

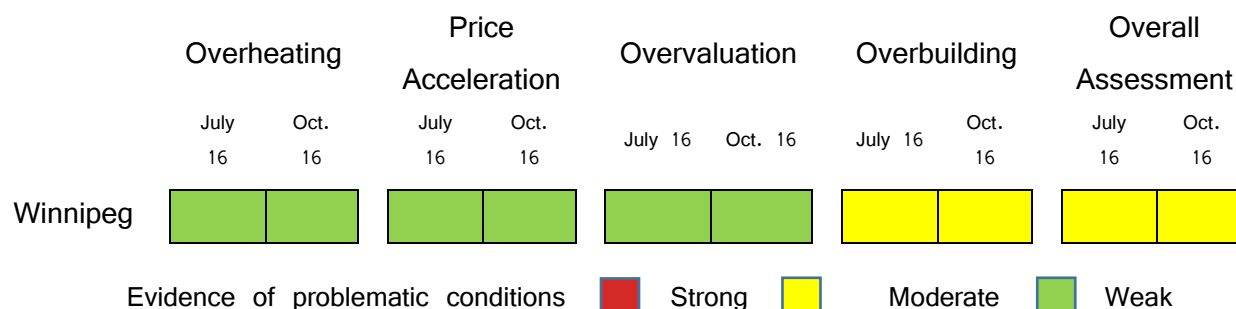
# HOUSING MARKET ASSESSMENT Winnipeg CMA

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## Highlights



- Overall, moderate evidence of problematic conditions was detected in Winnipeg's housing market, unchanged from the previous assessment<sup>1</sup>.
- Factors such as overheating, price acceleration and overvaluation continued to show weak evidence of problematic conditions, unchanged from last quarter's assessment.
- Moderate evidence of overbuilding continued to be detected; however, the number of newly completed and unsold units continued to trend lower.
- 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 5 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 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

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

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

### Overheating

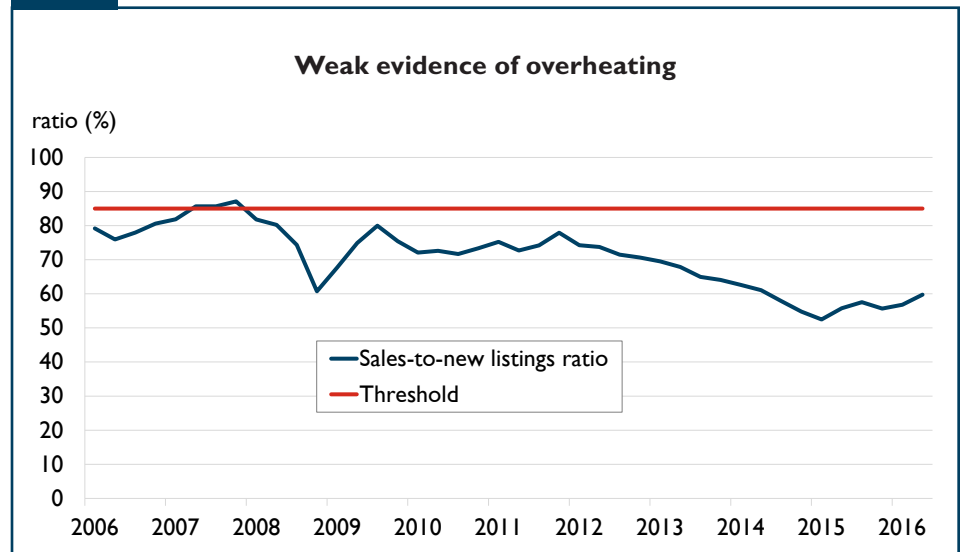
There continued to be weak evidence of overheating in Winnipeg. Resale transactions were steady in the second quarter compared to the first quarter of 2016. At the same time, new listings declined five per cent. As a result, the seasonally adjusted sales-to-new listings ratio (SNL) moved higher from 57 per cent in the first quarter to 60 per cent in the second quarter of 2016, and was indicative of balanced market conditions. The SNL ratio remained below the threshold of 85 per cent that would signal evidence of overheating.

*“Resale market balance continued to improve supported by demographic growth. Inventories of new units moved lower but continued to trigger a detection of moderate overbuilding in the Winnipeg CMA.”*



Lai Sing Louie  
Regional Economist  
(Prairies and Territories)

Figure 1



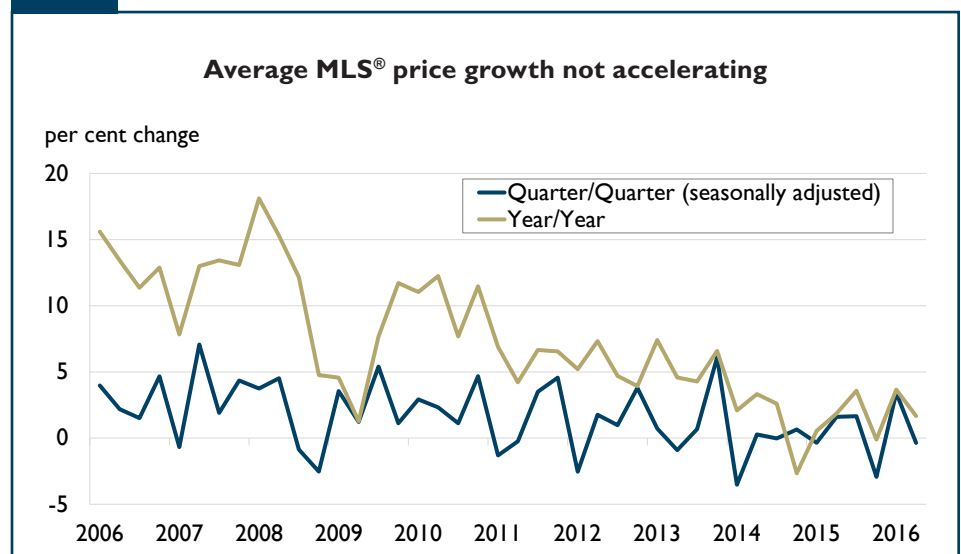
Source: CREA, calculations (threshold) by CMHC  
Last data point: 2016Q2

### Price Acceleration

There continued to be weak evidence of price acceleration in Winnipeg. The seasonally adjusted average MLS® price was \$291,474 in the second quarter of 2016, up 3.7 per cent from the first quarter. Through eight months of 2016, the average resale price in Winnipeg was \$285,938,

up 1.8 per cent from the same period in 2015. Another measure of price that mitigates the impact of composition is the Teranet House price index. This measure for Winnipeg increased 2.3 per cent from March 2016 to June 2016. The Winnipeg resale market has been firming up this year as indicated by the SNL ratio, a demand and supply

Figure 2



Source: CREA  
Last data point: 2016Q2

indicator. Overall, the Winnipeg resale market is considered to be in balanced market conditions supporting price growth currently above the inflation rate.

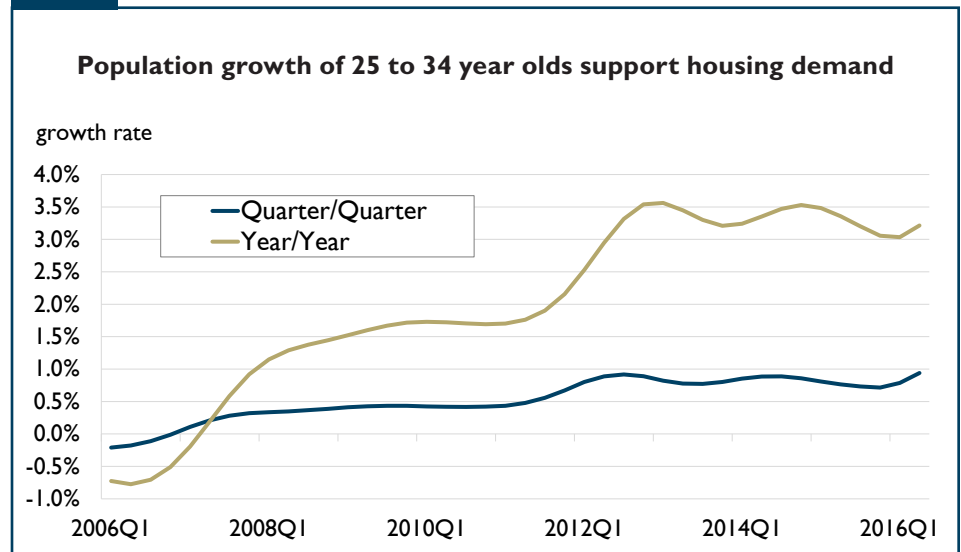
## Overvaluation

There continued to be weak evidence of overvaluation in Winnipeg, unchanged from the assessment of last quarter. There have been some mixed signals with respect to economic and demographic fundamentals that influence the assessment of overvaluation in Winnipeg. Real personal disposable income per capita decreased by 1.57 per cent since the last quarter. In the labour market, full-time employment growth has been slow to increase, with growth rate of below 0.5 per cent this year. With the labour force also increasing at a slow rate, the seasonally adjusted unemployment rate in Winnipeg remained steady at 6.3 per cent in the second quarter of 2016. On the other hand, the young adult population in the 25 to 34 age group has been rising and increased by 3.2 per cent in the second quarter on a year-over-year basis. Winnipeg is also experiencing a high inflow of migration; therefore, its demographics outlook is supportive of housing demand.

## Overbuilding

The moderate evidence of overbuilding detected by the HMA framework was unchanged from the previous quarter. Over the past quarter, the inventory of completed and unsold units per 10,000 population decreased from above ten in the first quarter to 7.43 in the second quarter of 2016, but remained above the HMA threshold of 5.85 units per 10,000 population. Inventory of single-detached units has been declining and was about a third lower in August 2016 from

Figure 3



Source: Statistics Canada

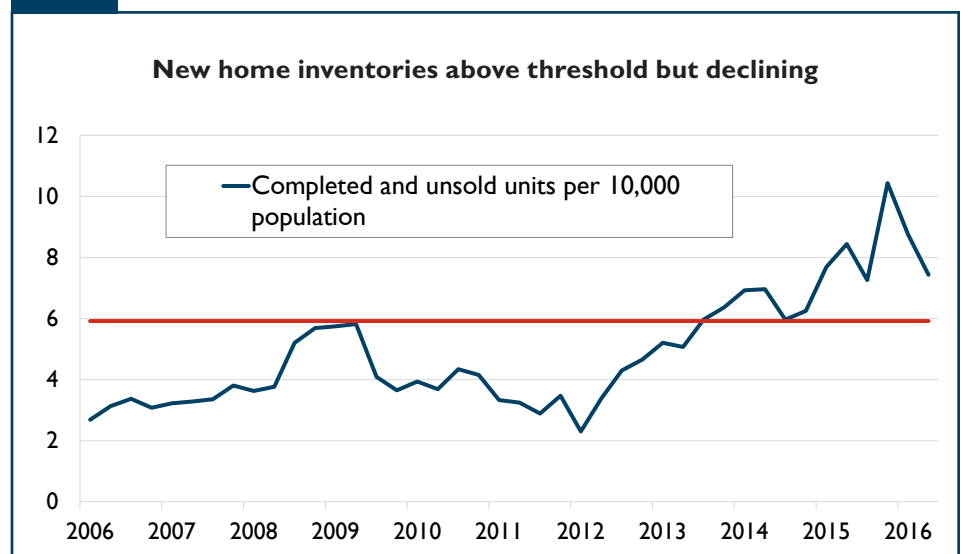
Last data point: 2016Q2

last year at this time. However, multi-family inventory continued to remain elevated and above the HMA framework's threshold.

In the rental market, the vacancy rate in Winnipeg is substantially below its threshold of six per cent for overbuilding. Winnipeg continues to experience significant rental construction which will add supply

to the market place at completion. However, strong demographic growth is expected to help absorb much of this new supply. CMHC is forecasting vacancy rates to remain in the three per cent range which is well below the overbuilding threshold.

Figure 4



Source: CMHC, calculations (threshold) by CMHC, Statistics Canada

Last data point: 2016Q2

## 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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