

Background

CMHC's HPAA framework is designed to detect the presence of problematic conditions in Canadian housing markets. The HPAA framework assesses housing market conditions and considers the incidence, intensity and persistence of four main risk factors:




































- 1) **Overheating of demand in the housing market**, wherein demand significantly outpaces supply.
- 2) **Acceleration in the growth rate of house prices**, which could be partially reflective of speculative activity.
- 3) **Overvaluation in the level house prices** which could be partly reflective of speculative activity.
- 4) **Overbuilding of the housing market**, which suggests that supply significantly outpaces demand.

Each of these risk factors is measured using one or more indicators of housing demand, supply and/or price conditions. Table 1 illustrates market trends that support the detected level of risk in particular Canadian housing markets. Table 2 outlines the results from the previous release in April 2015 and the current August release.

Table 1: Overall housing market assessment for Canada's larger centres

	Overall Assessment	Commentary	Risk Factors			
			Overheating	Acceleration in house prices	Overvaluation	Overbuilding
National overview	●	Low Risk – At the national level, modest overvaluation is observed, meaning house prices are slightly higher than levels consistent with personal disposable income, population growth and other factors. Completed and unsold units have trended higher, driven by the multi-unit segment. The inventory is above its historical average. Among other factors, inventory management by builders is expected to restrain the pace of new home construction over the forecast horizon. Overheating and acceleration in house prices are not a concern at this time.	↔	↔	↔	↑
Vancouver	●	Low Risk – Resale market conditions remain balanced, keeping price growth in check. Despite high Vancouver home prices, demand for housing across the price spectrum is supported by a growing population and growth in personal disposable income as well as by the limited supply of land. First-time home buyers focus on lower-priced options in suburban locales, whereas at the high end of the price spectrum, demand is supported by high net-worth residents or repeat buyers with significant equity in their homes.	↔	↔	↔	↔

Victoria	●	Low Risk – While the pace of existing home sales trended higher in the first quarter of 2015, the supply of homes for sale has kept market conditions balanced. Home price growth has been moderate so far in 2015 and is being supported by population growth. Moreover, a wide range of housing types provides choice for home buyers at all price points.	↔	↔	↔	↔
Calgary	●	Low Risk – Over the last year, the rise in house prices outpaced the gain in personal disposable income, thus contributing to a moderate risk of overvaluation. The low price of oil has impacted many different sectors of the economy, affecting employment and income growth, and increasing the unemployment rate. Weaker labour market conditions have also slowed migration to the region.	↓	↔	↑	↔
Edmonton	●	Low Risk – The risk of overvaluation remains low despite growth in house prices that has exceeded gains in disposable income. The labour market has been impacted by lower oil prices, slowing down employment growth, limiting income gains, and pushing up the unemployment rate. Population growth has also slowed down, as fewer migrants have moved to Edmonton.	↓	↔	↑	↔
Saskatoon	●	Low Risk – While buyers’ market conditions have put downward pressure on house prices, even slower growth in personal disposable income caused the risk of overvaluation to edge higher, though it remains low nonetheless. The moderate risk of overbuilding reflects a historically high number of completed and unsold units relative to population. While units under construction have started to move lower, the risk is that inventory will move higher in the months ahead as more units are completed.	↓	↔	↑	↑
Regina	●	High Risk – Buyers’ market conditions over the past several months have contributed to downward pressure on prices. The model assesses a modest risk of price acceleration although, if the current downward trend in house prices persists, this risk will be removed by the end of the year. With declining prices, the risk of overvaluation has improved from high to moderate. Overvaluation continues to reflect house prices that are high relative to personal disposable income. The risk of overbuilding reflects a higher number of completed and unsold condominium apartment units relative to population, which remains near the historical peak despite the pull back in housing starts.	↓	↓	↔	↑
Winnipeg	●	High Risk – The risk of overvaluation has moderated since the last assessment. Recent balanced market conditions have resulted in modest price increases. The risk of overvaluation continues to reflect relatively more modest gains in income than in house prices. Also, the number of units under construction and the number of completed and unsold units are high. The risk of a continued rise in inventory is more pronounced in the multi-family sector where builders will likely proceed with projects in the planning stages over the next year.	↓	↔	↔	↑
Toronto	●	High Risk – Strong price acceleration in 2015 reflects a larger share of sales of pricier homes. The rise in house prices has not been matched by growth in personal disposable income, giving rise to a modest risk of overvaluation. The number of completed and unsold units has risen significantly from the last quarter and is now above its historical average. However, the number of condominium apartment units under construction has slowed due to rising completions. Also, condominium resale and rental markets remain tight suggesting unsold inventories could be steadily absorbed provided that builders manage inventories well.	↔	↔	↑	↑

Hamilton		Low Risk – Strong house price growth so far in 2015 was the result of a compositional shift in favour of single-detached dwellings. The limited supply of single-detached homes in established locations in the Greater Toronto Area resulted in higher prices which in turn encouraged some buyers to move to Hamilton. This migration pattern contributed to strong demand of existing homes causing a modest risk of overheating. Stronger price growth was met with softer employment conditions. Nevertheless, the overvaluation risk remains low.				
Ottawa		Low Risk – Despite moderation in house price growth, the risk of overvaluation reflects the combination of strong growth in house prices in the last few years and modest gains in personal disposable income. While the number of units under construction declined from last year's peak, the number of completed and unsold apartment units rose. Builders need to keep managing inventories to make sure that the condominium units under construction do not remain unsold upon completion. Nonetheless, demand for condominium rental accommodation remains strong and the unsold inventory should be steadily absorbed through the year.				
Montréal		Moderate Risk – The risk of overvaluation reflects slower growth in first time home buyer demand combined with relatively modest growth in personal disposable income. Condominium units completed and unsold have risen significantly over the past two years. Inventory management is necessary to make sure that the currently elevated number of condominium units under construction does not remain unsold upon completion.				
Québec		Moderate Risk – The risk of overvaluation reflects slower growth in first time home buyer demand since 2012 combined with relatively modest growth in personal disposable income. After reaching a peak in 2013, completed and unsold condominiums are increasingly being absorbed in the market. Nonetheless, the inventory of condominiums on the resale market remains high.				
Moncton		Low Risk – Due to a relatively high vacancy rate for the past two years and continued apartment construction the risk of overbuilding remains moderate. Demand conditions remain weak as population and employment growth have not improved significantly over the past year. A recent decline in inventory has occurred as building activity has slowed for both multiples and singles.				
Halifax		Low Risk – Despite moderation in house price growth, prices have experienced stronger gains than population and personal disposable income. However, conditions may improve as population growth began to rise late last year and employment conditions have improved so far in 2015. The number of completed and unsold units continues to pull back from a recent peak noted in 2014. Although vacancy rates have risen recently due to high levels of building activity the risk of overbuilding remains low.				
St. John's		Low Risk – House prices accelerated in 2012-2013 but have recently moderated. The model assesses a modest risk of price acceleration although, if the current downward trend in house prices persists, this risk will be removed by the end of the year. Overbuilding remains a low but increasing risk as the number of completed and unsold units is elevated. There is also some downside risk to current housing conditions as a result of lower oil prices.				

Level of risk
 Low risk

Direction of risk from the last assessments
 Stable, unchanged

	Moderate risk	↑	Increased
	High risk	↓	Decreased

Note 1: Colour codes indicate the level of risk: The HPAA does not only test for the presence or incidence of signals of potentially problematic conditions, but also considers the intensity of signals (that is, how far the signal is from its historical average) and the persistence of signals over time.

Generally, low intensity and persistence are associated with a lower potential of evolving into a problematic condition. As the number of persistent signals increases, the associated risk of a problematic condition developing increases.

Note 2: Arrows indicate the direction of risk since the last assessments: The HPAA is updated quarterly, as new data becomes available. As a result, we are able to monitor the direction in which risks are moving or if they are stable. Also, local market analysts provide insight based on their local market intelligence that can influence the direction of risk.

For example, in the chart above, upward pointing green arrows are used to indicate that the risk has increased since the last evaluation, but the risk of problematic conditions arising remains low, nonetheless. An arrow that points downward, on the other hand, is used to indicate that the risk has lessened since the last evaluation. For example, a downward pointing red arrow indicates that risks remain elevated, but have nonetheless decreased since the last evaluation. A sideways pointing arrow indicates that the risk has not changed significantly since the previous evaluation.

Note 3: Results at the CMA level are not segmented by housing type or neighbourhood. They represent an assessment of the entire CMA.

Note 4: The colour scale extends to red only for those risk factors that have multiple indicators signaling significant incidence, intensity and persistence of potentially problematic conditions. As a result, only overvaluation and overbuilding can receive a red rating, since they are assessed using more than one indicator.

Table 2: Comparisons between April and August 2015

	Overheating		Price Acceleration		Overvaluation		Overbuilding		Overall Assessment	
	Previous	Current	Previous	Current	Previous	Current	Previous	Current	Previous	Current
Canada	Low	Low	Low	Low	Moderate	Moderate	Low	Low	Low	Low
Vancouver	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low
Calgary	Low	Low	Low	Low	Moderate	Moderate	Low	Low	Low	Low
Edmonton	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low
Saskatoon	Low	Low	Low	Low	Low	Low	Moderate	Moderate	Low	Low
Regina	Low	Low	Moderate	Moderate	High	Moderate	Moderate	Moderate	High	High
Winnipeg	Low	Low	Low	Low	High	Moderate	Moderate	Moderate	High	High
Toronto	Low	Low	Low	Moderate	Moderate	Moderate	Low	Low	Moderate	High
Ottawa	Low	Low	Low	Low	Moderate	Moderate	Low	Low	Low	Low
Montréal	Low	Low	Low	Low	Moderate	Moderate	Low	Low	Moderate	Moderate
Québec	Low	Low	Low	Low	High	High	Low	Low	Moderate	Moderate
Halifax	Low	Low	Low	Low	Moderate	Moderate	Low	Low	Low	Low
St. John's	Low	Low	Moderate	Moderate	Low	Low	Low	Low	Low	Low

Risk Level

Low
 Moderate
 High