

HOUSING MARKET ASSESSMENT

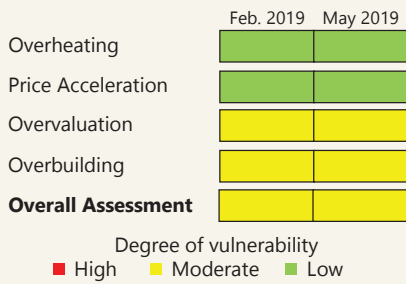
Winnipeg CMA

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Highlights

Results Overview Winnipeg CMA



- The HMA framework detected a moderate degree of overall vulnerability in the Winnipeg CMA, unchanged from the previous assessment¹.
- Overvaluation was maintained as moderate as most of the fundamental demand factors trended lower.
- Overbuilding continued to be assessed as moderate as the rental apartment vacancy rate remained stable and below the threshold despite elevated levels of completed and unsold units on the ownership side of the market.
- Low evidence of overheating and price acceleration were maintained as both remain below their respective thresholds.

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 and contribute to an orderly adjustment of housing market imbalances.

The HMA is an analytical framework that provides a comprehensive view of housing market vulnerabilities. It should be noted that it intends to identify imbalances in the housing market; it is not aimed at being a framework to identify long-term fundamental affordability challenges. It considers four main factors: overheating, price acceleration,

overvaluation and overbuilding. Overheating is detected when sales greatly outpace new listings in the market for existing homes. Price acceleration is signaled when the growth rate of house prices increases rapidly. Overvaluation indicates that house prices are elevated compared to price levels supported by personal disposable income, population, interest rates, and other fundamentals³. Overbuilding is flagged when the rental apartment vacancy rate and/or inventory of newly built and unsold housing units are significantly above normal levels.

The HMA combines the results from a technical framework with insights gained through CMHC's market analysts' knowledge of local market conditions. These insights allow CMHC

to provide additional context and interpretation to the results of the HMA framework.

Colour codes indicate the degree of market vulnerability. The HMA is a comprehensive framework that considers both the intensity (magnitude) and the persistence of signals of imbalances. 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 higher.

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¹ Results are based on data as of the end of December 2018 (the annual rental apartment vacancy rates are from October 2018) and local market intelligence up to the end of March 2019.

² A detailed description of the framework is available in the appendix of the [National edition](#).

³ Other fundamental factors include mortgage-borrowing capacity of households, required minimum down payment, and labor productivity.

In Detail

Overheating

The HMA framework signaled low evidence of overheating in the Winnipeg CMA, unchanged from the previous quarter. New listings went up in the fourth quarter of 2018 compared to the same quarter of 2017 while sales decreased in the same period. As a result, on a seasonally adjusted basis, the sales-to-new-listings (SNL) ratio trended lower in the fourth quarter of 2018 compared to the third quarter of 2018. Sales-to-new-listings decreased marginally but remained in the balanced range and below the threshold for overheating.



Christian Arkilley
Senior Analyst
Economics

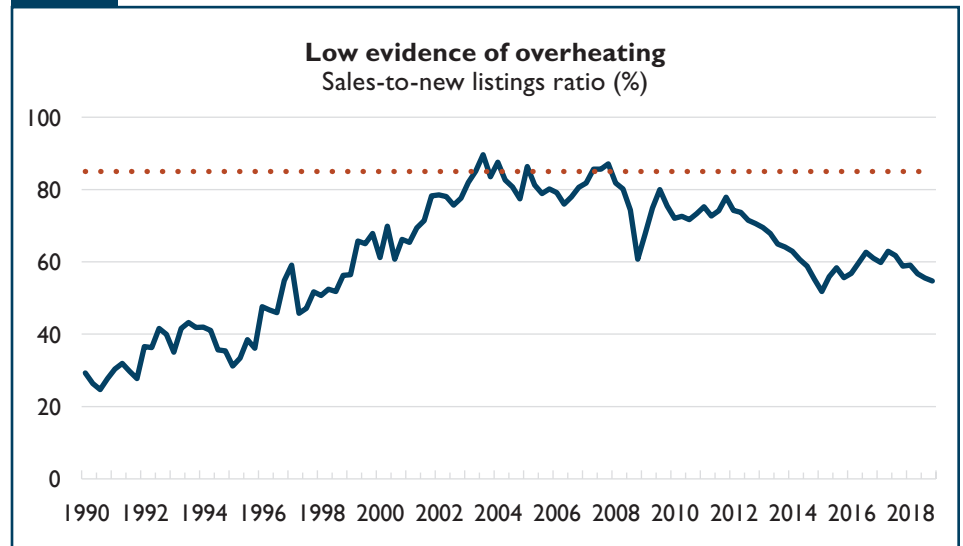
“The overall vulnerability assessment for the fourth quarter of 2018 was maintained as moderate for the Winnipeg CMA. Both overvaluation and overbuilding exhibited moderate evidence of imbalances, which ordinarily would have resulted in a high degree of overall vulnerability, according to the HMA framework. However, there were decreases in most of the fundamental demand factors resulting in the narrowing of the overvaluation gap. In addition, while the inventory of completed and unsold units increased and was above the threshold in the fourth quarter of 2018, the vacancy rate was stable and below the problematic threshold. Therefore, the overall assessment remained unchanged in the fourth quarter of 2018.”

Price Acceleration

The HMA framework detected low evidence of price acceleration in the Winnipeg CMA in the fourth quarter of 2018. The MLS average price in the Winnipeg CMA increased in the fourth quarter compared to the same period a year ago. However, on a seasonally adjusted basis, the

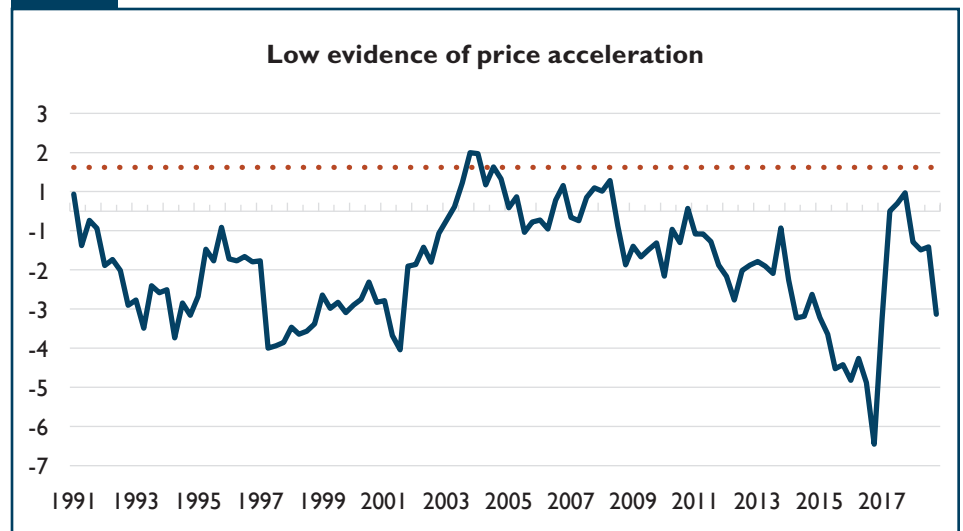
average resale home price decreased compared to the previous quarter. The growth in inflation-adjusted MLS price was negative in the fourth quarter of 2018 compared to the same quarter of 2017. The decrease in sales while both active and new listings trended higher resulted in the moderation of MLS® price growth in the fourth quarter of 2018.

Figure 1



Last data point: 2018Q4
Sources: CREA, Calculations (threshold) by CMHC

Figure 2

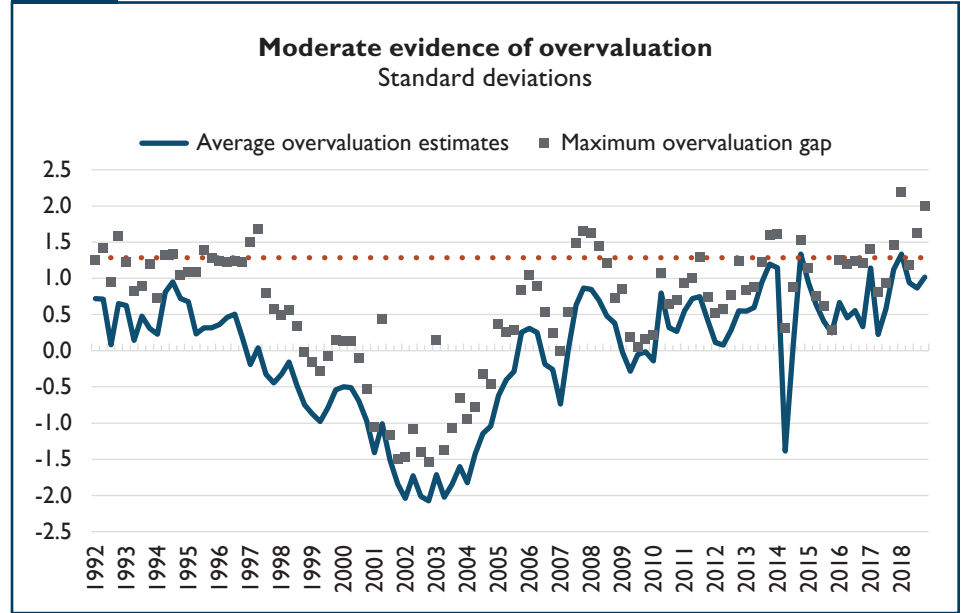


Last data point: 2018Q4
Sources: CREA, CMHC Calculations

Overvaluation

In the resale market, prices continue to be at levels supported by fundamentals such as personal disposable income and population of young adults (aged 25-34). The population of young adults in the Winnipeg CMA increased by 1.75% in the fourth quarter of 2018 compared to the fourth quarter of 2017. However, a decrease in real personal disposable income and moderation of other fundamental demand factors have eased some house price growth. As a result, the real MLS average price decreased in the fourth quarter of 2018 compared to the fourth quarter of 2017 and was below the threshold. The average of all the overvaluation models increased in the fourth quarter of 2018 but remained below the threshold. Evidence of overvaluation has therefore, been maintained as having a moderate degree of vulnerability.

Figure 3



Last data point: 2018Q4

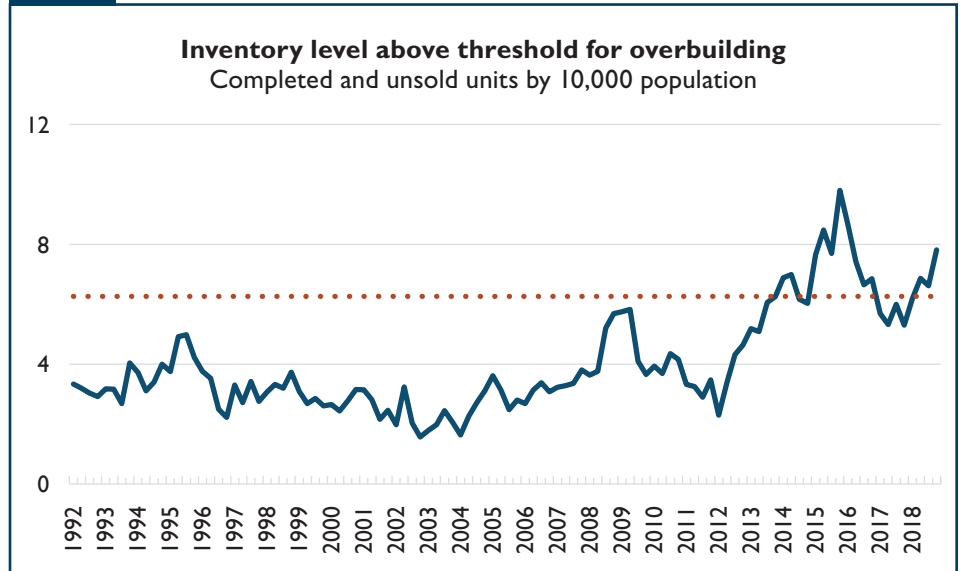
Sources: CREA, Statistics Canada and Calculations by CMHC

Note: The average estimate of overvaluation is the average gap between actual house prices and price levels estimated from a group of selected models. Baseline models include demand, supply, hybrid, and affordability models, each of which is estimated using four measures of house prices to generate sixteen unique estimates of overvaluation. The selection of models is conducted with a set of cointegration tests, and the selected models are estimated with Dynamic Ordinary Least Squares (DOLS). The maximum overvaluation gap is obtained from the model that has the largest gap between the actual price and the estimated price. The threshold is fixed at a critical value of 1.29 for a confidence level of 80%. Overvaluation is signaled when overvaluation estimates lie above the threshold.

Overbuilding

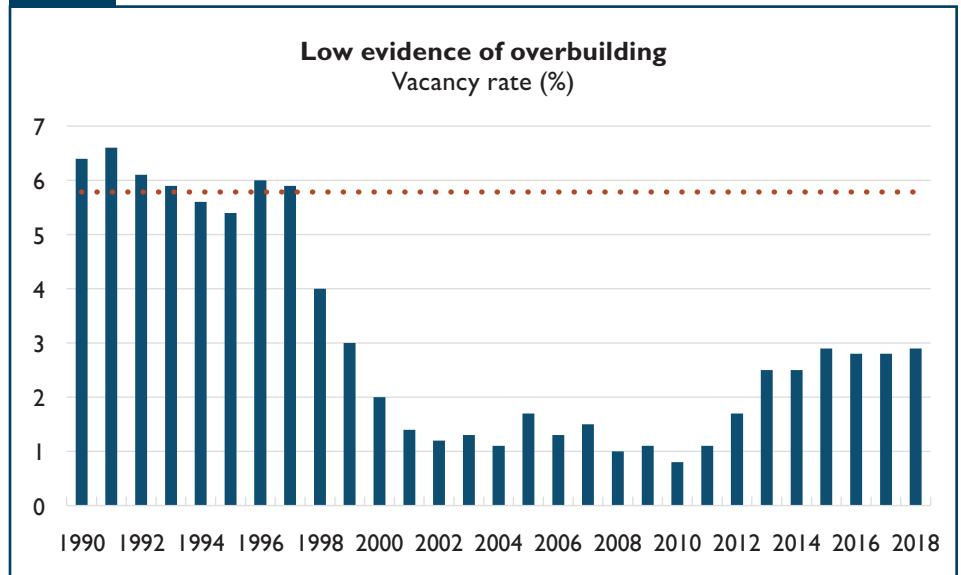
The evidence of overbuilding was assessed as moderate in the Winnipeg CMA, unchanged from the previous quarter. In the fourth quarter of 2018, single detached inventory moved to an all-time high in the Winnipeg CMA. Completed and unsold apartment units more than doubled in the fourth quarter of 2018 compared to the third quarter of 2018 while completed and unsold row units also increased to levels not seen since the fourth quarter of 2015. This resulted in completed and unsold row and apartment units moving above their threshold for significant overbuilding. The total number of completed and unsold units consequently increased and went over the threshold for overbuilding. There is some shift of demand from homeownership to the rental market in the Winnipeg CMA. Growing demand for rental accommodations has been supported by growth in key demographics as well as higher carrying costs associated with homeownership as mortgage rates rise. This shift in rental demand has resulted in the apartment vacancy rate remaining stable and below the critical threshold. Overbuilding has therefore, retained its moderate vulnerability assessment.

Figure 4



Last data point: 2018Q4
Sources: Statistics Canada and CMHC

Figure 5



Last data point: 2018Q4
Sources: Statistics Canada and CMHC

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. 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 in the existing home market; (2) sustained acceleration in house prices meaning that the rate of increase in prices is itself increasing; (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 the intensity (magnitude) and the persistence of signals. 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 number, intensity, 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 recent 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 in the resale market. The sales-to-new listings ratio is used as an indicator to assess possible overheating conditions. 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.

Acceleration in House Prices

House price acceleration occurs when the growth rate in house prices continuously increases. Acceleration in house prices over an extended period would

lead prices to unsustainable levels, hence increasing housing market vulnerability. To assess acceleration in house prices, the HMA framework uses a statistical test* that was developed to identify periods of accelerating growth in 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—based on economic theory—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 apartment vacancy rate, and the inventory of completed and unsold housing units per 10,000 population. The HMA framework compares the current levels and recent trends in these indicators with thresholds.

Note 1: Colour codes indicate the degree of market vulnerability. Overheating and price acceleration are each assessed with a single indicator. Colour scales for these factors vary between green and yellow only. Overvaluation and overbuilding are assessed with multiple indicators. Their colour scales, as well as the colour scale for the overall assessment, change among green, yellow and red to reflect different degrees of imbalances.

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: 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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