

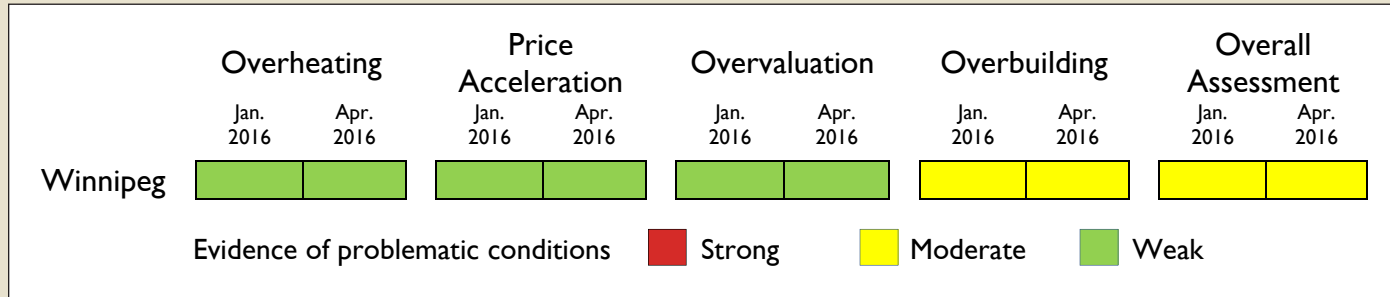
HOUSING MARKET ASSESSMENT Winnipeg CMA

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Highlights



- We continue to detect moderate evidence of problematic conditions, due to overbuilding in the ownership market.¹
- Improvements to economic fundamentals, such as growth in full time employment and disposable income, have contributed to reduced concerns of overvaluation from previous assessments.
- Supply in the resale market has brought the market into balanced territory, reducing upward pressure on average prices.
- 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 development 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 its historical average), and the persistence over time. Generally, low intensity and persistence are associated with potential weaker evidence of problematic conditions. As the number of intense and persistent signals increases, the associated evidence of problematic conditions becomes stronger.

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¹ Results are based on data as of the end of December 2015 and local market intelligence up to end of March 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](#).

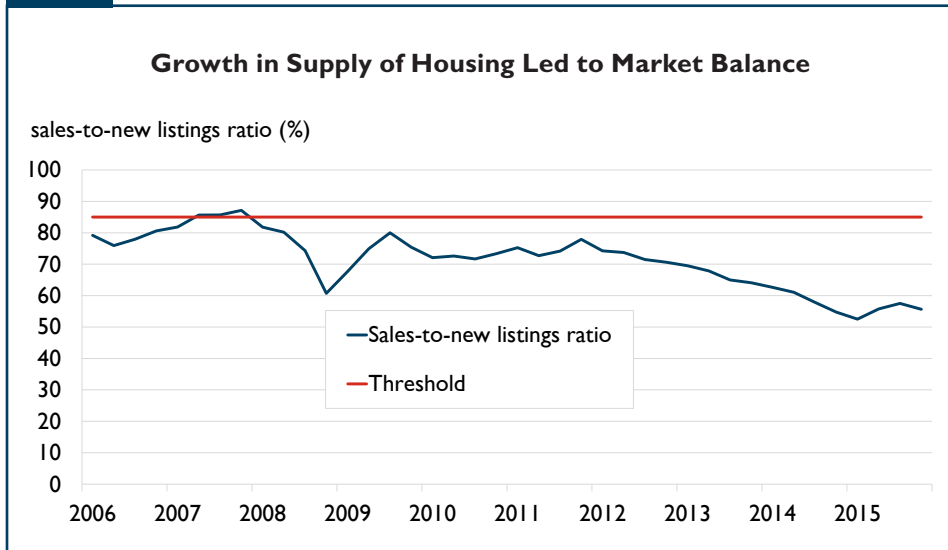
In Detail

Overheating

We detect weak evidence of overheating in Winnipeg. The seasonally adjusted sales-to-new-listings ratio (SNLR) is below the threshold of 85 per cent for overheating, and within a range typically considered balanced. The SNLR in the fourth quarter of 2015 averaged 56 per cent, one percentage point higher than in the previous year, and on a seasonally adjusted basis the SNLR was down one percentage point from the third quarter. Other measures of market balance such as the sales-to-active-listings ratio (SALR) are consistent with the SNLR. At 33 per cent, the seasonally adjusted SALR was also in balanced range in the fourth quarter of 2015.

Trended sales have been stable around 3,000 units per quarter for the past five years, while the trend in new listings had been growing. However, new listings peaked in the first quarter of 2015, causing the SNLR to reach a bottom not

Figure 1



Source: CREA, calculations (threshold) by CMHC
Last data point: 2015Q4

seen since the nineties. As a result of increased new listings, the relative level of supply in the market increased, offering buyers more choice compared with a few years ago, and bringing the SNLR further below the threshold of an overheating market. Whereas in the recent past Winnipeg was characterised as a sellers’ market, the market today is in balance.

Price Acceleration

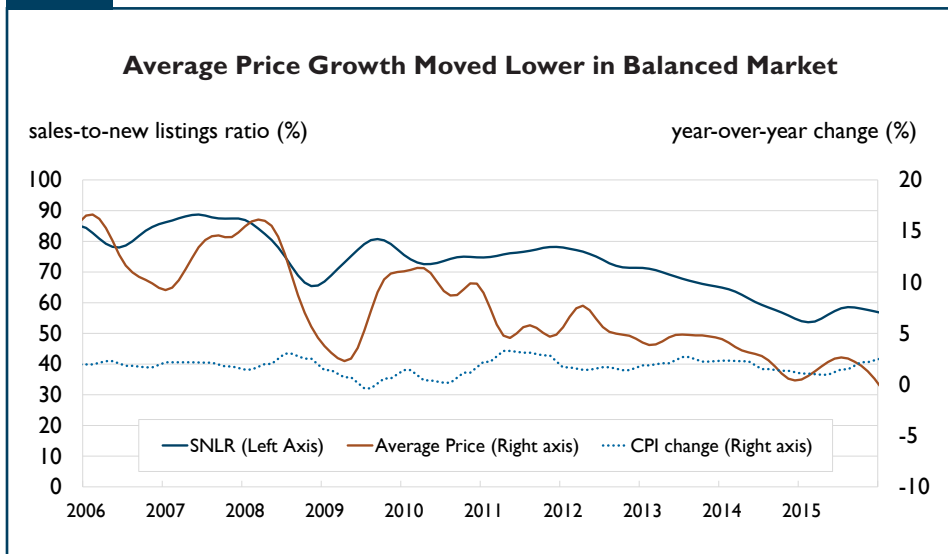
Price growth in Winnipeg in the fourth quarter of 2015 was 0.3 per cent year-over-year. However, average price growth was 3.3 per cent year-over-year for the preceding 12 quarters, indicating that nominal prices have grown slightly higher than the inflation rate. As supply levels

“The Winnipeg resale housing market remained in balanced market conditions; however, we detect moderate evidence of overbuilding primarily driven by condo apartment construction.”



Braden Batch
Senior Market Analyst (Manitoba)

Figure 2



Source: CREA (seasonally adjusted), CMHC trend, Winnipeg CPI from Conference Board of Canada (CMHC calculation) Last data point: 2015Q4

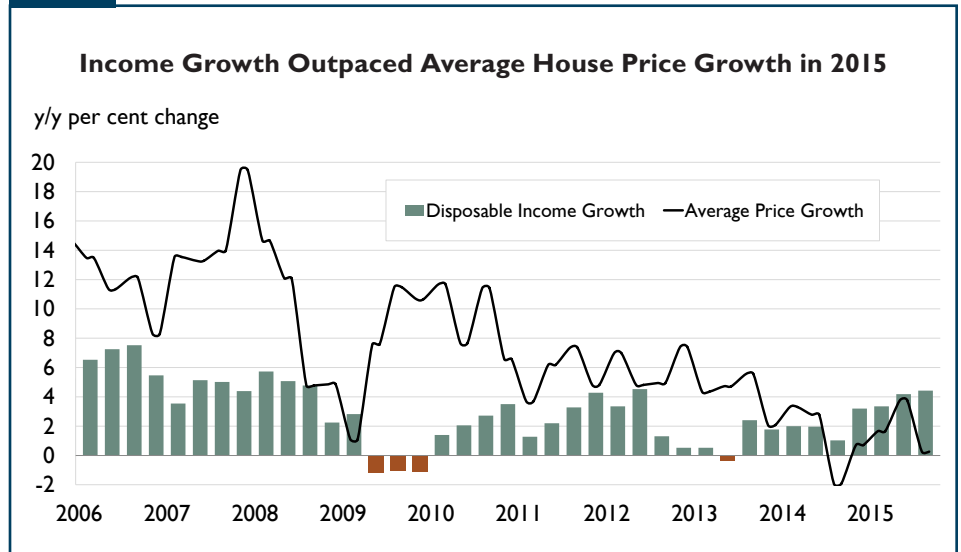
increased in both the new and resale markets, with little growth in demand, the rate of price growth in Winnipeg has slowed in both 2014 and 2015 when compared with the 2011 to 2013 period. As a result, we detect weak evidence of price acceleration in Winnipeg.

Active listings were six per cent higher on average in the fourth quarter of 2015 compared with the same period of 2014. Annually, active listings in 2015 have doubled from the levels seen three years prior while sales have grown only about one per cent over the same time period. Similarly, in the new home market, total completed and unsold units increased 38 per cent year-over-year in the fourth quarter of 2015, while absorption of new units increased by only 2 per cent in the same time frame. As supply has increased without a proportional increase in demand, upward pressure on prices was reduced.

Overvaluation

We continue to detect weak evidence of overvaluation in Winnipeg in the fourth quarter of 2015. A combination of moderate price growth and improvement in the labour market have worked to reduce the level of overvaluation in the Winnipeg market. Price growth has scaled back, as mentioned in the previous section, while employment grew by two per cent year-over-year in the fourth quarter of 2015, contributing to growth in disposable income. In 2015 nominal house prices grew slower than disposable income, and as economic fundamentals have improved, the evidence of overvaluation has been reduced in Winnipeg.

Figure 3



Source: Conference Board of Canada (disposable income), CREA (average price), CMHC calculation. Last data point: 2015Q4

Overbuilding

The moderate evidence of overbuilding detected by our framework was unchanged from the previous quarter. Inventories of completed and unsold units remain elevated relative to population. Total unsold units were 38 per cent higher per month on average in the fourth quarter of 2015 year-over-year.

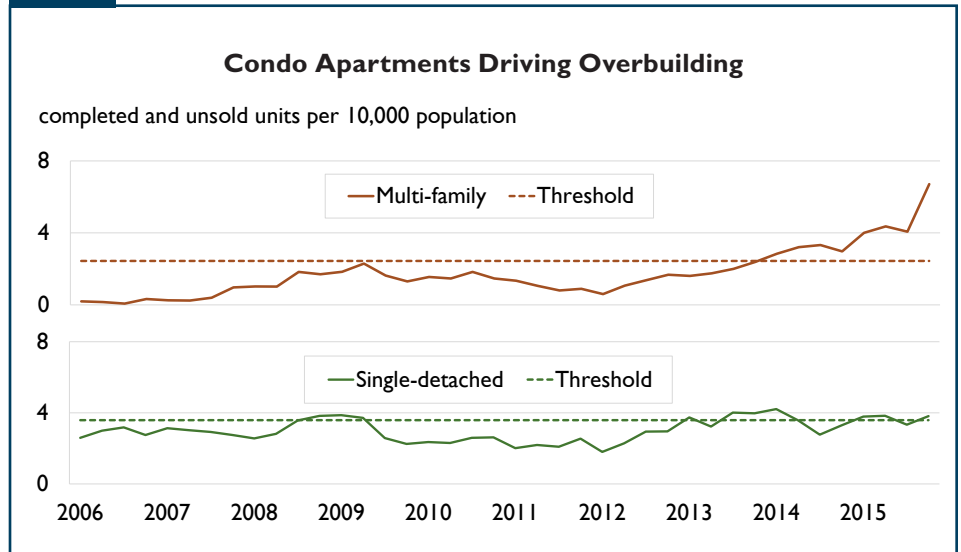
Apartment units, intended for the ownership market, made up the majority of unsold units averaging 47 per cent in the fourth quarter. The average monthly count of unsold apartment units in 2015 was 260 units, compared with 190 units over 2014, and 105 in 2013, meaning that the stock of unsold apartments more than doubled over a two year horizon. Average monthly row and semi-detached inventories combined also grew by 50 per cent year-over-year in the fourth quarter of 2015, but they represent a smaller share of total inventories at 19 per cent of total completed and unsold

units. As a result, multi-family inventories are above the threshold for overbuilding and continue to rise. Looking forward, multi-family units under construction have also grown averaging a monthly 3,025 units in 2015 compared with 2,505 units per month in 2014. This elevated number of units under construction could lead to higher inventories going forward as these units move to completion.

By comparison, completed and unsold single-detached units averaged 275 units in 2013, 256 units in 2014, and 263 units in 2015, meaning that inventory levels are down from two years ago. In addition, slightly more than one in three unsold single-detached units was a show home in 2015. While the unsold unit count is currently modestly above the per capita threshold for overbuilding, there were fewer single-detached units under construction in 2015 at 1,069 units per month on average compared with 1,159 units per month in 2014.

Finally, while the vacancy rate rose to 2.9 per cent in October 2015 from 2.5 per cent the year prior, the rental market vacancy rate in Winnipeg is well below the overbuilding vacancy rate threshold considered for the rental market component of the Housing Market Assessment. Rising vacancy rates can be attributed to a 2.6 per cent increase in supply, as well as an increase in the availability of multi-family units in the ownership and secondary rental markets.

Figure 4



Source: CMHC, calculations (threshold) by CMHC
 Last data point: 2015

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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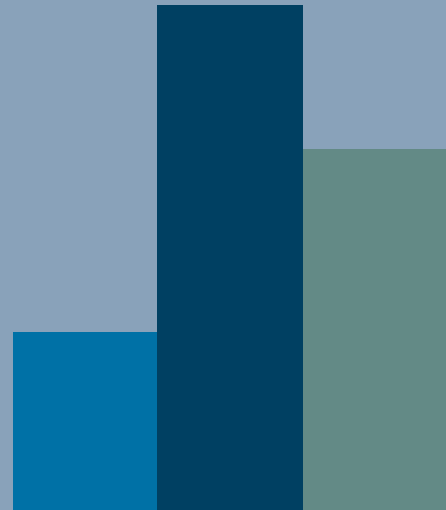
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