

# HOUSING MARKET ASSESSMENT

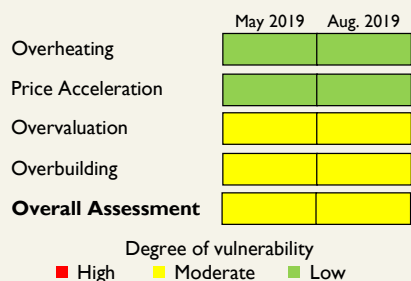
Winnipeg CMA

Date Released: Third Quarter 2019



## Highlights

### Results Overview Winnipeg CMA



- The Housing Market Assessment (HMA) continued to detect a moderate degree of vulnerability in the Winnipeg housing market.<sup>1</sup>
- Overvaluation is assessed as moderate, unchanged from previous quarter as fundamental demand factors trended higher while price measures declined.
- The assessment of overbuilding was maintained as moderate as inventories remained at elevated levels while the apartment vacancy rate remained below the threshold.
- Overheating and price acceleration retained their low ratings as both remained below their respective thresholds.

## HMA Overview<sup>2</sup>

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 fundamentals<sup>3</sup>. 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.

## SUBSCRIBE NOW!

Get email notifications when CMHC publications are released or updated. Sign up for a free myCMHC account for enhanced site access, including one-click subscriptions to the reports and tables that matter to you.

Get your [myCMHC account](#) today!

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

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

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

## In Detail

### Overheating

The demand for existing homes increased in the Winnipeg CMA causing sales to increase in the first quarter of 2019 compared to the same period the previous year. New listings also trended up but at a slower rate compared to sales. As a result, the seasonally adjusted sales-to-new listings ratio increased marginally but was still below the threshold for overheating. Therefore, evidence of overheating has remained low.

### Price Acceleration

The MLS® average price in the Winnipeg market increased by 0.2% in the first quarter of 2019 from the first quarter of 2018. Historically, the average resale price has increased for the past 19 years. In the first quarter of 2019, balance market conditions persisted, with resale prices rising but at a modest pace. On a seasonally adjusted basis, the MLS® average price



**Christian Arkilley**  
Senior Analyst  
Economics

*"Winnipeg's overall vulnerability continued to be assessed as moderate. Inventories are elevated and increased further in the first quarter of 2019. The increase in fundamental factors and decrease in price measures resulted in the narrowing of the overvaluation gap. As such, the overvaluation rating was maintained as moderate. The overall vulnerability assessment was maintained as moderate based on the narrowing of the overvaluation gap and judgment."*

Figure 1

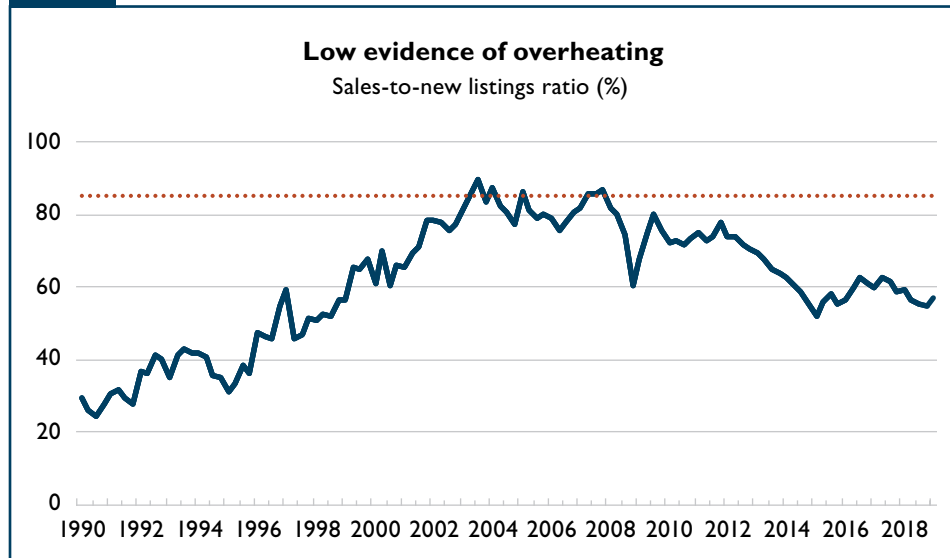
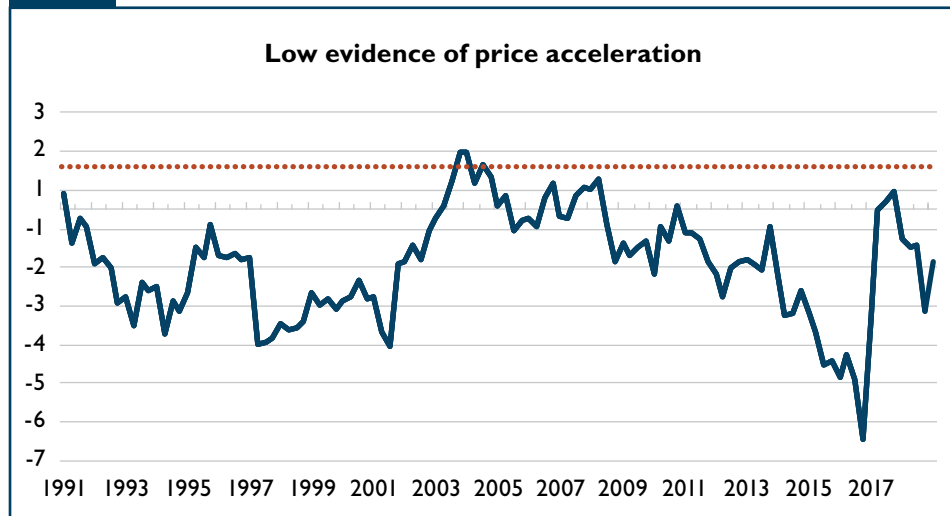


Figure 2



trended lower in Q1 2019 from Q4 2018. As a result, evidence of price acceleration was low, unchanged from previous quarter.

### Overvaluation

The overvaluation rating is maintained as moderate. Fundamental demand factors such as the population of young adults (aged 25-34) and real personal disposable income increased

in Q1 2019 from a year earlier. The population of young adults in the Winnipeg CMA rose by 1.65% and real personal disposable income also increased by 0.12%. This added some support for price growth. However, the decreases in several price measures during this period resulted in the narrowing of the overvaluation gap. In addition, the average of all the overvaluation models increased in the first quarter of 2019, but was

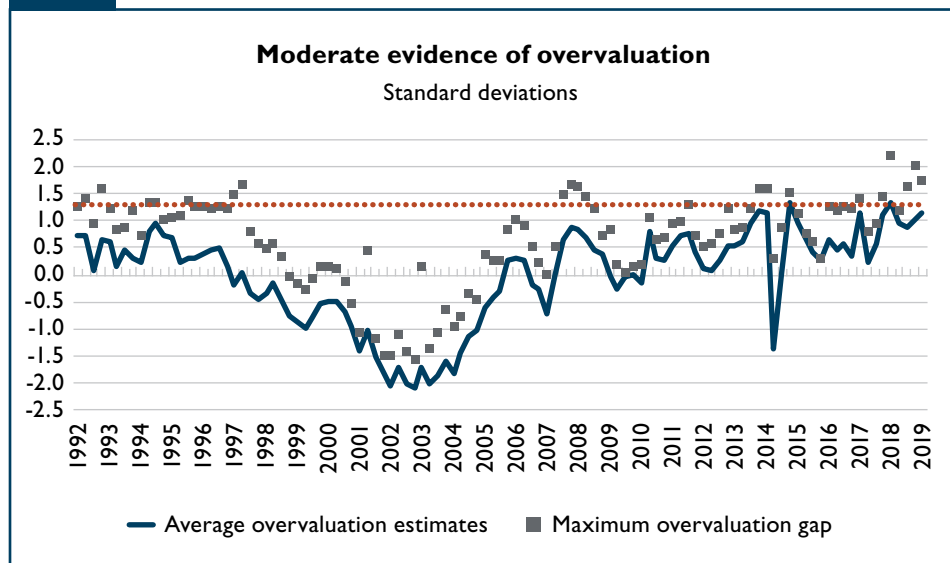
only slightly above the threshold. As such, we have maintained our assessment of moderate evidence of overvaluation in the Winnipeg market.

## Overbuilding

The evidence of overbuilding remained moderate in the Winnipeg CMA. The inventory of completed and unabsorbed housing units per 10,000 population increased further during the first quarter of 2019 and was significantly above the HMA framework's threshold for overbuilding. In the multiples sector, inventories of row and apartment units have continued to rise, while that for single-detached units have risen to an all-time high.

The shift in demand from homeownership to the rental market has contributed to the strengthening of rental demand within the Winnipeg CMA. However, vacancy rate has been stable and remains below the framework's long-term threshold. Therefore, the combined result of these two measures of overbuilding indicates moderate evidence of overbuilding in this market.

Figure 3

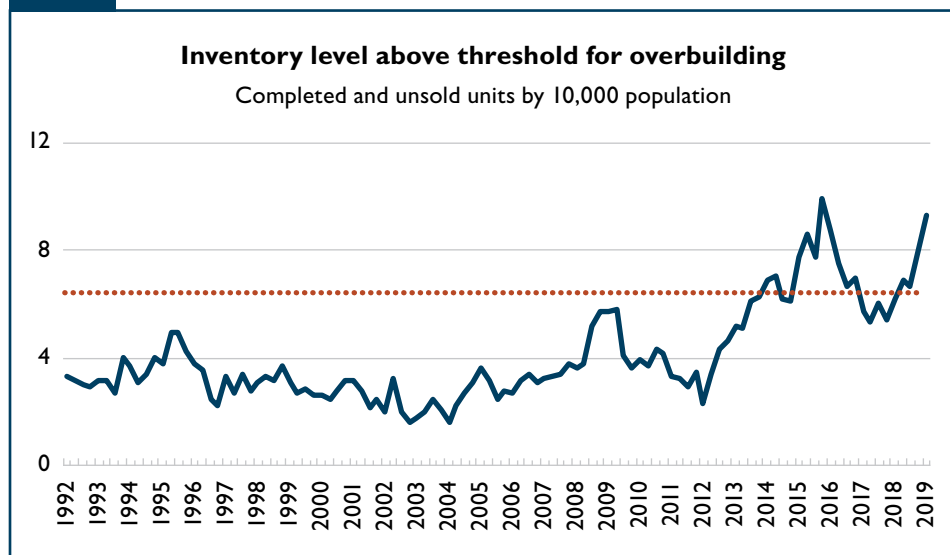


Sources: CREA, Statistics Canada and calculations by CMHC

Last data point: 2019Q1

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.

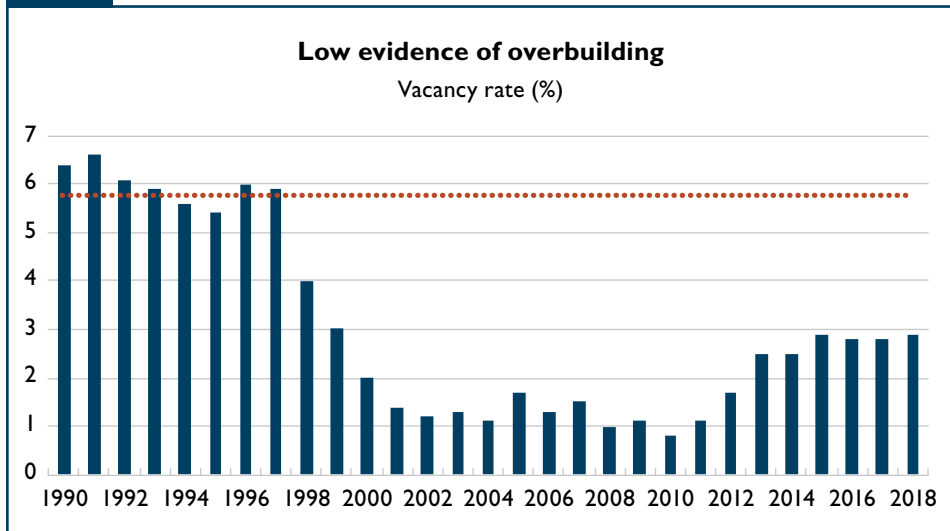
Figure 4



Sources: Statistics Canada and CMHC

Last data point: 2019Q1

Figure 5



Sources: Statistics Canada and CMHC

Last data point: 2019Q1

## 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.



## CMHC HELPS CANADIANS MEET THEIR HOUSING NEEDS.

Canada Mortgage and Housing Corporation (CMHC) has been helping Canadians meet their housing needs for more than 70 years. As Canada's authority on housing, we contribute to the stability of the housing market and financial system, provide support for Canadians in housing need, and offer unbiased housing research and advice to Canadian governments, consumers and the housing industry. Prudent risk management, strong corporate governance and transparency are cornerstones of our operations.

For more information, visit our website at [www.cmhc.ca](http://www.cmhc.ca) or follow us on [Twitter](#), [LinkedIn](#), [Facebook](#), [Instagram](#) and [YouTube](#).

You can also reach us by phone at 1-800-668-2642 or by fax at 1-800-245-9274.  
Outside Canada call 613-748-2003 or fax to 613-748-2016.

Canada Mortgage and Housing Corporation supports the Government of Canada policy on access to information for people with disabilities. If you wish to obtain this publication in alternative formats, call 1-800-668-2642.

©2019 Canada Mortgage and Housing Corporation. All rights reserved. CMHC grants reasonable rights of use of this publication's content solely for personal, corporate or public policy research, and educational purposes. This permission consists of the right to use the content for general reference purposes in written analyses and in the reporting of results, conclusions, and forecasts including the citation of limited amounts of supporting data extracted from this publication. Reasonable and limited rights of use are also permitted in commercial publications subject to the above criteria, and CMHC's right to request that such use be discontinued for any reason.

Any use of the publication's content must include the source of the information, including statistical data, acknowledged as follows:

Source: CMHC (or "Adapted from CMHC," if appropriate), name of product, year and date of publication issue.

Other than as outlined above, the content of the publication cannot be reproduced or transmitted to any person or, if acquired by an organization, to users outside the organization. Placing the publication, in whole or part, on a website accessible to the public or on any website accessible to persons not directly employed by the organization is not permitted. To use the content of this CMHC publication for any purpose other than the general reference purposes set out above or to request permission to reproduce large portions of, or the entire content of, this CMHC publication, please send a Copyright request to the Housing Knowledge Centre at [Housing\\_Knowledge\\_Centre@cmhc.ca](mailto:Housing_Knowledge_Centre@cmhc.ca). Please provide the following information: Publication's name, year and date of issue.

Without limiting the generality of the foregoing, no portion of the content may be translated from English or French into any other language without the prior written permission of Canada Mortgage and Housing Corporation.

The information, analyses and opinions contained in this publication are based on various sources believed to be reliable, but their accuracy cannot be guaranteed. The information, analyses and opinions shall not be taken as representations for which Canada Mortgage and Housing Corporation or any of its employees shall incur responsibility.



# Housing market intelligence you can count on

## PUBLICATIONS AND REPORTS AVAILABLE ONLINE

*Local, regional and national analysis and data on current market conditions and future trends.*

- Housing Information Monthly
- Housing Market Assessment
- Housing Market Insight
- Housing Now Tables
- Housing Market Outlook, Canada
- Housing Market Outlook, Highlight Reports – Northern Housing
- Housing Market Outlook, Canada and Major Centres
- Preliminary Housing Starts Data
- Rental Market Reports, Canada and Provincial Highlights
- Rental Market Reports, Major Centres
- Seniors' Housing Reports
- Mortgage and Consumer Credit Trends Report

## DATA TABLES AVAILABLE ONLINE

- Funding and Securitization Data
- Household Characteristics
- Housing Market Data
- Housing Market Indicators
- Mortgage and Debt Data
- Rental Market Data

## HOUSING MARKET INFORMATION PORTAL

*The housing data you want, the way you want it.*

- ✓ Information in one central location
- ✓ Desktop and mobile friendly
- ✓ Neighbourhood-level data

**[cmhc.ca/hmportal](http://cmhc.ca/hmportal)**

## SUBSCRIBE NOW

*Get email notifications when CMHC publications are released or updated. Sign up for a free myCMHC account for enhanced site access, including one-click subscriptions to the reports and tables that matter to you.*

**Get your myCMHC account today!**

**Get the market intelligence you need today!**

Find all the latest trends, research and insights at **[cmhc.ca/housingmarketinformation](http://cmhc.ca/housingmarketinformation)**

## Housing Observer

Featuring quick reads and videos on...

- Analysis and data
- Timely insights
- Updates to housing conditions, trends and much more!

Subscribe today to stay in the know!

**[www.cmhc.ca/observer](http://www.cmhc.ca/observer)**

