HOUSING MARKET INFORMATION

HOUSING MARKET ASSESSMENT

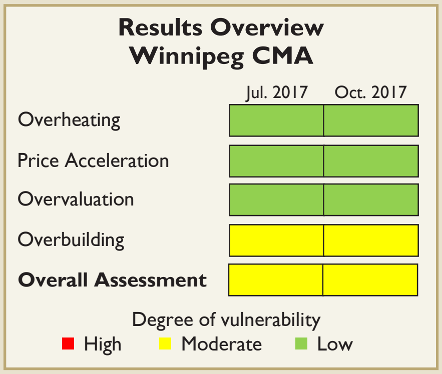
Winnipeg CMA

Date Released: Fourth Quarter 2017

Canada

CMHC SCHL

Highlights



- Overall, a moderate degree of vulnerability was detected in Winnipeg's housing market, unchanged from the previous assessment[1].
- Moderate evidence of overbuilding continued to be detected; however, the inventory of complete and unsold units continued to trend lower.
- Factors such as overheating, price acceleration, and overvaluation continued to show weak evidence of imbalances.

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 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 degrees of vulnerability 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 resolve 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 degrees of market vulnerability. 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 low degree of vulnerability. As the number of intense and persistent signals increases, the associated degree of vulnerability increases.

In Detail

Overheating:

The HMA framework continued to detect low evidence of overheating. The seasonally adjusted sales-to-new listings (SNL) ratio moved to 62.2% in the second quarter of 2017 from 60.3% in the first quarter. The SNL ratio moved higher as a result of an increase in resale transactions and a decline in the amount of new listings. Adjusting for seasonality, resale transactions increased 1.5% in the second quarter of 2017 compared to the previous quarter while, at the same time, new listings declined by 1.6%. The seasonally adjusted SNL ratio increased but still remained well below the 85% threshold for overheating and continued to indicate balanced market conditions.

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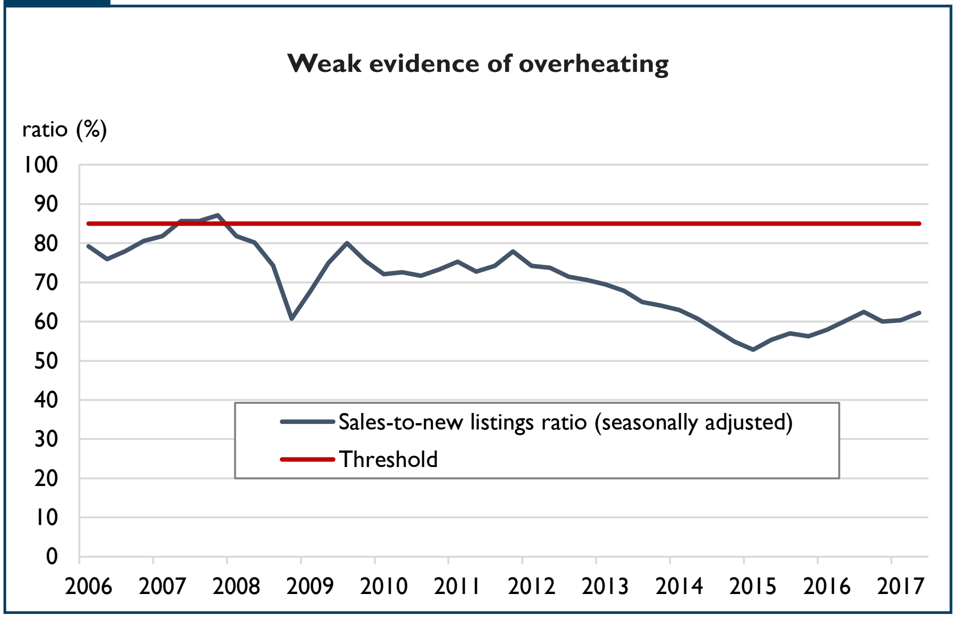
1 Results are based on data as of the end of June 2017 and local market intelligence up to the end of September 2017. CMHC continuously monitors market developments and will issue HMA updates on a quarterly basis.

2 A detailed description of the framework is available in the appendix of the National edition.

Figure 1



Source: CREA, calculations (threshold) by CMHC
Last data point: 2017Q2

Price Acceleration:

There continued to be a weak evidence of price acceleration in the Winnipeg CMA. In the second quarter of 2017, the seasonally adjusted average MLS® price increased 1.5% to $294,426 compared to the previous quarter. Similarly, both the Teranet-National Bank House Price Index™ and Statistics Canada's New House Price Index increased by 1.4% and 1.2% respectively.

The Winnipeg resale market has been balanced throughout 2017; however, a decline in new listings and increase in sales have caused some tightening in market conditions resulting in upwards pressure on prices. Through the first eight months of 2017, average MLS® resale price increased 4.0% compared to the same time period in 2016.

Overvaluation:

The HMA framework continued to detect weak evidence of overvaluation. Employment in Winnipeg grew at a moderate rate in the second quarter of 2017, increasing by 0.9% compared to the previous quarter. Full-time employment levels continue to post year over year gains, increasing by 1.5% through eight months of 2017. However, the pace of part-time job creation decreased 0.4% over the same time period.

In addition, the seasonally adjusted unemployment rate continued to trend downwards, and was 5.4% in August, a decrease of 1.2 percentage points from the same month in 2016. This represents the lowest monthly

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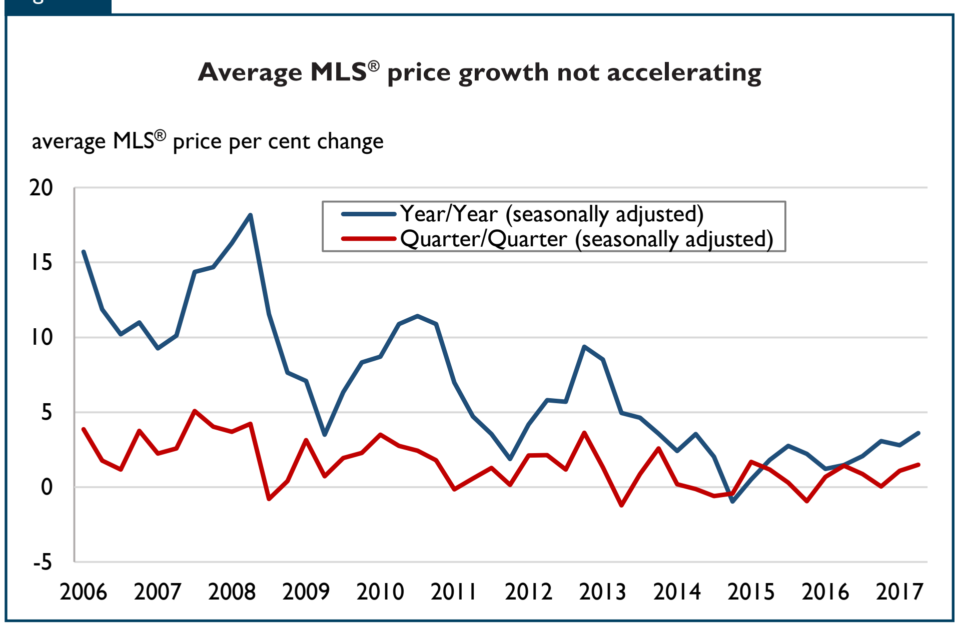
"The inventory of condominium apartments trended lower as the number of newly completed units slowed. This helped ease total inventory levels which fell for the second consecutive quarter."

Figure 2



Source: CREA
Last data point: 2017Q2

seasonally adjusted unemployment rate since March of 2013. Increasing employment and a falling unemployment rate have allowed for growth in real personal disposable income levels, which increased by 1.0% in the second quarter of 2017 compared to the same quarter in 2016.

Winnipeg's population growth rates, particularly among young adults, continued to support housing demand. The population aged 25 to 34 increased by 3.7% in the second quarter of 2017 from one year prior, which was more than double the national rate of 1.6%.

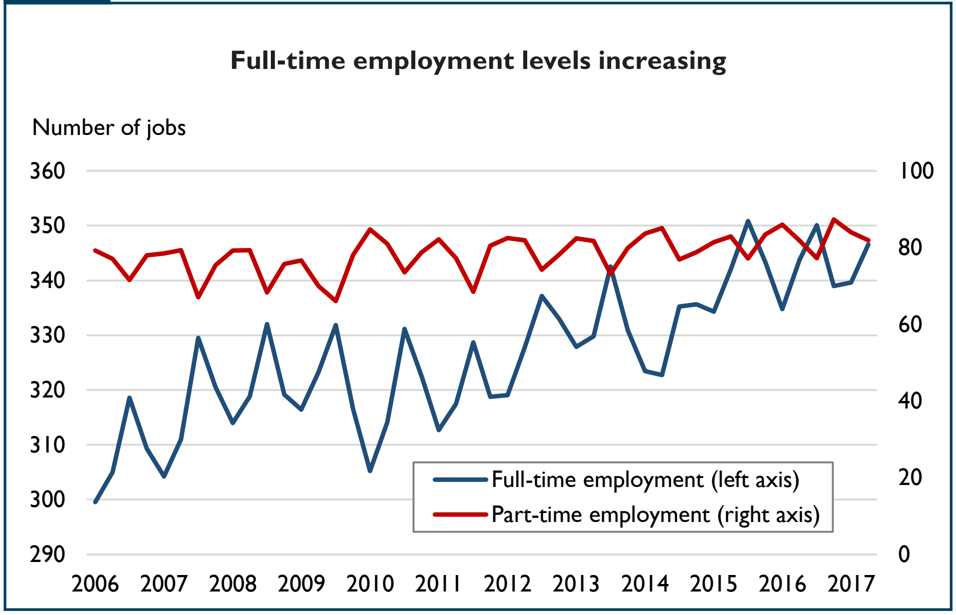
Overbuilding:

Moderate evidence of overbuilding continued to be detected for Winnipeg; however, the inventory of completed and unsold units per 10,000 remained below the threshold for overbuilding for the second consecutive quarter. Total inventory levels trended lower, and decreased by 12.0% in the second quarter of 2017 compared to the previous quarter, and decreased by 26.9% on a year-over-year basis.

Through eight months of 2017, the inventory of single-detached units averaged 198, a decrease of 13.7% compared to the same time period in 2016. At the same time, multi-family units in inventory decreased by 30.7% to average 287 units, largely driven by a decrease of 35.0% in condominium apartment units.

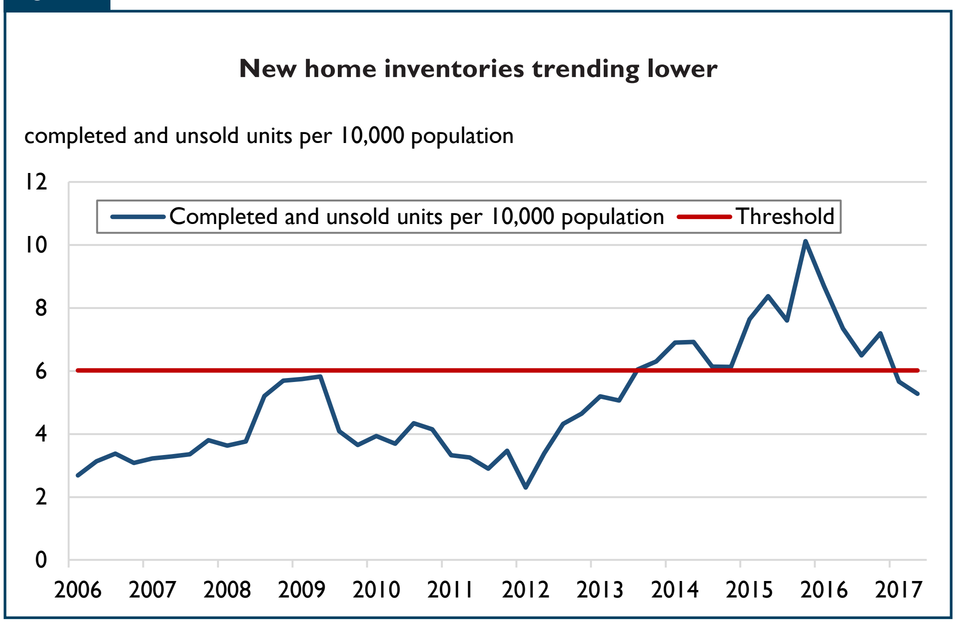
In the Winnipeg rental market, the vacancy rate, at 2.8%, is well below the threshold for overbuilding. There has been considerable construction activity in the rental market in 2017, with units under construction increasing by close to 20% in the second quarter compared to the previous one. These units will be a new source of supply and put upward pressure on the rental market vacancy rate once completed.

Figure 3



Source: Statistics Canada (Labour Force Survey)
Last data point: 2017Q2

Figure 4



Source: CMHC, calculations (threshold) by CMHC, Statistics Canada
Last data point: 2017Q2

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 detect imbalances in housing markets.

Specifically, the framework considers four main factors that may provide an early indication of vulnerability in the housing market: (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 incidence of signs of vulnerability, 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 a low degree of vulnerability. Conversely, as the intensity, number, and/or persistence of the signals increases, so does the evidence of imbalances in the housing market.

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 vulnerability. 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 vulnerable 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 vulnerabilities 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 signs of overheating, 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 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 signs of overbuilding 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 degree of market vulnerability. The HMA reflects a comprehensive framework that not only tests for the presence or incidence of signals of imbalances (that is, how far the indicator is from its historical average), but also considers the intensity and the persistence of these signals over time. Generally, low intensity and persistence are associated with a lower vulnerability. As the number of persistent signals increases, the evidence of an imbalance 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 that can identify imbalances. 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 showing vulnerability 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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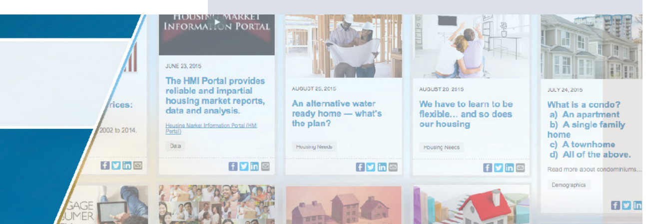

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