

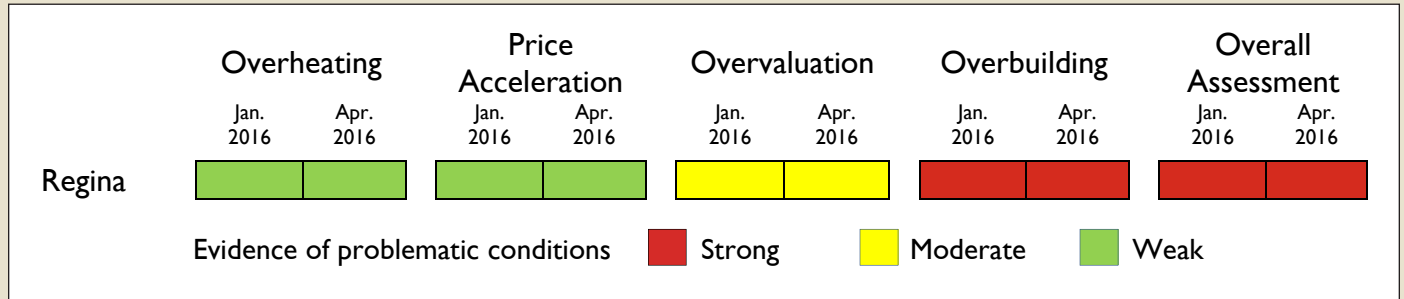
HOUSING MARKET ASSESSMENT Regina CMA

Date Released: Second Quarter 2016



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Highlights



- Overall, we continue to detect strong evidence of problematic conditions¹ in Regina's housing market.
- We continue to detect weak evidence of overheating and price acceleration.
- While buyer's market conditions have put downward pressure on prices, slower growth in fundamental factors such as personal disposable income has maintained the case for moderate overvaluation.
- Elevated inventory of complete and unsold units relative to population and a higher rental vacancy rate indicate strong evidence of overbuilding.
- The Housing Market Assessment (HMA) analytical framework considers four factors to assess the evidence of problematic housing market conditions: overheating; acceleration in the growth of house prices; overvaluation; and, overbuilding. A brief summary of the framework is presented on page 6 of this report.

HMA Overview²

As Canada's authority on housing, CMHC contributes to market stability by providing information on potential imbalances that could affect housing markets. With the Housing Market Assessment (HMA), CMHC offers information and analysis that can help Canadians make more informed decisions.

The HMA combines the results from a technical framework with insights gained through CMHC's Market Analysts' knowledge of local market conditions. These insights position CMHC to provide additional context and interpretation to the results of the HMA framework.

The HMA framework detects problematic market conditions in local housing markets by identifying imbalances. An example would be the detection of overbuilding, a situation in which the inventory of unsold new homes accumulates due to supply outpacing demand. Such an imbalance could be resolved by an adjustment in house prices. As an example, lower prices would help resolving an excess supply imbalance by supporting stronger demand and/or reducing supply. However, other unexpected developments that do not originate from the housing market could accentuate or reduce an imbalance.

Colour codes indicate the level of evidence of problematic conditions. The HMA is a comprehensive

framework that considers the intensity of signals of imbalances (that is, how far the indicator is from its historical average), and the persistence over time. Generally, low intensity and persistence are associated with potentially weaker evidence of problematic conditions. As the number of intense and persistent signals increases, the associated evidence of problematic conditions becomes stronger.

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¹ Results are based on data as of the end of December 2015 and local market intelligence up to end of March 2016. CMHC continuously monitors market developments and will issue HMA updates on a quarterly basis.

² A detailed description of the framework is available in the appendix of the [National edition](#).

In Detail

Overheating

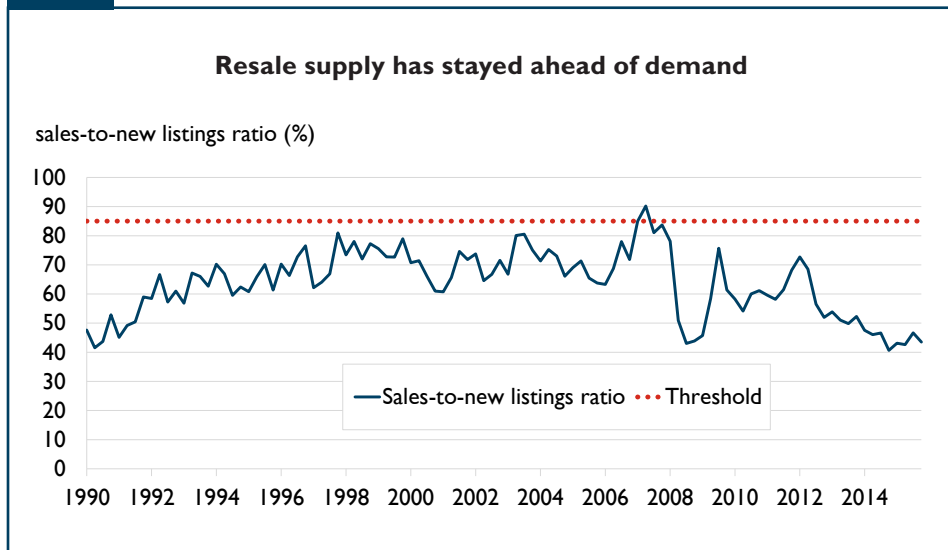
According to the HMA framework, the evidence of overheating in the Regina housing market remains weak. Resale demand continued to lag supply in the fourth quarter of 2015, with buyer's market conditions remaining firmly in place. In the current economic environment of slower employment growth and lower net migration, fewer resale homes have exchanged hands this past year, while the recent reduction in new listings reflects homeowners' reluctance to list their homes until market conditions improve. Home sales in all geographic areas declined in the fourth quarter, bringing total sales for 2015 to just over 3,400 units, an eight per cent reduction from the previous year.

"The overall assessment of strong evidence of problematic conditions is unchanged from the previous release. While house prices have come down in Regina, moderate evidence of overvaluation reflects slower growth in fundamental factors, such as personal disposable income. We also continue to detect strong evidence of overbuilding."



Senior Market Analyst
(Saskatchewan)
Goodson Mwale

Figure 1



Source: CREA, calculations (threshold) by CMHC
Last data point: 2015Q4

On the other hand, supply remained elevated with active listings up 3.7 per cent in 2015 compared to 2014. Total new listings ended the year at 5.7 per cent lower than in the previous year, with the sales-to-new listings ratio (SNLR) averaging 44 per cent in the fourth quarter, still significantly below the threshold of 85 per cent that would be consistent with evidence of overheating.

Among different housing types, unit sales of single-detached homes in Regina's geographic areas 1-5³ were down 12 per cent in the fourth quarter of 2015. Meanwhile, new listings declined by a much larger margin, which helped bring up the average SNLR to 65 per cent. However, the average months of inventory increased to 5.2 from 4.8 in the fourth quarter of 2014, which would suggest that single-detached supply remains elevated despite the pullback in new listings. In the condominium market, total sales in areas 1-5 were flat in the fourth

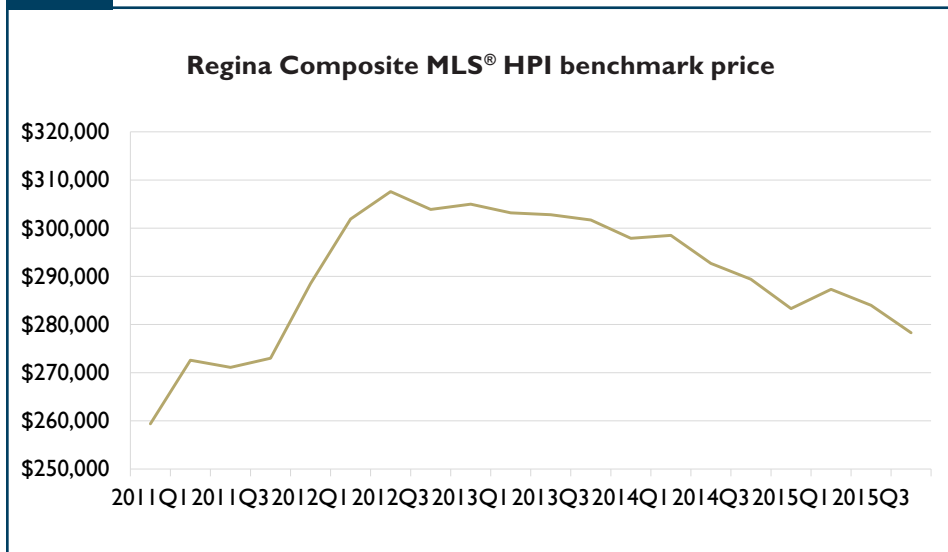
quarter, while new listings declined 4.3 per cent from the same quarter one year prior. As a result, the SNLR in the condo apartment market averaged 43 per cent in the final three months of 2015, up slightly from 41 per cent in the same period of 2014.

Price Acceleration

We continue to detect weak evidence of price acceleration in Regina's housing market. Persistent buyer's market conditions have continued to put downward pressure on prices and have slowed resale price growth in Regina's overall market. After contracting by 2.7 per cent in the final quarter of the year, the average MLS[®] price was down 1.4 per cent in 2015 from the previous year. On a seasonally-adjusted basis, resale prices in Regina's overall market edged up slightly in the fourth quarter from the previous quarter. However, the composite MLS[®] HPI benchmark price, which tracks four

³ On Regina's Multiple Listing Service, the city of Regina is divided into five large geographic areas, described as areas one through five.

Figure 2



Source: CREA, residential
Last data point: 2015Q4

benchmark home types in Regina’s real estate board, was down 3.2 per cent at the end of 2015 from December 2014, and remained relatively flat during the first two months of 2016.

Lower oil and potash prices have moderated economic activity and softened resale demand in Regina. Market conditions have to a large extent favoured buyers in most neighbourhoods and among different housing types. In the single-detached segment, the average price within the geographic areas 1-5 was up modestly in the fourth quarter, but down 2.7 per cent in December on a 12-month period, compared to the previous year. Similarly, the average price of a condominium apartment in areas 1-5 was down 3.9 per cent, year-over-year, in the fourth quarter, and down 4.1 per cent at the end of 2015 from the same period one year prior.

Overvaluation

The framework continues to detect moderate evidence of overvaluation in Regina’s housing market. While buyer’s market conditions have put downward pressure on prices, growth in personal disposable income has slowed, which has contributed to the moderate evidence of

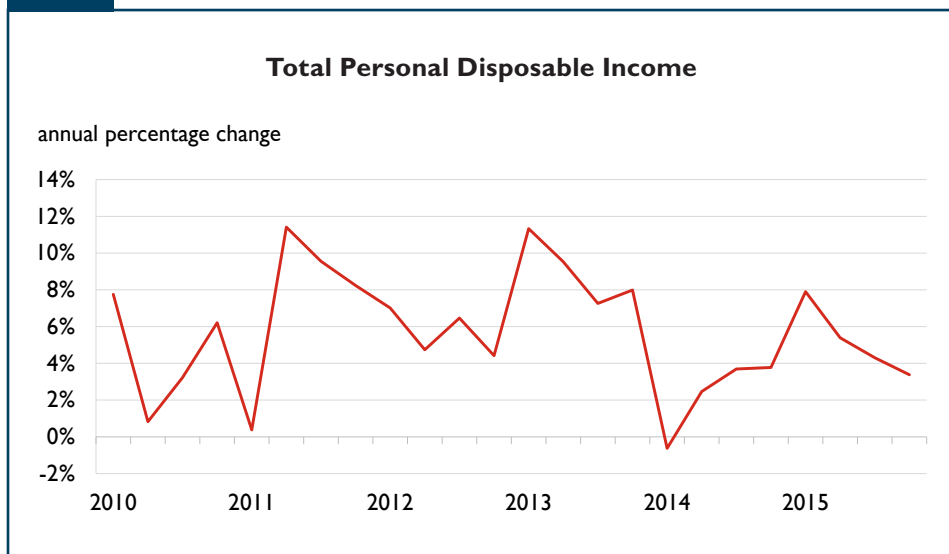
overvaluation in the current assessment. This imbalance could be resolved either by further slowdown in price growth, an improvement in economic fundamentals such as a pickup in income and population growth, or a combination of both.

During the current economic downturn, declining government revenues and business investment have slowed employment and income growth in Regina. Meanwhile, additions to the labour force have surpassed gains in employment, which lifted the unemployment rate to average 4.4 per cent in the fourth quarter of 2015 from 3.7 per cent in the same period a year earlier. This has contributed to a decline in total net migration, thus moderating the pace of population growth.

Overbuilding

The assessment of strong evidence of overbuilding remains unchanged from the previous release. Weaker economic conditions and an oversupplied resale market have prompted new home builders to be more diligent in their inventory

Figure 3



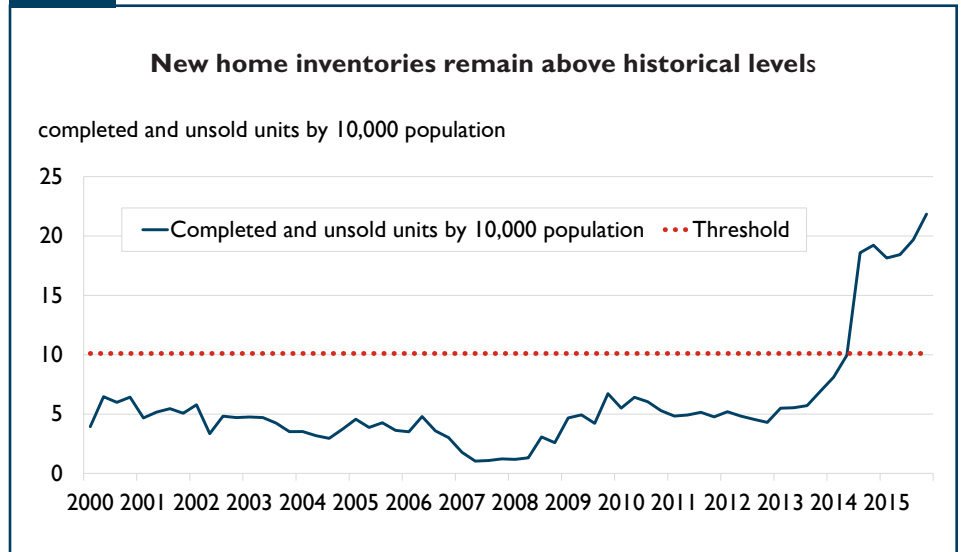
Source: The Conference Board of Canada
Last data point: 2015Q4

management by channeling new demand towards their completed and unsold units. This contributed to a 28 per cent reduction in total housing starts in the Regina CMA in the past year. Notwithstanding, the inventory of complete and unsold units relative to population, particularly among condominium apartments, remained above the threshold in the fourth quarter.

In addition, Regina’s rental apartment vacancy rate increased to 5.4 per cent in October 2015 from three per cent in October 2014. Weaker economic conditions moderated employment growth and net migration in 2015, which in turn slowed rental demand.

At the same time, rental supply increased faster than demand with the completion of new purpose-built rental apartments initiated over the past few years. Therefore, the combination of elevated inventory of new units and a higher vacancy rate continued to reflect strong evidence of overbuilding in Regina.

Figure 4



Source: CMHC, calculations (threshold) by CMHC, Statistics Canada
 Last data point: 2015Q4

Overview of the Housing Market Assessment analytical framework

To obtain an accurate picture of the overall state of the housing market, it is important to consider multiple data points and lines of evidence rather than relying on just one measure or indicator.

The Housing Market Assessment (HMA) analytical framework provides a comprehensive and integrated view that relies on a combination of signals from several indicators to assess housing market conditions.

Specifically, the framework considers four main factors that may provide an early indication of potentially problematic housing market conditions: (1) overheating when demand outpaces supply; (2) sustained acceleration in house prices; (3) overvaluation of house prices in comparison to levels that can be supported by housing market fundamentals (listed below);

and, (4) overbuilding when the inventory of available housing units is elevated.

For each factor, the framework tests for: (1) the presence or incidence of signals of potentially problematic conditions, but also considers; (2) the intensity of the signals, i.e. how their magnitude compares with their historical average or how consistent they are with known or suspected house price bubbles, such as for Toronto in the late 1980s and early 1990s; and, (3) the persistence of signals over time.

Generally, a situation in which we detect few signals with low intensity or lack of persistence is associated with weak evidence of problematic conditions. Conversely, as the intensity, number, and/or persistence of the signals increases, the likelihood of a factor becoming problematic increases.

The framework takes into account demographic, economic, and financial determinants of the housing market such as population, personal disposable income, and interest rates to detect potentially problematic housing market conditions. The framework also takes into account developments in both resale and residential construction markets.

The framework was developed on the basis of its ability to detect problematic housing market conditions in historical data, such as the house price bubble Toronto experienced in the late 1980s and early 1990s. The ability of the HMA to detect current problematic conditions relies on the assumption that historical relationships between prices and fundamental drivers of housing markets have not changed.

Housing Market Assessment Factors

Overheating

Overheating is caused by demand significantly and persistently outpacing the supply of housing. The sales-to-new listings ratio is used as an indicator to assess possible overheating conditions in the existing home market. To identify problematic overheating conditions, the framework compares the sales-to-new listings ratio to thresholds. When demand is strong relative to supply, house prices typically grow at a faster rate. Sustained overheating conditions on the existing home market may lead to acceleration in house prices for existing and new homes. However, as supply and demand begin to balance out, indicators of overheating (and acceleration) would begin to soften and house prices would gradually moderate.

Acceleration in House Prices

Under balanced market conditions, house prices are expected to increase over time, in line with increases in households' cost of

living. House price acceleration occurs when the growth in house prices strengthens over time on a persistent basis. Acceleration in house prices over an extended period can cause their pace of increase to depart from the overall price inflation and eventually lead to overvaluation.

To assess acceleration in house prices, the HMA framework uses a statistical test* that was developed to identify periods of accelerating asset prices.

Overvaluation

Overvaluation is detected when house prices remain significantly above the levels warranted by fundamental drivers of housing markets such as income, population, and actual and expected financing costs.

The HMA framework uses combinations of different house price measures and models to estimate house price levels warranted by fundamental drivers.

The difference between observed house prices and their estimated levels consistent with housing market fundamentals allows for an estimation of the degree of over- and undervaluation. The use of different price measures and models improves the reliability of results.

Overbuilding

Overbuilding is detected when the supply of readily available housing units significantly exceeds demand. In such a context, downward pressure on house prices would occur until the excess supply is eventually absorbed.

To assess overbuilding conditions in the housing market, the HMA framework uses two indicators that relate to the supply of readily available housing units: the rental vacancy rate, and the inventory of completed and unsold housing units per 10,000 population. The HMA framework compares the current level and recent trends in these indicators with thresholds.

Note 1: Colour codes indicate the level of evidence of problematic conditions. The HMA reflects a comprehensive framework that not only tests for the presence or incidence of signals of potentially problematic conditions, but also considers the intensity of signals (that is, how far the indicator is from its historical average) and the persistence of signals over time. Generally, low intensity and persistence are associated with a lower potential of upcoming problematic conditions. As the number of persistent signals increases, the evidence of a problematic condition developing increases.

Note 2: Results at the CMA level are not segmented by housing type or neighbourhood. They represent an assessment of the entire CMA. However, specific CMA reports provide further detailed analysis of these markets.

Note 3: The colour scale extends to red only for those 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.

Note 4: To ensure the framework is as current as possible, on a regular basis, we undertake a model selection process whereby our house price models for overvaluation are tested for statistical significance at the national and CMA level. The result of this process may change the number of indicators of a problematic condition from the previous assessment.

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

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