

# HOUSING MARKET ASSESSMENT

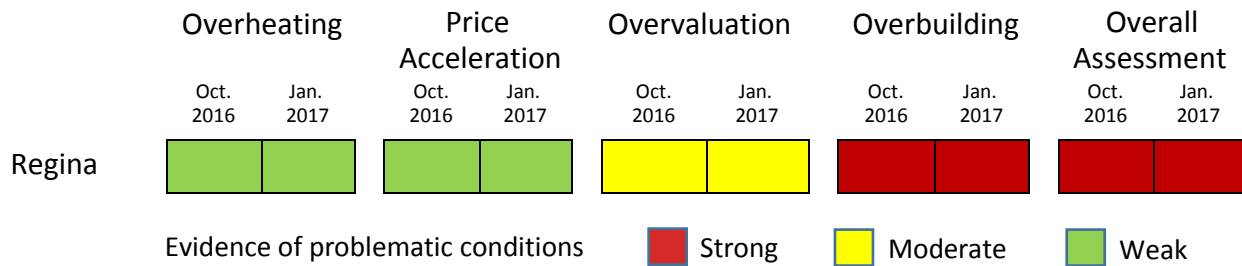
## Regina CMA

Date Released: First Quarter 2017



*Housing market intelligence you can count on*

## Highlights



- CHMC's Housing Market Assessment (HMA) framework continued to detect strong evidence of problematic conditions in the Regina housing market.<sup>1</sup>
- Factors such as overheating and the acceleration in growth of house prices continued to show weak evidence of problematic conditions.
- Moderate evidence of overvaluation in house prices was detected due to relatively weaker economic and labour market conditions.
- The inventory of new housing units relative to population declined further in Q3 2016 but remained slightly above the historical threshold. The rental vacancy rate was also above its long-term historical threshold. These two factors contributed to a continued assessment of overbuilding in Regina.
- The 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 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.

### SUBSCRIBE NOW!

Access CMHC's Market Analysis Centre publications quickly and conveniently on the Order Desk at [www.cmhc.ca/housingmarketinformation](http://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.

<sup>1</sup> Results are based on data as of the end of September 2016 and local market intelligence up to end of December 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](#).

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.

## In detail

### Evidence of overheating remains weak

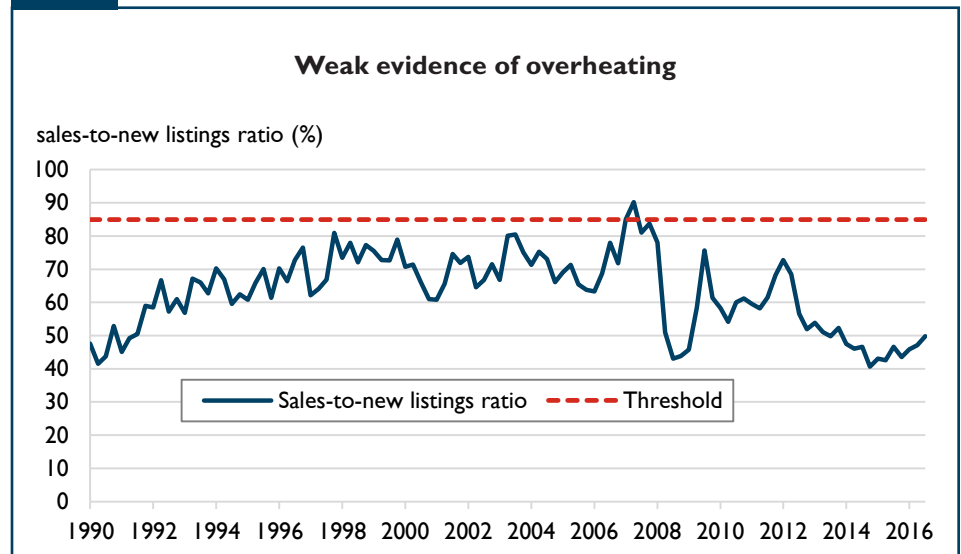
The HMA framework continued to detect weak evidence of overheating in the Regina housing market. On a seasonally-adjusted basis, total existing home sales moved higher in Q3 2016 from the previous quarter, while new listings remained relatively

*"The evidence of overvaluation was unchanged in the Regina housing market. The HMA framework continued to detect strong evidence of overbuilding due to elevated inventory of completed and unsold units and a high rental vacancy rate."*



Senior Market Analyst  
(Saskatchewan)  
Goodson Mwale

Figure 1



Source: CREA (seasonally adjusted), calculations (threshold) by CMHC  
Last data point: 2016Q3

flat. As a result, the sales-to-new listings ratio (SNLR) rose to 50 per cent in the third quarter from 47 per cent in second quarter. For the market to be overheating, demand would need to be running significantly ahead of supply. Despite the SNLR increasing in Q3 2016, it remained well below the framework's estimated threshold for overheating, which is at 85 per cent (figure 1).

There have been no significant signs of overheating of demand in either of Regina's single-detached or condominium categories. In both sectors, market conditions in geographic areas 1-5<sup>3</sup> are becoming more balanced but still favour the buyer, especially for condominiums. Active listings of single-detached units were averaging around four months of supply in Q3 2016, up slightly from

the previous quarter. The average months of supply for condominium apartments moved up to seven months from 6.5 months in Q2 2016.

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

According to the HMA framework, there continued to be weak evidence of acceleration in the growth of house prices in Regina's market. The seasonally-adjusted average MLS® price declined 0.7 per cent in Q3 2016 from Q2 2016 to just under \$315,200 (figure 2). While the MLS® HPI benchmark price<sup>4</sup> increased 3.7 per cent in the third quarter of 2016 from a year earlier, it was down 0.5 per cent from the second quarter of 2016.

<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 of Regina are located within these areas one through five.

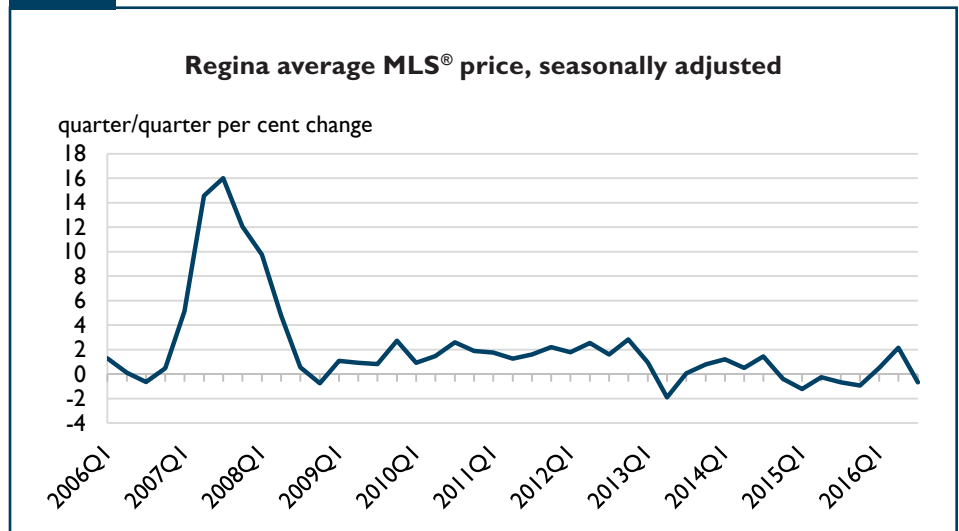
<sup>4</sup> This measure tracks the price of homes with common features, and is therefore is not subject to the limitations of average prices which can be skewed by extreme high or low values.

In the single-detached segment, the composite MLS® HPI benchmark price increased five per cent in Q3 2016 from one year prior, but was marginally lower compared to Q2 2016. By the same measure, prices for condominium apartments edged higher in the third quarter of 2016, but were down for six consecutive quarters, on a year-over-year basis.

## Moderate evidence of overvaluation

The HMA framework continued to detect moderate evidence of overvaluation in the Regina housing market. Year-over-year growth in personal disposable income slowed from 3.1 per cent in Q2 2016 to 2.6 per cent in Q3 2016. In real terms, personal disposable income declined 1.06 per cent in the third quarter of 2016 from the same quarter of 2015. Meanwhile, employment was expanding at a similar rate as in the previous year (figure 3). On a seasonally-adjusted basis, Regina's economy added 1,600 positions across various industries from January through September 2016. With employment expanding at a slightly faster rate than additions to the labour force, Regina's seasonally-adjusted unemployment rate declined to 5.2 per cent in Q3 2016 from 5.6 per cent in Q2 2016.

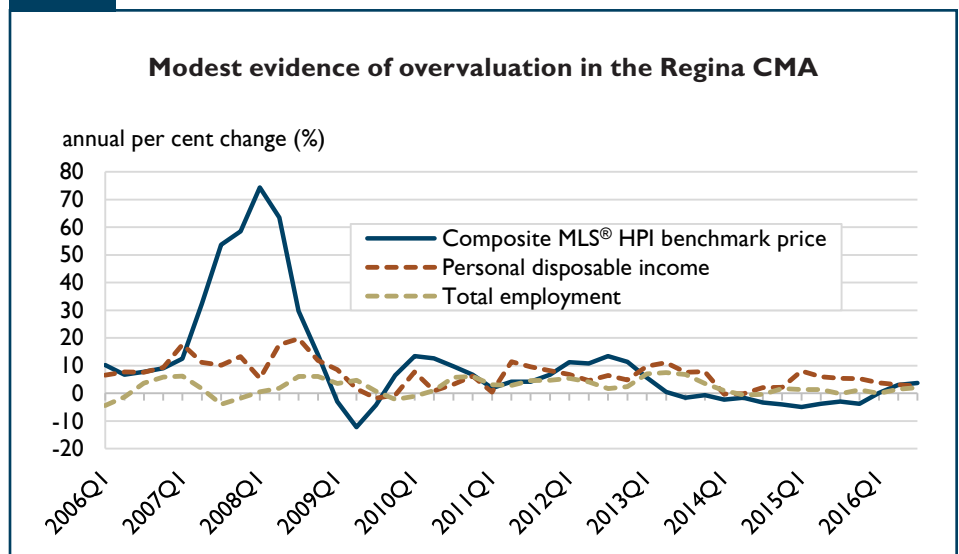
Figure 2



Source: CREA, CMHC calculations

Last data point: 2016Q3

Figure 3



Source: CREA, The Conference Board of Canada, Statistics Canada

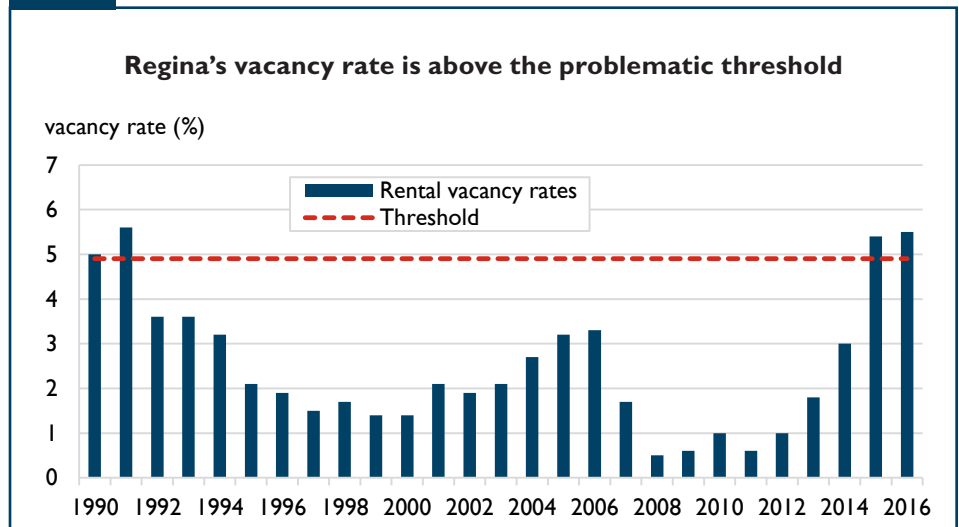
Last data point: 2016Q3

## Evidence of overbuilding remains strong

The assessment for overbuilding examines both the apartment vacancy rate and the number of completed and unsold units relative to population. The HMA framework continued to detect strong evidence of overbuilding in the Regina housing market. In October 2016, the apartment rental vacancy rate in the Regina CMA remained elevated at 5.5 per cent. This rate was above the framework's long-term vacancy rate threshold of 4.9 per cent for overbuilding<sup>5</sup> (figure 4).

Relatively weak economic and labour market conditions have prompted local home builders in the Regina CMA to focus on drawing down inventory of new housing units. While the number of total completed and unsold units per 10,000 population has continued to decline in the third quarter of 2016, it remained above the HMA framework's long-term overbuilding threshold. Much of this new home inventory is among multiples, particularly in neighbourhoods in the Central and East zones (figure 5).

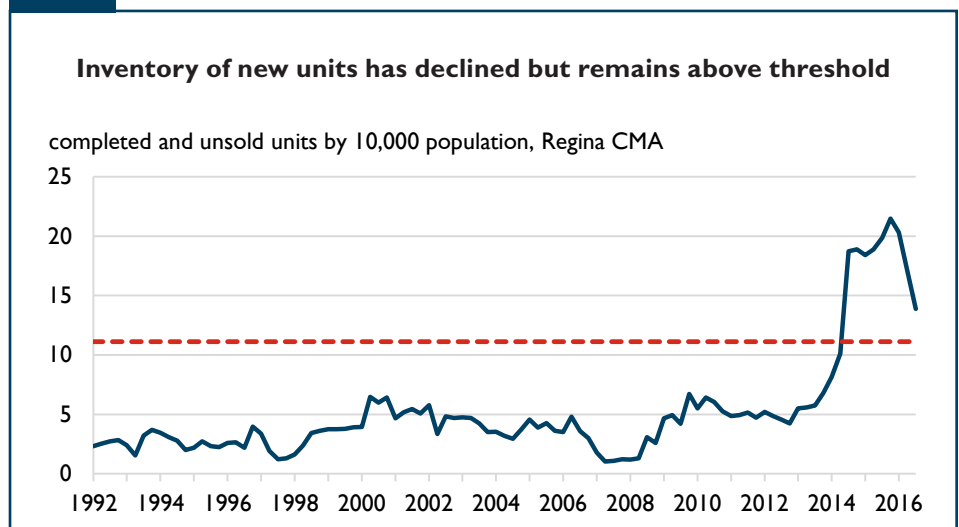
Figure 4



Source: CMHC

Last data point: October 2016

Figure 5



Source: CMHC, calculations (threshold) by CMHC

Last data point: 2016Q3

<sup>5</sup> The threshold is fixed at the 90th percentile of the empirical distribution of vacancy rate or of a normally distributed vacancy rate. Therefore, every time a new vacancy rate is added to the sample, the threshold would also change.

## 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](http://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](http://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](http://www.cmhc.ca/housingmarketinformation)

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

©2017 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](mailto: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

*Local, regional and national analysis and data pertaining to current market conditions and future-oriented trends.*

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

## FREE DATA TABLES AVAILABLE ON-LINE

- Housing Construction Activity by Municipality
- Comprehensive Rental Market Survey Tables
- Comprehensive New Home Construction Tables

**Get the market intelligence you need today!**

**Click [www.cmhc.ca/housingmarketinformation](http://www.cmhc.ca/housingmarketinformation) to view, download or subscribe.**

CMHC's Market Analysis Centre provides a wealth of local, regional, and national data, information, and analysis through its suite of reports, data tables, and interactive tools.

- **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/hmiportal](http://cmhc.ca/hmiportal)**

## Housing Observer Online

Featuring quick reads and videos on...

- Analysis and data
- Timely insights
- Updates to housing conditions and trends & much more!

All links can be shared in social media friendly formats!

**Subscribe today to stay in the know!**  
**[www.cmhc.ca/observer](http://www.cmhc.ca/observer)**

