

HOUSING MARKET ASSESSMENT

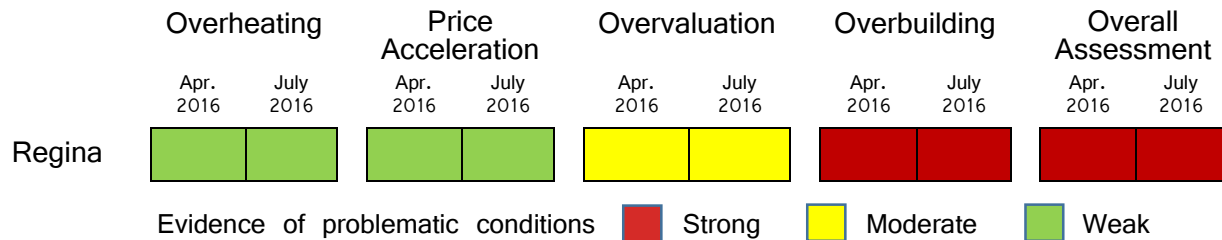
Regina CMA

Date Released: Third Quarter 2016



Housing market intelligence you can count on

Highlights



- The overall assessment of strong evidence of problematic conditions¹ remains unchanged from the previous release.
- The framework continued to detect weak evidence of overheating and price acceleration.
- Regina's resale market balance has improved, which stabilized house prices in 2016Q1. However, slower growth in fundamental factors such as personal disposable income and the young adult population has maintained the case for moderate overvaluation.
- Elevated inventory of new housing units, especially condominium apartments, relative to population, and a high rental vacancy rate continued to reflect 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

SUBSCRIBE NOW!

Access CMHC's Market Analysis Centre publications quickly and conveniently on the Order Desk at www.cmhc.ca/housingmarketinformation. View, print, download or subscribe to get market information e-mailed to you on the day it is released. CMHC's electronic suite of national standardized products is available for free.

¹ Results are based on data as of the end of March 2016 and local market intelligence up to end of June 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](#).

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.

In Detail

Overheating

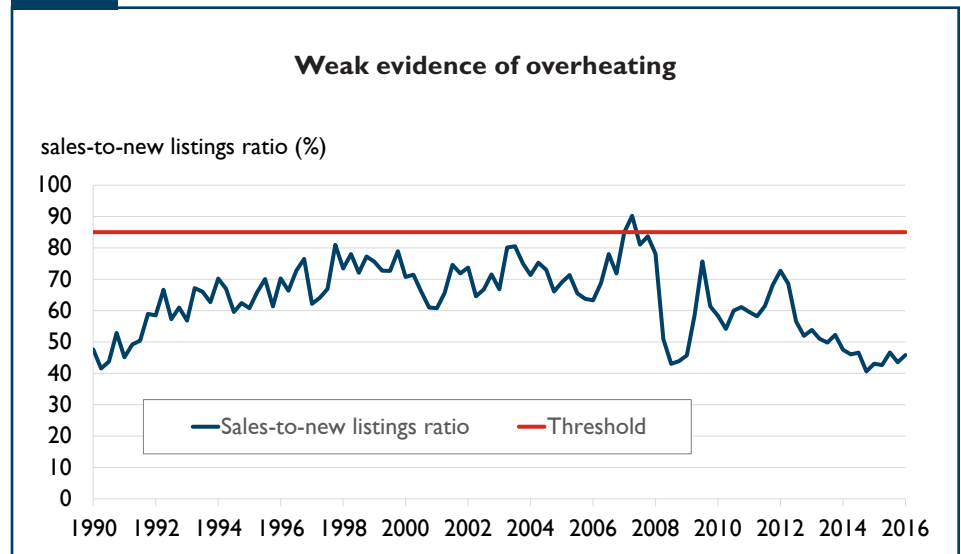
The HMA framework continues to detect weak evidence of overheating in Regina's housing market. Despite the modest recovery in sales in 2016Q1, a large part of the improvement in market balance can be attributed to a reduction in resale supply. The impact of slower

"The overall assessment of strong evidence of problematic conditions is unchanged from the previous release. Slower growth in fundamentals such as personal disposable income and the young adult population continued to generate indications of moderate overvaluation. In addition, elevated inventory of new housing units relative to population and a high rental vacancy rate maintained strong evidence of overbuilding."



Senior Market Analyst
(Saskatchewan)
Goodson Mwale

Figure 1



Source: CREA (seasonally adjusted), calculations (threshold) by CMHC
Last data point: 2016Q1

employment growth and lower net migration in 2015 limited gains in existing home sales during the first three months of 2016, while the reduction in new listings reflects homeowners' reluctance to list their homes until market conditions improve. Home sales in all geographic areas increased 2.7 per cent to 657 units in the first quarter from 640 in the corresponding period one year prior. On the other hand, active listings declined four per cent under the same comparison, while new listings were down eight per cent from the previous year. With the decline in new listings, the sales-to-new listings ratio (SNLR) averaged 46 per cent in the first quarter of 2016, remaining significantly below the threshold of 85 per cent that would be consistent with evidence of overheating.

Single-detached home sales in Regina's geographic areas 1-5³ increased modestly during 2016Q1, numbering 417 units, compared to

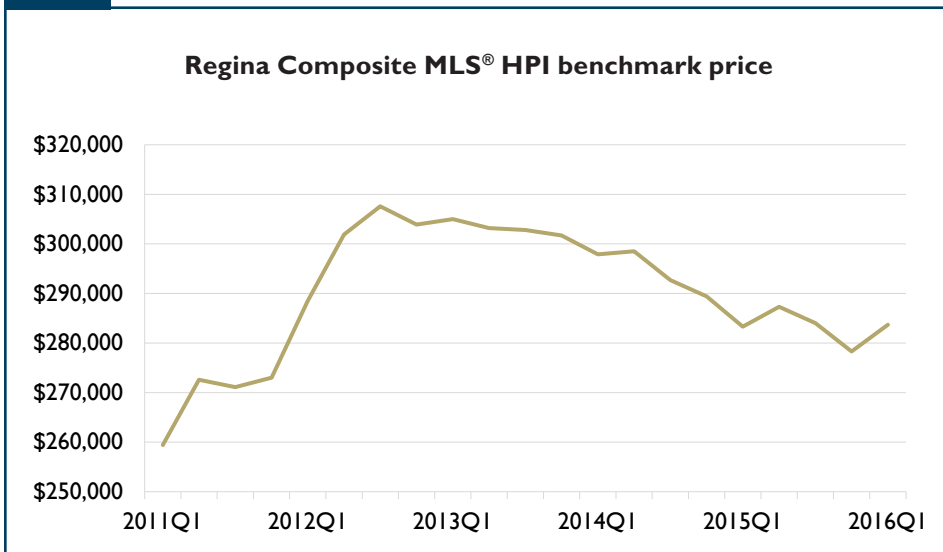
413 in the first quarter of 2015. On the supply side, there were 6.2 per cent fewer active listings in this market segment during the first quarter, led by continued reduction in new listings of single-detached units. As a result, the SNLR increased to average 46 per cent in 2016Q1 from 43 per cent in the same quarter the previous year. In the condominium market, total sales in areas 1-5 posted double-digit year-over-year gains in the first quarter, after strong sales for the month of March. Meanwhile, new listings for condominiums declined by 16 per cent in 2016Q1 from the previous year, which helped push up the SNLR to average 30 per cent, compared to 20 per cent in the first quarter of 2015.

Price Acceleration

We continue to detect weak evidence of price acceleration in Regina's housing market. After several quarters of downward pressure on

³ The City of Regina is divided into five quadrants on the Regina Multiple Listing Service. All Regina homes and real estate listings in the city are located within one of the five quadrants, described as areas one through five.

Figure 2



Source: CREA, residential
Last data point: 2016Q1

prices, resale market balance improved in 2016Q1 with modest gains in sales and a reduction in supply. On a seasonally-adjusted basis, Regina's average MLS® price trended up slightly in the first quarter of 2016 from the fourth quarter of 2015. Similarly, the composite MLS® HPI benchmark price, which tracks four benchmark home types in Regina's real estate market, was up 0.5 per cent at the end of March 2016 from the previous 12-month period.

The stabilization in house prices in 2016Q1 was also apparent in other segments of the market. After leveling off at the end of 2015, the average resale price for a single-detached home in Regina's geographic areas 1-5 increased 2.6 per cent to \$327,277 in the first quarter of this year from \$318,940 in 2015Q1. Notwithstanding, downward pressure in the condominium market in the City of Regina has not yet fully subsided. This could perhaps be attributed to continued competition from the high level of complete and unsold condominium units in Regina's new home market. As a result,

the average price of a condominium apartment in Regina's resale market was down 3.1 per cent in 2016Q1 from the same period a year ago.

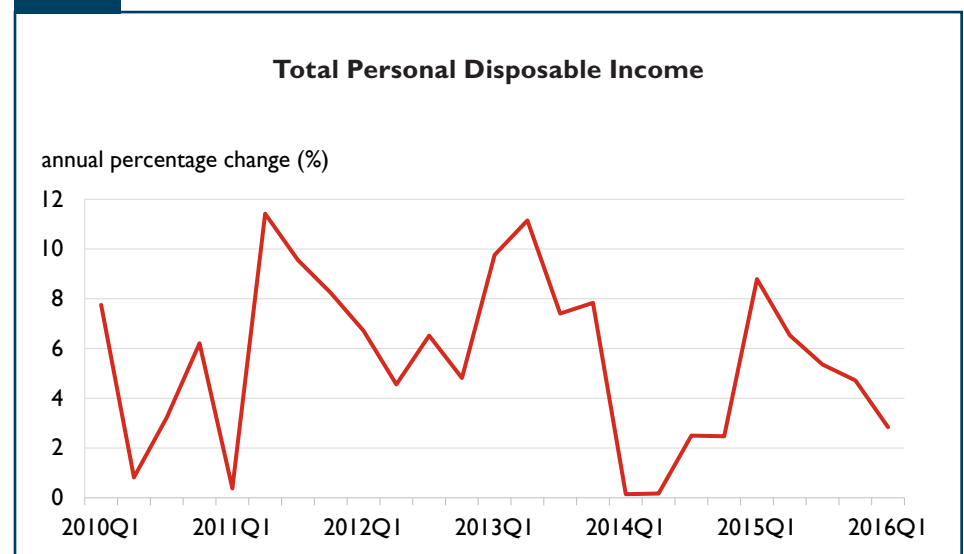
Overvaluation

The framework continues to detect moderate evidence of overvaluation in Regina's housing market. After several quarters of declines, house

prices in Regina stabilized in 2016Q1 with the reduction in resale supply. However, growth in fundamentals such as personal disposable income and the young adult population has slowed, which supports the case for moderate overvaluation in the current release. This imbalance could be resolved either by a further slowdown in price growth, 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. There was no job growth in 2016Q1 in Regina, compared to the same period one year prior. With the labour force expanding at a faster rate than employment, Regina's seasonally-adjusted unemployment rate increased to average 5.0 per cent in the first quarter of 2016 from 4.4 per cent in the fourth quarter of 2015. Weaker labour market conditions contributed to a 31 per cent decline in total net migration to the Regina CMA in 2015, which has moderated population growth.

Figure 3



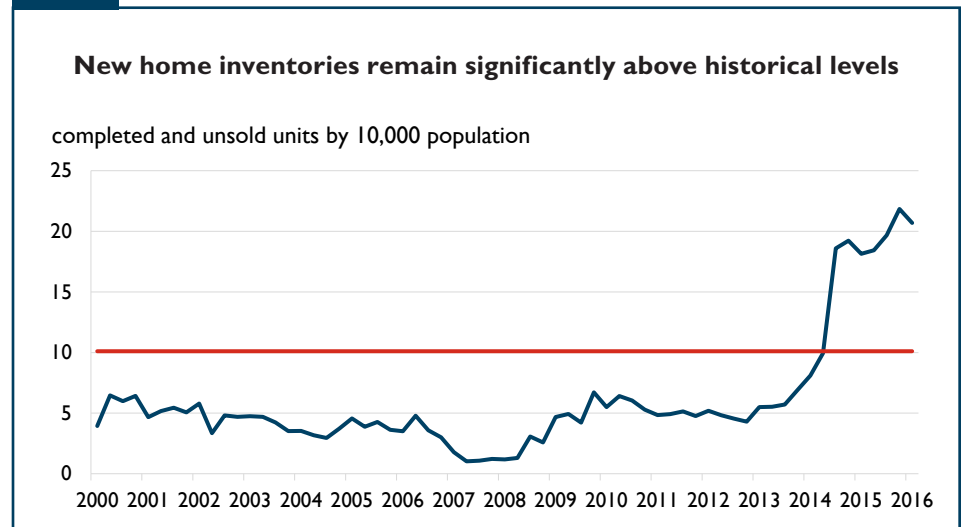
Source: The Conference Board of Canada
Last data point: 2016Q1

Overbuilding

We continue to detect strong evidence of overbuilding in Regina. Despite the significant pullback in total housing starts in the past year and a continued scaling back during the first quarter of 2016, the inventory of complete and unsold units relative to population remained significantly above the framework's overbuilding threshold. This is indicative of market absorptions not keeping pace with completions, particularly among ownership condominium apartments where inventory levels remained elevated at the end of March 2016. On the other hand, it also reflects the slowdown in housing demand resulting from a sharp decline in total net migration to Regina since the peak level of 2012.

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 rental demand while supply increased with the completion of new purpose-built rental apartments initiated in preceding years. As well, there were 478 rental apartment completions in the Regina CMA between July 2015 and March 2016, which will likely keep upward pressure on the vacancy rate. According to the HMA framework, the combination of elevated inventory of new units and a higher vacancy rate reflects strong evidence of overbuilding.

Figure 4



Source: CMHC, calculations (threshold) by CMHC, Statistics Canada
Last data point: 2016Q1

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.

CMHC—HOME TO CANADIANS

Canada Mortgage and Housing Corporation (CMHC) has been Canada's national housing agency for almost 70 years.

CMHC helps Canadians meet their housing needs. As Canada's authority on housing, we contribute to the stability of the housing market and financial system, provide support for Canadians in housing need, and offer objective housing research and information to Canadian governments, consumers and the housing industry. Prudent risk management, strong corporate governance and transparency are cornerstones of our operations.

For more information, visit our website at www.cmhc.ca or follow us on [Twitter](#), [LinkedIn](#), [Facebook](#) and [YouTube](#).

You can also reach us by phone at 1-800-668-2642 or by fax at 1-800-245-9274.

Outside Canada call 613-748-2003 or fax to 613-748-2016.

Canada Mortgage and Housing Corporation supports the Government of Canada policy on access to information for people with disabilities. If you wish to obtain this publication in alternative formats, call 1-800-668-2642.

The Market Analysis Centre's (MAC) electronic suite of national standardized products is available for free on CMHC's website. You can view, print, download or subscribe to future editions and get market information e-mailed automatically to you the same day it is released. It's quick and convenient! Go to www.cmhc.ca/en/hoficlincl/homain

For more information on MAC and the wealth of housing market information available to you, visit us today at www.cmhc.ca/housingmarketinformation

To subscribe to printed editions of MAC publications, call 1-800-668-2642.

©2016 Canada Mortgage and Housing Corporation. All rights reserved. CMHC grants reasonable rights of use of this publication's content solely for personal, corporate or public policy research, and educational purposes. This permission consists of the right to use the content for general reference purposes in written analyses and in the reporting of results, conclusions, and forecasts including the citation of limited amounts of supporting data extracted from this publication. Reasonable and limited rights of use are also permitted in commercial publications subject to the above criteria, and CMHC's right to request that such use be discontinued for any reason.

Any use of the publication's content must include the source of the information, including statistical data, acknowledged as follows:

Source: CMHC (or "Adapted from CMHC," if appropriate), name of product, year and date of publication issue.

Other than as outlined above, the content of the publication cannot be reproduced or transmitted to any person or, if acquired by an organization, to users outside the organization. Placing the publication, in whole or part, on a website accessible to the public or on any website accessible to persons not directly employed by the organization is not permitted. To use the content of any CMHC Market Analysis publication for any purpose other than the general reference purposes set out above or to request permission to reproduce large portions of, or entire CMHC Market Analysis publications, please complete the [CMHC Copyright request form](#) and email it to CMHC's Canadian Housing Information Centre at chic@cmhc.ca. For permission, please provide CHIC with the following information: Publication's name, year and date of issue.

Without limiting the generality of the foregoing, no portion of the content may be translated from English or French into any other language without the prior written permission of Canada Mortgage and Housing Corporation.

The information, analyses and opinions contained in this publication are based on various sources believed to be reliable, but their accuracy cannot be guaranteed. The information, analyses and opinions shall not be taken as representations for which Canada Mortgage and Housing Corporation or any of its employees shall incur responsibility.

Housing market intelligence you can count on



FREE REPORTS AVAILABLE ON-LINE

- Canadian Housing Statistics
- Condominium Owners Report
- Housing Information Monthly
- Housing Market Outlook, Canada
- Housing Market Outlook, Highlight Reports – Canada and Regional
- Housing Market Outlook, Major Centres
- Housing Market Tables: Selected South Central Ontario Centres
- Housing Now, Canada
- Housing Now, Major Centres
- Housing Now, Regional
- Monthly Housing Statistics
- Northern Housing Outlook Report
- Preliminary Housing Start Data
- Rental Market Provincial Highlight Reports
- Rental Market Reports, Major Centres
- Rental Market Statistics
- Residential Construction Digest, Prairie Centres
- Seniors' Housing Reports

Get the market intelligence you need today!

Click www.cmhc.ca/housingmarketinformation to view, download or subscribe.

CMHC's Market Analysis Centre e-reports provide a wealth of detailed local, provincial, regional and national market information.

- **Forecasts and Analysis –**
Future-oriented information about local, regional and national housing trends.
- **Statistics and Data –**
Information on current housing market activities – starts, rents, vacancy rates and much more.

HOUSING MARKET INFORMATION PORTAL

The housing data you want, the way you want it

Information in one central location.

Quick and easy access.

Neighbourhood level data.

cmhc.ca/hmportal

