

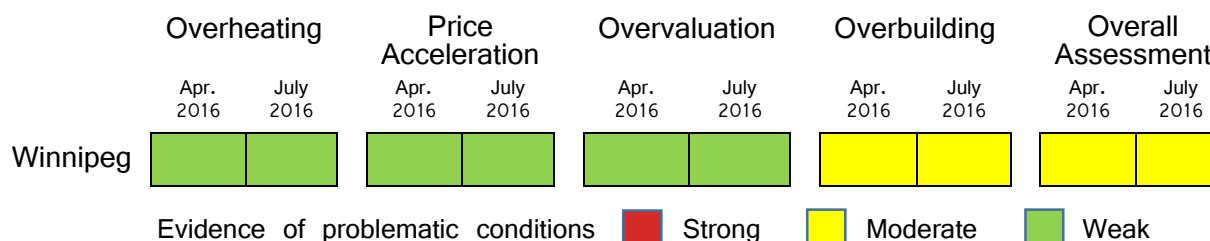
HOUSING MARKET ASSESSMENT Winnipeg CMA

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Highlights



- Moderate evidence of problematic conditions continues to be detected due to overbuilding in the ownership market.¹
- Price growth was supported by population growth and continued low interest rates in the Winnipeg CMA.
- Sales in the resale market grew above the ten year trend, but growth in new listings kept the market in balanced conditions.
- 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 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 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.

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¹ Results are based on data as of the end of March 2016 and local market intelligence up to end of June 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

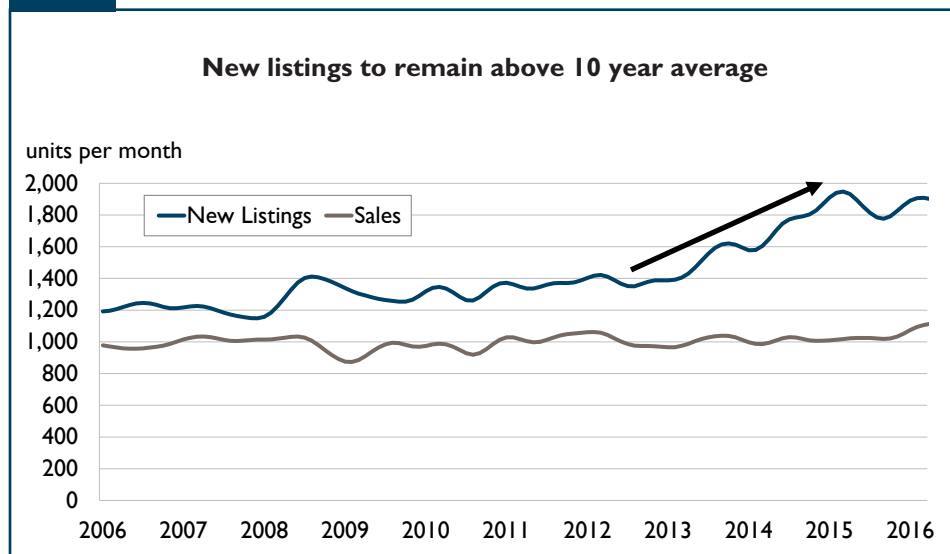
Overheating

We detect weak evidence of overheating in Winnipeg. The sales-to-new-listings ratio (SNLR) is below the threshold of 85 per cent for overheating, and within a range typically considered balanced.

Since the previous report, both sales and new listings increased in the first quarter of 2016. Seasonally adjusted sales increased in the first quarter of 2016 by 6.8 per cent while new listings increased by 4.7 per cent from the fourth quarter of 2015.

As a result, the SNLR increased to 57 per cent. Meanwhile, the sales-to-active listings ratio increased four percentage points quarter-to-quarter to 39 per cent. Sales in the Winnipeg CMA in April and May 2016 remained a bit stronger than in the first quarter of 2016 while new listings were a bit lower. Overall, though, market balance did not change significantly since the previous report.

Figure 1



Source: CREA, trended by CMHC

Last data point: 2016Q1

Price Acceleration

There continues to be weak evidence of price acceleration in Winnipeg. The test used to identify accelerating prices produced results well below the threshold for price acceleration.

The average price in the Winnipeg CMA was \$281,125 in the first quarter of 2016, a three per cent

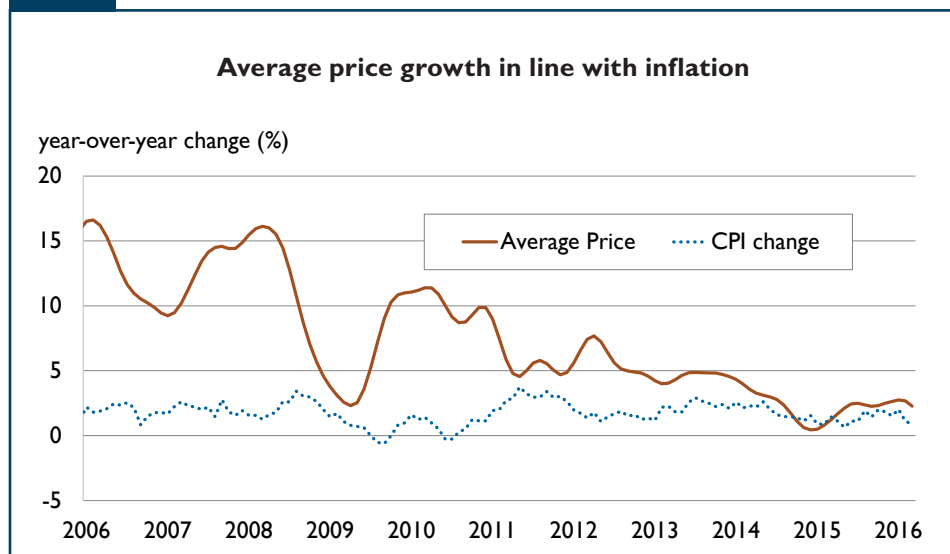
increase over the previous year. Controlling for seasonal variation, the increase was slightly stronger at four per cent year-over-year. Other measures of price show slower growth: the Teranet-National Bank House Price Index™ increased only one per cent year-over-year and the New Home Price Index increased two per cent year-over-year.

“Overbuilding continues to be detected in the Winnipeg CMA, and the primary driver remains high inventory levels of apartment units aimed at the homeownership market.”



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: 2016Q1

Overvaluation

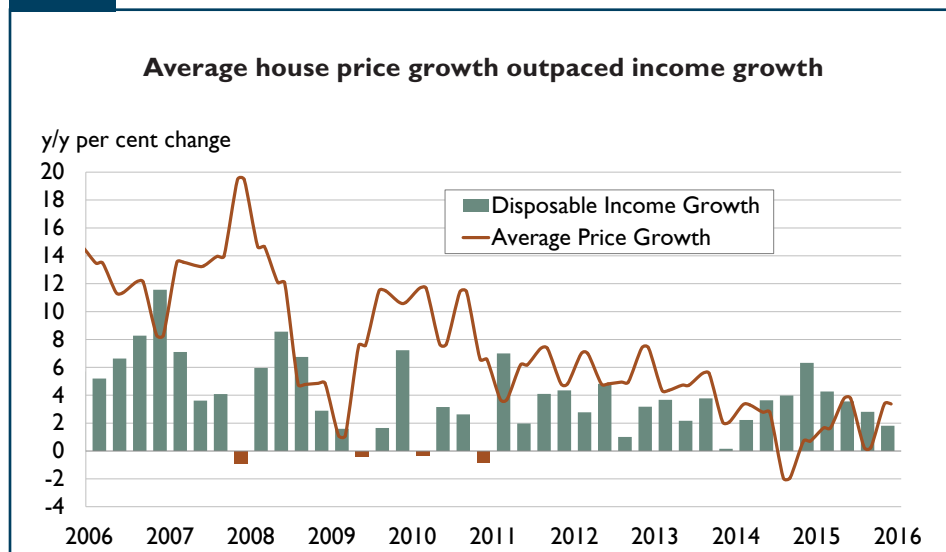
We continue to detect weak evidence of overvaluation in Winnipeg. In terms of fundamentals, the growth rate in incomes decreased, but population growth of young adults remained strong, which is a key demographic for housing demand. At the same time, mortgage rates remained at historically low levels. House price growth was shown to be non-accelerating, and there was sufficient growth in fundamentals to support the first quarter price growth. As a result, the prices predicted by the models used in the HMA framework were in line with the actual prices observed in the market.

In the labour market, there was zero full-time job growth year-over-year while part-time jobs expanded by four per cent. By comparison, full-time job growth in the fourth quarter of 2015 was four per cent and part-time job growth was zero. As a result, growth in disposable per capita income decreased from 2.8 per cent growth in the fourth quarter of 2015 to 1.8 per cent growth in the first quarter of 2016. At the same time, the posted conventional five-year mortgage rate remained low at 4.64 per cent, and there was a three per cent growth rate in the young adult population. Young adults are those aged 25 to 34 and are the most likely cohort to be entering the housing market for the first time. In other words, housing demand was supported by both historically low mortgage rates and an increase in the population of those most likely to enter the market for homeownership.

Overbuilding

The moderate evidence of overbuilding detected by the HMA framework was unchanged from the previous quarter. Inventories of completed and unsold units remain elevated relative to population.

Figure 3

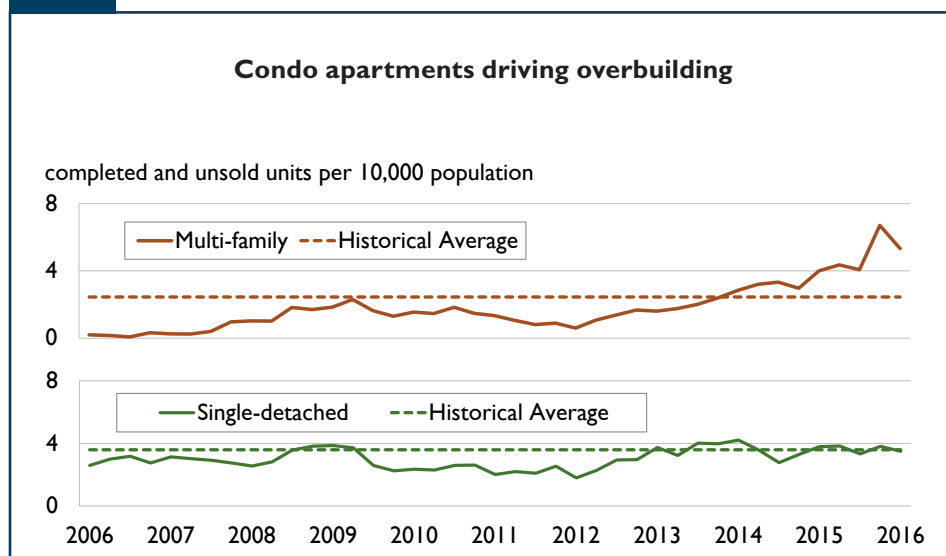


Source: Conference Board of Canada (disposable income), CREA (average price), CMHC calculation. Last data point: 2016Q1

The driving factor for overbuilding remains the inventory of unsold apartment units aimed at homeownership. Once multi-family and single-detached homes are separated, it is clear that single-detached inventory remains at the threshold level of overbuilding while multi-family inventory remains above the threshold.

In the case of single-detached inventory, there were 374 absorptions relative to 390 completions, meaning unsold units actually increased from 258 in the fourth quarter of 2015 to 266 in the first quarter of 2016. This kept the single-detached indicator right at the threshold for overbuilding.

Figure 4



Source: CMHC, calculations (historical average) by CMHC
Last data point: 2016Q1

For multi-family units, there were 277 absorptions and 196 completions. Unsold units in inventory declined from 557 units in the fourth quarter to 471 units in the first quarter of 2016. Combined with population growth, this indicator declined in the first quarter but remained above the threshold of overbuilding. That said, there are 1,573 multi-family units under construction designated for the ownership market, eleven per cent above the five year average of 1,417 units.

In the rental market, the vacancy rate in Winnipeg is well below the threshold for overbuilding. There has been considerable construction activity in the rental market. Rental units under construction hit a record of 2,092 in the first quarter of 2016, representing 45 per cent of total units under construction in Winnipeg. CMHC is forecasting vacancy rates to increase as the universe expands, but strong immigration levels are also expected to create demand in the rental market, keeping the vacancy rate from growing significantly.

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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