active listings, meaning the inventory of properties available on the resale market, were at their lowest level in nearly 11 years, evidence of the level of activity in the market.

Residential sales declined for a third consecutive quarter. They were still higher than usual for that time of year. Despite the return of lockdown measures at the beginning of the year, the regional labour market has been resilient.

Employment declined only slightly in the first two quarters of 2021, after catching up to its pre-pandemic level in the fourth quarter of 2020. In fact, employment among the 25–44 age group, which represents a pool of potential buyers, remained above its pre-pandemic level. The resilient employment market, combined with low interest rates and consumers' appetite for single-family dwellings, likely helped to support regional sales volumes.

On the supply side, new listings saw a modest rebound, the first since the third quarter of 2020. This rebound, when combined with declining sales, resulted in a significant decline in the sales-to-new listings ratio (SNLR). Demand for properties nevertheless remained relatively higher than supply in the Québec market. Evidence of overheating persists.



### Strong price growth, but not enough to suggest evidence of price acceleration

The strong demand for properties relative to supply appears to have supported stronger price growth. Indeed, the Centris® price rose 18.5% compared to last year, the strongest growth in 18 years. Still, this latest increase does not, for the moment, suggest that there are intense or persistent imbalances linked to price growth acceleration.

It should be noted that the sharp price increase observed over the last few quarters followed several years of relative price stability in the region, despite a particularly dynamic economic environment. As a result, Québec-area prices have recently been able to grow more steadily without throwing the market out of balance.

## Evidence of overvaluation remained low

The models used in our analytical framework indicate that the growth in the price level dictated by the fundamentals was lower than that of the actual price level, despite the rise in some fundamental factors, such as adjusted real personal disposable income per capita. However, in recent years, regional house prices were below the level dictated by fundamentals, so much so that the observed price level could increase without raising concerns of overvaluation. As a result, despite strong price growth, evidence of overvaluation in the Québec area remains low.

## Evidence of excess inventories remained weak

The number of completed and unsold freehold and condominium housing units per 10,000 population remains under the threshold that would indicate evidence of excess inventories. The inventory of unsold new homes, mainly semi-detached properties, reached its lowest level since 2006.

In addition, evidence of excess inventories was not detected on the rental market, either. According to the latest measure, taken in October 2020, the vacancy rate for conventional rental housing in the Québec area stood at 2.7%, which is below the critical threshold. However, there are geographical dynamics to take into account. Areas popular among students and newcomers (La Haute-Ville and Sainte-Foy–Sillery) saw an increase in their apartment vacancy rates.

While our analytical framework continued to detect evidence of overheating in the Québec CMA, the degree of vulnerability of the housing market remained low. Evidence of price acceleration was not detected, and evidence of overvaluation and excess inventories is low.



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# Moncton



**We've improved the HMA**   
See what's changed.

**Tad Mangwengwende**  
Senior Analyst, Economics

## Results Overview

<u>Evidence of imbalances</u>	Mar. 2021	Sep. 2021
Overheating	▲	▲
Price Acceleration	▲	▲
Overvaluation	●	●
Excess Inventories	■	■
<b><u>Market Vulnerability</u></b>	●	●

■ Low ▲ Moderate ● High

## Highlights

- Economic recovery continues in Moncton supported by the easing of pandemic restrictions elsewhere. This has allowed the return of jobs in tourism and value chains linked to export industries.
- House prices have continued to grow in 2021 (23% year-to-date) reflecting the underlying disconnect between the supply and demand for housing.
- Evidence of price acceleration and high evidence of overvaluation lead to a high degree of market vulnerability in Moncton.

## Overheating persists, even as new listings grow

In spite of a recent slowdown in sales activity in the Greater Moncton area, sales have remained at historical highs in 2021.

There was a strong rebound in buying activity following the easing of the first COVID-19 restrictions in the third quarter of 2020. This elevated activity has largely persisted on the back of:

- strong economic recovery
- comparatively low interest rates
- continued interprovincial migration

The easing of restrictions in foreign markets has led to boosts in exports, tourism and their associated jobs. This has further supported recovery that has been buoyed by the comparatively mild impact of the pandemic in New Brunswick.

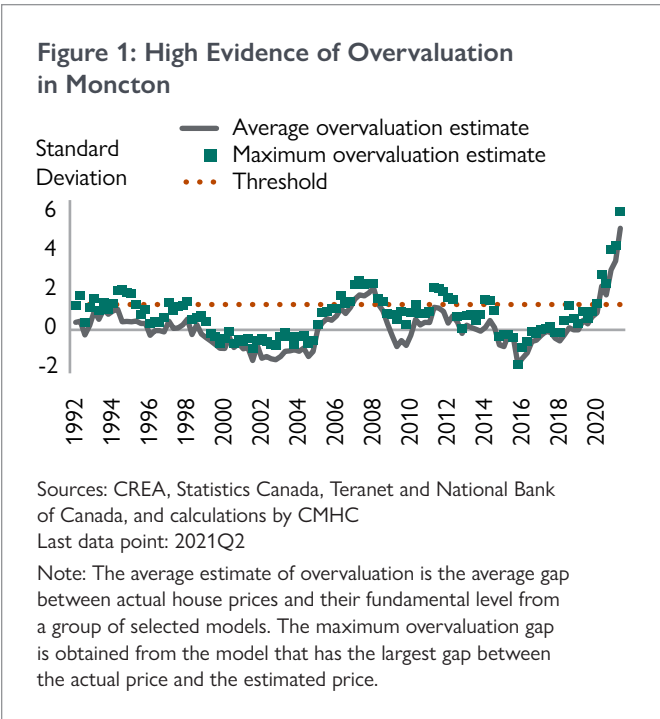
New listings struggle to keep pace with this elevated activity, even as they have also grown over the same time. Over the first two quarters of 2021, sales were up 48% and new listings grew by 35%, keeping the market above its overheating threshold.

## High evidence of overvaluation remains

There is high evidence of overvaluation in Moncton because of the widening gap between housing market fundamentals and actual home prices. Year to date average MLS® prices have risen by 23%.

Increases in critical drivers of buying activity don't fully account for the increase in house prices. These drivers include:

- population growth from migration
- low interest rates
- disposable income from transfers and job recovery



## Price acceleration detected

With evidence of overheating persisting, the pressure on prices has not abated. The July 2021 MLS® house prices were 40% higher than they were in July 2020. This represented one of the highest increases among all CMAs. Such a price increase reflects the underlying disconnect between the supply and demand for housing.

There is evidence of price acceleration detected in the Moncton market with overvaluation persisting and prices continuing to grow.

## High degree of market vulnerability in Moncton

The housing market in Moncton is assessed with a high degree of market vulnerability because of high evidence of overvaluation and evidence of price acceleration.

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As shown in the chart, both the average of the overvaluation assessments and the maximum overvaluation estimate rose further above the critical threshold. There is high evidence of overvaluation in Moncton.

# Halifax



**We've improved the HMA**  
See what's changed.

**Tad Mangwengwende**  
Senior Analyst, Economics

## Results Overview

	Mar. 2021	Sep. 2021
<b>Evidence of imbalances</b>		
Overheating	▲	▲
Price Acceleration	▲	▲
Overvaluation	▲	▲
Excess Inventories	■	■
<b>Market Vulnerability</b>	●	●

■ Low ▲ Moderate ● High

## Highlights

- Economic recovery in Halifax has continued, bolstered by relatively high vaccination rates and the opening up of local export markets.
- The housing market remains overheated. This is primarily due to elevated sales levels remaining high in the first two quarters of 2021 following their rebound in the second half of 2020.
- Moderate evidence of overvaluation is still detected in the market because observed house prices exceed the estimated fundamental housing price.

## Economic recovery continues

The economy continued to recover from the impact of COVID-19. Initially recovery was largely limited to industries that could work remotely. With relatively high vaccination rates and a greater demand for local exports from more open foreign markets, some of the hardest hit industries, like tourism and hospitality are now receiving a boost.

## Overheating persists

New listings have grown over 4% in 2021 with the economy recovering and elevated housing prices. The sales-to-new listings ratio (SNLR) remains above the threshold for overheating because of the continued strength of sales activity. MLS® sales are up 25% year to date. Continued population growth from interprovincial migration and relatively low interest rates have supported this strong sales activity.

Overheating is also reflected in the shorter number of days houses stay on the market. In January 2021, the average days on the market in the Halifax-Dartmouth area was 45 as compared to 13 days in July 2021.

The inventory of available houses in Nova Scotia was 2.2 months at the end of July 2021, a slide from 2.9 months in June 2021 and below the long run average of 7.3 months.

## Evidence of price acceleration detected

House prices increased in 2021 following on from their growth in the second half of 2020.

Year-to-date the average MLS® price of a single-family house:

- in Dartmouth has grown by 28%
- on the Halifax peninsula, by 76%

Elevated prices have been fueled by high sales activity coming against limited housing supply.

In this latest housing market assessment, we continued to see evidence of price acceleration in Halifax because price measures remain above the critical threshold.

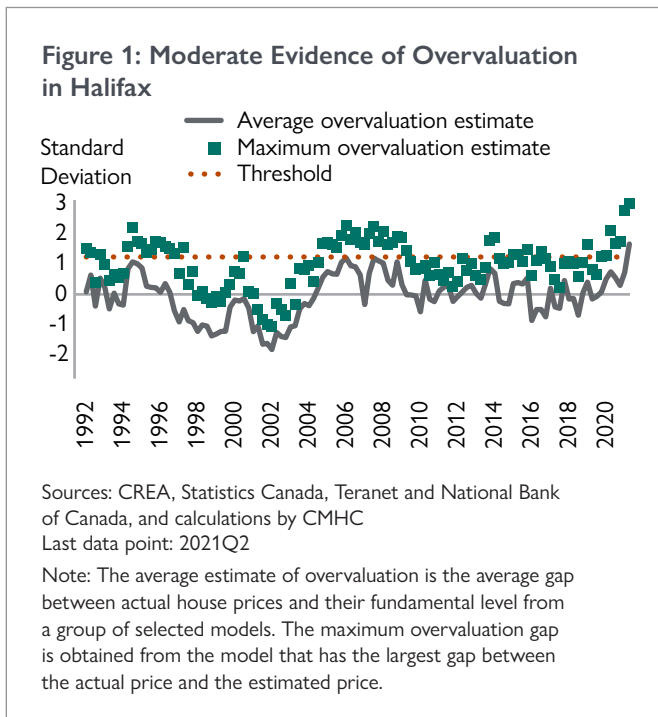
## Halifax continues to reflect evidence of overvaluation

The fundamental price supported by the population, interest rates and real disposable income is below the actual house prices. Both the average and maximum overvaluation estimates exceeded the threshold and suggest evidence of overvaluation.

## High degree of market vulnerability in Halifax

The degree of market vulnerability is high in Halifax as price acceleration exhibited evidence of imbalances, while overvaluation exhibited moderate evidence of imbalances.

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# Appendix I: HMA Analytical Framework<sup>1</sup>

The Housing Market Assessment—or HMA—reports evidence of housing market imbalances across Canada’s largest Census Metropolitan Areas (CMA) and for Canada as a whole. The more imbalances there are, the more vulnerable the housing market is to a downturn.

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.

The framework considers demographic, economic and financial determinants of the housing market. It also looks at recent developments in both resale (existing home) and residential construction markets. The analytical framework looks at four main factors for potential imbalances to assess the degree of vulnerability of the housing market:

1. **Overheating:** when demand is significantly stronger than supply in the existing home market
2. **Acceleration in house prices:** when they rise at an increasing pace over a sustained period
3. **Overvaluation of house prices:** when they differ significantly from their level consistent with housing market fundamentals
4. **Excess inventories:** when there is an unusually high level of vacant housing units

## Overheating

Overheating is caused by demand significantly and persistently outpacing the supply of housing in the resale market. The sales-to-new listings ratio (SNLR) is used as an indicator to assess possible overheating conditions. To identify evidence of overheating, the framework compares this ratio to critical thresholds.

When demand is strong relative to new supply, this creates upward pressure on house price growth. Sustained overheating conditions on the existing home market may eventually lead to price overvaluation.

## Price Acceleration

House price acceleration occurs when the growth rate in housing prices exhibits an upward trend over a sustained period. This can lead the cost of homes rising above their fundamental level, contributing to housing market vulnerability. To assess acceleration in house prices, the HMA framework uses a statistical test<sup>2</sup> that was developed to identify periods of accelerating growth in asset prices.

## Overvaluation

Overvaluation is detected when house prices remain significantly and persistently above their fundamental level. This is the level where prices should be based on personal disposable income, population and interest rates.<sup>3</sup> The HMA framework uses combinations of different house price measures and models—based on economic theory—to estimate this fundamental house price level.

The difference between observed house prices and their estimated fundamental level allows for detecting evidence of overvaluation. The use of different price measures and models improves the reliability of results.<sup>4</sup>

## Excess Inventories

Excess inventories are detected when the supply of vacant housing units significantly exceeds demand. This situation would exert downward pressures on house prices. To assess signs of excess inventories in the housing market, the HMA framework uses two indicators related to the number of readily available housing units:

1. the rental apartment vacancy rate
2. 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 their critical thresholds.

<sup>1</sup> Definitions for the technical terms reported in this section can be found in the Glossary.

<sup>2</sup> See Phillips, Wu and Yu (2008) “Explosive Behaviour in the 1990s NASDAQ: When Did Exuberance Escalate Asset Values?” for further details on the methodology.

<sup>3</sup> Other fundamental factors include mortgage-borrowing capacity of households, required minimum down payment, and labour productivity in the construction sector.

<sup>4</sup> 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).

## Assessment of market vulnerability

To obtain an accurate picture of the overall state of the housing market, it's important to consider multiple data points and lines of evidence. Each of the factors signal a degree of imbalance and the HMA framework tests for the presence of such imbalances.

Generally, modest and short-lived deviations of an indicator from its sustainable level are associated with low evidence of imbalances. As these deviations become more important and persistent, evidence of imbalances increases.

Results are summarized via a colour-coded system indicating the degree of evidence of imbalance for each factor:

- Low ■
- Moderate ▲
- High ●

The state of housing market vulnerability is obtained by examining detected imbalances. The more imbalances there are, the more vulnerable the housing market is to a downturn.

**Overheating:** Sales significantly outpace new listings in the market for existing homes.

- ▲ **Moderate:** Sales-to-new listings ratio (SNLR) lies above the threshold of overheating for at least two quarters within a year over the past three years.
- **Low:** Otherwise.

**Sustained acceleration in house prices:** Sustained increases in growth rate of real house 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 for at least one of the following price indices stands above the critical threshold of the test statistics for at least one quarter during the past year:
  - MLS® Average Price
  - Teranet–National Bank House Price Index™
  - CMHC Repeat Sales Price Index

In previous reports, only the MLS® Average Price was used to detect price acceleration.

The price acceleration detection framework now distinguishes between price acceleration episodes:

- associated with potentially rising imbalances (problematic acceleration)
- episodes justified by a catch-up to the fundamental price level, or associated with accelerated improvement in fundamentals.\*

■ **Low:** Otherwise.

\* In this case, observed price acceleration would not be detected as problematic by our modified framework.

**Overvaluation:** House prices are higher than their fundamental level, meaning the level consistent with housing market fundamentals like 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 is above the critical threshold for at least two quarters during the past year.
- **Low:** Otherwise.

**Excess Inventories:** Inventory of newly built and unsold housing units and/or rental apartment vacancy rate are significantly above normal levels.

- **High:** The inventory of newly completed and unsold units is above the threshold for at least two quarters during the past year, while the annual rental apartment vacancy rate is also above the threshold.
- ▲ **Moderate:** Either the inventory of newly completed and unsold units is above the threshold for at least two quarters during the past year or the rental apartment vacancy rate is above the threshold.
- **Low:** None of the previous conditions is present.



**Market Vulnerability:** Assess the degree of market vulnerability considering the combination of multiple factors.

- **High:** More than one factor of price acceleration, overvaluation or excess inventories exhibits moderate or high evidence of imbalances.
- ▲ **Moderate:** The rating reflects three scenarios:
  1. The overall assessment is red for the past six quarters.
  2. Only one of the factors of excess inventories or overvaluation is assessed red for at least two quarters during the past year.
  3. One factor is showing moderate evidence of imbalances and another factor lies slightly below the threshold.

■ **Low:** Otherwise.

The framework was developed based on its ability to detect vulnerable housing market conditions in historical data. 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.

The HMA's ability to detect vulnerabilities relies on the assumption that historical relationships between prices and fundamental drivers of housing markets haven't 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.

We use a model selection process where 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. This is done on a regular basis to ensure the framework remains current.

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## Appendix II: Adjusted disposable income data

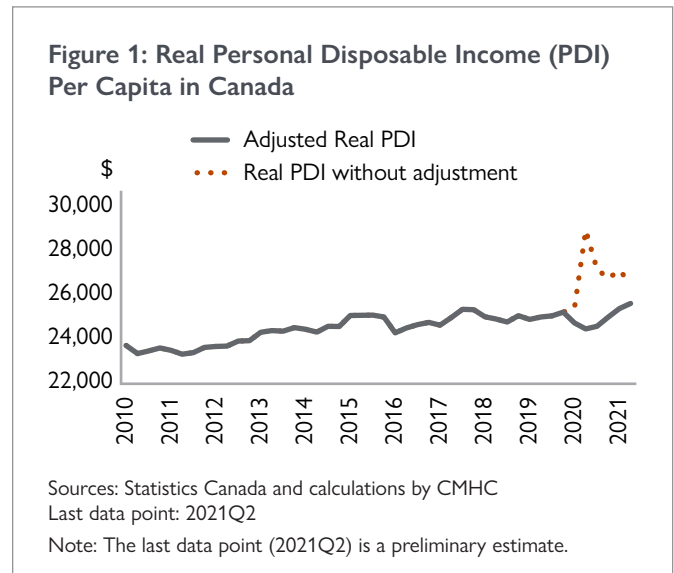
The COVID-19 pandemic has triggered atypical variations in several economic indicators. These included personal disposable income boosted by the unprecedented levels of government financial support. This resulted in a historical increase in household disposable income nationally over the first two quarters of 2020, despite the lower labour market income.

These sources of income are temporary and likely not influencing the decision of households to purchase a property and by mortgage lenders to provide the loan. Regardless of how such temporary income support was used, including them in our framework would have distorted our estimation of the fundamental housing price.

Generating results consistent with the underlying economic and labour market conditions, we adjusted the real (inflation-adjusted) personal disposable income data. This more accurately captures the long-term income available to households that forms the foundation of buying a home.

The overvaluation models in this edition were estimated. The estimate was determined after the cyclical component of the disposable income series from the first quarter of 2020 up to the second quarter of 2021 was removed. This smoothed out the sharp variations in the data from income support payments.

The dotted red line in Figure 1 shows the effect of government transfers on real personal disposable income per capita in Canada. The gray line shows the level of adjusted disposable income per capita used in this report to capture the overall financial situation of households. The income variable used in this edition is referred to as the adjusted real personal disposable income per capita.



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## Appendix III: Glossary of terms

### Balanced housing market conditions

A balanced housing market is where demand and supply for housing are equal.

They may fluctuate in any period, but from economic theory they hover around this equilibrium state in the long term.

### Critical Thresholds

Each indicator in the HMA framework is assessed against a critical threshold. The threshold is the value at which the indicator becomes excessive—or unsustainable—and reflects an imbalance.

### Fundamental house price level

The fundamental price level is the one supported by market fundamentals. It is a theoretical concept. It is the theoretical price level expected with disposable income, population and interest rates. Given that it is a theoretical concept, it must be estimated using econometric methods.

### Housing market fundamentals

Fundamental housing market determinants are identified by economic theory as affecting housing demand and supply conditions. These include demographic, economic, and financial determinants.

### Imbalances and evidence of imbalances

In the context of the HMA, an “imbalance” reflects a significant and persistent deviation of an indicator from its long-term level. Imbalances are unobserved and must be estimated (i.e. “evidence” of imbalances). The HMA uses statistical tests to assess the severity and persistence of imbalances; the results follow a three-point scale: low, moderate and high.

### Vulnerabilities and housing market vulnerability

Vulnerabilities are underlying conditions that reduce the resilience of housing, economic and financial systems to adverse events. Vulnerabilities can also amplify negative consequences from these events on those systems.

The more imbalances found and the larger they are, the more vulnerable the housing market is and the more pronounced the downturn could be following adverse events.

There is a tight connection between housing, financial and economic systems. Increases in housing market vulnerability increases financial and economic vulnerability.

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