HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Winnipeg CMA

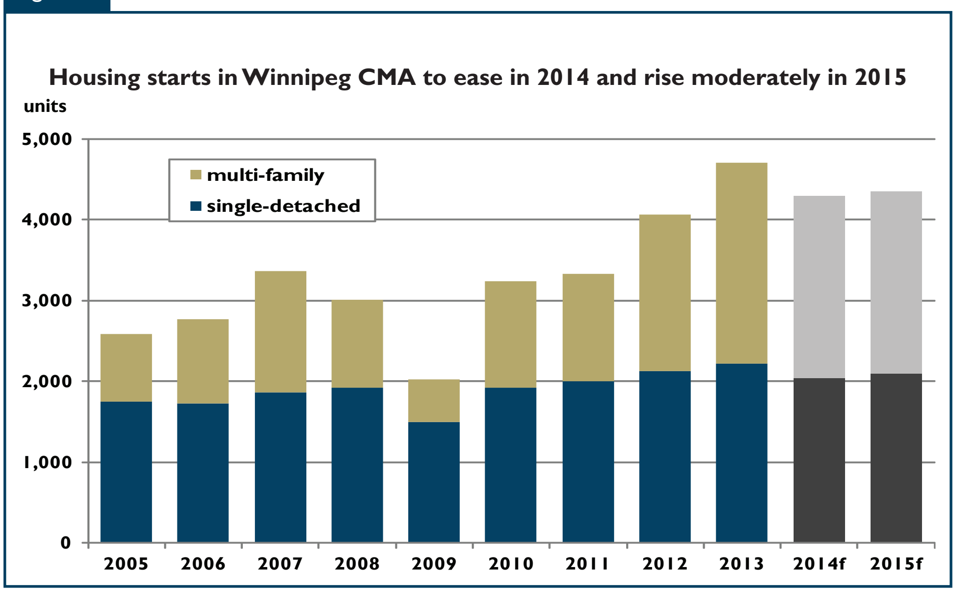
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Spring 2014

Highlights[1]

- Housing starts to ease in 2014 and rise moderately in 2015
- Softer demand will result in higher new home inventories
- Sales in the resale market to increase moderately while price gains ease
- Vacancy rates to rise modestly in both 2014 and 2015

Figure 1



Source: CMHC, CMHC Forecast (f)

[1] The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents forecast ranges and risks where appropriate. The forecasts and historical data included in this document reflect information available as of April 30, 2014.

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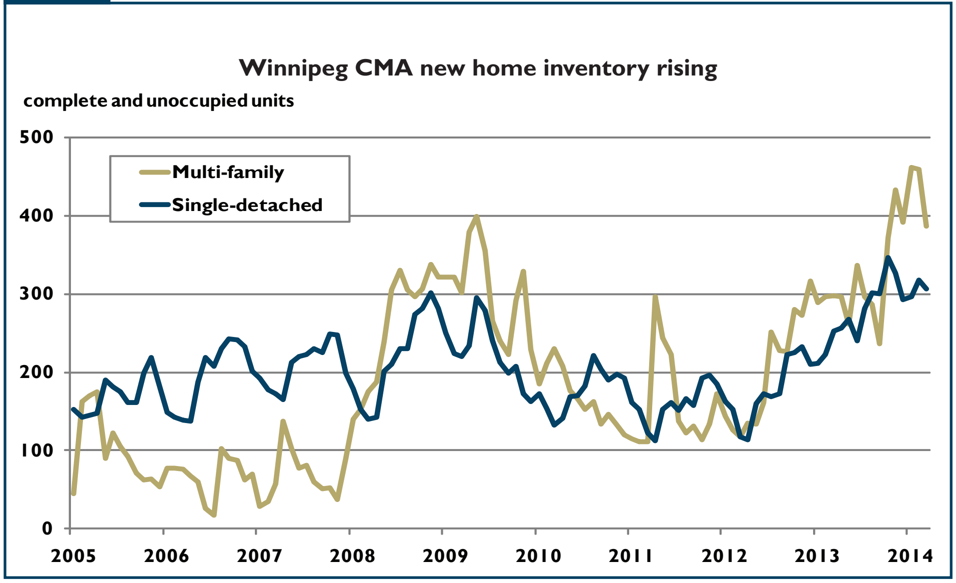
New Home Market: Moderation Expected for Winnipeg Housing Starts

After increasing for the fourth consecutive year to a 26-year high in 2013, total housing starts in the Winnipeg Census Metropolitan Area (CMA) are expected to ease in 2014 before moderately increasing in 2015. Several factors will play a role in reducing the demand for new housing over the forecast period. Employment grew less than one half of one per cent in 2013 as a result of losses in public administration and construction. Despite a manufacturing sector continuing to gain strength, employment is expected to advance less than one per cent in 2014. Although historically elevated, net migration fell 12 per cent in 2013, resulting in a reduced rate of population growth for Winnipeg. Increases in new home production in recent years have also outpaced demand, resulting in rising inventories, particularly in the multi-family market. At the same time, new home builders are facing increased competition from the resale market where the number of listings is increasing. Given these factors, builders will ease production in 2014 starting 4,300 units, 8.6 per cent fewer than in 2013 before moderately increasing to 4,350 in 2015.

Winnipeg homebuilders started 2,218 single-detached dwellings in 2013, an increase of 4.2 per cent over 2012. During the first quarter of 2014, extreme cold temperatures contributed to a decline of 20 per cent in single-detached starts compared to last year's corresponding total. Over the balance of the year, builders will pick up the pace to partially make up for this deficit, however they will be unable to match the results of 2013 due to softening demand.

Figure 2



Source: CMHC

Completions continue to outnumber absorptions, pushing the inventory of single-detached homes up to 306 units at the end of March, 21 per cent more than in March 2013. The number of show homes in inventory has remained relatively stable and even declined year-over-year in the first quarter of 2014. Inventory growth has therefore been concentrated in the spec home category, which at the end of March was up 55 per cent over the previous year. However, with single-detached starts ebbing in the first quarter, the number of units under construction in March was 13 per cent lower than one year prior. This points towards a further dampening of inventory growth moving forward as fewer units will be completed.

The lower level of starts thus far in 2014 indicates that builders have already begun to respond to increasing inventories and the moderating demand for new homes. Demand in the move-up market in particular has been impacted by the loss of full-time jobs among workers aged 45 to 64 in the first quarter of 2014. On the positive side, employment among workers aged 25-44 turned around in the first quarter and registered its first year-over-year gain since 2012. While this provides some support for new housing demand moving forward, these potential buyers are now enjoying increasing selection in the resale market where active listings during the first quarter increased 25 per cent over the same period last year.

Winnipeg continues to see population gains despite moderating net migration, fuelling the need for additional housing stock. However, shifting demographics means population growth is concentrated among younger individuals and empty-nesters where some tend to favour multi-family housing. While the above conditions will contribute to a softening of demand for new single-detached homes, other factors will continue to support new construction in this sector. Existing homeowners continue to see price gains in the resale market and will be attracted to a new home in the move-up market. Mortgage rates are expected to remain low in the near term, also supporting homeownership. On balance, single-detached starts will moderate in 2014 with builders pouring foundations for 2,050 units, a decrease of 7.6 per cent. This will allow inventories to be drawn down, prompting an increase in single-detached housing starts to 2,100 units in 2015.

The average absorbed price of a new single-detached house in the Winnipeg CMA advanced 4.5 per cent in 2013 to $420,456. Through March 2014, the average price increased a further 9.3 per cent to $427,853. These most recent price gains were supported by buyers shifting towards higher priced units with more features and amenities. The share of homes priced above $450,000 almost doubled from 22 per cent in the first quarter of 2013 to 41 per cent in the first quarter of 2014. Many of the homes absorbed in the first quarter would have been based on orders placed in 2013 when employment growth was strongest among the age group typically associated with move-up buyers. As the year progresses, this compositional shift will be less pronounced as builders ease production and more homes are absorbed from the spec home inventory where the bulk of the stock is priced below $500,000. This will bring the average absorbed price to $433,000 for 2014, an increase of three per cent with a similar increase in 2015 to $446,000.

To reduce the influence of market share on average price, Statistics Canada's New House Price Index (NHPI) measures the change in the price of new homes where the specifications remain the same between two consecutive periods. In 2013, the NHPI recorded a year-over-year increase of 4.9 per cent. This increase was driven primarily by the land-only component of the index which advanced 6.9 per cent over 2012. The house-only component of the index rose by an average 4.1 per cent over the same period. It is expected that with builders easing production over the forecast period, upward pressure on input costs such as labour and materials will ease. As a result, average increases in the NHPI will be moderate at 3.8 per cent in 2014 and 3.6 per cent in 2015.

After increasing 46 per cent in 2012, multi-family starts, which consist of semi-detached units, rows, and apartments, advanced an additional 28 per cent in 2013 to set a 26-year high. In 2014, multi-family starts will moderate by 9.5 per cent to 2,250 units and remain at this level for 2015, due largely to supply-side issues. Completions have outnumbered absorptions and the inventory of complete and unabsorbed units reached a record high of 462 units in January 2014. By March 2014, inventory decreased to 387 units but was still 30 per cent higher than one year prior. The majority of these units are in the ownership market where at the end of March, the inventory was up 68 per cent year-over-year and more than double the five-year average. Conversely, multi-family inventories for rental tenure, although 21 per cent above the five-year average, were down eight per cent under the same comparison. Inventories are likely to further increase as the number of multi-family units under construction in March was 14 per cent higher than one year prior. Higher inventories will signal developers to hold back on initiating some new projects moving forward.

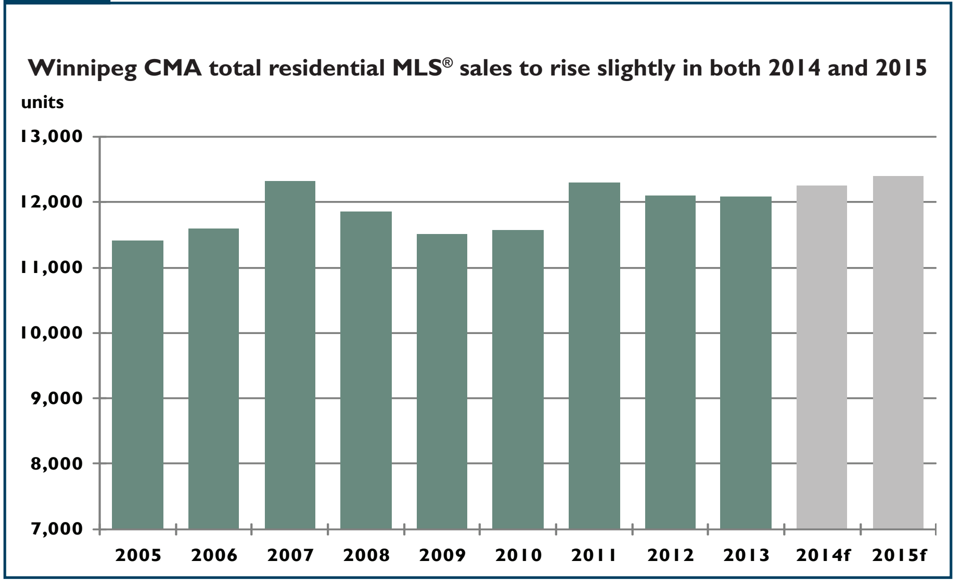
Notwithstanding supply-side concerns, demand for multi-family projects remains driven by population growth due to international immigration, which is at a historic high. Most migrants tend to be younger, more mobile, and have a higher propensity to rent upon arrival to the city. In addition to a growing population, Winnipeg is also experiencing changing age demographics. Children of the baby boom generation who grew up in Winnipeg are now entering the housing market and are looking to rent or purchase a condominium, while their parents are becoming empty-nesters and beginning to look towards downsizing. As a result, Winnipeg continues to experience heightened demand for multi-family construction from a variety of fronts.

Existing Home Market: Resale Transactions to Increase in 2014

Sales of existing homes in the Winnipeg CMA rallied in the second half of 2013 and finished the year six transactions shy of matching 2012. Data from the Winnipeg Realtors® shows that sales in 2013 were underpinned by an increase in the condominium market. Thus far in 2014, sales are on pace for a modest increase. Through the end of March 2014, sales were up three per cent compared to first quarter of 2013.

Similar to the new home market, demand for resale homes will be impacted by lower net migration and continued moderate employment growth. However, several factors will result in some housing demand shifting from the new home to the resale market and contribute to a moderate increase in sales in 2014. While modest, recent employment gains have been concentrated among

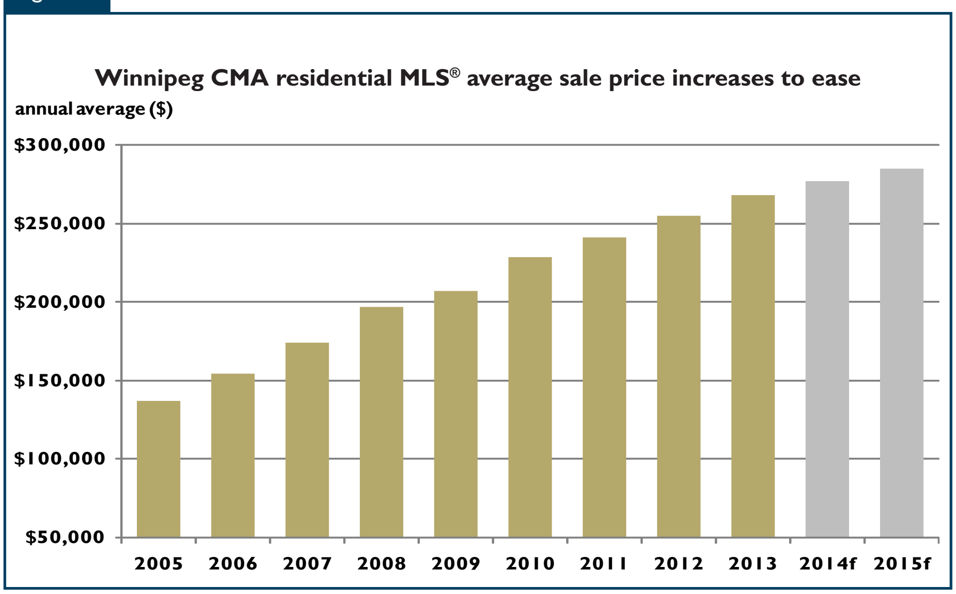
Figure 3



Source: CREA, CMHC Forecast (f)

workers aged 25 to 44 who tend to be first time buyers and favour the lower price points of the resale market. While net migration is easing, many migrants who arrived during the peak are now making their way into homeownership, also as first-time buyers. With an increasing number of new listings, the resulting gain in active listings has resulted in more selection for potential buyers who may no longer feel the need to build new to satisfy their housing needs. Additionally, mortgage rates are expected to remain low, supporting demand. On balance, sales will increase slightly by 1.3 per cent in 2014 to total 12,250 transactions and rise a further 1.2 per cent to 12,400 in 2015.

Figure 4



Source: CREA, CMHC Forecast (f)

While sales remain stable, discussions with industry indicate that more homeowners are choosing to take advantage of previous years' price increases and list their homes. To the end of March 2014, new listings were up 14 per cent compared to the previous year. This has contributed to an increase of 25 per cent in the average number of active listings under the same comparison. The seasonally adjusted sales-to-active listings ratio (SALR) has been trending down since the first quarter of 2012 and was at 53 per cent in March, the lowest point since the beginning of 2009. This is indicative of a more balanced relationship between buyer and seller, hence is moderating price growth. Under these conditions, the average MLS®[2] price is expected to reach $277,000 in 2014, an increase of 3.2 per cent, and rise further to $285,000 in 2015.

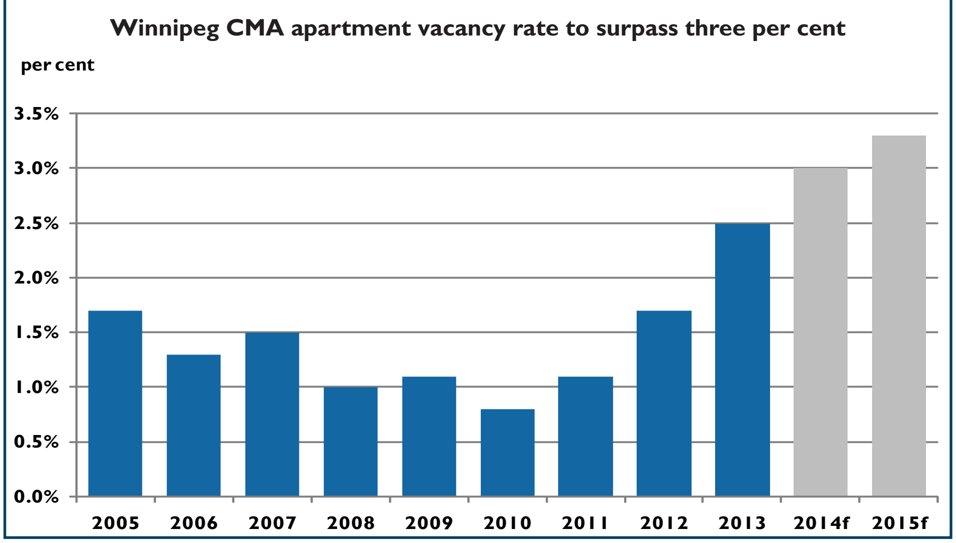
Rental Market: Vacancy Rates to Climb Gradually

The Winnipeg CMA recorded an apartment vacancy rate of 2.5 per cent in October 2013, up from 1.7 per cent in October 2012. This represented the first year the vacancy rate has increased above 2.0 per cent since 2000. The factors that contributed to this increase will persist over the forecast period with the vacancy rate expected to reach 3.0 per cent in October 2014 and 3.3 per cent in 2015.

The higher vacancy rates will be the result of continued movement by existing renters to homeownership due to favourable conditions including job gains among those aged 25-44, low mortgage rates, and a rising supply of listings in the resale market. There will also be fewer new renters

[2] Multiple Listing Service ® (MLS ®) is a registered trademark owned by the Canadian Real Estate Association.

Figure 5

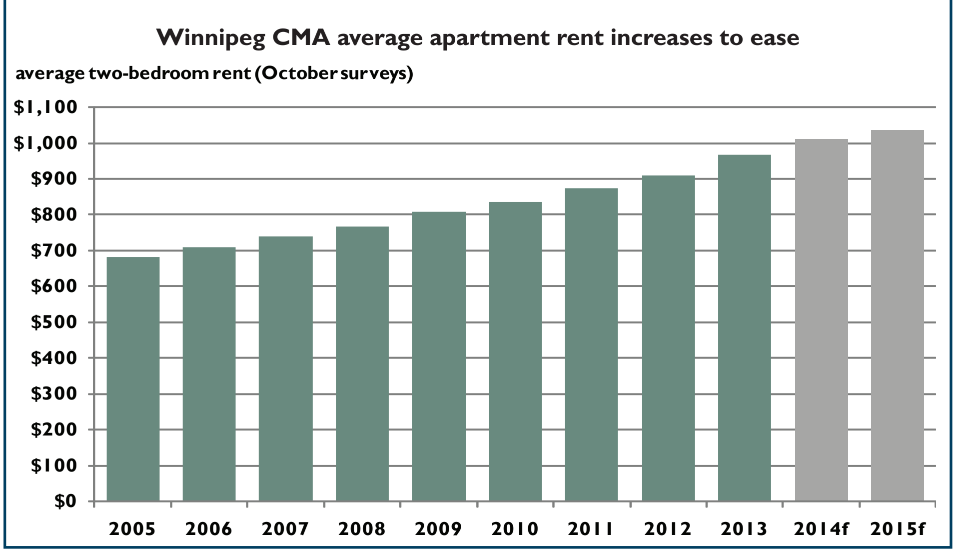


Source: CMHC, Fall Rental Market Survey, CMHC Forecast (f)

coming into the market to fill the vacancies left behind due to a decline in net migration. Moving forward, these demand-side factors will have a greater influence on vacancies than supply-side factors. The number of units in the private rental apartment universe has remained relatively stable despite elevated levels of new apartment rental construction. Losses to the universe through condominium conversion or demolition continue to offset gains.

Despite an increase in vacancy, the average rent for two-bedroom apartments rose from $911 per month in October 2012 to $969 in October 2013. Continued increases in the vacancy rate will temper rent increases over the forecast period,

Figure 6



Source: CMHC, Fall Rental Market Survey, CMHC Forecast (f)

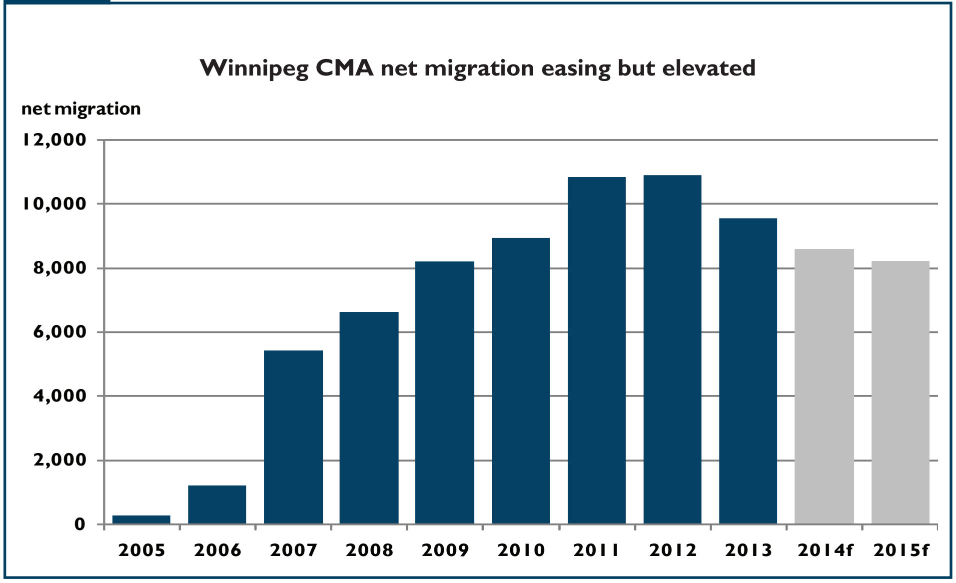
with the average two-bedroom rent rising to $1,010 in October 2014 and $1,035 in 2015. While this will surpass the two per cent Provincial rent control guideline, there are several reasons why rents will increase greater than the guideline amount. The overall average is influenced by the addition of units at higher rent levels through new construction or renovation. Additionally, several exceptions exist within provincial rent control regulations for new and renovated units. Also, many older rental buildings in Winnipeg face rising maintenance and energy costs, thus landlords can apply for permission to increase rents above the guideline to cover these costs.

Economic Trends: Net Migration to Ease

In 2013, net migration to Winnipeg totalled 9,572 persons, a decrease of 12 per cent compared to the peak of 10,929 set in 2012. While this represents the third highest total in recent history, the reduction will have an impact on overall housing demand. Expectations are for net migration to remain elevated but continue to moderate over the forecast period. Winnipeg will see the addition of 8,600 persons in 2014 via net migration and a further 8,200 in 2015. As was the case in 2013, most of the decrease will be attributed to a decline in international migration along with an increase in inter-provincial losses. These trends will continue as Winnipeg competes for migrants with other centres experiencing higher job and wage growth.

After posting modest growth in 2013, the Winnipeg CMA saw employment losses in the first quarter of 2014. To the end of March, the average number of people employed decreased by

Figure 7



Source: Statistics Canada, CMHC Forecast (f)

2,300, or 0.6 per cent. To further the negative effect on the housing sector, losses were concentrated in full-time employment with an average of 4,800 fewer jobs. Overall losses were concentrated in the construction sector where several large projects completed construction last year. This should turn around over the forecast period as construction work intensifies on newly initiated projects and the Province commits to additional infrastructure spending. Also on the positive side, Winnipeg's manufacturing sector continues to show strength with an average increase of 3,100 jobs in the first quarter of 2014 compared to one year prior. Economic growth in the U.S., a lower Canadian dollar, and recent plant expansions among major manufacturers will translate into higher employment in this sector moving forward. Gains in these sectors will be offset by continued weakness in the public administration and service sectors. On balance, this will result in moderate employment gains of 0.8 per cent in 2014 and 1.1 per cent in 2015.

Mortgage Rate Outlook

Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to register gradual and modest increases by the latter part of the 2015 forecast horizon. This will lead to increases in mortgage rates. Despite this, mortgage rates will remain low and will continue to support housing market activity over the forecast horizon.

According to CMHC's base case scenario for 2014, the average for the one-year posted mortgage rate is forecast to be within 3.0 per cent to 3.5 per cent, while the average for the five-year posted mortgage rate is anticipated to be within 5.0 per cent to 5.5 per cent. For 2015, the average for the one-year posted mortgage rate is expected to rise and be in the 3.20 per cent to 4.25 per cent range, while the average for the five-year posted mortgage rate is forecast to be within 5.25 per cent to 6.0 per cent.

Trends at a Glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Mortgage rates to see gradual and modest increases by the end of 2015, but will remain low by historical standards.
Employment	Employment gains will remain near one per cent. Full-time employment gains among 25 to 44 year olds will help maintain demand, particularly among first-time buyers.
Income	Gains in manufacturing and construction employment will help lift average weekly earnings and support housing demand.
Population	Net migration will decrease over the forecast period but remain positive, maintaining demand for new homes.
Resale Market	A higher number of listings will provide competition to the new home market reducing starts.
New Home Inventories	Inventories for both single-detached and multiple-family dwellings are elevated which will encourage a moderation in starts.

Forecast Risks

This outlook is subject to some risks, including:

- Weaker growth in the U.S. or emerging markets could negatively impact Manitoba's manufacturing exports leading to weaker job growth in this sector. This would result in lower than expected demand for new and resale homes. Conversely a stronger-than-expected U.S. economic expansion or stronger growth in emerging countries could positively impact economic and employment growth.
- Lower employment growth in Winnipeg means other centres are becoming a more attractive draw for migrants. Weaker than expected job growth could result in a stronger moderation of net migration and less housing demand.
- Elevated levels of units under construction particularly in the multi-family market may impact the inventory of completed and unabsorbed units, and vacancy rates in the short to medium term. Should the inventory of new units climb inordinately, builders may delay or reduce the size of some construction projects. This could lead to a greater moderation in the number of housing starts.
- Growth in the number of new listings will provide additional competition for the new home market. If more demand shifts to the resale market, MLS® sales will increase more than anticipated and starts will decline further.

Forecast Summary
Winnipeg CMA
Spring 2014

	2011	2012	2013	2014f	% chg	2015f	% chg
New Home Market							
Starts:							
Single-Detached	2,002	2,129	2,218	2,050	-7.6	2,100	2.4
Multiples	1,329	1,936	2,487	2,250	-9.5	2,250	0.0
Starts - Total	3,331	4,065	4,705	4,300	-8.6	4,350	1.2
Average Price ($):							
Single-Detached	394,958	402,463	420,456	433,000	3.0	446,000	3.0
Median Price ($):							
Single-Detached	357,215	376,000	396,000	410,000	3.5	422,000	2.9
New Housing Price Index (% chg.)	4.8	4.2	4.9	3.8	-	3.6	-
Resale Market							
MLS® Sales	12,297	12,094	12,088	12,250	1.3	12,400	1.2
MLS® New Listings	16,385	16,672	18,185	19,000	4.5	19,500	2.6
MLS® Active Listings	1,209	1,192	1,247	1,600	28.3	1,650	3.1
MLS® Average Price ($)	241,409	255,058	268,382	277,000	3.2	285,000	2.9
Rental Market							
October Vacancy Rate (%)	1.1	1.7	2.5	3.0	-	3.3	-
Two-bedroom Average Rent (October) ($)	875	911	969	1,010	-	1,035	-
Economic Overview							
Mortgage Rate (1 year) (%)	3.52	3.17	3.08	3.00 - 3.50	-	3.20 - 4.25	-
Mortgage Rate (5 year) (%)	5.37	5.27	5.24	5.00 - 5.50	-	5.25 - 6.00	-
Annual Employment Level	408,800	417,400	419,100	422,400	-	427,100	-
Employment Growth (%)	0.1	2.1	0.4	0.8	-	1.1	-
Unemployment rate (%)	5.8	5.5	5.9	5.8	-	5.7	-
Net Migration (1)	10,852	10,929	9,572	8,600	-10.2	8,200	-4.7

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

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

The forecasts included in this document are based on information available as of April 30, 2014.

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:

The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:

The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:

Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:

Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:

Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:

Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:

Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:

Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October **Rental Market Survey** (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:

The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:

The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:

Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

CMHC—Home to Canadians

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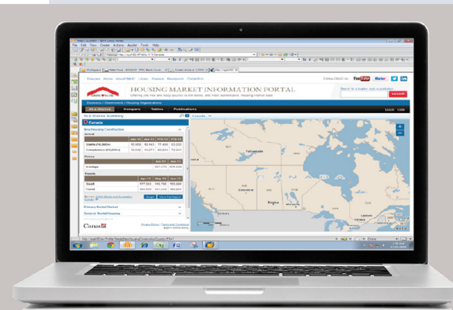

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