

HOUSING MARKET ASSESSMENT

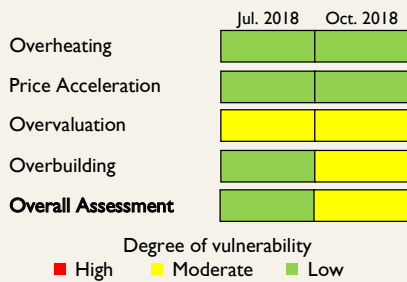
Winnipeg CMA

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Highlights

Results Overview Winnipeg CMA



- The HMA framework detected a moderate degree of housing market vulnerability in Winnipeg¹.
- A moderate degree of overvaluation was maintained due to a recent history of house prices exceeding fundamental factors, however house prices were broadly aligned with fundamental factors for the second quarter of 2018.
- The evidence of overbuilding was indicated as moderate, as the per capita inventory of newly completed and unsold units trended above the critical threshold for the HMA framework.
- There was no change to the assessment of low vulnerability for price acceleration and overheating indicators.

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 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 degree of market vulnerability. The HMA is a comprehensive framework that considers both 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 low evidence of vulnerability. As the number of intense and persistent signals increases, the associated degree of vulnerability becomes stronger.

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¹ Results are based on data as of the end of June 2018 and local market intelligence up to the end of September 2018. 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

Overheating was not signalled by the HMA framework. The seasonally adjusted sales-to-new listings (SNL) ratio remained below the 85% threshold for overheating. Seasonally adjusted quarterly sales were almost unchanged from the first quarter to the second quarter of 2018, while there was an uptick in new listings. As a result, the SNL ratio eased a bit to 56.7%, indicative of balanced market conditions. Active listings also increased with new listings, adding greater availability of homes for sale in the Winnipeg resale market.

Price Acceleration

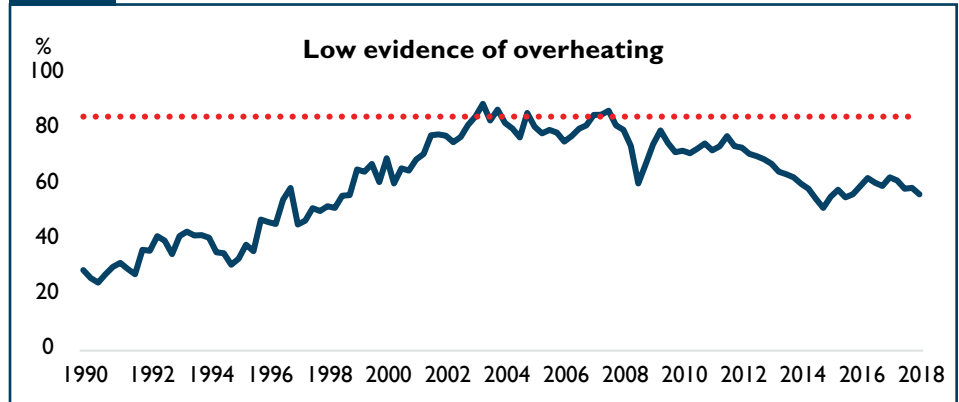
Price acceleration was not detected by the HMA framework. Winnipeg average MLS® home prices increased, but at a rate that was slower than inflation. With active listings trending higher, there is a growing availability of homes for sale in the resale market. At the same time, sales have been relatively stable creating a market place of moderate nominal price



Braden Batch
Senior Analyst,
Economics

"Winnipeg's overall vulnerability assessment this quarter was judged to be moderate. The HMA framework would typically assign a combination of overvaluation and overbuilding to be strong evidence of overall vulnerability in the market. However, we judged the recent movements of these indicators to be of moderate concern for Winnipeg."

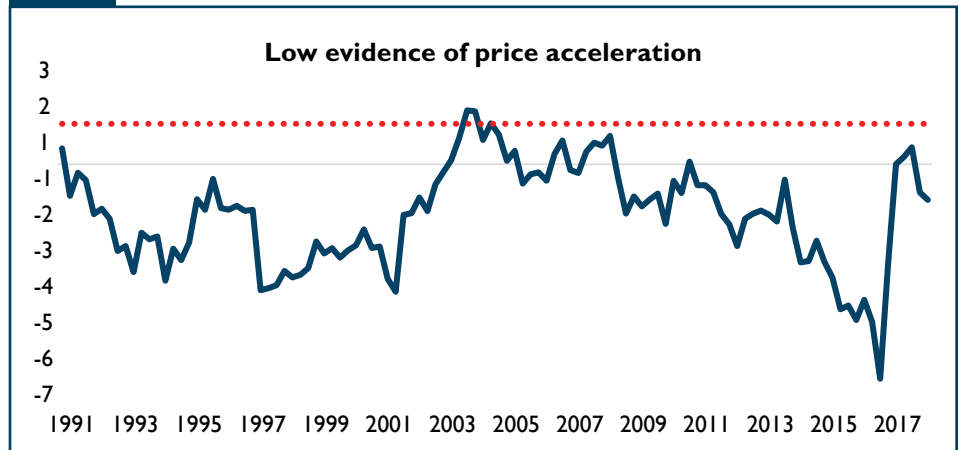
Figure 1



Last data point: 2018Q2

Source: CREA, calculations (threshold) by CMHC

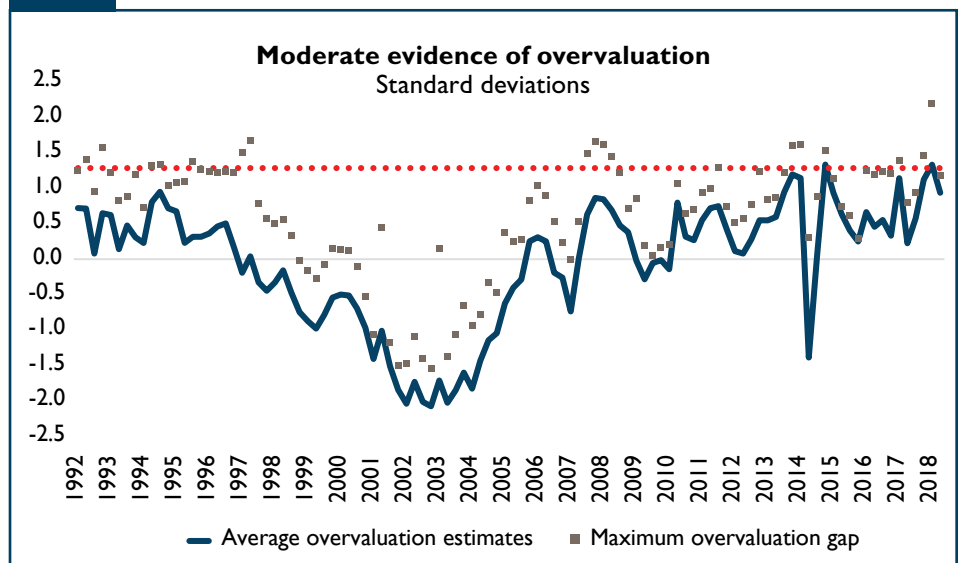
Figure 2



Last data point: 2018Q2

Source: CREA, CMHC calculations

Figure 3



Last data point: 2018Q2

Source: CREA, Statistics Canada and calculations by CMHC.

growth, however real price growth, adjusted for inflation, has been negative year-over-year for some price measures.

Overvaluation

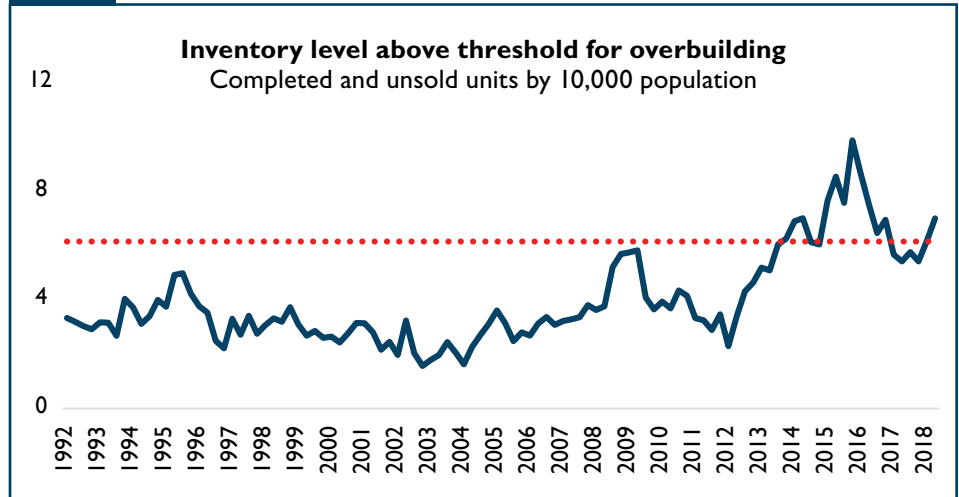
Overvaluation continued to be assessed as moderate for Winnipeg. The signal of overvaluation trended below what is considered a critical level in the second quarter of 2018. However, the assessment of moderate overvaluation is maintained due to a persistence rule. When overvaluation is indicated by the framework at least once in the previous three years, the rating of overvaluation is maintained.

The fundamental demand factors in Winnipeg trended in different directions in the second quarter. The population of young adults increased, which is a good predictor of household formation and a key support for new housing demand. At the same time, real disposable incomes declined along with rising mortgage rates. Overall, fundamentals were in line with the slight decline in real average MLS® house prices that was recorded in the second quarter of 2018.

Overbuilding

Moderate overbuilding was detected in Winnipeg as complete-and-unsold units were above the critical threshold during the second quarter of 2018. An increase in single-detached inventory is the dominant contributor to the rating of overbuilding, which is a departure from past reports in which overbuilding was driven,

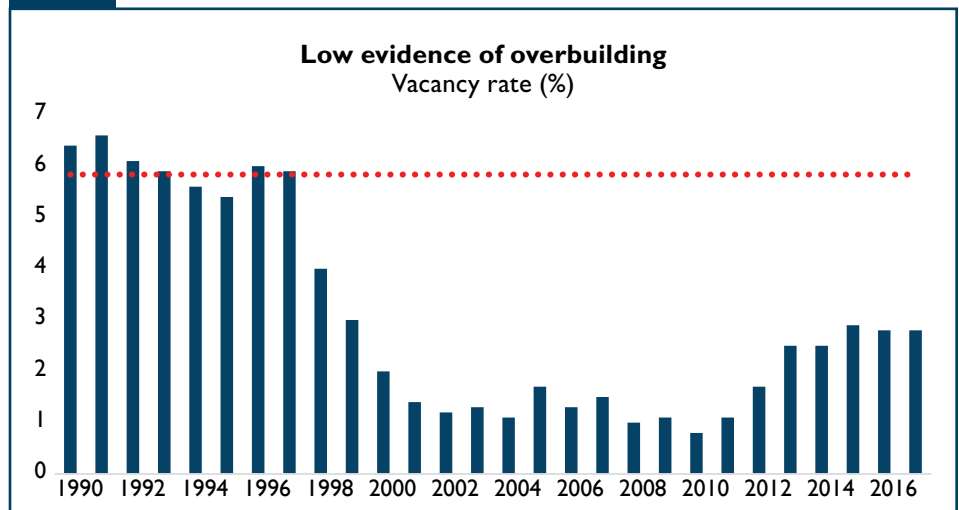
Figure 4



Last data point: 2018Q2

Source: Statistics Canada and CMHC

Figure 5



Last data point: 2018Q2

Source: Statistics Canada and CMHC

primarily, by multi-family units. However, the level of single-detached absorptions trended back to the level of single-detached starts, which indicates that builders have already made adjustments to the build-up

of supply by initiating fewer single-detached starts. The vacancy rate remained below the critical threshold for overbuilding, as rental availability was in line with historical levels.

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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