

Canadian Housing Market Trends

Bob Dugan, Chief Economist

September 2018

Housing Market Assessment (HMA)

Degree of vulnerability
 Low Moderate High

Key Insight: For the eighth consecutive quarter, the HMA detected a high degree of vulnerability at the national level

	Overheating		Price Acceleration		Overvaluation		Overbuilding		Overall Assessment	
	Apr.18	Jul.18	Apr.18	Jul.18	Apr.18	Jul.18	Apr.18	Jul.18	Apr.18	Jul.18
Canada	Low	Low	Moderate	Moderate	Moderate	Moderate	Low	Low	High	High
Victoria	Moderate	Moderate	Moderate	Moderate	High	High	Low	Low	High	High
Vancouver	Moderate	Moderate	Moderate	Moderate	High	High	Low	Low	High	High
Edmonton	Low	Low	Low	Low	Low	Low	High	High	Moderate	Moderate
Calgary	Low	Low	Low	Low	Low	Low	High	High	Moderate	Moderate
Saskatoon	Low	Low	Low	Low	Low	Low	High	High	Moderate	Moderate
Regina	Low	Low	Low	Low	Low	Low	High	High	Moderate	Moderate
Winnipeg	Low	Low	Low	Low	Low	Moderate	Low	Low	Low	Low
Hamilton	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate	Low	Low	High	High
Toronto	Moderate	Moderate	Moderate	Moderate	High	High	Low	Low	High	High
Ottawa	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low
Montréal	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low
Québec	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low
Moncton	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low
Halifax	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low
St. John's	Low	Low	Low	Low	Low	Low	Moderate	Moderate	Low	Low

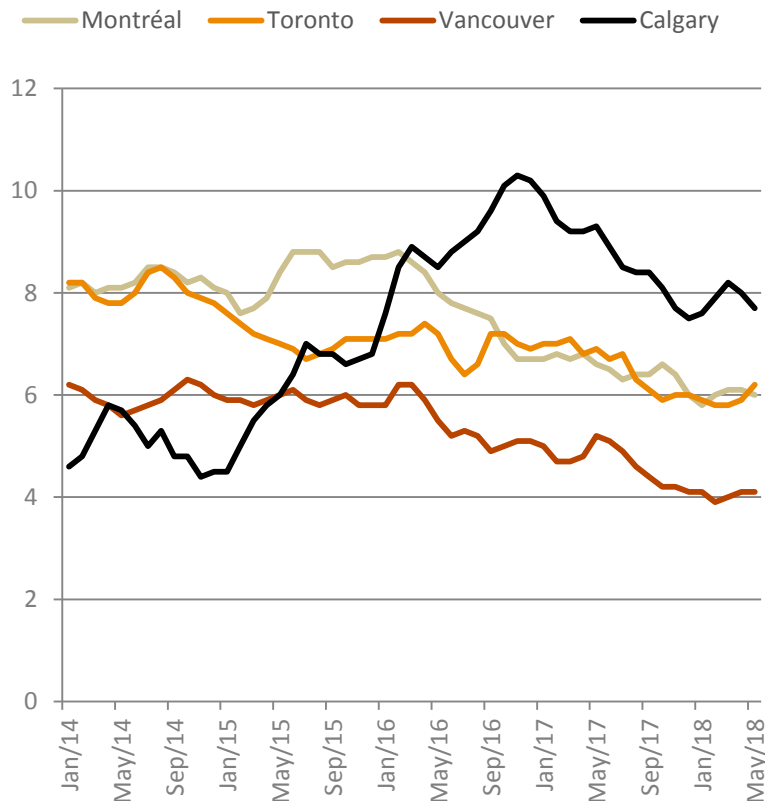
Source: CMHC, Housing Market Assessment (HMA), released July, 2018



Unemployment rate has come down sharply in Montréal

Key Insight: Stronger economic growth in Montréal is pushing home prices higher

Unemployment rate by CMA
January, 2014 to May, 2018



- While Vancouver and Toronto remain top performers, economic growth in Montréal has been strong since early 2016
- This will likely put upward pressure on house prices in the near term
- In the long term, house prices in Montréal may not increase as much since the supply response tends to be stronger than in other cities and its rental sector is larger

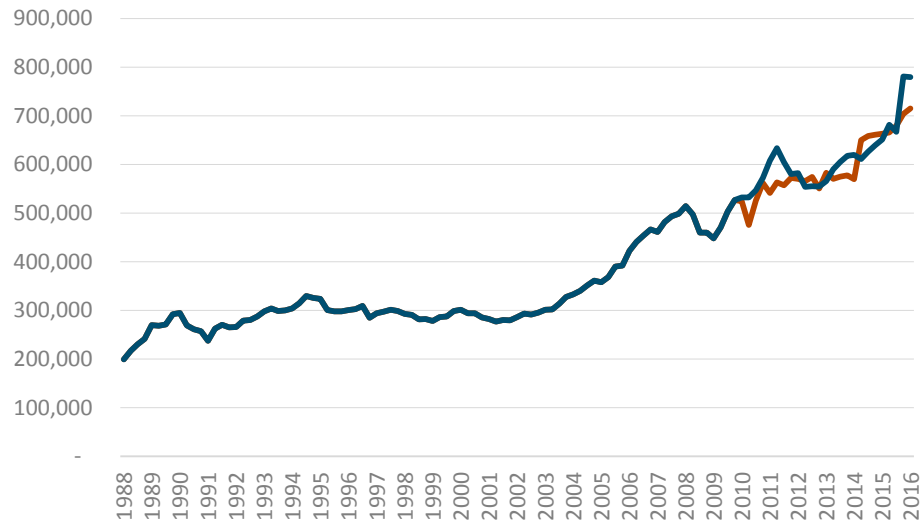
Model: Population growth, income and mortgage rates explain house price increases since 2010, but only partially

Average House Prices in Vancouver

— Predicted Prices — Actual Prices

Over the 2010-16 period, prices increased by 48 per cent in Vancouver. Approximately 75 per cent of this increase is explained by conventional factors.

Prices (\$)

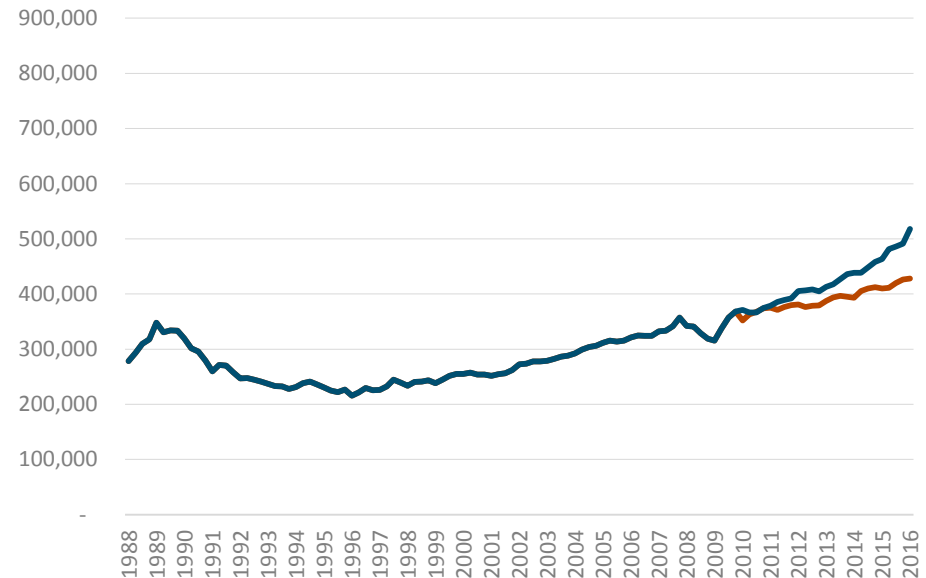


Average House Prices in Toronto

— Predicted Prices — Actual Prices

Between 2010 and 2016, prices increased by 40 per cent in Toronto. Unlike Vancouver, conventional factors explain only 40 per cent of this increase.

Prices (\$)



Note: Average prices have been adjusted for local inflation in each CMA to reflect local conditions. Sources: Actual prices from CREA MLS®; inflation from Statistics Canada; predicted prices are from CMHC calculations based on interest rates, population and income growth only.



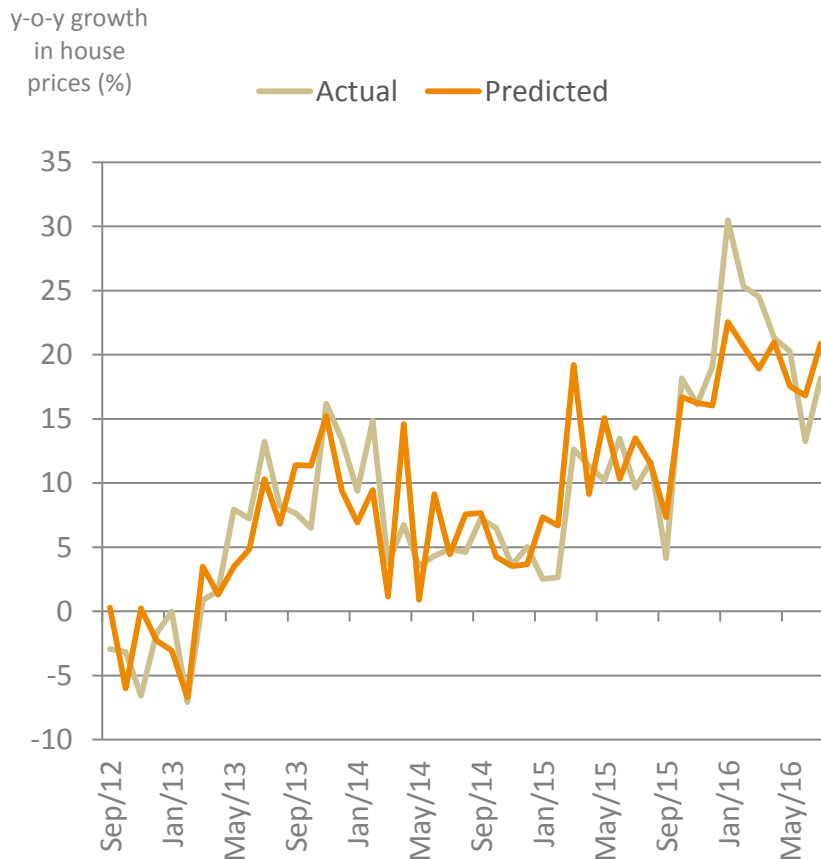
A methodology for evaluating the impact of foreign buyers' taxes on house prices in Vancouver and Toronto

Methodology:

- We evaluate the effects of Foreign Buyers' Taxes (FBT) on house prices in Vancouver and Toronto using advanced statistics
- We generate a forecasted price for Vancouver and Toronto based on what had happened in CMAs not subject to FBT. This is a statistical process, and does not explain how and why house prices have evolved over time. This process generates a price forecast for Toronto and Vancouver "as if" there was no FBT, which we call the "counterfactual"
- The estimated impact of the FBT is simply the average difference between actual growth rates of house prices and the growth rates in the counterfactual

Evaluating policy measures undertaken in BC in 2017

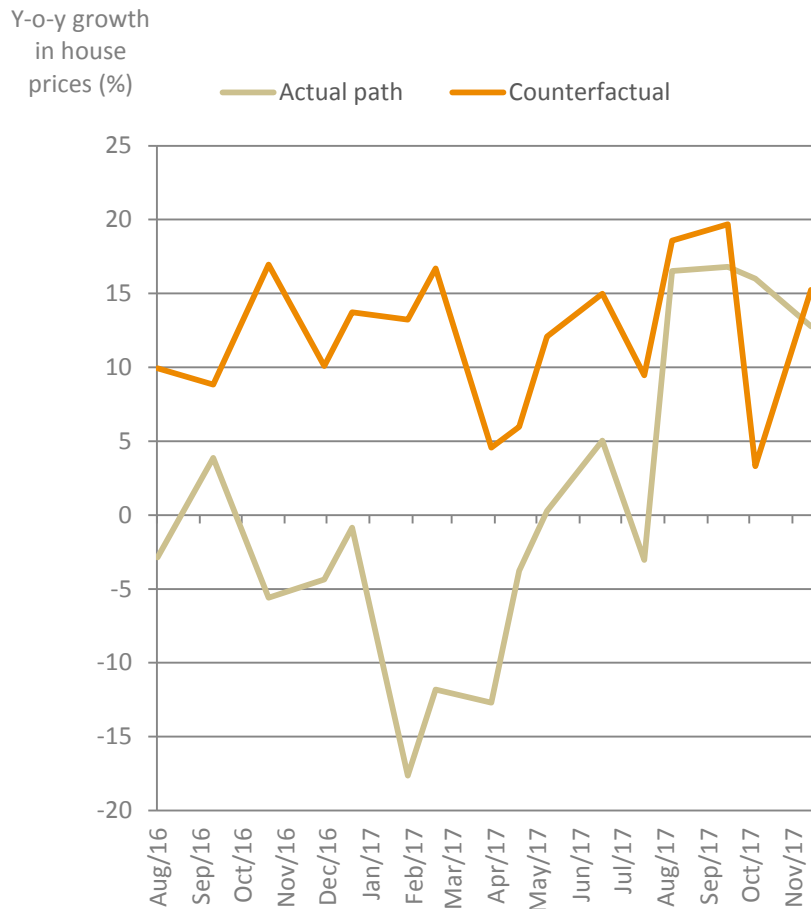
Key Insight: Estimation of predicted prices using *Synthetic Control Analysis* does a good job of replicating price changes in Vancouver prior to the implementation of the FBT.



- Our model's counterfactual estimates price growth in Vancouver based on price trends in the rest of Canada, outside of BC
- Therefore, this model would not capture any policy changes undertaken in BC
- The model performs well in capturing growth in house prices

The Vancouver FBT had a significant initial impact on house price growth, but the effect was temporary

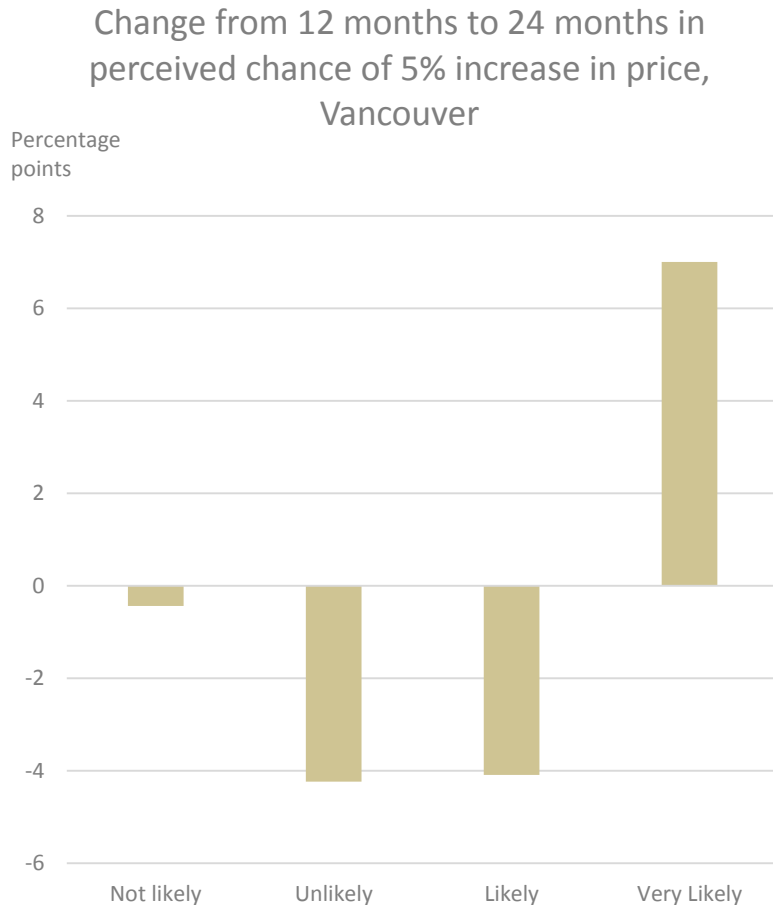
Key Insight: The model suggests that the FBT reduced the growth rate of house prices temporarily, but by November 2017 growth rates were ultimately unchanged



- With policy implementation, growth in actual prices slowed
- These changes were not reflected in the counterfactual created by our model
- After bottoming out in February 2017, the effect of the policy started to wear off with the convergence of predicted and actual prices
- This suggests that the effect of the policy was temporary

New homebuyers feel that prices will recover in 2018

Key Insight: Our survey of homebuyers suggests confidence in renewed house price growth in Vancouver over the medium term



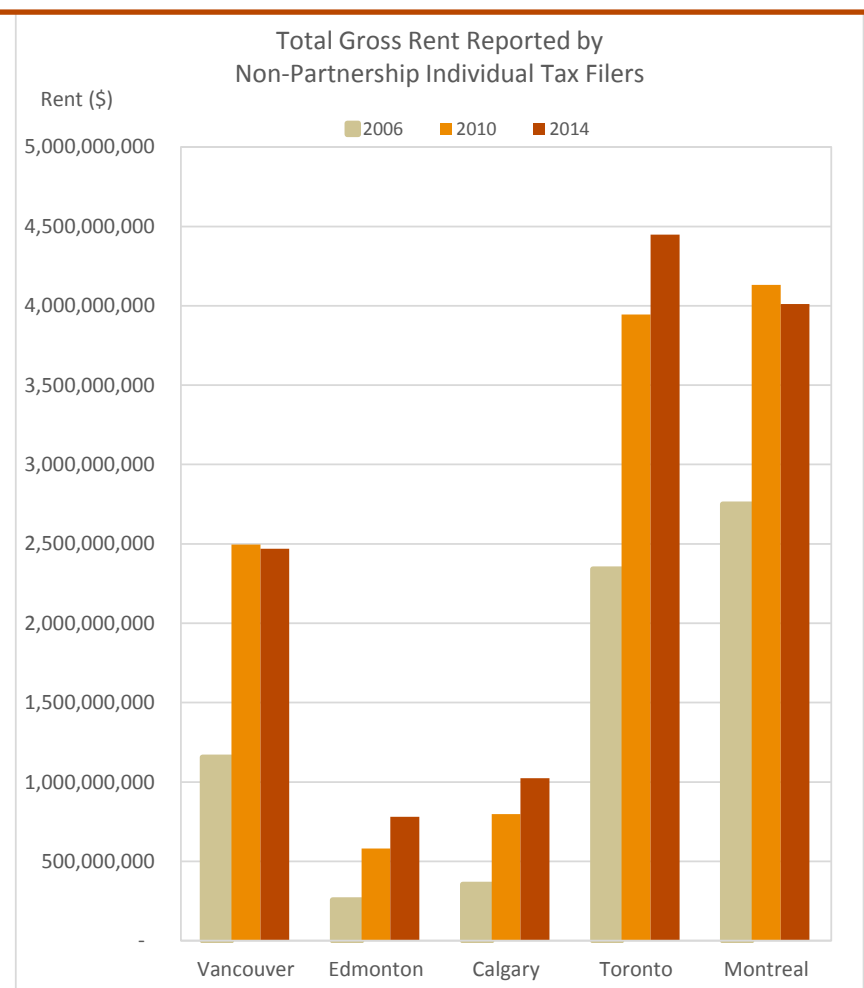
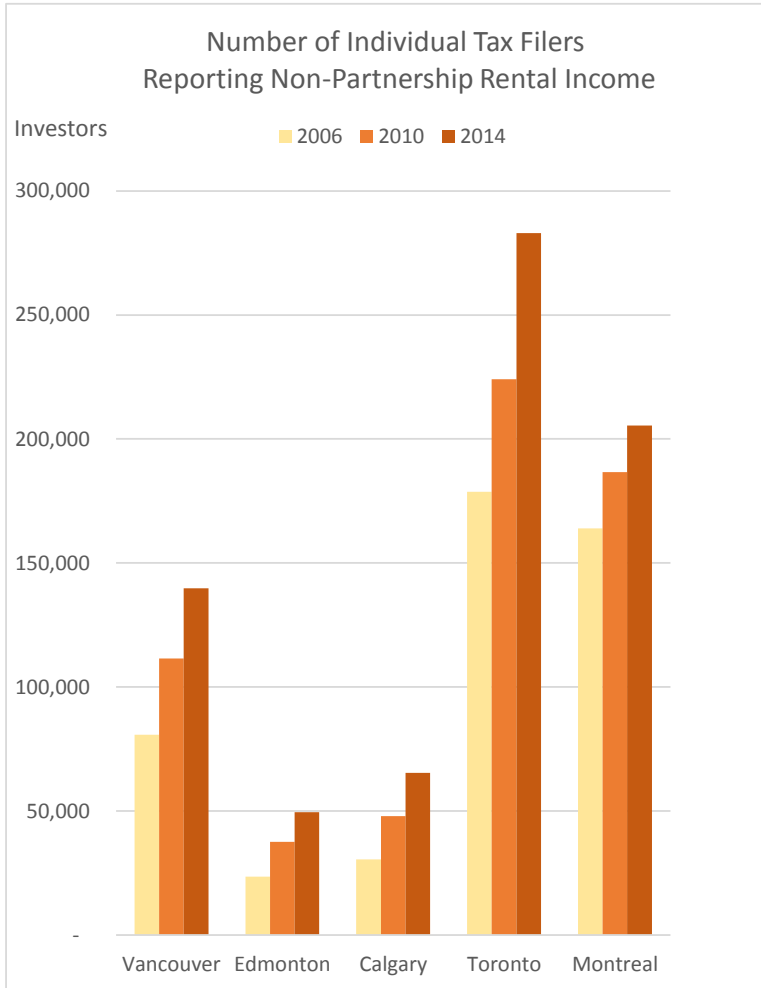
- We surveyed new homebuyers on their expectations of future house price changes
- While optimistic about Vancouver home prices in 2017, respondents were even more confident of price increases of at least 5% in 2018-19
- Again, this suggests that survey respondents felt that policy actions were likely to have temporary effects in 2017-2018

Note: Survey was conducted in fall of 2018. Source: CMHC



Investor data from Canada Revenue Agency (CRA)

Key Insight: CRA data confirms a sharp increase in smaller investors reporting rental income



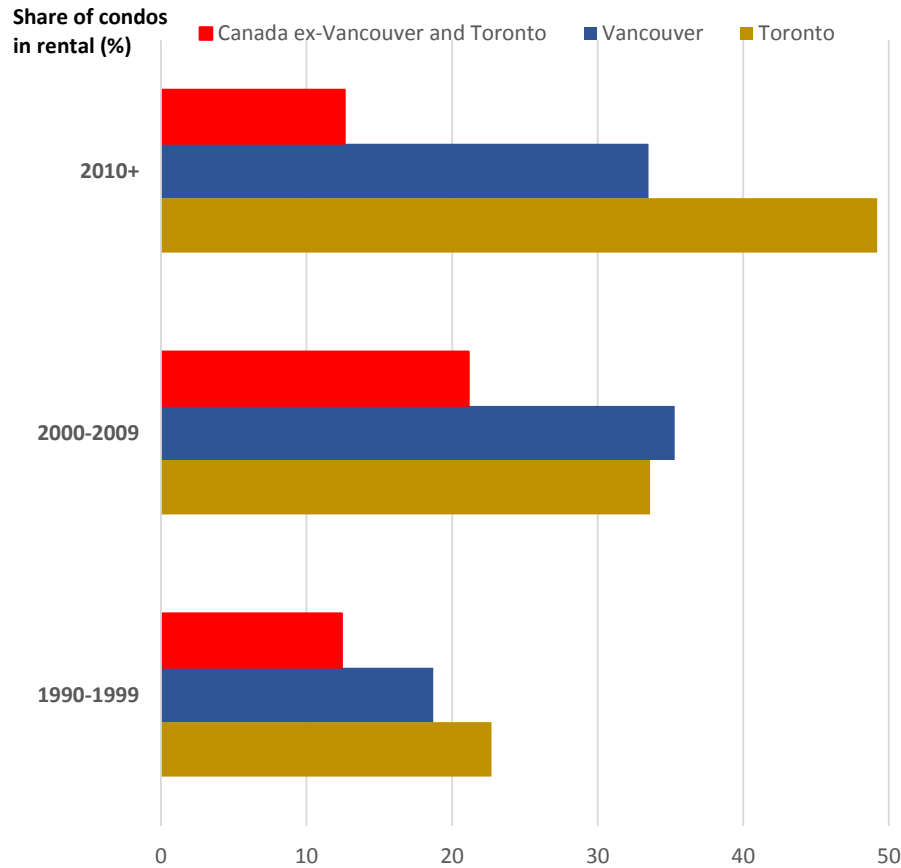
Source: CMHC analysis of Canada Revenue Agency data (via Statistics Canada)



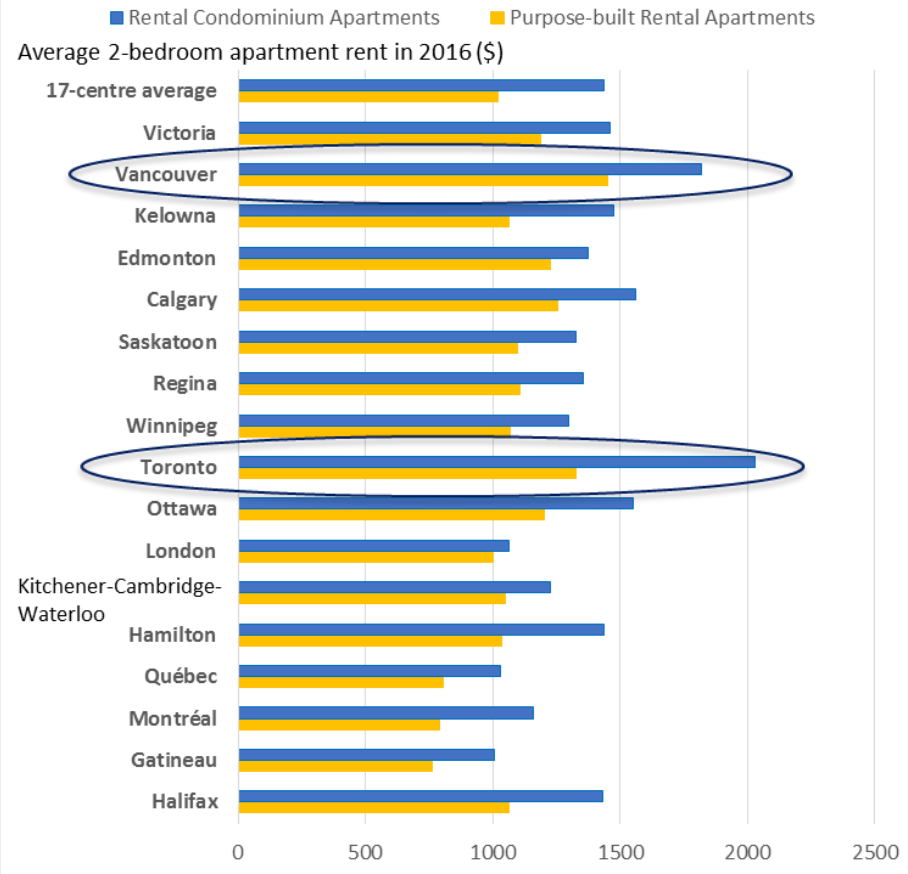
Investor demand for condos are an important source of rental supply

Key Insight: Higher-than-average rents from condos reflect strong demand for newer built rental units

Newer condominiums are likeliest to be rented out in Vancouver and Toronto



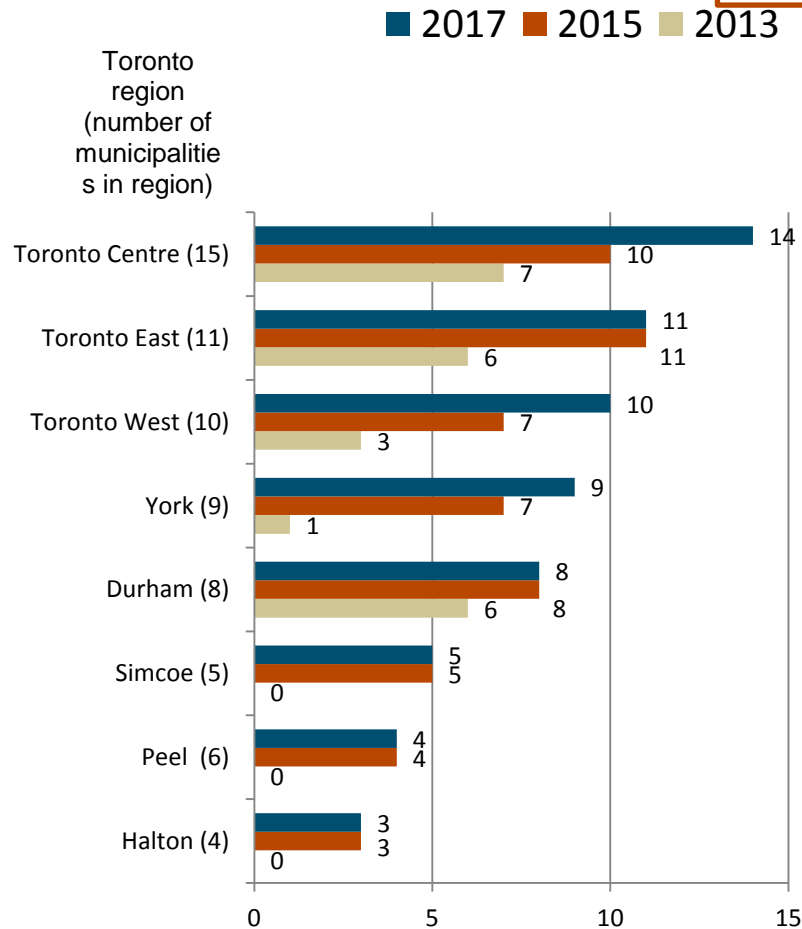
Rental condo apartments have higher average rents than purpose-built rental apartments



Source: CMHC Rental Market Survey and Starts and Completions Survey

Price acceleration suggests speculative activity has spread across GTA municipalities

Key Insight: Price acceleration is detected in every region within the GTA



- Price acceleration is a metric in our Housing Market Assessment to detect speculation or exuberant homebuyer expectations of future price increases
- Price acceleration is detected in every region within the GTA
 - A deeper dive shows that price acceleration was evident in 64 of the 68 municipalities that comprise the GTA

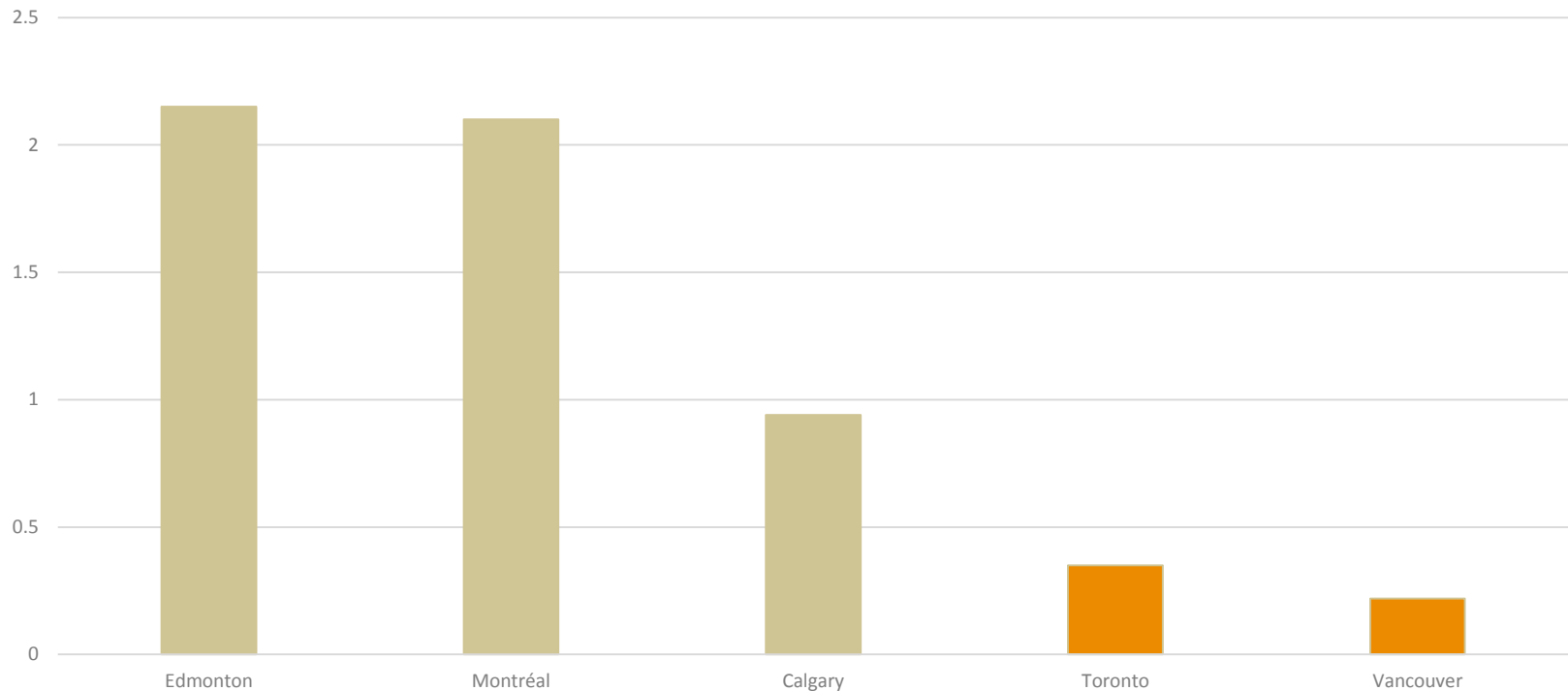
Source: CMHC, Housing Market Assessment



Supply constraints are important factors behind house price growth in Vancouver and Toronto

Supply Response to Price Increases in Canada's Largest Metropolitan Centres

% change in housing stock due to
% change in MLS® prices

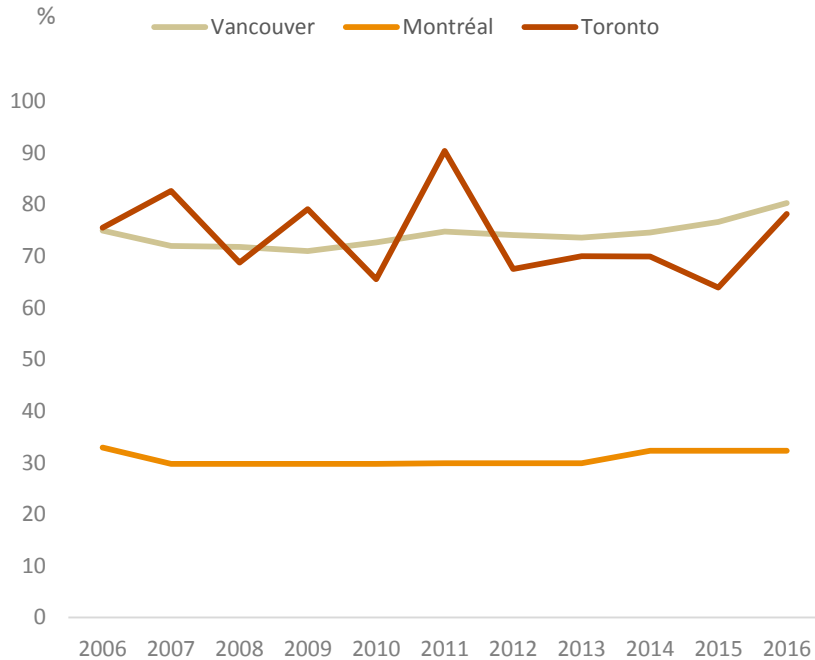


Sources: CMHC based on data from Statistics Canada, the Conference Board of Canada, CREA and CMHC. SUR timer series simultaneously estimates the model by CMA.

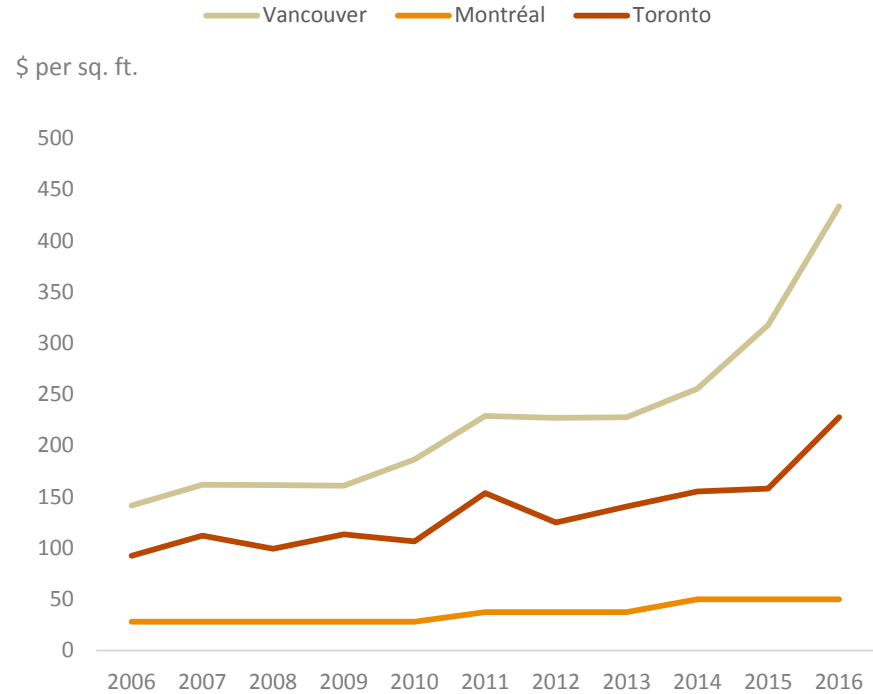


Land supply constraints will likely continue to push house prices higher in Vancouver and Toronto

Land Prices as a Percentage of Total House Prices



Land Prices per Square Feet



Source: JRL, Landcor, MPAC calculations by CMHC

Notes: 1. Montréal residential land prices are assessed every 3 years since 2000

2. Toronto land prices are CMHC estimates based on MPAC sales and characteristics data



Regulatory constraints and rising house prices

Key Insight: Regulatory factors do a better job explaining the gap (forecast error) between actual and estimated house prices than speculation and investor demand

- Our model showed that conventional economic factors (such as interest rates, disposable income and population growth) do not fully explain the increase in house prices over the 2010-16 period.
- To explain the portion of house price increases not accounted for by fundamentals, we have introduced a measure of government regulation produced by the Fraser Institute.
- In general, we found the regulatory measure to be more correlated with price increases than other commonly cited demand factors.
- Estimates of geographic constraints are not included in this table as they tend to be highly correlated with measures of regulation.

Unique economic and amenity factors for each metropolitan area	35.6%
Regulatory constraints	29.6%
Speculation	3.7%
Economic shocks	1.6%
Investor demand	1.6%
Total forecast error explained by the above factors	72.1%

Conclusions from CMHC's study of the causes of escalating home prices

Key Insight: Supply side constraints mean that strengthening demand will be met by expectations of further appreciation rather than a supply response that brings prices down from their recent highs

- The report focuses on the 2010-2016 period prior to the imposition of policies by provincial governments, but historical data are largely used.
- Demand side:
 - Patterns of economic and population growth, together with lower mortgage rates, explain a substantial part of price changes in Canadian cities, but not fully.
 - Demand could also be driven by rising income, wealth inequality, and economic growth.
- Supply side:
 - The supply response of new housing in Toronto and Vancouver was weaker than might have been expected, given the upsurge in demand.
 - This in part reflects a greater tendency toward the supply of condominium apartments rather than single-detached homes, particularly in pricier cities.
 - Geographic and regulatory constraints do a better job explaining rising house prices than speculation and investor demand.