

HOUSING MARKET ASSESSMENT

Winnipeg CMA

Date Released: Fourth Quarter 2019



Highlights

Results Overview Winnipeg CMA

	Aug. 2019	Nov. 2019
Overheating	Low	Low
Price Acceleration	Low	Low
Overvaluation	Moderate	Moderate
Overbuilding	Moderate	Moderate
Overall Assessment	Moderate	Moderate

Degree of vulnerability
■ High ■ Moderate ■ Low

- The overall degree of vulnerability in the Winnipeg CMA was assessed as moderate, unchanged from the from the previous quarter¹ due to the minimal evidence of overvaluation in the second quarter of 2019.
- Moderate evidence of overvaluation has been maintained as overvaluation was signaled by at least one of the models in at least two of the past four quarters.
- The HMA framework continued to detect moderate evidence of overbuilding as inventories of new homes remain significantly above the threshold.
- Low evidence of overheating and price acceleration were maintained as resale market activity remains balanced.

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 June 2019 (the annual rental apartment vacancy rates are from October 2018) and local market intelligence up to the end of September 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 continued to signal low evidence of overheating in the Winnipeg CMA. Demand for existing homes was strong as both sales and new listings increased in the second quarter of 2019 compared to same period last year. However, over the same time period, the trend in sales was slower compared to new listings resulting in a marginal decrease in the seasonally adjusted sales-to-new listings (SNL) ratio. Despite the decrease, the seasonally adjusted SNL ratio continued to indicate balanced market conditions.

Price Acceleration

The HMA framework detected low evidence of price acceleration in the Winnipeg CMA. In the second quarter of 2019, the average MLS® price increased by 2.4% compared to same period last year, a pace consistent with Winnipeg’s balanced market conditions as well as the increase in demand for existing homes.



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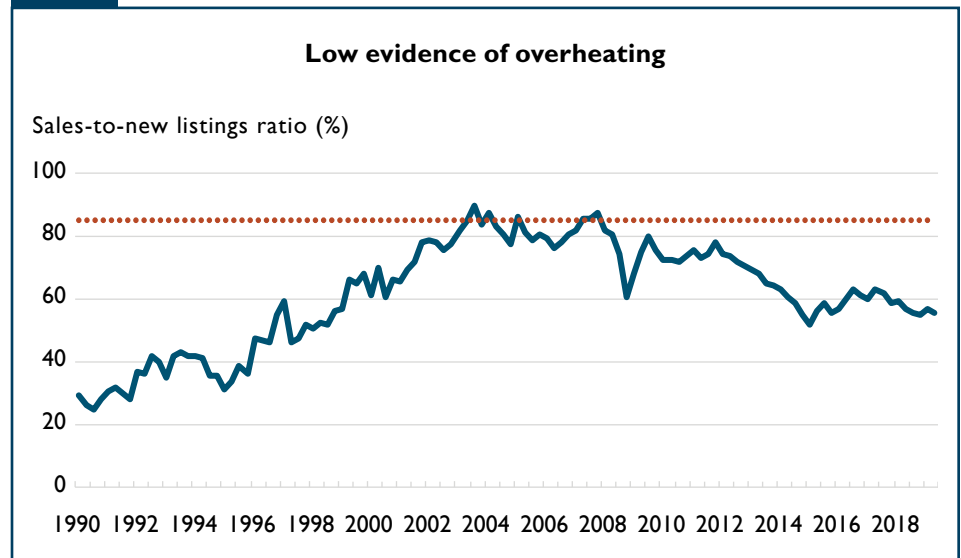
“In the second quarter of 2019, we maintained our assessment of the Winnipeg CMA housing market as being moderately vulnerable. While the imbalance between home prices and local economic conditions has begun to narrow, inventories of new homes remain elevated relative to the local population, resulting in our continued detection of overbuilding.”

However, the increase in average price was lower than the rate of inflation and the growth in inflation-adjusted MLS® price was negative (-1.1%) in the second quarter of 2019 compared to the same period the previous year.

Overvaluation

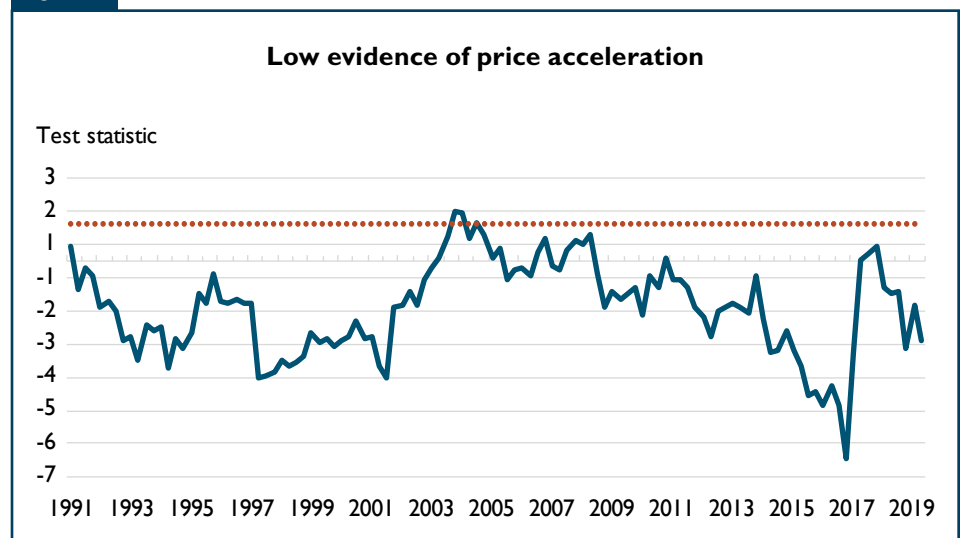
The evidence of overvaluation was maintained as moderate in the Winnipeg market in the second quarter of 2019; however, the imbalances between price measures

Figure 1



Last data point: 2019Q2
Source: CREA, Calculations (threshold) by CMHC

Figure 2



Last data point: 2019Q2
Source: CREA, CMHC Calculations

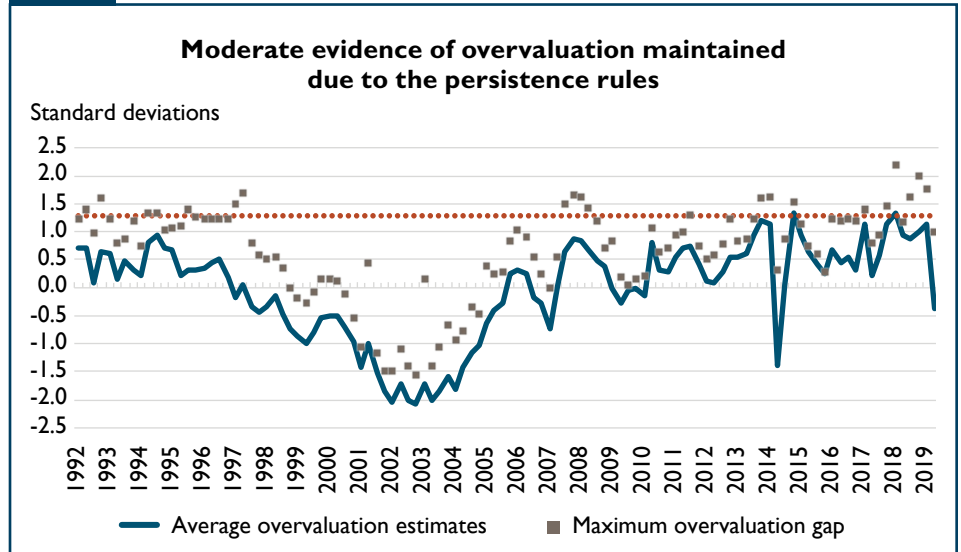
and fundamental economic factors have begun to narrow compared with previous quarters. The increase in the population of young adults (aged 25-34) in the second quarter of 2019 created additional demand for housing in the Winnipeg CMA. However, the decrease in real personal disposable income in Q2 2019 reduced the purchasing power of prospective buyers and eased some house price growth in the market.

In the second quarter of 2019, the overvaluation gap narrowed further as price measures decreased and fundamental factors increased year-over-year. While the models used in the overvaluation framework were below their thresholds, a moderate degree of vulnerability was maintained as at least one of the models triggered overvaluation in at least two of the past four quarters. The evidence of overvaluation is, however, considered marginal as the models from the HMA overvaluation framework are all below the threshold.

Overbuilding

The HMA framework continued to detect moderate evidence of overbuilding in the Winnipeg CMA. While the number of completed and unsold units per 10,000 population declined in the second quarter of 2019 relative to the previous quarter, the indicator remains significantly above the threshold. Multi-family units, especially apartments, were the main drivers of the elevated inventory levels in the Winnipeg CMA.

Figure 3

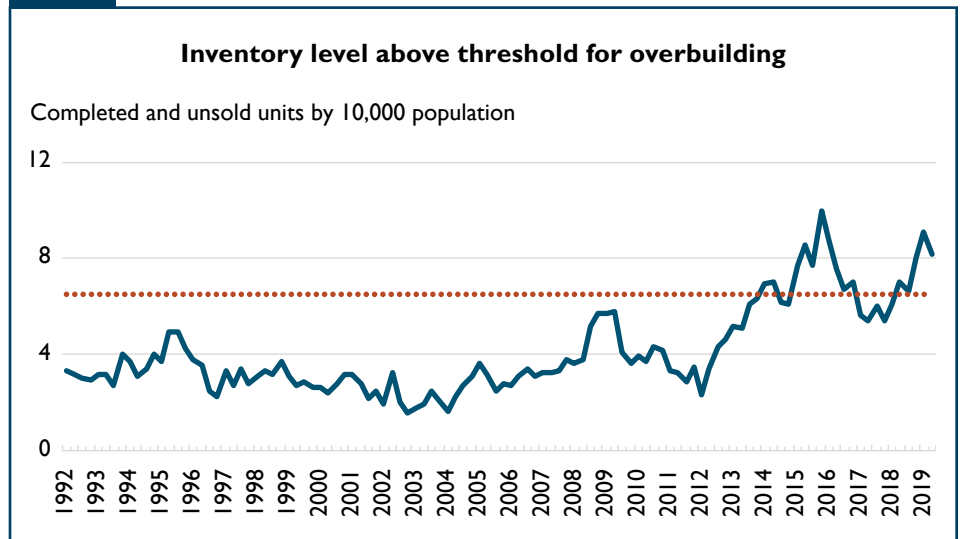


Last data point: 2019Q2

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.

Figure 4

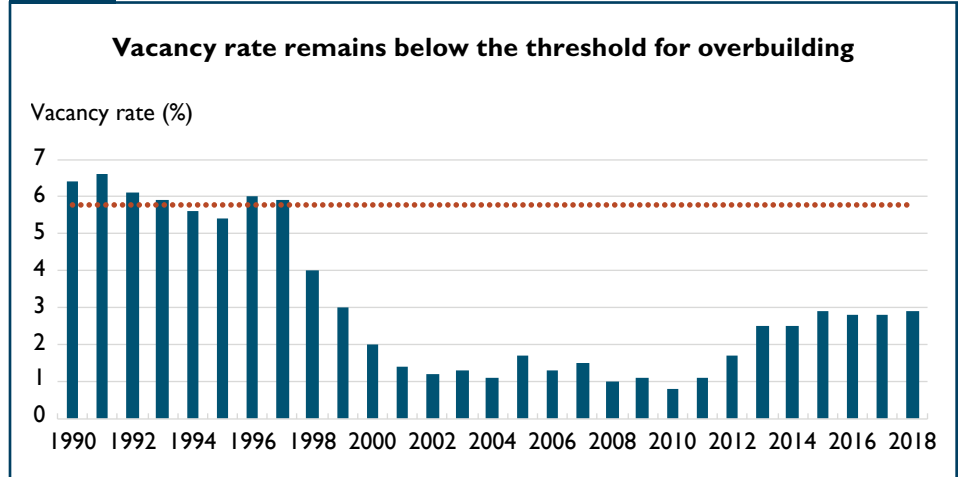


Last data point: 2019Q2

Source: Statistics Canada and CMHC

However, both completed and unsold single-detached and multi-family units decreased in the second quarter of 2019 compared to the previous quarter as demand for new homes increased overall. Meanwhile, the vacancy rate, based on the October 2018 Rental Market Survey, remains below the threshold. These two measures combined resulted in moderate evidence of overbuilding in the Winnipeg market.

Figure 5



Last data point: 2019Q2
 Source: 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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