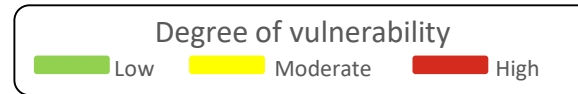


# Canadian Housing – What's going on across Canada

Aled ab Iorwerth, Deputy Chief Economist  
October 2018

# Housing Market Assessment (HMA)



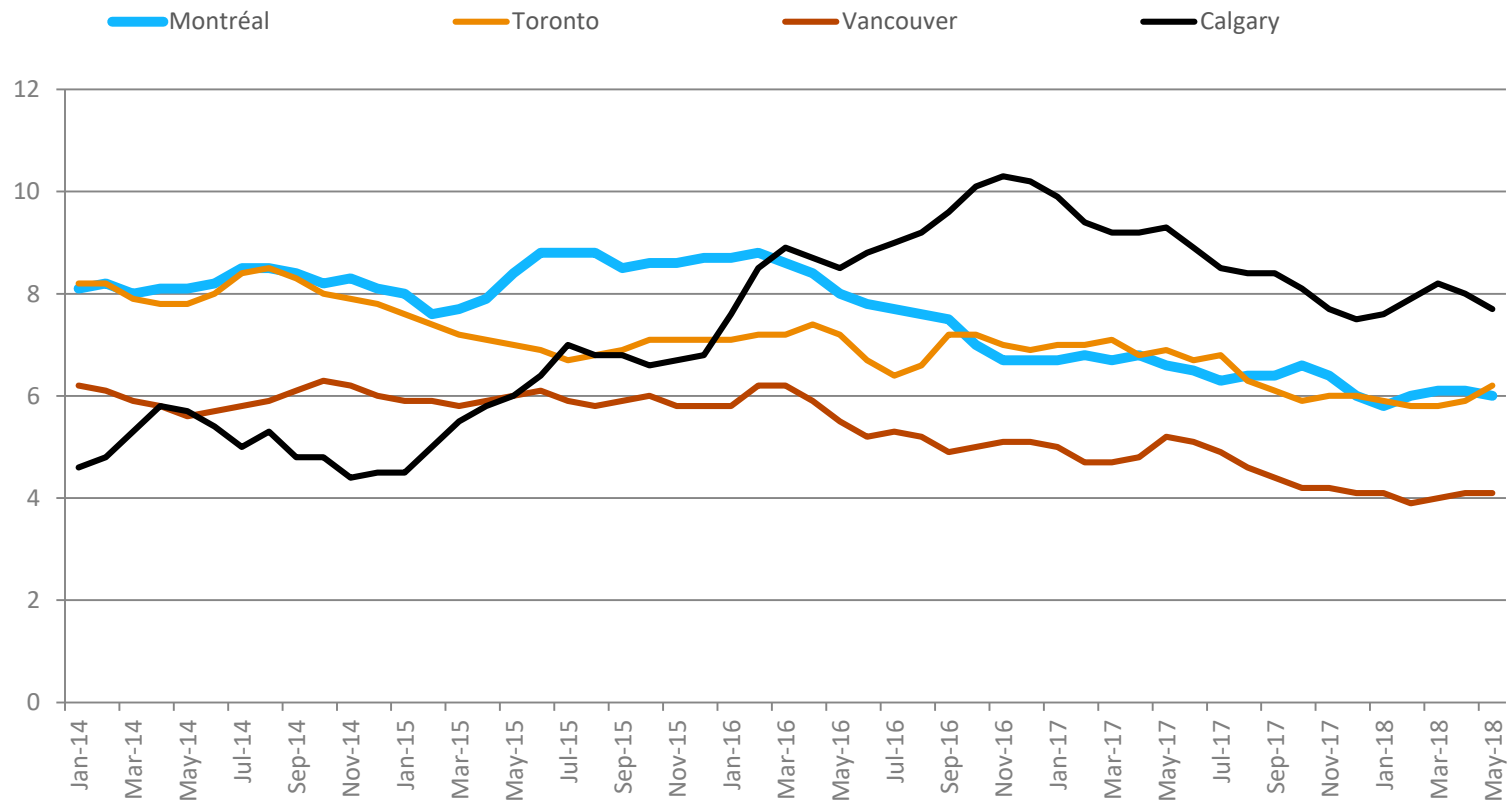
	Overheating		Price Acceleration		Overvaluation		Overbuilding		Overall Assessment	
	Apr.18	Jul.18	Apr.18	Jul.18	Apr.18	Jul.18	Apr.18	Jul.18	Apr.18	Jul.18
Canada	Low	Low	Moderate	Moderate	Moderate	Moderate	Low	Low	High	High
Victoria	Moderate	Moderate	Moderate	Moderate	High	High	Low	Low	High	High
Vancouver	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

## Unemployment rate by CMA, January, 2014 to May, 2018



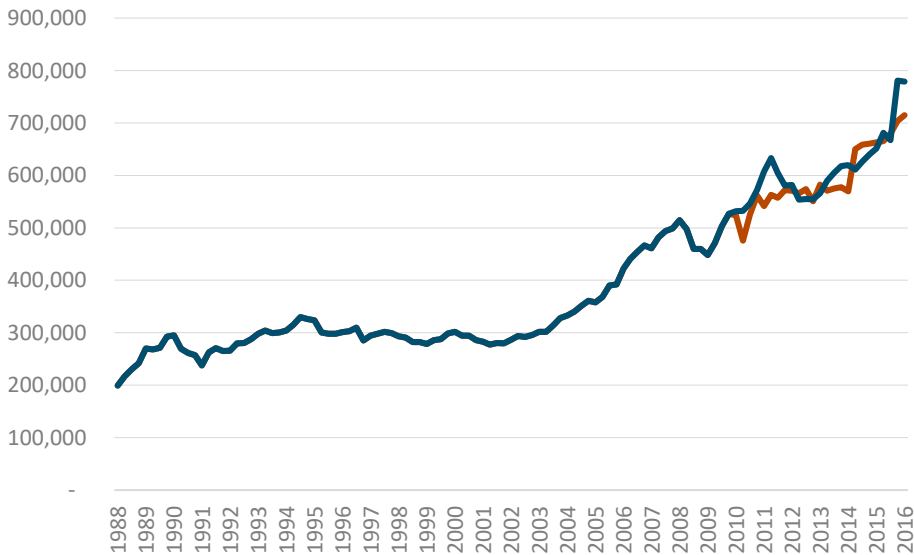
# Population growth, income and mortgage rates drove house price demand from 2010 onwards

## 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 (\$)

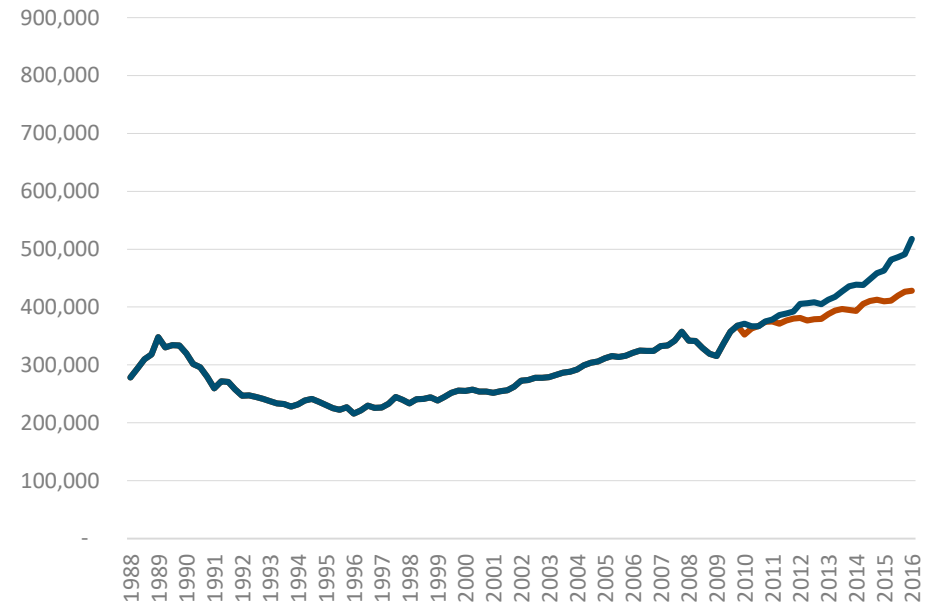


## Average House Prices in Toronto

— 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 (\$)

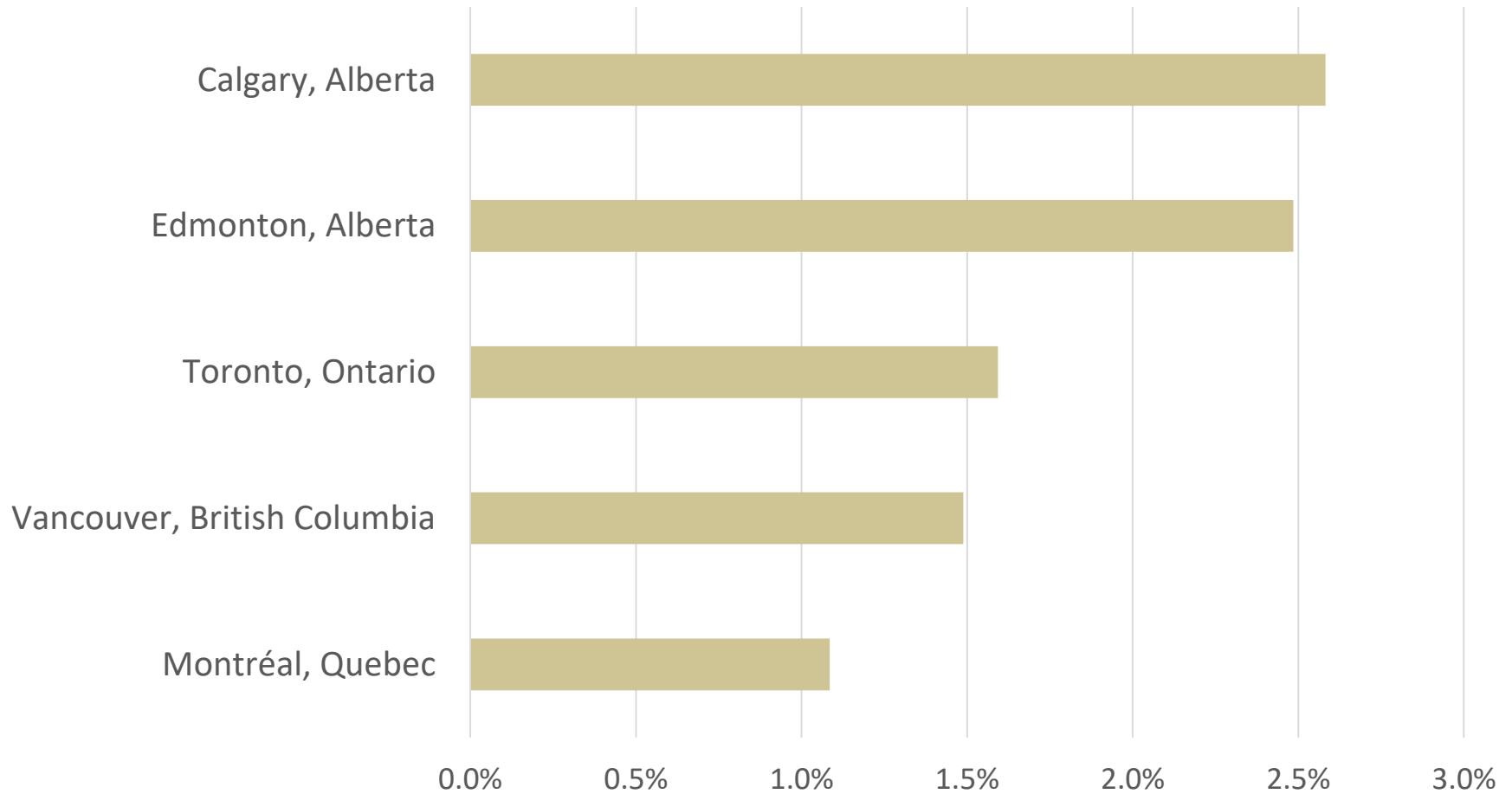


Note: Average prices have been adjusted for local inflation in each CMA to reflect local conditions. Sources: Actual prices from CREA MLS®; inflation from Statistics Canada; predicted prices are from CMHC calculations based on interest rates, population and income growth only.



# Population growth and immigration are key drivers of housing demand...

Average annual growth in population, 2007-2017

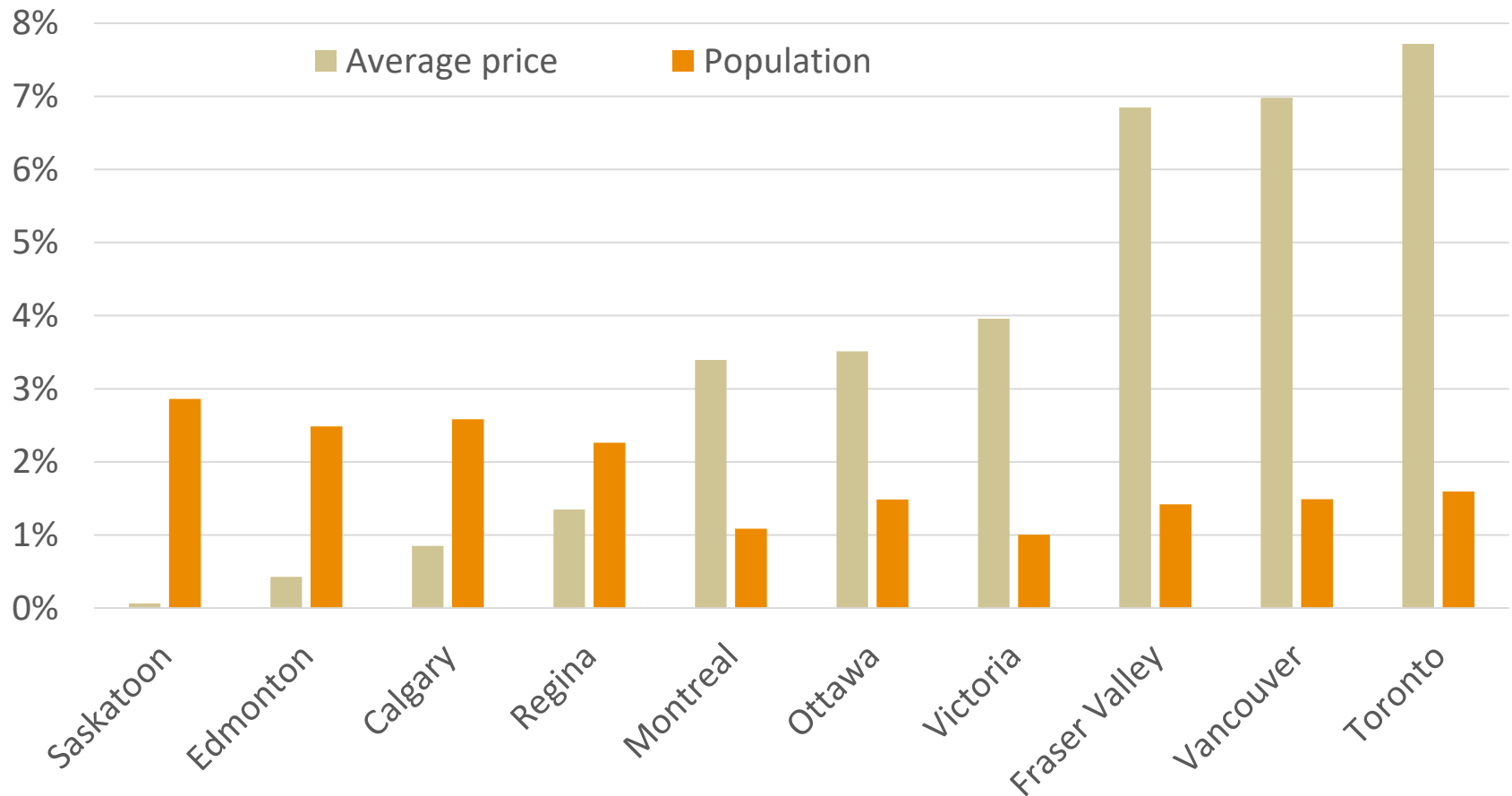


Sources: CMHC calculations based on Statistics Canada



...But this growth has had different impacts across urban areas

## Average annual growth, 2008-2018

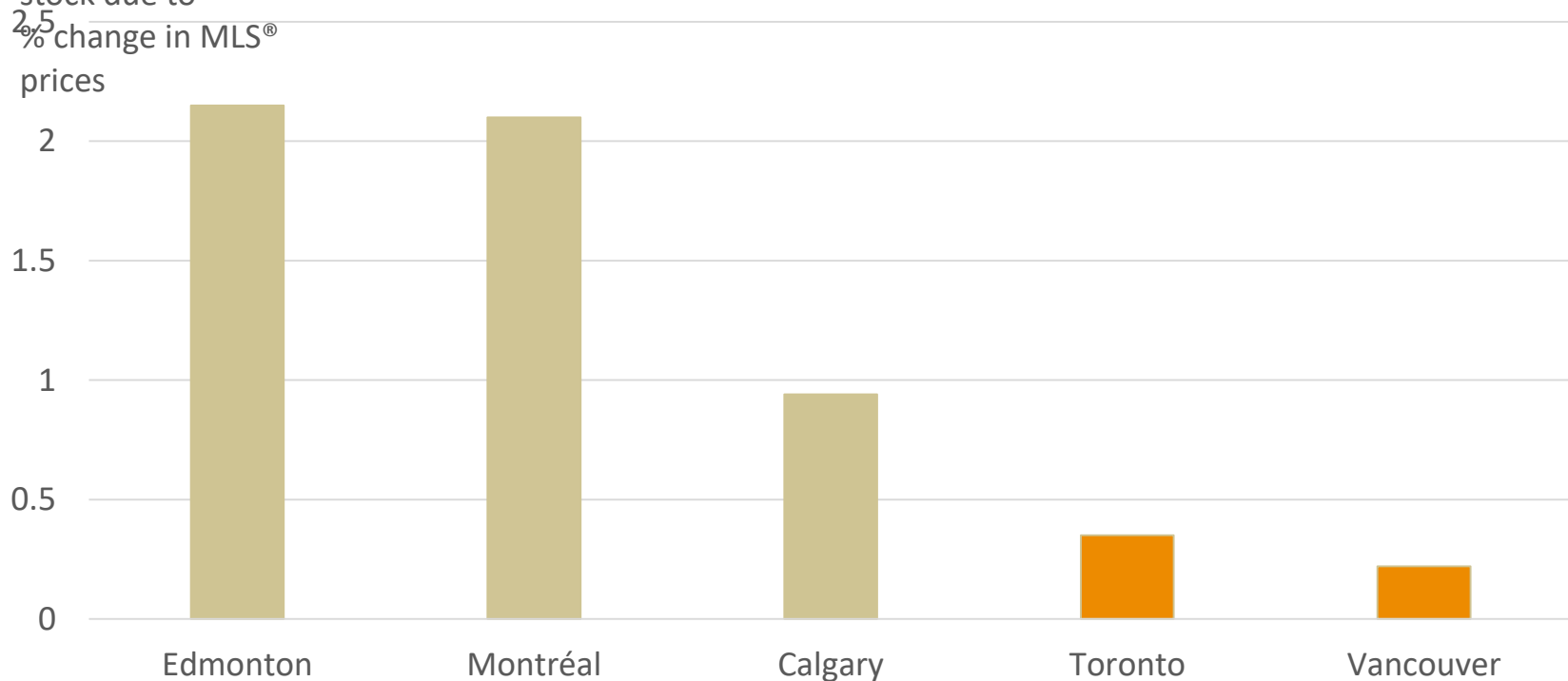


Sources: CMHC calculations based on CREA and Statistics Canada

# 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.



# Housing starts have started to increase in Vancouver

## Starts per capita



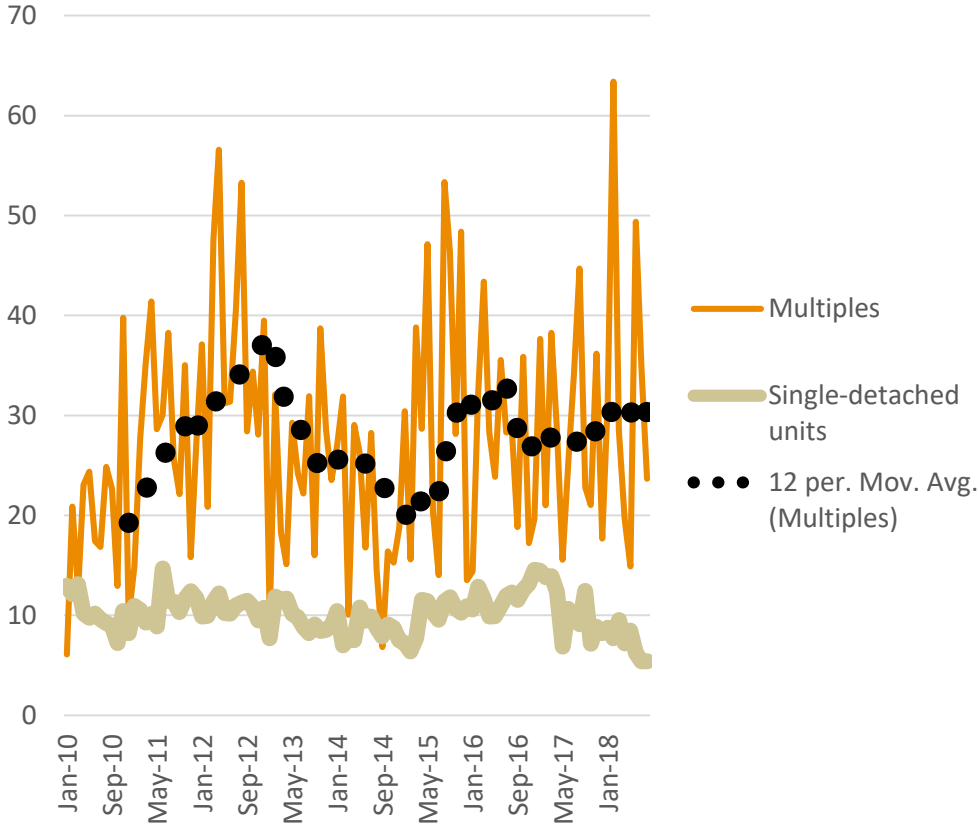
Sources: CMHC based on data from Statistics Canada



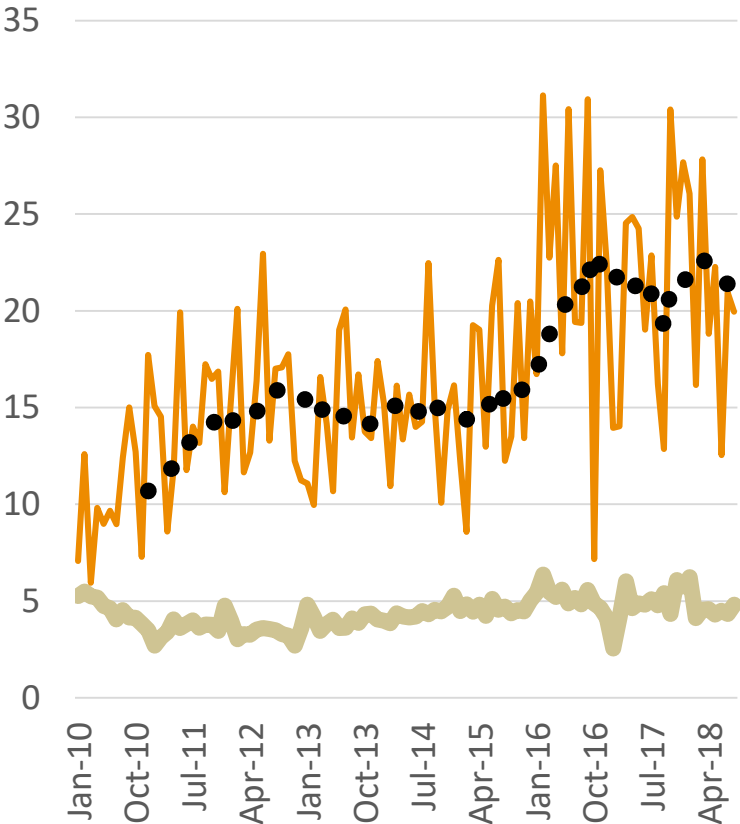


# Housing starts are primarily multiple units

## Toronto



## Vancouver

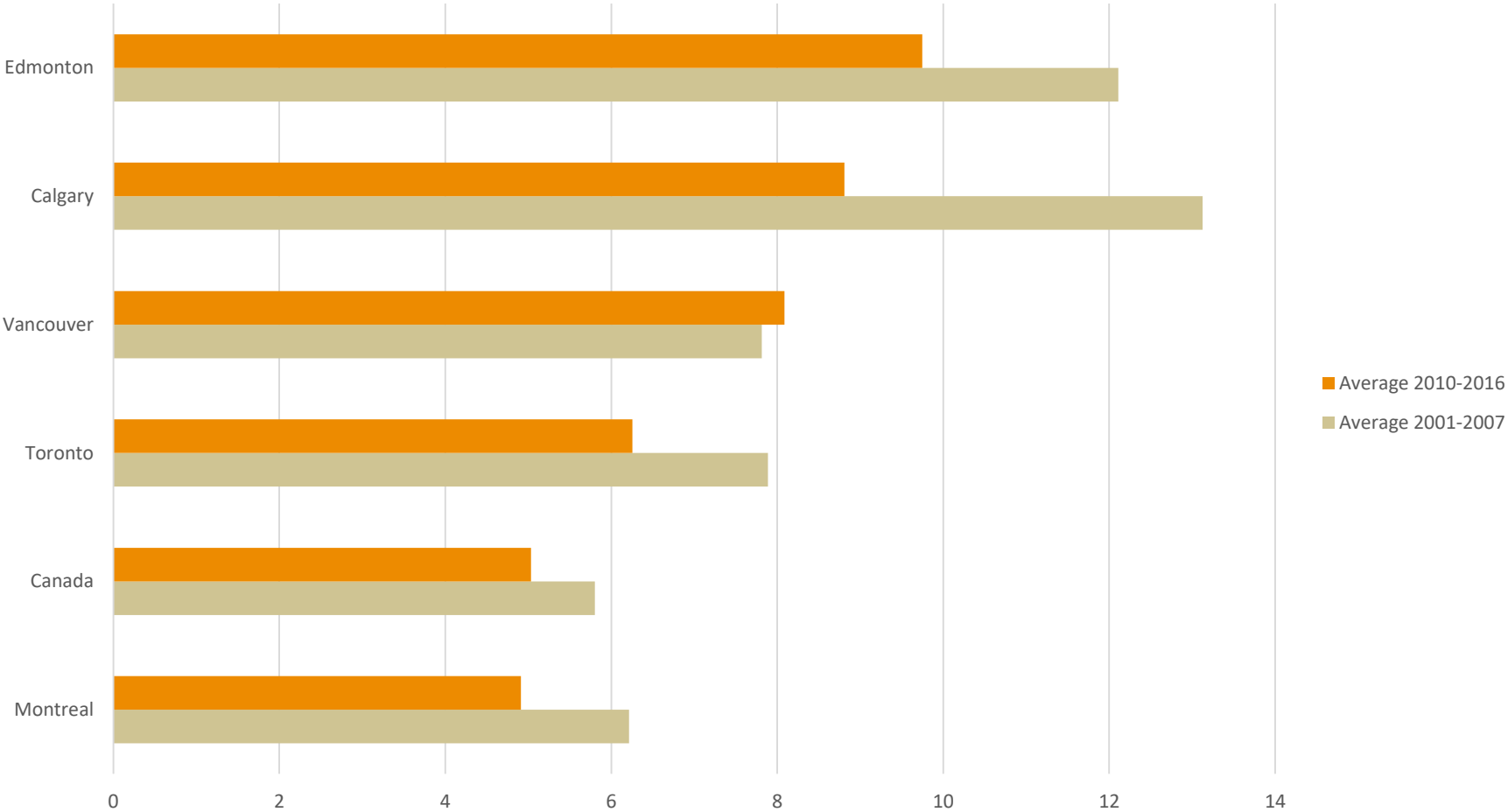


Sources: CMHC based on data from Statistics Canada



# But starts in Toronto and Vancouver remain relatively low

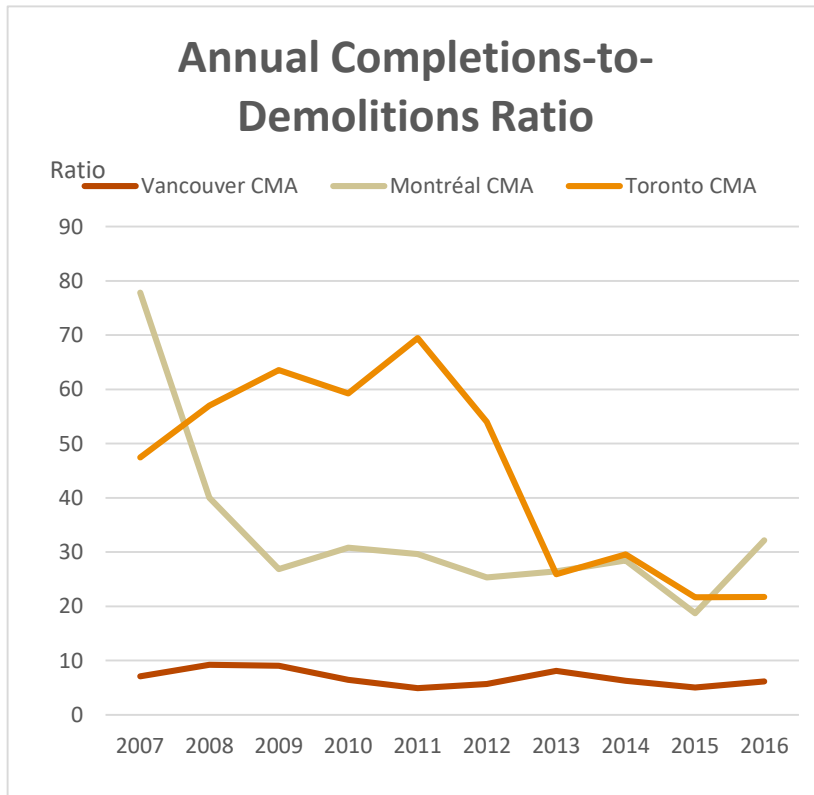
## Starts per capita



Sources: CMHC based on data from CMHC and Statistics Canada



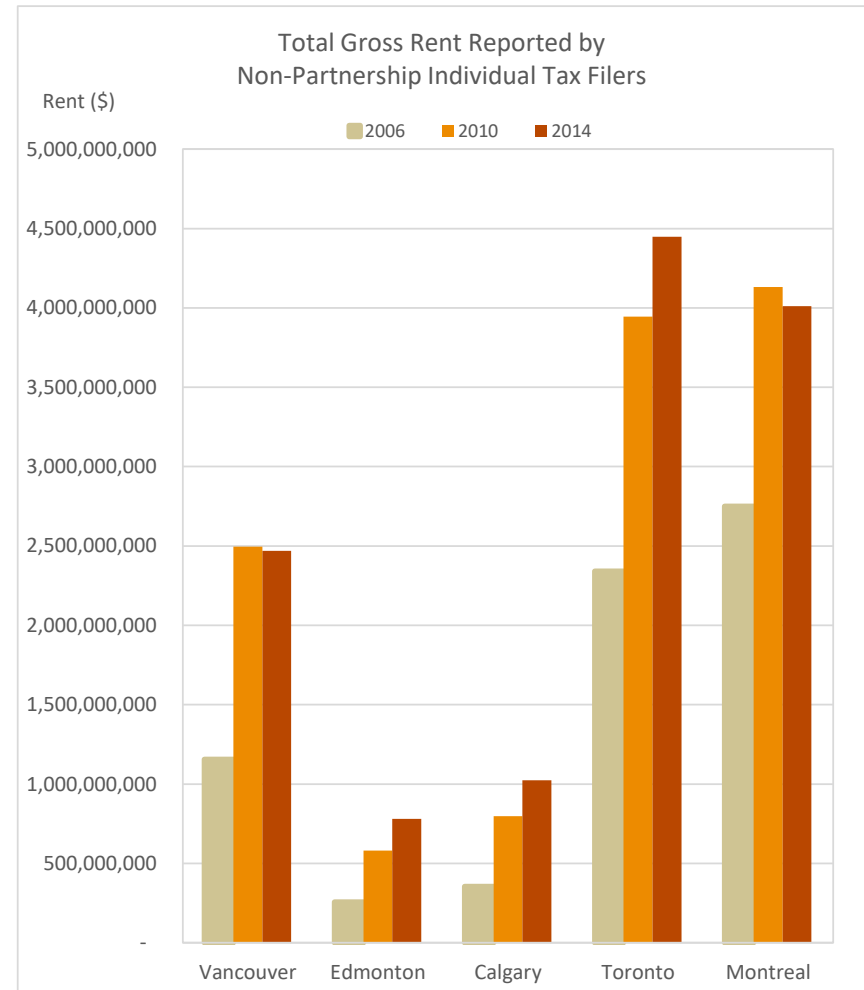
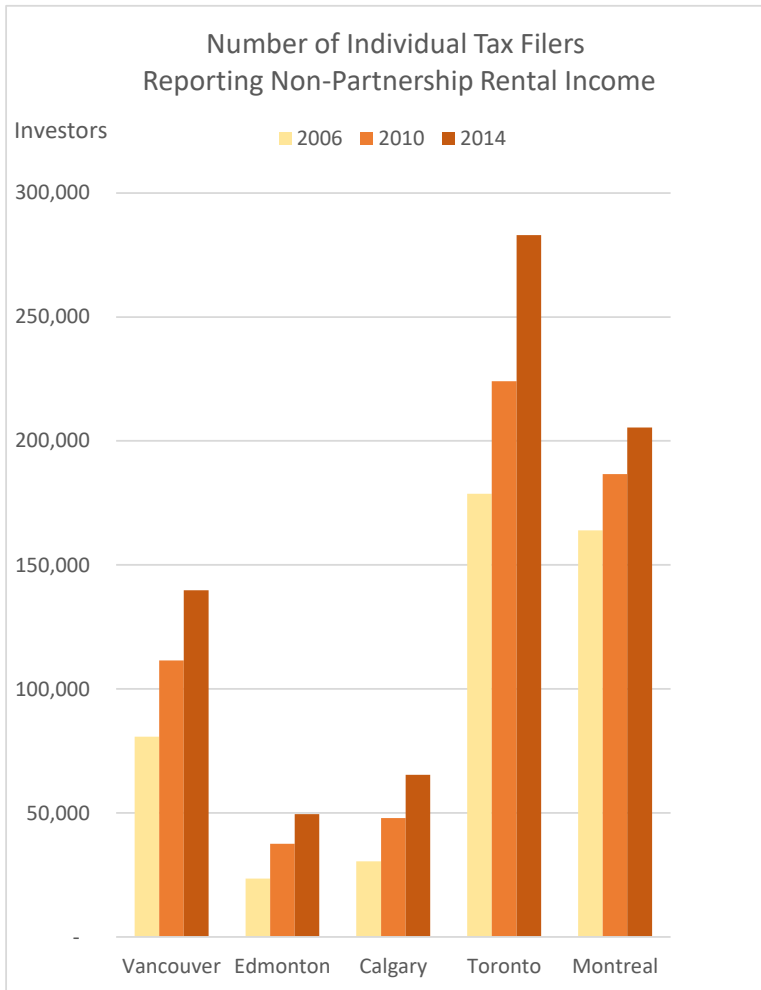
# Densification is leading to challenges



Source: CMHC calculation based on Statistics Canada and PSAD data



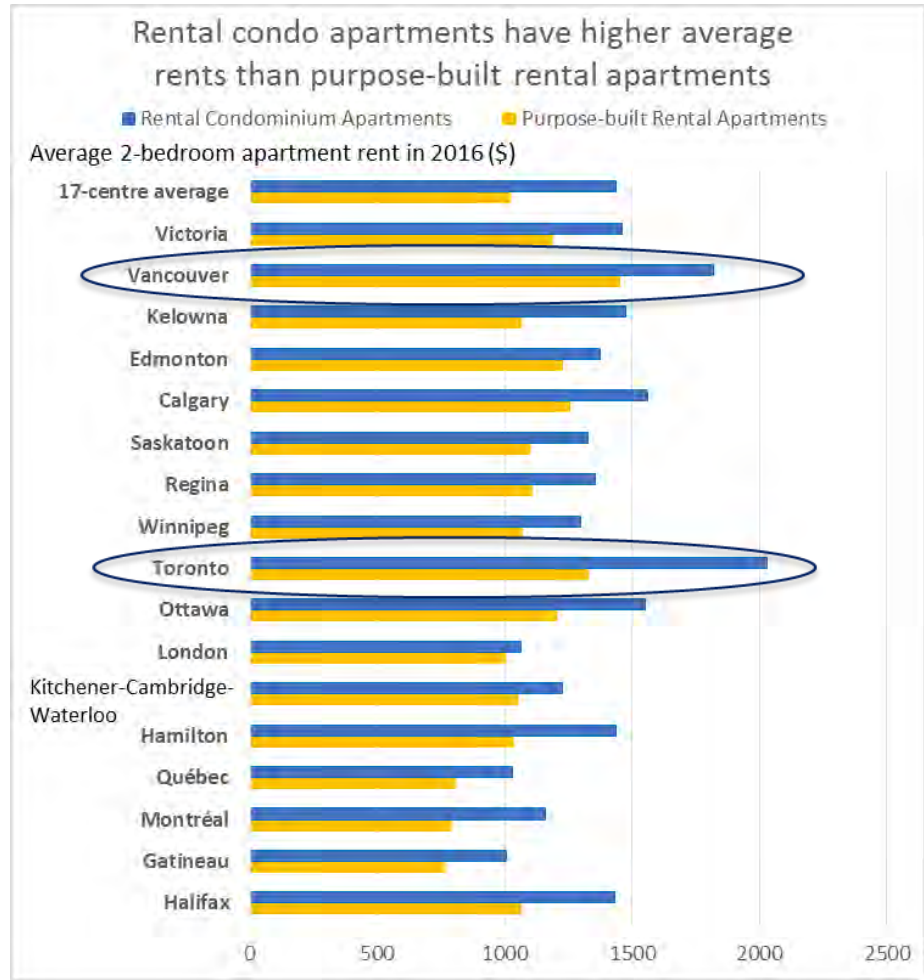
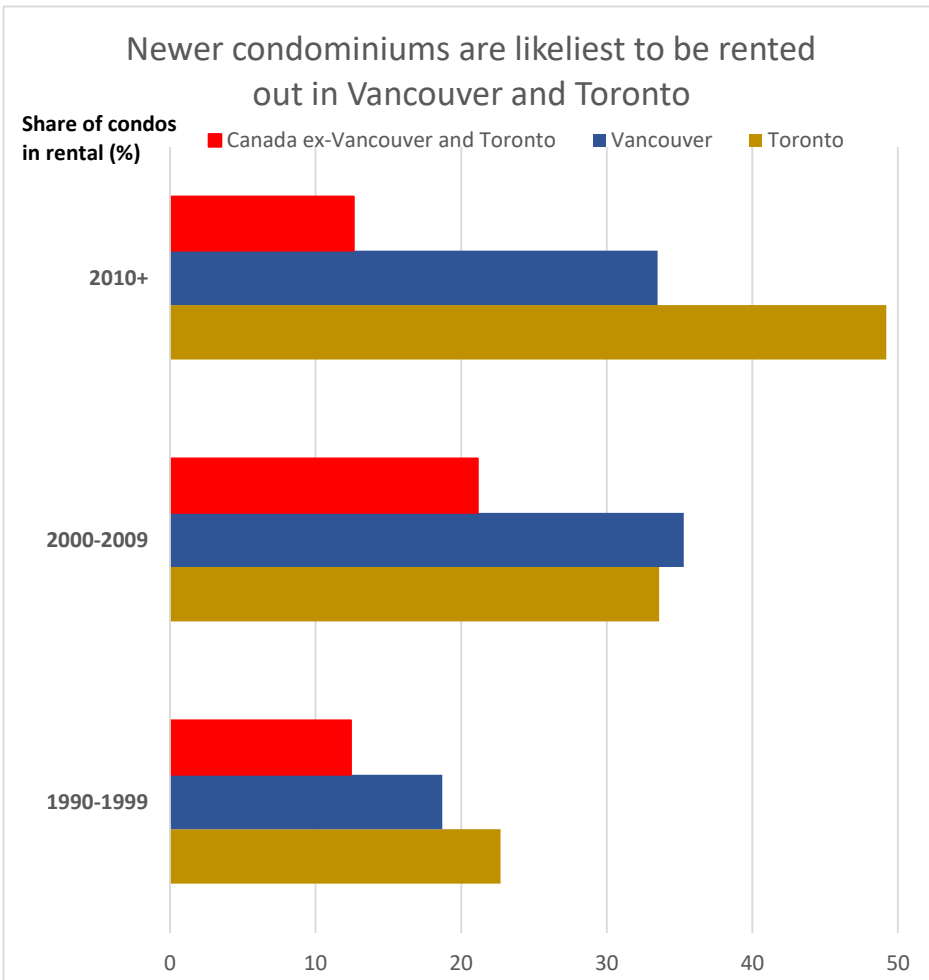
# Investors drive demand for housing, but also contribute to supply by providing financing...



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



# ... And are an important source of rental supply



Source: CMHC Rental Market Survey and Starts and Completions Survey



# What about foreign investment?

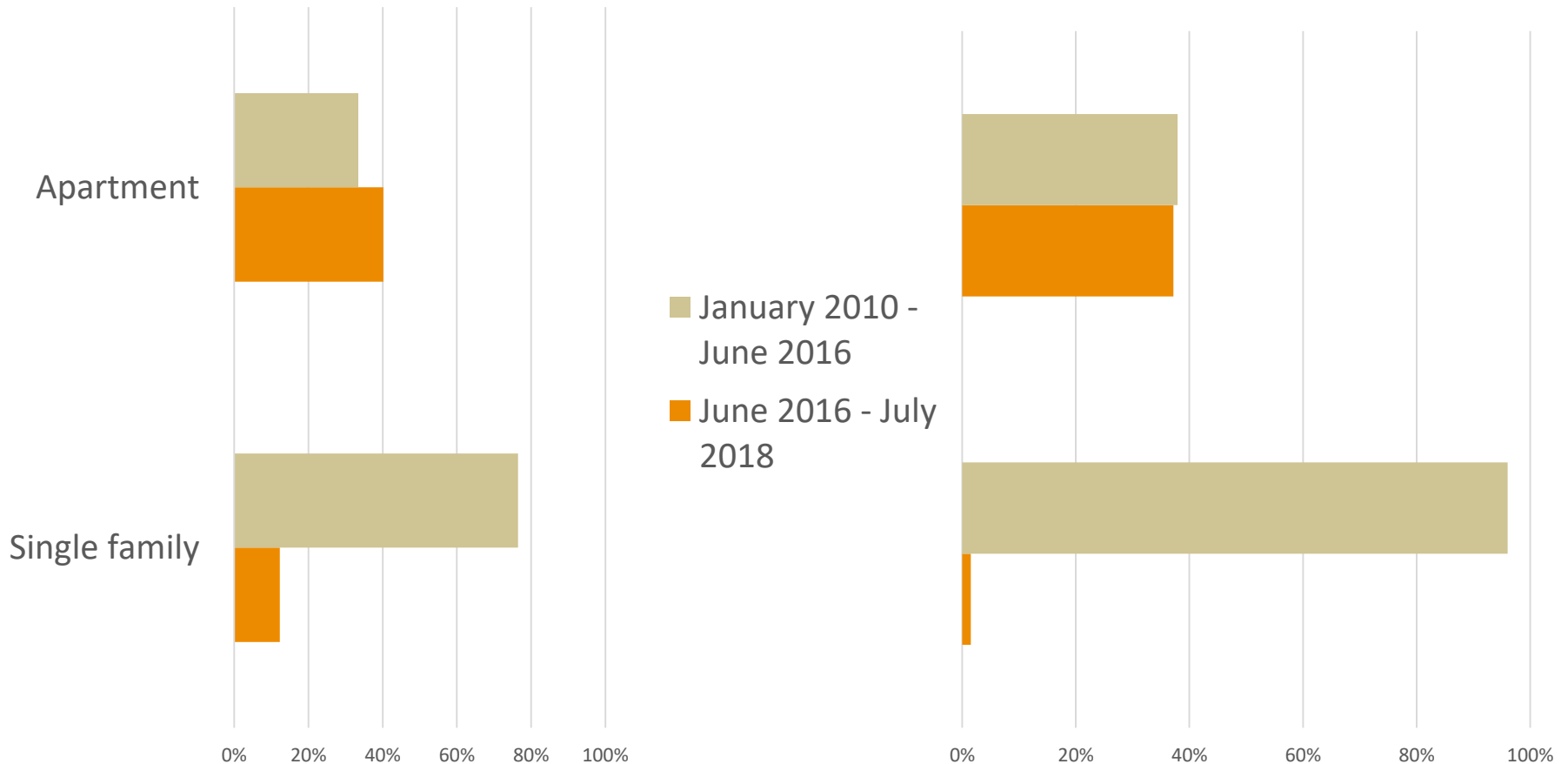
- CMHC has worked with Statistics Canada to develop more data on foreign investment
- In 2017,
  - Non-resident owners own 3.4% of residential properties in Toronto and 4.8% in Vancouver
  - Non-residents own 7.2% of condominiums in Toronto and 7.9 per cent in Vancouver
  - Or, of the non-residents owners, 55 per cent own condominiums, 24 per cent own single-detached
- There have been increasingly tight capital controls from China, particularly from January, 2016

# Prices have continued to increase for apartments, but stalled for single-family homes

## Total price changes

### Toronto

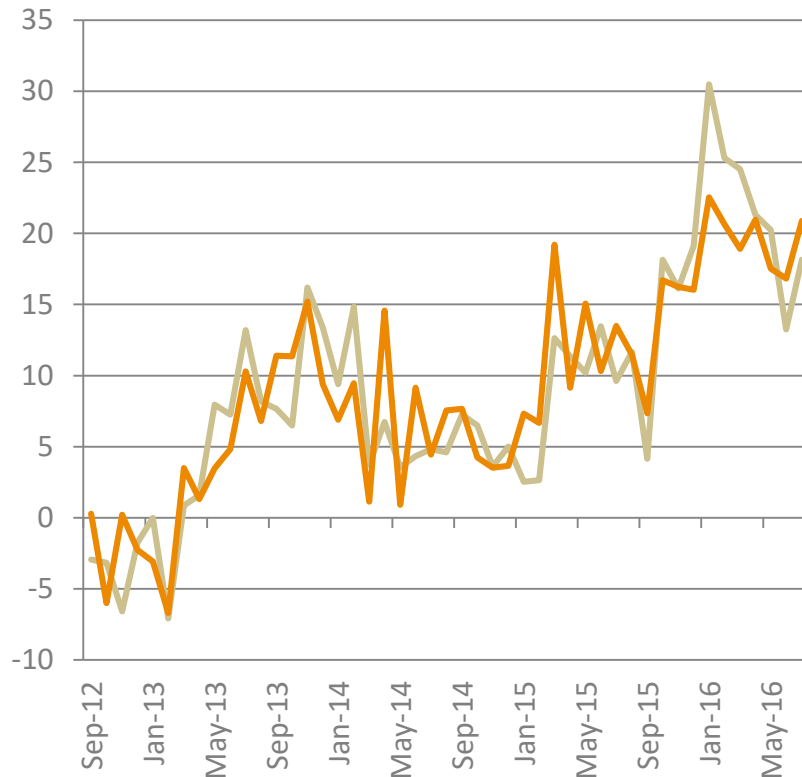
### Metro Vancouver



# Developing a model to look at BC prices

y-o-y growth  
in house  
prices (%)

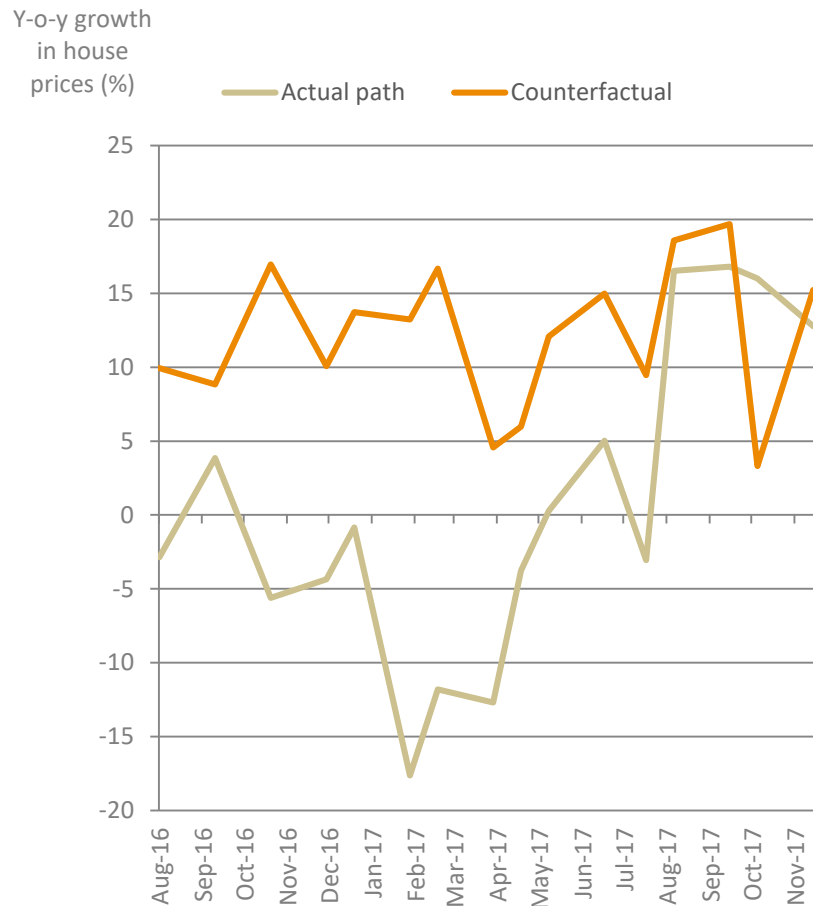
— Actual — Predicted



- 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



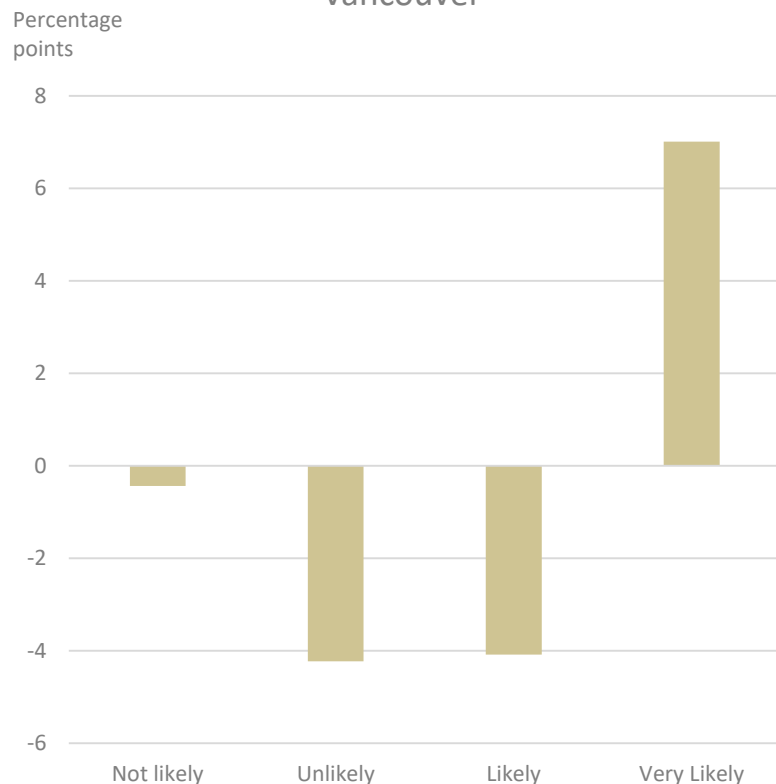
# The Vancouver FBT had a significant initial impact on short-term house price growth



- 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

# New homebuyers feel that prices will recover in 2018

Change from 12 months to 24 months in  
perceived chance of 5% increase in price,  
Vancouver



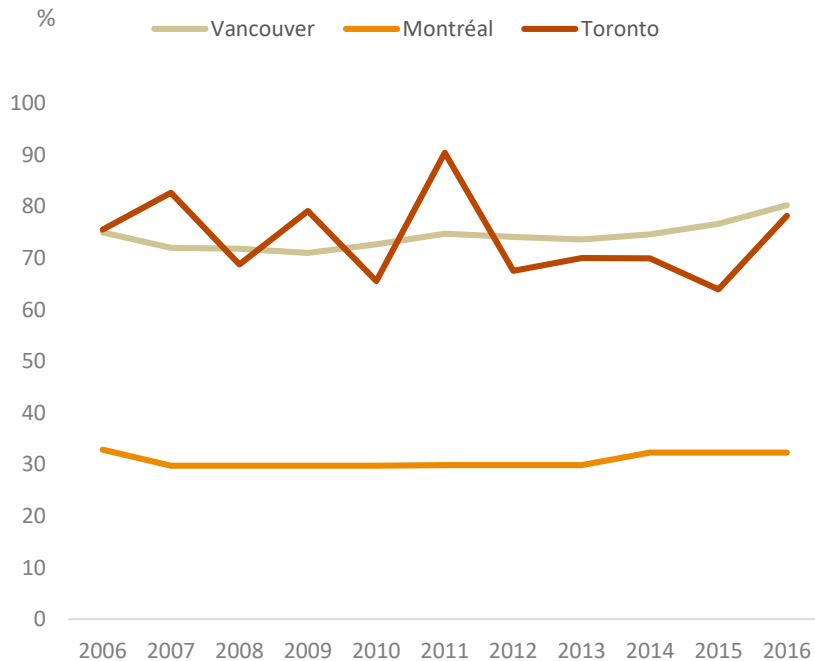
- We surveyed new homebuyers on their expectations of future house price changes
- While optimistic about Vancouver home prices in 2017, respondents were even more confident of price increases of at least 5% in 2018-19
- Again, this suggests that survey respondents felt that policy actions were likely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

Note: Survey was conducted in fall of 2017. Source: CMHC HBMS

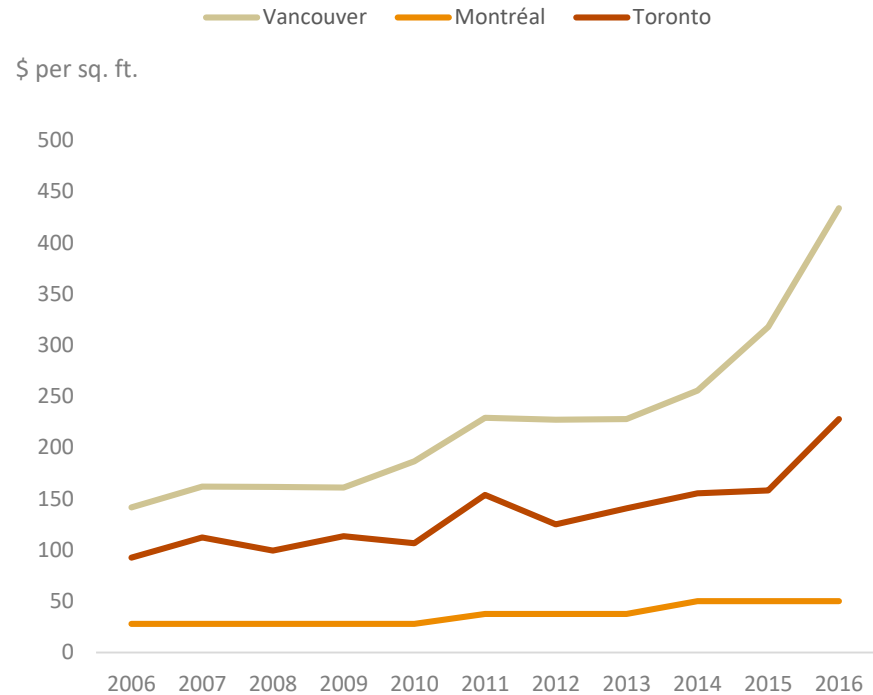


# Land supply constraints will likely continue to push house prices higher in Vancouver and Toronto

## 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

- 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

- 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.