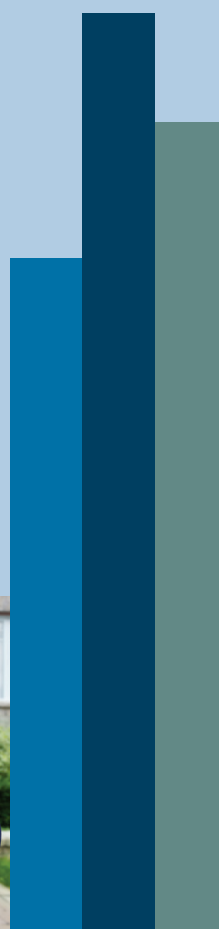


# HOUSING MARKET ASSESSMENT

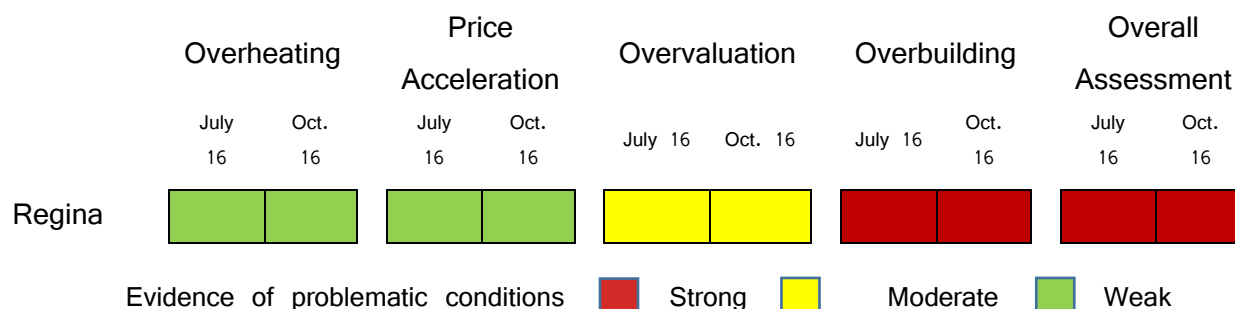
## Regina CMA

Date Released: Fourth Quarter 2016



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## Highlights



- The framework maintained the overall assessment of strong evidence of problematic conditions<sup>1</sup> due to moderate overvaluation and strong evidence of overbuilding.
- Weak evidence of overheating and price acceleration continued to be detected.
- Regina's resale market balance continued to improve in 2016 Q2, which further stabilized house prices. Notwithstanding, slower growth in personal disposable income and in the young adult population maintained the case for moderate overvaluation.
- The inventory of new housing units relative to population declined in 2016 Q2 but remained significantly above the historical threshold. Combined with a high rental vacancy rate, this resulted in the framework maintaining 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 Overview<sup>2</sup>

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

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<sup>1</sup> Results are based on data as of the end of June 2016 and local market intelligence up to end of September 2016. CMHC continuously monitors market developments and will issue HMA updates on a quarterly basis.

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

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.

## In detail

### Evidence of overheating remains weak

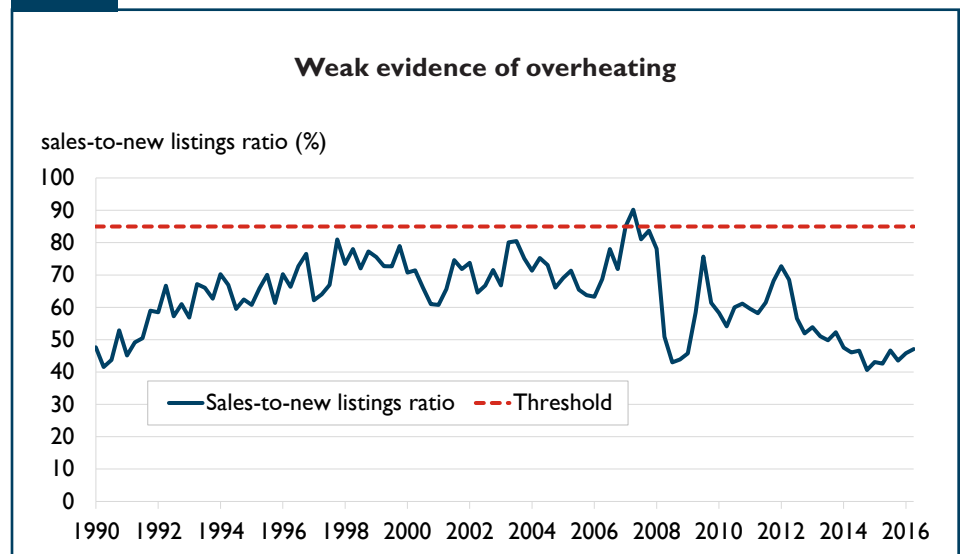
There was no change in the framework's assessment of weak evidence of overheating of demand in 2016 Q2 from the previous release. Home sales in and around Regina were up marginally in 2016 Q2 compared to the previous year, but up 4.2 per cent on a cumulative basis from the same period of 2015. Nonetheless, the trend

*"House prices in Regina continued to stabilize in 2016Q2 despite slower growth in economic and demographic fundamentals such as personal disposable income and the young adult population. As a result, the HMA framework continued to detect moderate evidence of overvaluation."*



Senior Market Analyst  
(Saskatchewan)  
Goodson Mwale

Figure 1



Source: CREA (seasonally adjusted), calculations (threshold) by CMHC  
Last data point: 2016Q2

in sales was relatively flat in the second quarter from the first quarter of 2016. With a relatively stable trend in new listings as well, the seasonally-adjusted sales-to-new listings ratio (SNLR) averaged 48 per cent in the second quarter of 2016, up from the previous quarter but still significantly below the framework's estimated threshold of 85 per cent that would be consistent with an overheating market.

In Regina's single-family segment, home sales for geographic areas 1-5<sup>3</sup> increased 4.9 per cent in 2016 Q2 from the same period a year earlier. Nearly 88 per cent of all sales were of units priced below \$500K, which helped keep price gains modest. On the supply side, a 7.7 per cent decline in new listings contributed to a double-digit reduction in active listings in the second quarter, thus narrowing the gap between supply and demand in this sector. In the condominium segment, total sales in areas 1-5 were up modestly in 2016 Q2 from the previous year, but up more than 10 per cent on

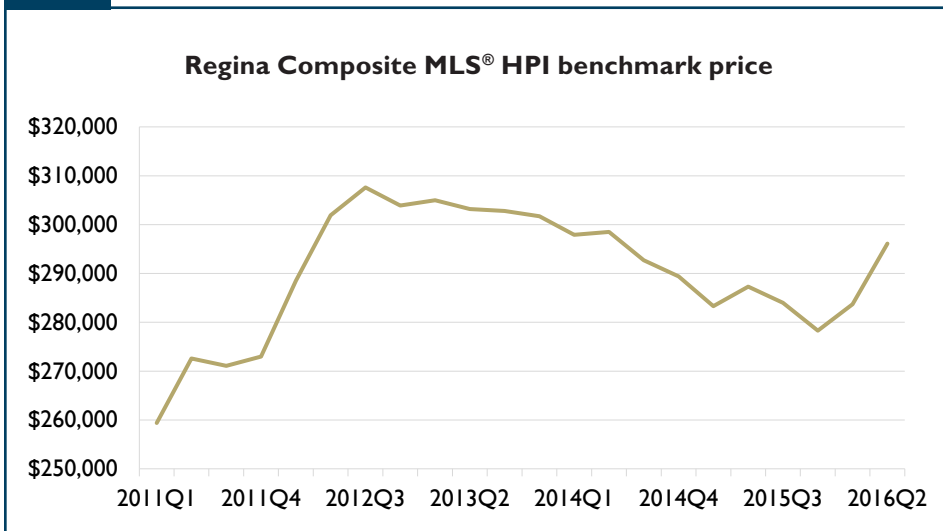
a cumulative basis. Meanwhile, condominium listings declined 18 per cent in the second quarter from the same quarter one year prior.

### Weak evidence of acceleration in the growth of house prices

The HMA framework continued to detect weak evidence of acceleration in the growth of Regina's house prices in 2016 Q2. House prices in Regina's overall market continued to stabilize in the second quarter of 2016 as the gap between demand and supply in the resale market narrowed further. The improvement in market balance supported modest year-over-year gains in resale prices for the second consecutive quarter this year. On a seasonally-adjusted basis, Regina's average MLS® price trended higher in the second quarter from the first quarter of 2016, underscoring a shift towards more balanced market conditions. In addition, the composite MLS® HPI benchmark price, which

<sup>3</sup> The Regina residential market is divided into five geographic areas on the Multiple Listing Service. All home sales and listings in the city are located within areas one through five.

Figure 2



Source: CREA, residential

Last data point: 2016Q2

tracks four benchmark home types in Regina's real estate market, was up 3.6 per cent at the end of June 2016 from the previous 12-month period.

Market conditions in the single-family home segment continued to improve in the second quarter of 2016, with resale prices rising modestly for a second consecutive quarter this year, compared to a year ago. On a cumulative basis, the price of a single-family home in Regina's geographic areas 1-5 was up 2.4 per cent during the first half of this year from the corresponding period of 2015. By contrast, downward pressure on Regina's condominium prices had not fully abated in 2016 Q2 despite a significant decline in active listings for this segment. As a result, the average condominium price in Regina's resale market was down 4.4 per cent in 2016 Q2 from the same period one year prior, the sixth consecutive quarter of decline.

### Moderate evidence of overvaluation

House prices in Regina continued to stabilize in 2016 Q2 despite slower growth in economic and demographic fundamentals such as personal disposable income and the young adult population. As a result, the HMA framework maintained the result of moderate evidence of

overvaluation. This imbalance could be resolved either by a slowdown in price growth, a pickup in income and population growth, or a combination of both.

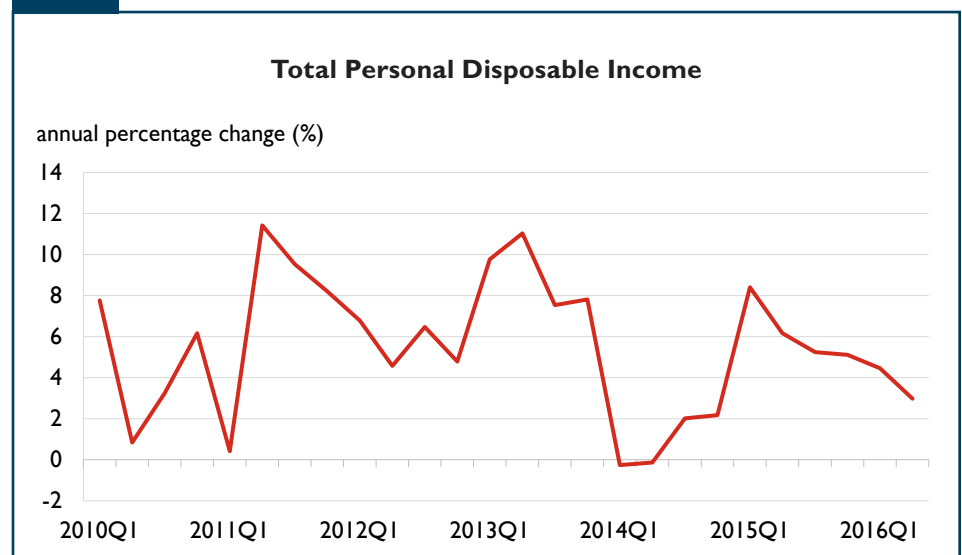
The effects of lower global prices for oil and potash have slowed employment and income growth in Regina over the past couple of years. Notwithstanding, the number of people employed in Regina increased by 1.4 per cent in the second quarter from the first quarter of 2016.

Meanwhile, the seasonally-adjusted unemployment rate was averaging 5.3 per cent in the second quarter, up from 5.0 per cent in the previous quarter. In addition, growth in personal disposable income and the population aged 25 to 34 slowed further in 2016 Q2, which likely had a moderating effect of housing demand on Regina market.

### Evidence of overbuilding remains strong

There was no change in the framework's assessment of overbuilding from the previous release. Regina's number of

Figure 3



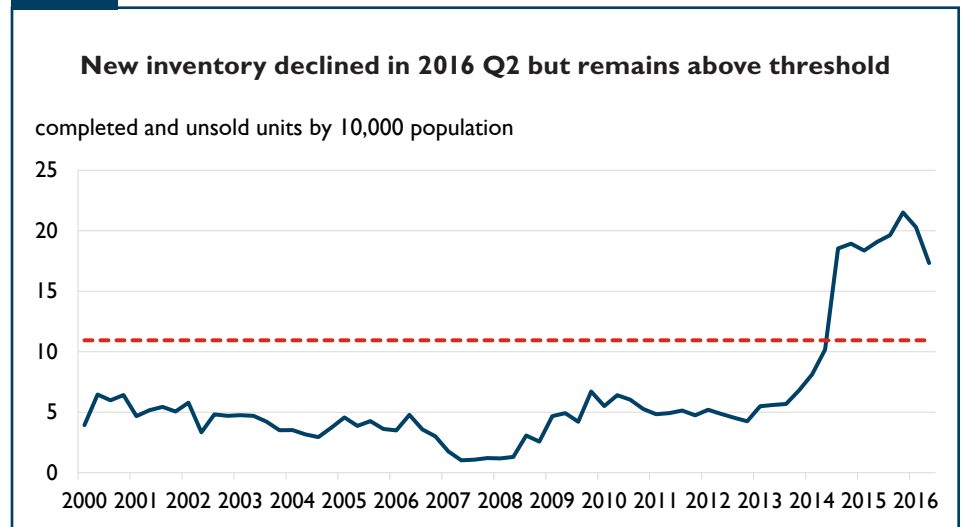
Source: The Conference Board of Canada

Last data point: 2016Q2

completed and unsold units per 10,000 population declined in the second quarter of 2016, following continued reductions in total housing starts. Notwithstanding, the inventory of new housing units relative to population was still above the framework's long-term overbuilding threshold. The on-going oil price shock and weak potash prices have had a moderating effect on economic activity and housing demand in Regina, characterized by slower employment growth and lower net migration. As a result, market absorptions have not kept pace with new housing completions, particularly among condominium apartments where inventory levels remained elevated at the end of June 2016.

By itself, the level of inventory suggests some measure of oversupply. However, combined with Regina's rental apartment vacancy rate, which increased to 5.4 per cent in the past year, the HMA framework continued to detect strong evidence of overbuilding in 2016 Q2. The long-term threshold for Regina's rental vacancy rate that would be consistent with overbuilding is 4.7 per cent.

Figure 4



Source: CMHC, calculations (threshold) by CMHC, Statistics Canada  
Last data point: 2016 Q2

## 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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