

HOUSING MARKET ASSESSMENT

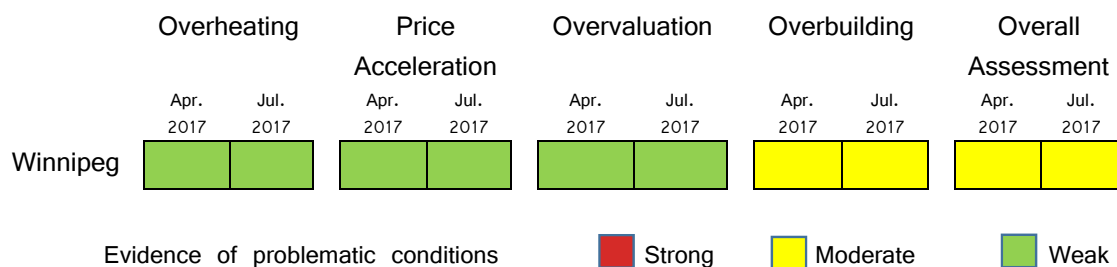
Winnipeg CMA

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Highlights



- Overall, moderate evidence of problematic conditions was detected in Winnipeg's housing market, unchanged from the previous assessment¹.
- Moderate evidence of overbuilding continued to be detected; however, the inventory of complete and unsold units moved lower.
- Overvaluation continued to show weak evidence of problematic conditions though there has been some weakening in economic fundamentals as employment and personable disposable income have seen slow growth.
- 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

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¹ Results are based on data as of the end of March 2017 and local market intelligence up to end of June 2017. 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.

In detail

Overheating:

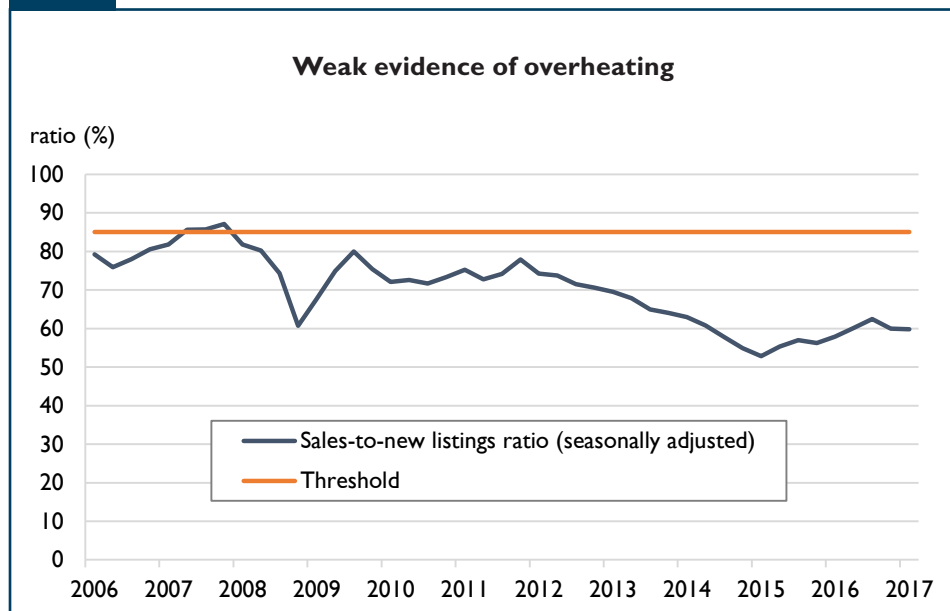
The HMA framework continued to detect weak evidence of overheating in Winnipeg. The seasonally adjusted sales-to-new listings (SNL) ratio was 60% in the first quarter of 2017, relatively unchanged from the previous quarter. Adjusting for seasonality, resale transactions in the first quarter were 2.3% higher compared to one quarter prior, while new listings increased by 2.6% over the same period. A slightly higher growth rate in new listings compared to sales caused the SNL ratio to remain stable and well below the 85% threshold for overheating.

"Overbuilding continued to be detected in the Winnipeg CMA, however levels are improving. The inventory of newly completed and unsold units moved lower and is now below the problematic threshold for overbuilding."



Heather Bowyer
Senior Market Analyst
(Manitoba)

Figure 1



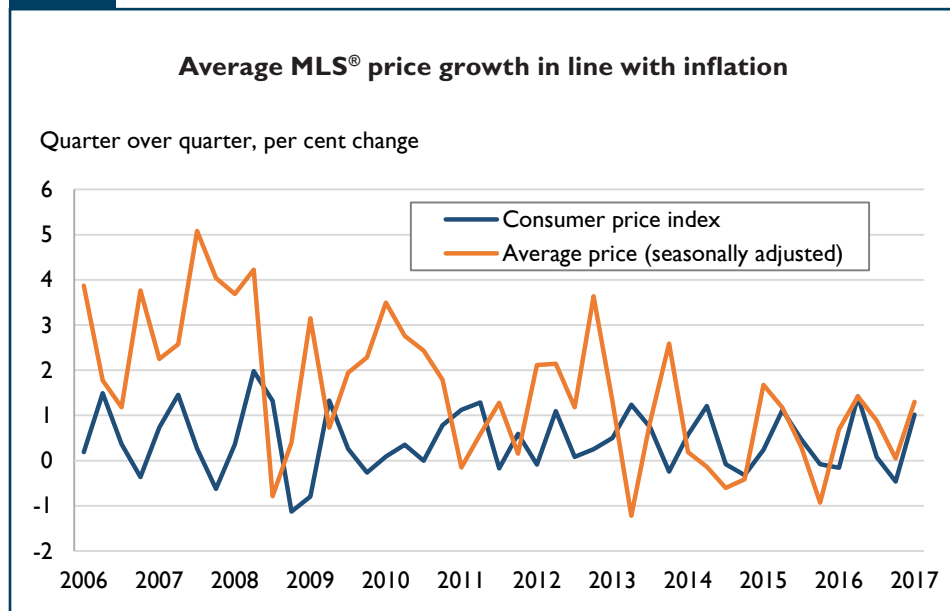
Source: CREA, calculations (threshold) by CMHC
Last data point: 2017Q1

Price Acceleration:

There continued to be weak evidence of price acceleration in Winnipeg. In the first quarter of 2017, the seasonally adjusted average MLS® price increased by 1.3% to \$289,921 compared to the last quarter.

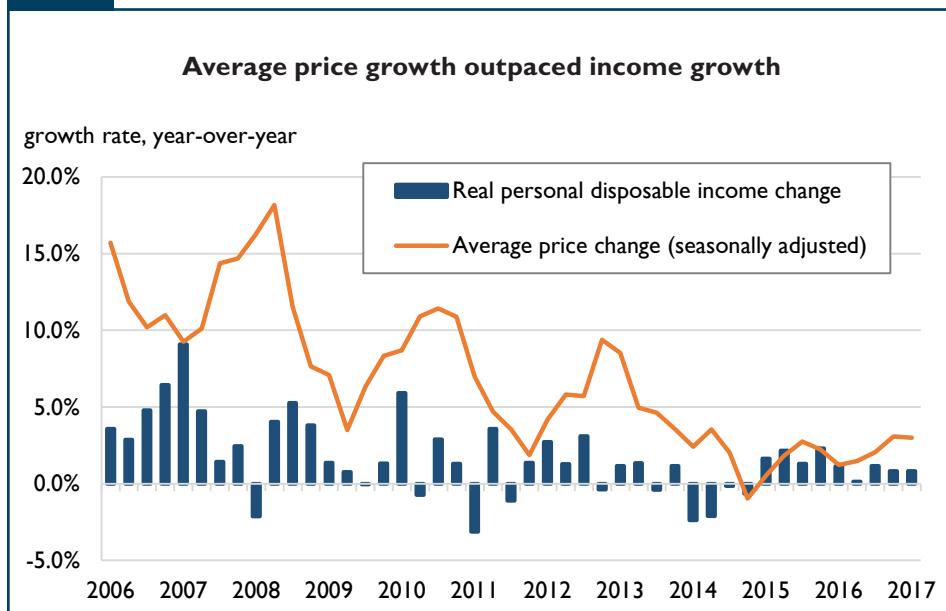
Year-to-date as of May, the average MLS® price increased by 3.8% to \$296,654 over the same period last year. At the same time, sales remained relatively unchanged and new listings declined 4.1% which caused some of the upward pressure

Figure 2



Source: CREA, Statistics Canada
Last data point: 2017Q1

Figure 3



Source: CREA, Conference Board of Canada
Last data point: 2017Q1

on the average MLS® price. Winnipeg continued to experience balanced resale market conditions as the average price continued to grow at a moderate rate.

Various home price indices also showed price growth in Winnipeg. Both the Teranet-National Bank House Price Index and Statistics Canada's New Housing Price Index increased in the first quarter of 2017 by 2.1% and 2.5% respectively year-over-year.

Overvaluation:

There continued to be weak evidence of overvaluation in Winnipeg; however, some economic fundamentals have weakened relative to average MLS® price growth. In the labour market, employment grew by half a per cent in the first quarter of 2017 compared to the same period last year. This represents the fifth consecutive quarter where employment grew by less than one per cent on a year-over-year basis. However, full time employment levels

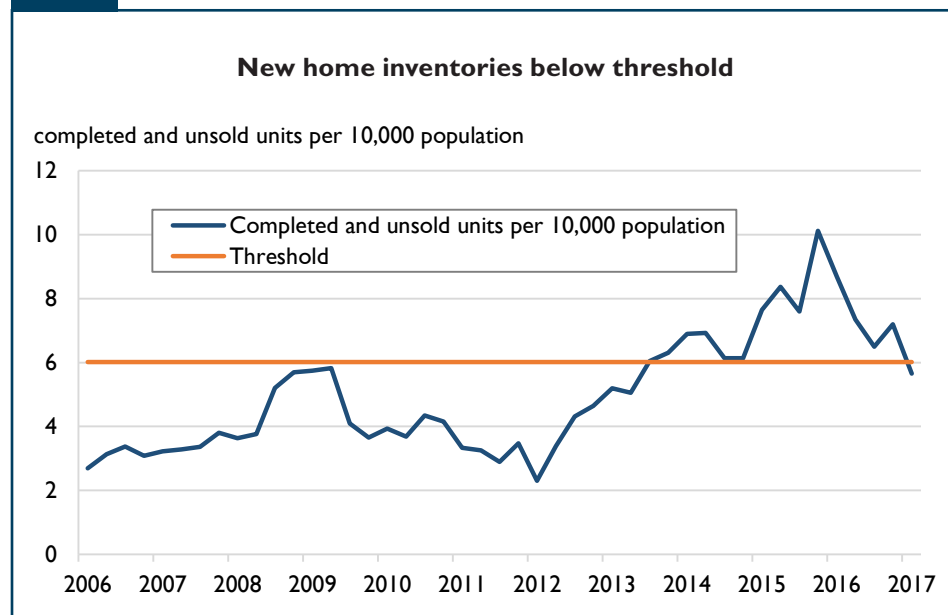
have seen positive gains in the first quarter of 2017, growing at 1.5% year over year. In addition, the seasonally adjusted unemployment rate has been trending downwards, and as of May, was 5.9% or 0.3 percentage points lower than the same time last year.

Winnipeg also continues to experience strong population growth in the first time home buyers cohort. The population aged 25 to 34 increased 3.8% in the first quarter of 2017 compared to the same period in 2016. This cohort has been growing at a year-over-year rate of 3.0% or more since the third quarter of 2012 and will continue to support housing demand.

Overbuilding:

Moderate evidence of overbuilding continued to be detected; however, the inventory of completed and unsold units per 10,000 population trended lower and moved below the threshold for overbuilding. After increasing at the end of 2016, total units in inventory decreased by 17.3% in the first quarter of 2017 compared to the previous quarter. The number of units absorbed in the first quarter of 2017 outpaced units completed which put downward pressure on total inventory levels.

Figure 4



Source: CMHC, calculations (threshold) by CMHC, Statistics Canada
Last data point: 2017Q1

The inventory of single-detached units remained below the threshold for overbuilding as completed and unsold units decreased by 9.5% in the first quarter of 2017 from the previous quarter. Conversely multi-family units in inventory, particularly condominium apartments, continued to be slightly above the problematic threshold for overbuilding. However, condominium inventory levels have been trending lower and in the first quarter of 2017, were down 25.3% from the previous quarter and down 40.2% compared to the same quarter last year. Condominium absorptions have been trending higher and were up 15.5% on a year over year basis in May. If current trends persist, the effects of condominium overbuilding in Winnipeg will be reduced in the coming quarters.

In the Winnipeg rental market, the vacancy rate was well below the threshold for overbuilding. This has allowed for construction activity in the rental market to trend upwards in 2017 as rental starts increased by 23.3% in the first quarter of 2017 compared to the same time last year.

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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