HOUSING MARKET ASSESSMENT
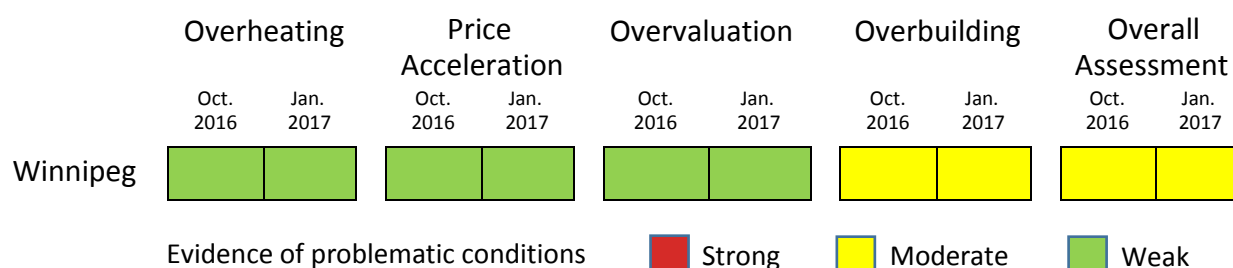## Winnipeg CMA

Date Released: First Quarter 2017

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Canada

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Highlights

	Overheating		Price Acceleration		Overvaluation		Overbuilding		Overall Assessment	
	Oct. 2016	Jan. 2017	Oct. 2016	Jan. 2017	Oct. 2016	Jan. 2017	Oct. 2016	Jan. 2017	Oct. 2016	Jan. 2017
Winnipeg	🟩	🟩	🟩	🟩	🟩	🟩	🟨	🟨	🟨	🟨

Evidence of problematic conditions 🟥 Strong 🟨 Moderate 🟩 Weak

- Overall, moderate evidence of problematic conditions was detected in Winnipeg's housing market, unchanged from the previous assessment[1].

- 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 6 of this report.

HMA Overview[2]

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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[1] Results are based on data as of the end of September 2016 and local market intelligence up to end of December 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.

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.

Overheating

There continued to be weak evidence of overheating in Winnipeg. The seasonally adjusted sales-to-new listings (SNL) ratio was 63 per cent in the third quarter, well below the 85 per cent threshold that would signal evidence of overheating, but up from 60 per cent in the second quarter. In the resale market, adjusting for seasonality, transactions fell slightly by 2.1 per cent in the third quarter compared to the second quarter of 2016, while new listings dropped by 6.7 per cent. Although demand and supply have been putting upwards pressure on the seasonally adjusted SNL ratio, the Winnipeg resale market continues to remain in balanced market conditions.

"Moderate evidence of overbuilding persists in the Winnipeg CMA as inventories of newly completed and unoccupied units, primarily condo apartment units, remain at elevated levels relative to the population."

Heather Bowyer
Senior Market Analyst
(Manitoba)

Figure 1

Weak evidence of overheating
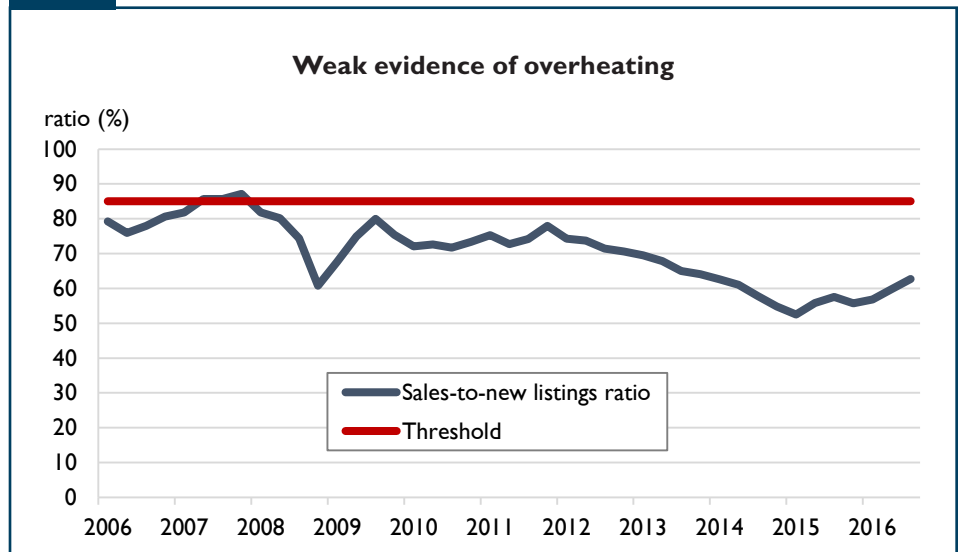
Source: CREA, calculations (threshold) by CMHC
Last data point: 2016Q3

Price Acceleration

There continued to be weak evidence of price acceleration in Winnipeg as market conditions supported moderate price growth. In the third quarter of 2016 the seasonally adjusted average MLS® price increased 1.3 per cent to $285,133 from the previous quarter.

Year-to-date as of November, the Winnipeg resale market experienced an increase in demand as sales rose 5.4 per cent over the same period in 2015. At the same time, supply declined as new listings fell by 3.6 per cent. As a result, the year-to-date average MLS® price was up 2.0 per cent to $284,842 year-over-year.

Figure 2

Average MLS® price growth remains steady
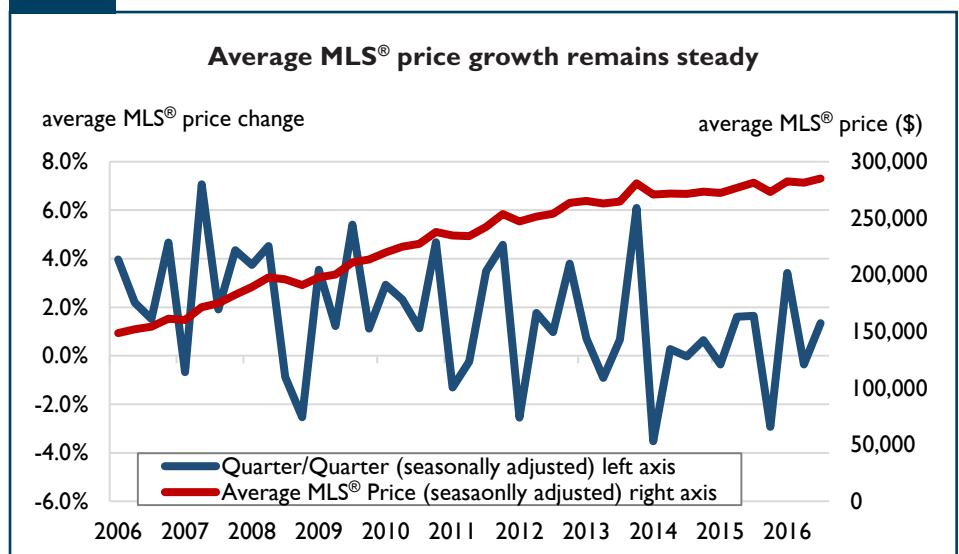
Source: CREA
Last data point: 2016Q3

Another price measure is the Teranet House price index, which showed a similar pattern in price growth over the previous quarter. This measure for Winnipeg increased 1.6 per cent from June 2016 to September 2016. However, year-over-year growth as of September 2016 was higher at 4.6 per cent.

Overvaluation

There continued to be weak evidence of overvaluation in Winnipeg, unchanged from the assessment of last quarter. Average price growth continued to remain steady even as economic and demographic fundamentals have mixed effects on overvaluation in Winnipeg.

In the labour market, employment growth has remained relatively flat, growing at a rate of less than half a percent in 2016 as full-time job losses partially offset part-time gains. At the same time, the seasonally adjusted unemployment rate edged up to 6.6 per cent in the third quarter of 2016. As a result, real personal disposable income per capita continued to decline from last year by 1.8 per cent. On the other hand, housing demand is being supported by population growth in a key demographic group. The young adult population growth, those individuals aged 25 to 34, has seen an increase of 3.4 per cent from last year, which is more than double that of total population growth in Winnipeg.

Overbuilding

The moderate evidence of overbuilding detected by the HMA framework was unchanged from the previous quarter. Since reaching its peak in the fourth quarter of 2015, the inventory of completed and unsold units per 10,000 population has been steadily declining. As of the third quarter of 2016, the inventory, at 6.3 units per 10,000 population, is

Figure 3

Population growth of 25 to 34 year olds support housing demand

growth rate, year-over-year
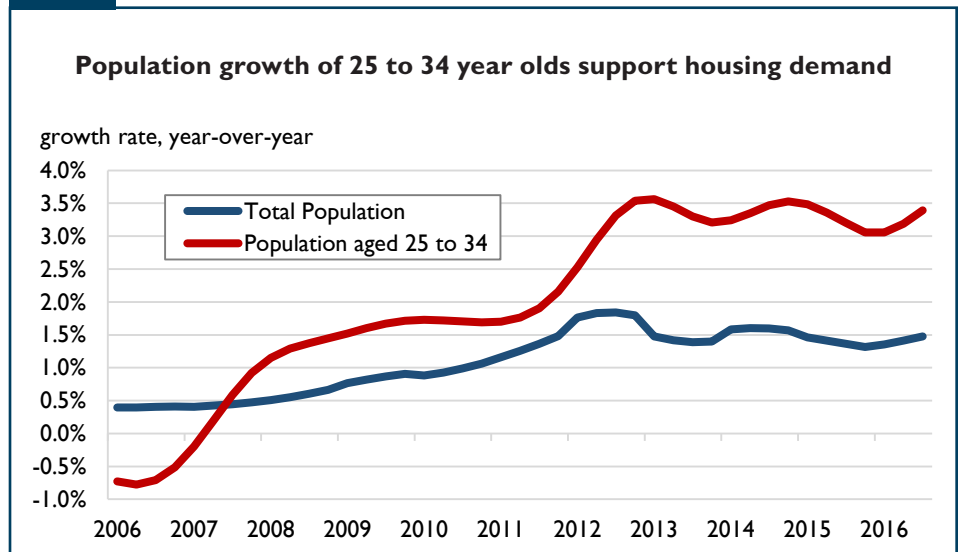
Source: Statistics Canada
Last data point: 2016Q3

only slightly above the threshold of roughly 6 units per 10,000 population. Inventory of single-detached units has been below the threshold of 3.6 since the end of 2015, while elevated inventories in multi-family units, particularly condominium apartments, continue to be the driving factor behind overbuilding in Winnipeg. However, the inventory of newly constructed and unoccupied multiple units was trending lower in the third quarter, bringing the inventory per 10,000 population down to 3.8, but still above the multi-unit threshold of 2.7. At the same time, multi-family units under construction increased which may continue to add supply to the market once completed.

Figure 4

New home inventories above threshold but declining

completed and unsold units per 10,000 population
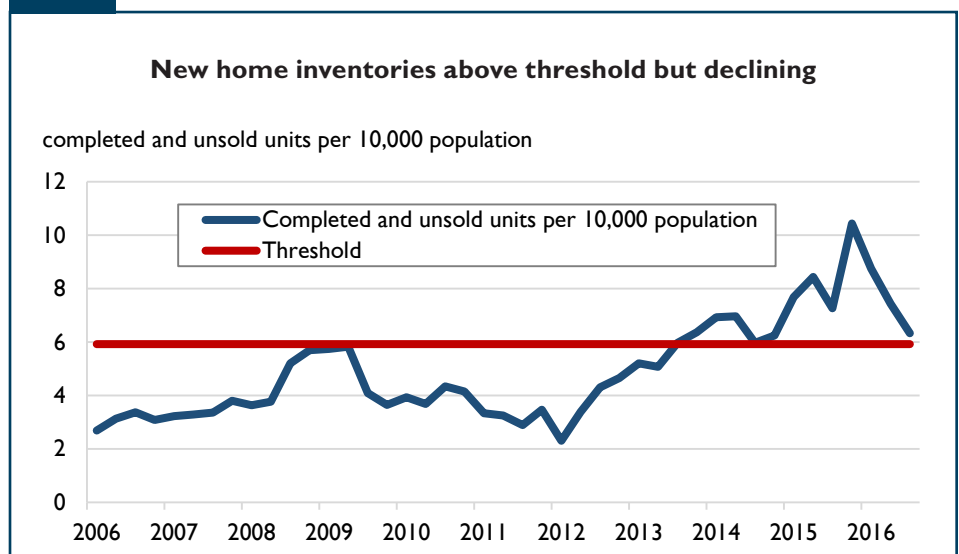
Source: CMHC, calculations (threshold) by CMHC, Statistics Canada
Last data point: 2016Q3

In the Winnipeg rental market, supply and demand conditions have kept the vacancy rate stable and well below the threshold for overbuilding. As of October 2016, the vacancy rate in Winnipeg was 2.8 per cent, compared to 2.9 per cent a year ago. While the levels of both rental units completed and under construction increased over the last quarter, strong demographic growth in Winnipeg will support demand and absorption of these units.

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.

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* 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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