

HOUSING MARKET ASSESSMENT

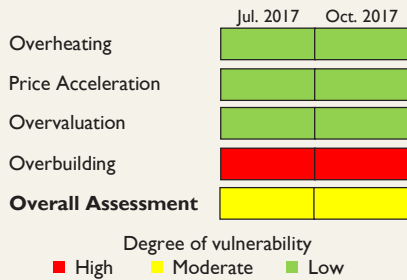
Regina CMA

Date Released: Fourth Quarter 2017



Highlights

Results Overview Regina CMA



- Overall, there is a moderate degree of vulnerability in Regina's housing market¹.
- Low evidence of overvaluation was detected as house prices remained closer to levels warranted by economic and demographic fundamentals.
- Evidence of overheating and acceleration in the growth of house prices remained low.
- The framework detected high evidence of overbuilding due to elevated inventory of completed and unsold units and an elevated vacancy rate.

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 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 degrees of vulnerability 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 resolve 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 degrees of market vulnerability. 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 low degree of vulnerability. As the number of intense and persistent signals increases, the associated degree of vulnerability increases.

In Detail

Low evidence of overheating

The framework continued to detect low evidence of overheating in Regina's housing market. The seasonally-adjusted sales-to-new-listings ratio (SNLR), a measure of the balance between supply and demand, declined further to 39.7% in Q2 2017 from 41.4% in Q1 2017. The level of this indicator remained significantly below the HMA framework's threshold of 85% that would be consistent with an overheating market. Overall, the growth in the supply of resale homes has exceeded that of demand so far in 2017.

Demand for all home types, single-detached, townhouse and apartment, edged up in Q2 2017, with seasonally adjusted MLS^{®3} sales in Regina's

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¹ Results are based on data as of the end of June 2017 and local market intelligence up to the end of September 2017. 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](#).

³ MLS[®] is a registered trademark of the Canadian Real Estate Association (CREA).

residential market totalling 835 units, compared to 832 units in Q1 2017. By contrast, both active listings and new listings trended much higher over the same period, resulting in market conditions that largely favoured buyers over sellers.

Low evidence of price acceleration

There continued to be low evidence of acceleration in the growth of house prices. Persistent buyer's market conditions limited gains in resale prices. While Regina's seasonally adjusted average MLS® price rose 1.7% to \$314,109 from \$308,885 in Q1 2017, other price measures posted declines, such as the MLS® HPI composite benchmark price⁴, which recorded a 0.8% year-over-year decline in Q2 2017. In addition, the trend in Statistics Canada's total New Housing Price Index⁵ for Regina remained stable in Q2 2017.

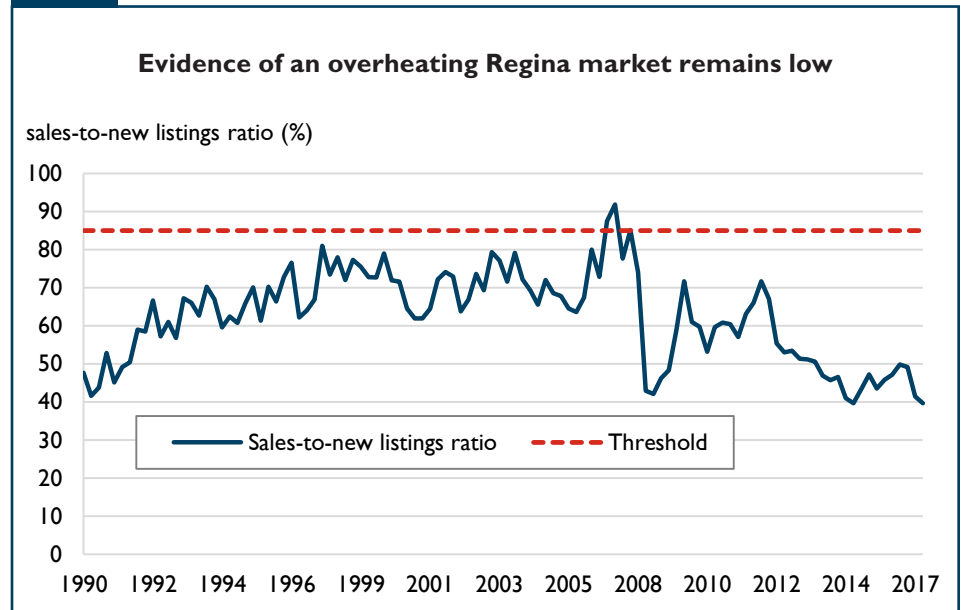
Among the different dwelling types, the MLS® HPI benchmark prices for single-detached homes and townhouses declined in Q2 2017



Goodson Mwale
Senior Market Analyst
(Saskatchewan)

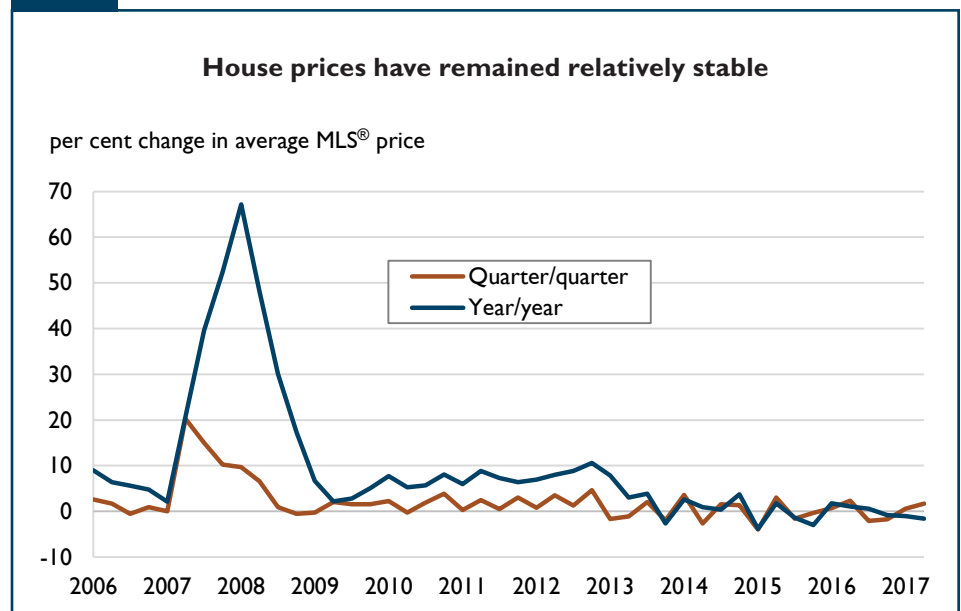
"Overall, we detect a moderate degree of vulnerability in Regina's housing market. There continued to be low evidence of overvaluation in house prices. However, our framework detected high evidence of overbuilding due to elevated inventory of completed and unsold units, particularly in the multiples sector."

Figure 1



Source: CREA (seasonally adjusted), calculations (threshold) by CMHC
Last data point: 2017Q2

Figure 2

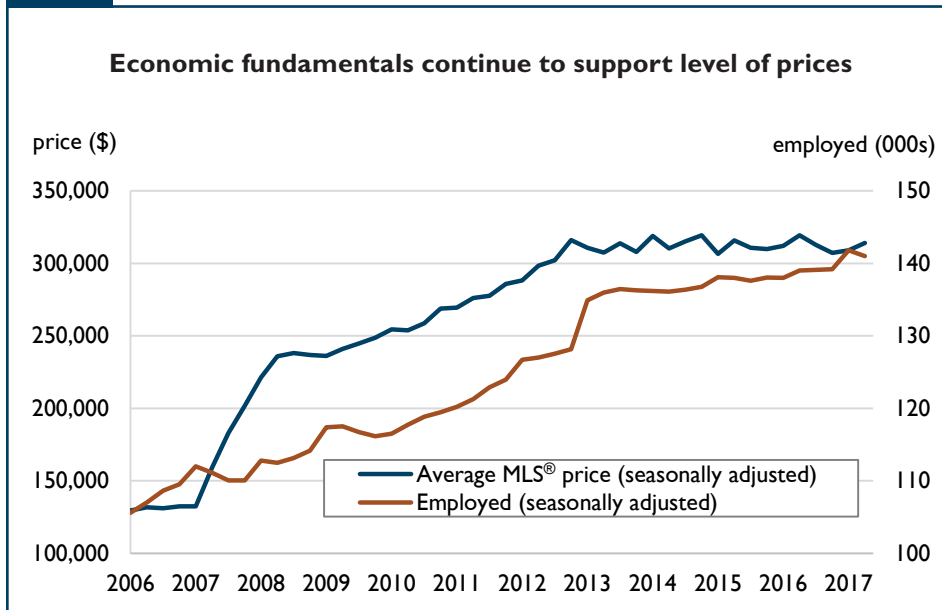


Source: CREA (seasonally adjusted), CMHC calculations
Last data point: 2017Q2

⁴ Source: CREA. The MLS® HPI is based on a hybrid model that merges Repeat-Sales and Hedonic Price approaches, and reflects the contribution made by various quantitative and qualitative housing features toward the home price.

⁵ Source: Statistics Canada, CANSIM, table 327-0056.

Figure 3



Source: CREA, Statistics Canada
Last data point: 2017Q2

compared to previous year, after recording year-over-year gains in Q1 2017. By contrast, the pace of year-over-year price growth for apartment units increased in Q2 2017 from Q1 2017. Nonetheless, with apartment inventory in the new home market remaining elevated, growth in prices within this segment will likely be limited moving forward.

Evidence of overvaluation in house prices remains low

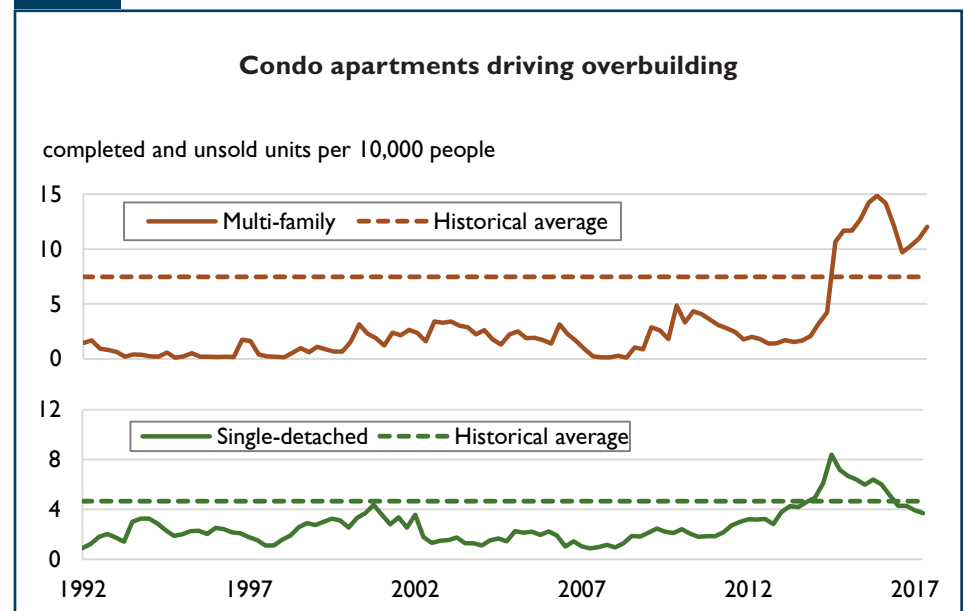
According to the HMA framework, there continued to be low evidence of overvaluation in the Regina market. House prices have remained relatively stable and closer to levels warranted by underlying economic and demographic fundamentals. Labour market conditions have remained fairly positive, with steady job creation supporting housing demand. Regina's economy added 1,400 full-time jobs in Q2 2017, following the 1,800 roles created in Q1 2017. Meanwhile, real personal disposable income was stable in

Q2 2017 compared to the preceding quarter. In addition, year-over-year growth in the young adult population aged 25-34, though slightly less than in Q1 2017, remained strong at 2.5% in Q2 2017.

High evidence of overbuilding due to multiples sector

CMHC's HMA framework assesses overbuilding by examining new housing inventory and the rental apartment vacancy rate against their relative long-term thresholds. Accordingly, the framework detected high evidence of overbuilding in Regina during Q2 2017. The number of completed and unsold units per 10,000 population increased slightly in the second quarter and remained above the framework's critical threshold. This is largely due to the multiples sector where inventory levels in June 2017 were significantly above their historical average. In addition, Regina's 2016 apartment rental vacancy rate of 5.5% was also above its critical threshold. Therefore, the combination of elevated inventory and a high vacancy rate resulted in the framework's continued assessment of high evidence of overbuilding.

Figure 4



Source: CMHC, calculations (historical average) by CMHC
Last data point: 2017Q2

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 detect imbalances in housing markets.

Specifically, the framework considers four main factors that may provide an early indication of vulnerability in the housing market: (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 incidence of signs of vulnerability, 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 a low degree of vulnerability. Conversely, as the intensity, number, and/or persistence of the signals increases, so does the evidence of imbalances in the housing market.

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 vulnerability. 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 vulnerable 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 vulnerabilities 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 signs of overheating, 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 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 signs of overbuilding 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 degree of market vulnerability. The HMA reflects a comprehensive framework that not only tests for the presence or incidence of signals of imbalances (that is, how far the indicator is from its historical average), but also considers the intensity and the persistence of these signals over time. Generally, low intensity and persistence are associated with a lower vulnerability. As the number of persistent signals increases, the evidence of an imbalance 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 that can identify imbalances. 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 showing vulnerability 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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