

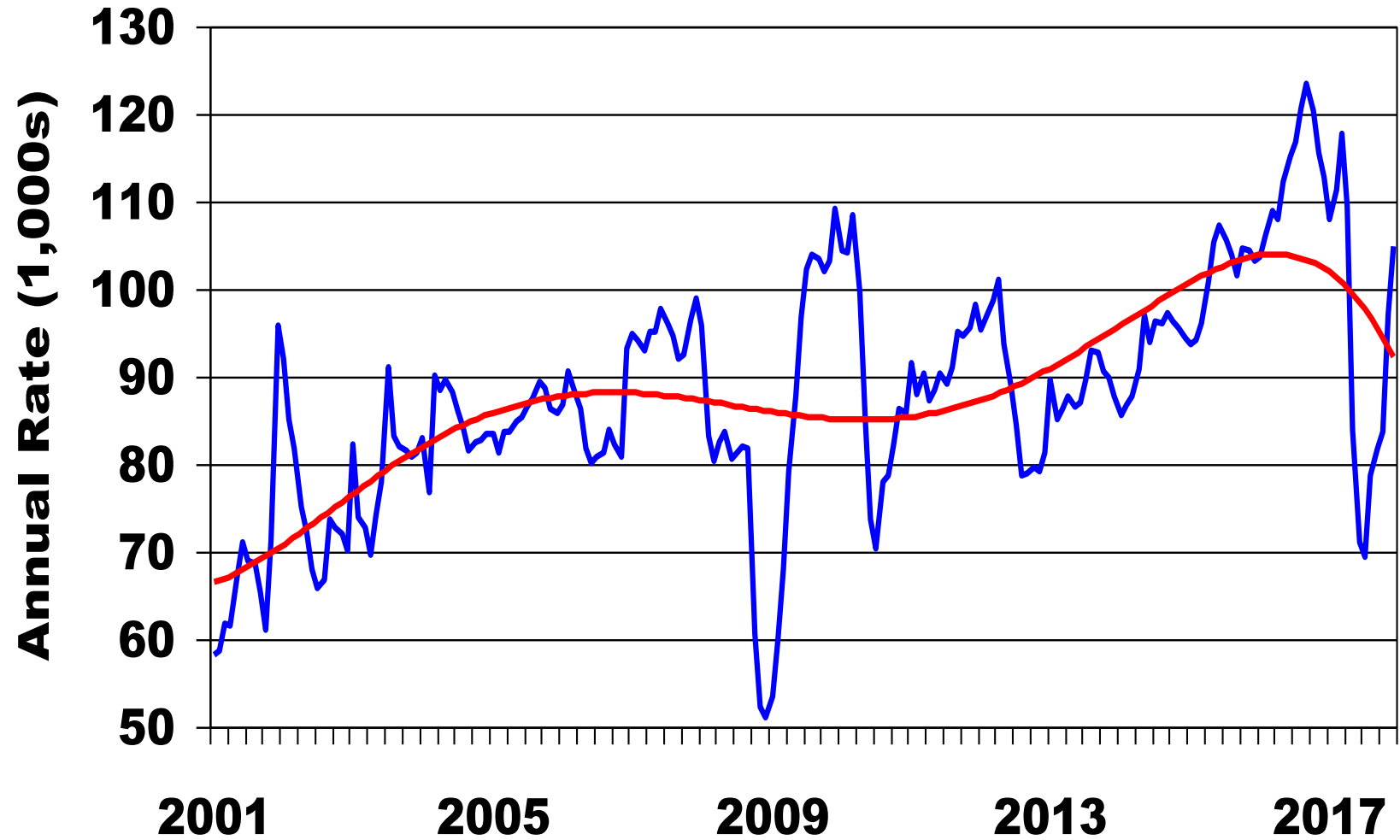
Winnipeg Housing Market Overview

Will Dunning
February 7, 2018

Comparing Toronto and Winnipeg

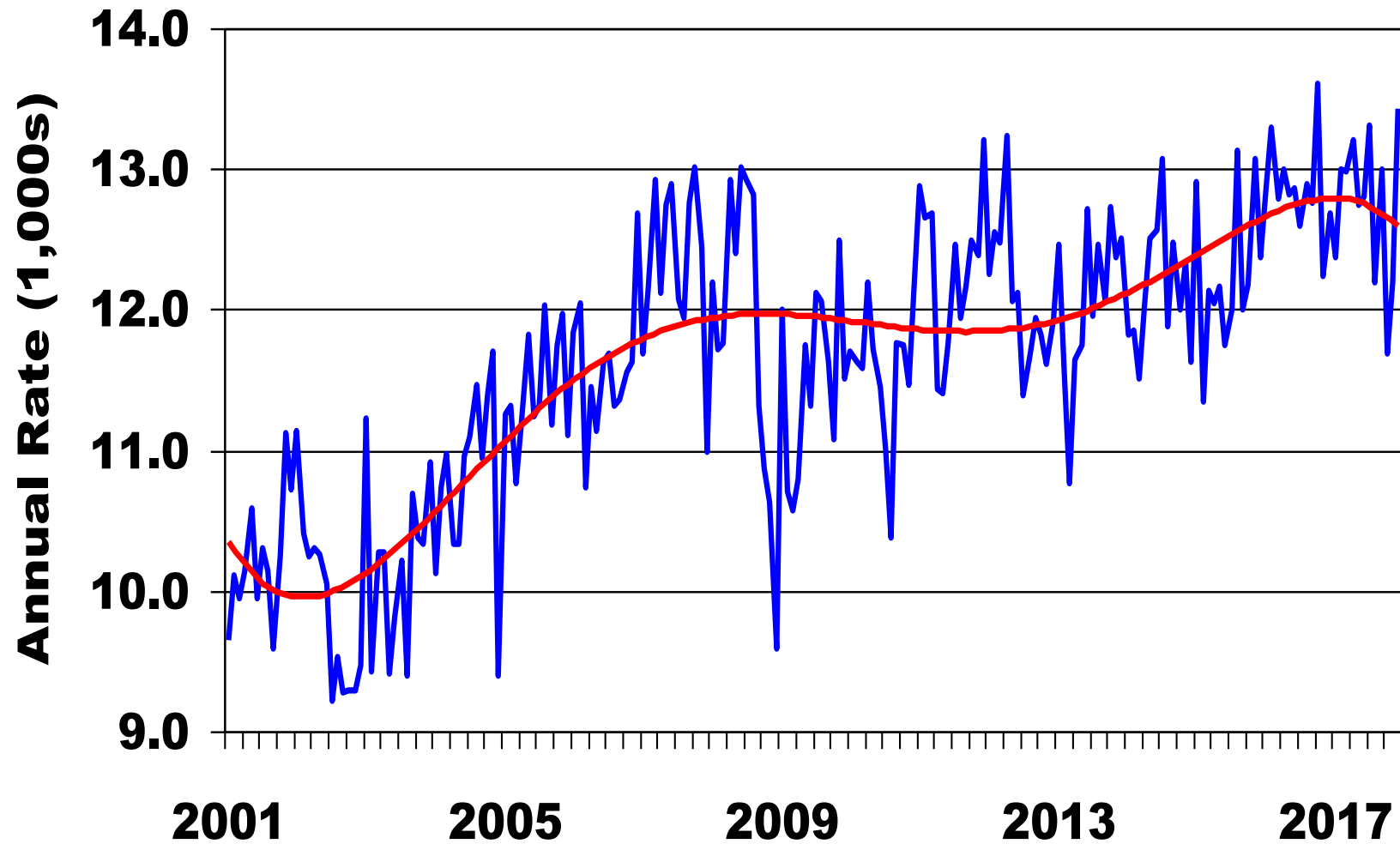
- Sales trends
- Price growth
- Housing starts
- Affordability

Resale Activity in the GTA



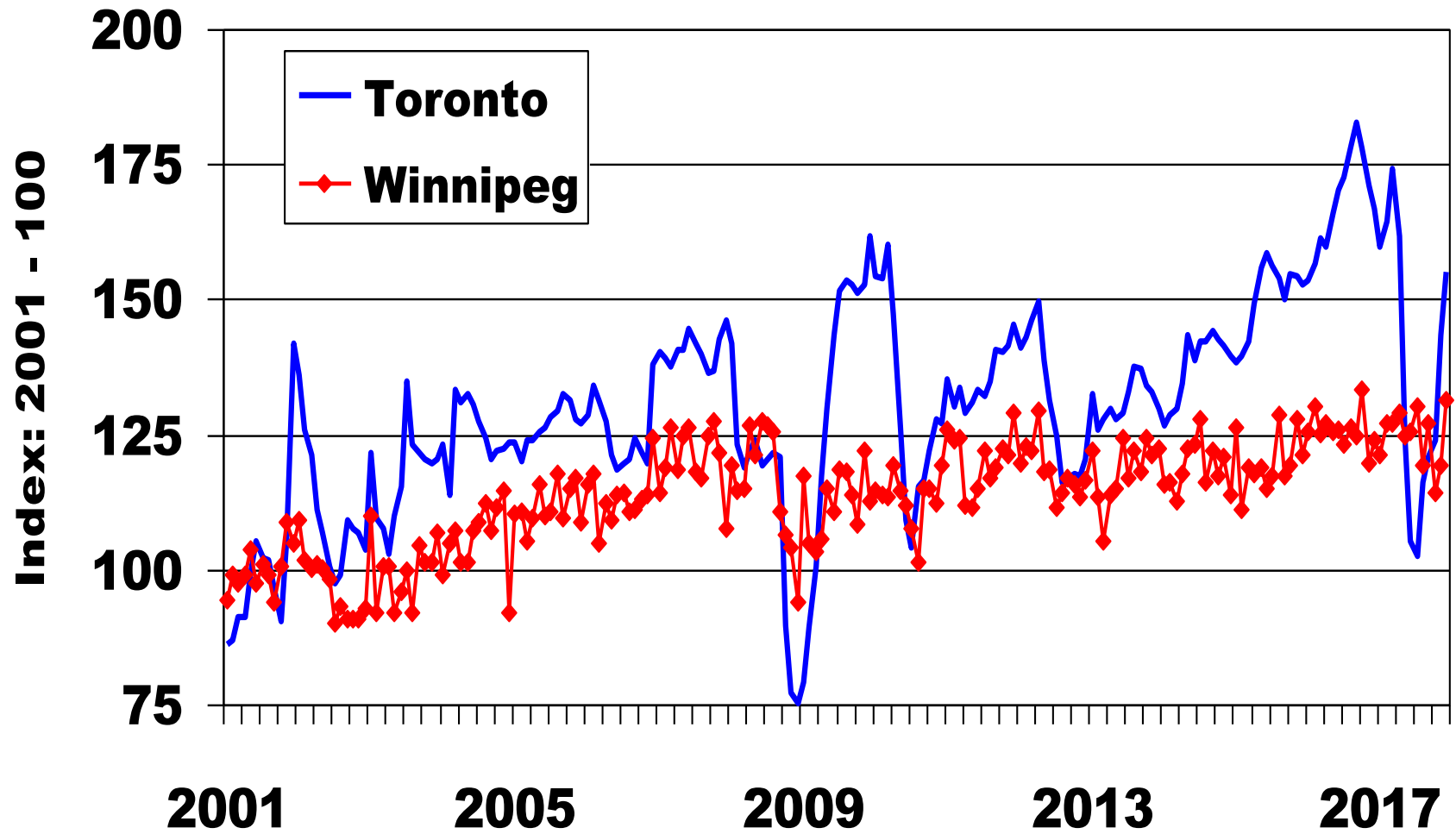
Source: CREA

Resale Activity in Winnipeg



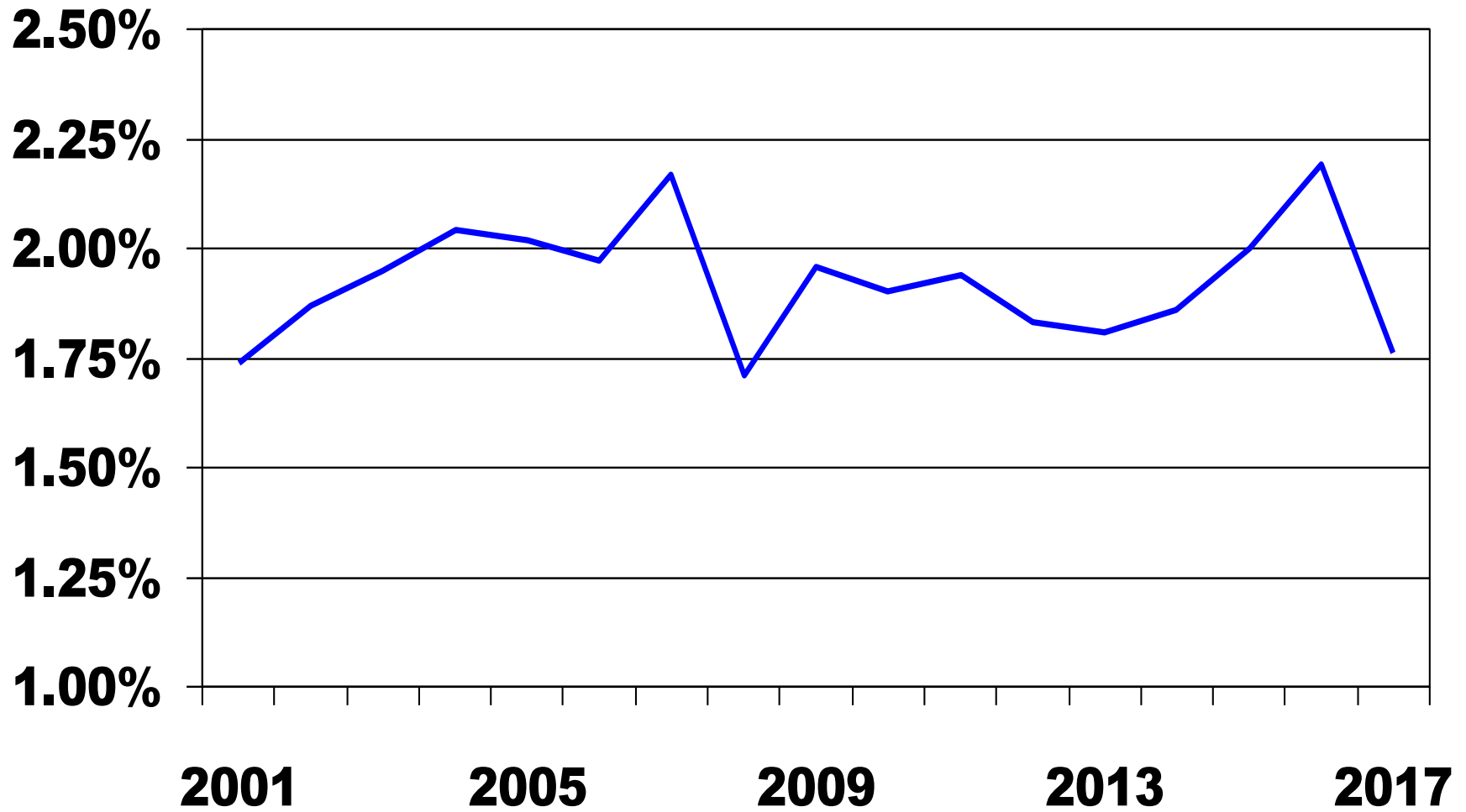
Source: CREA

Comparing 2 Market Areas



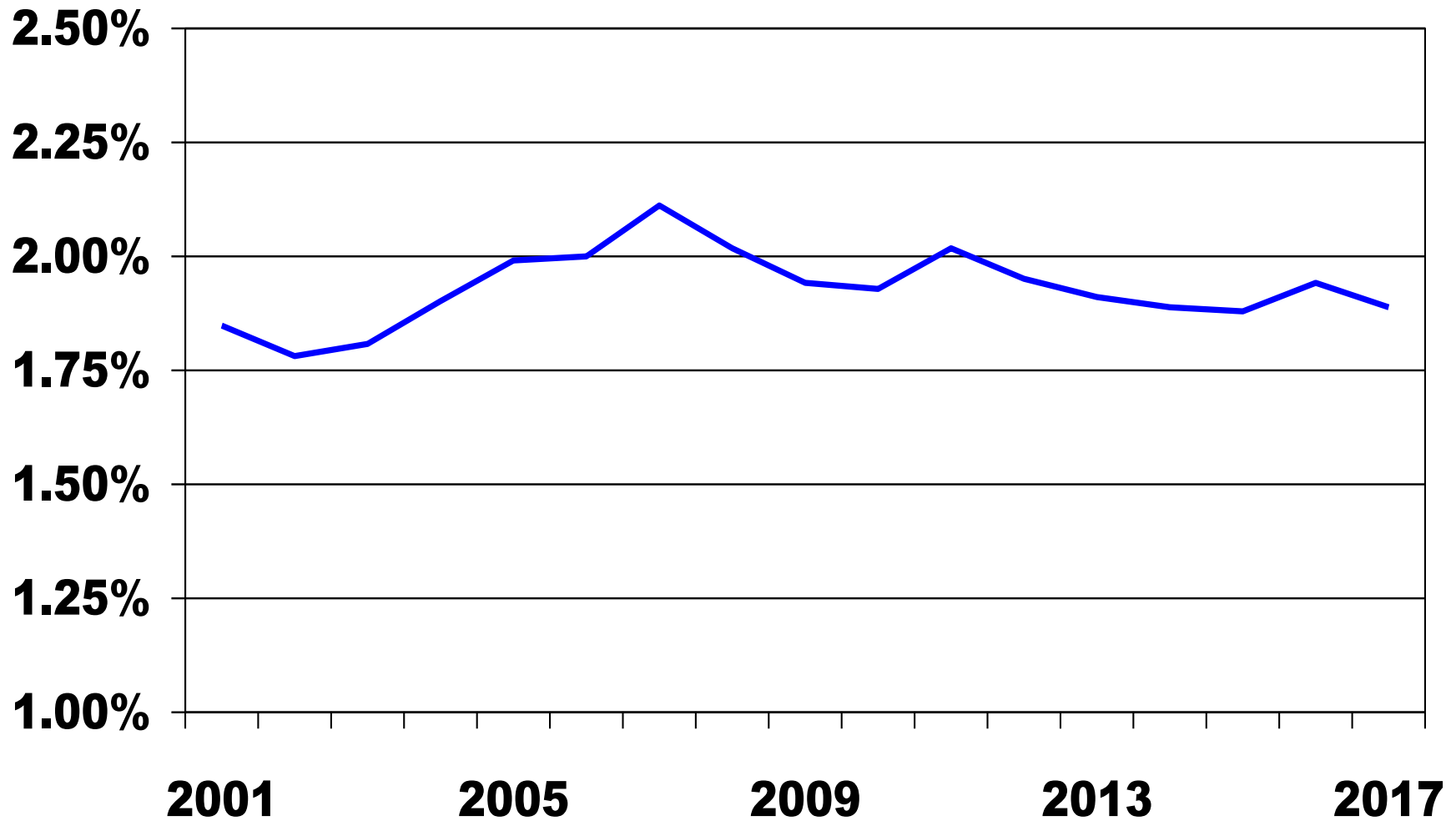
Source: CREA

GTA Sales Rate – Per Adult



Source: CREA

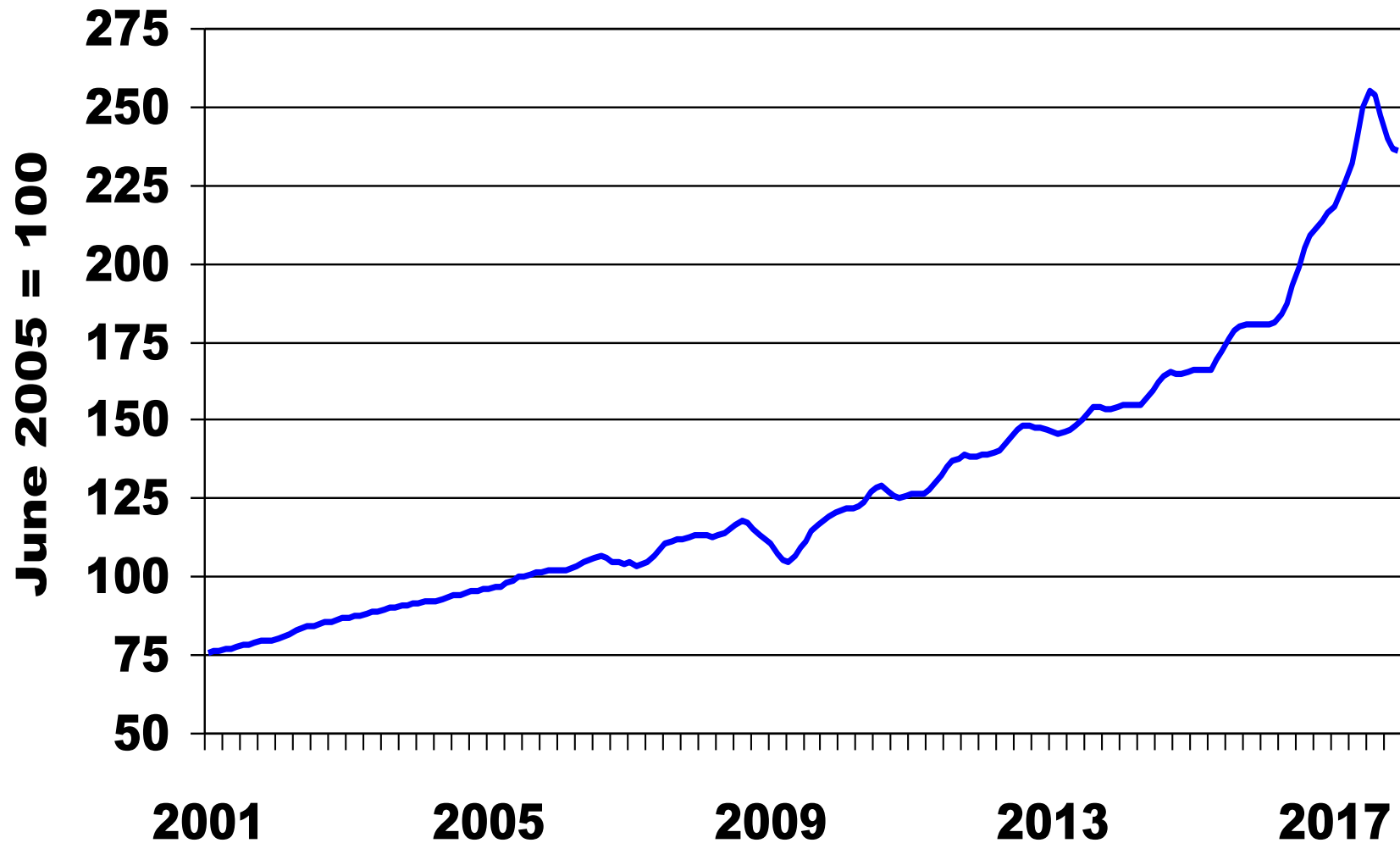
Winnipeg Sales Rate – Per Adult



Source: CREA

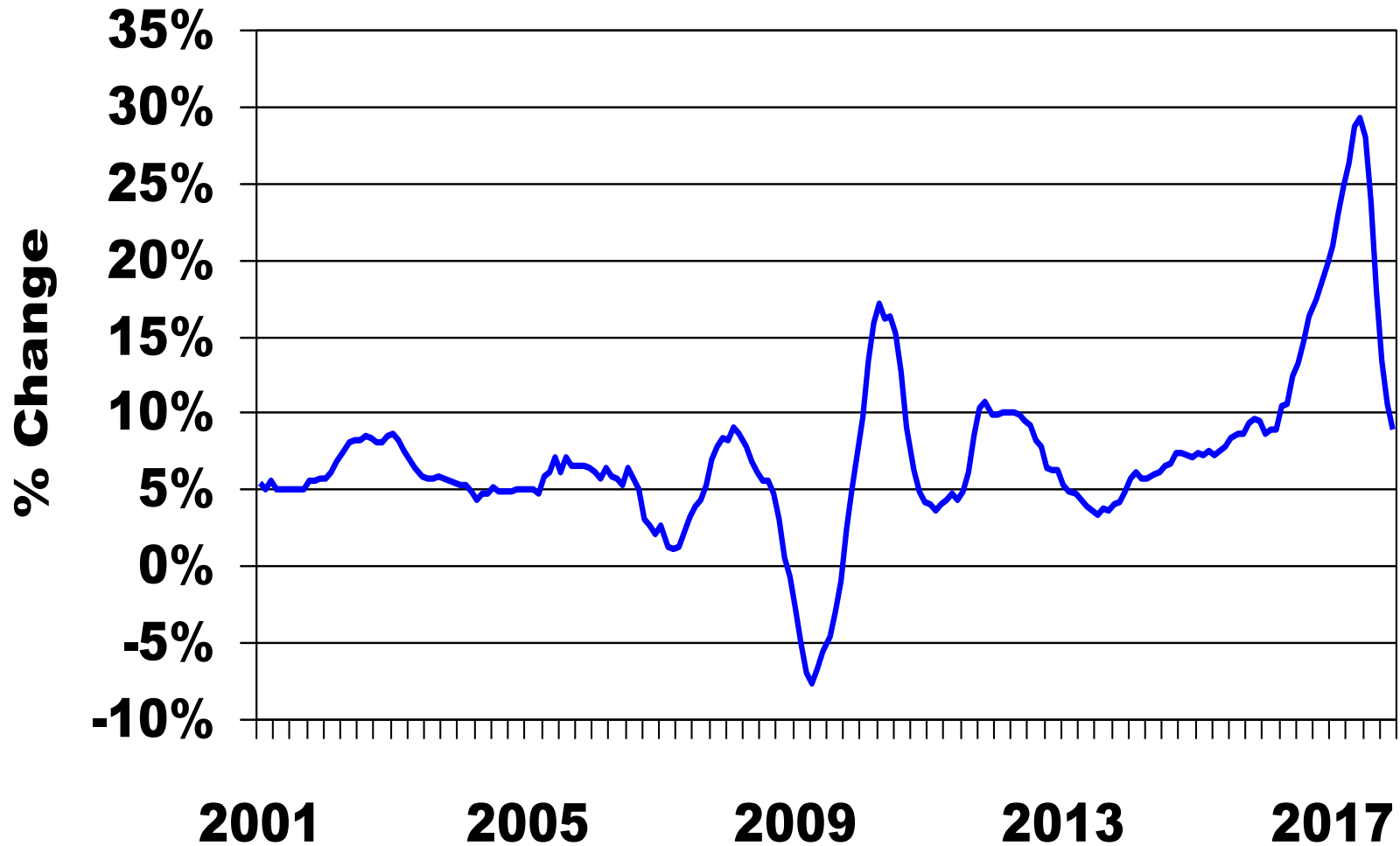
House price growth is
influenced by supply
and demand

House Price Index for the GTA



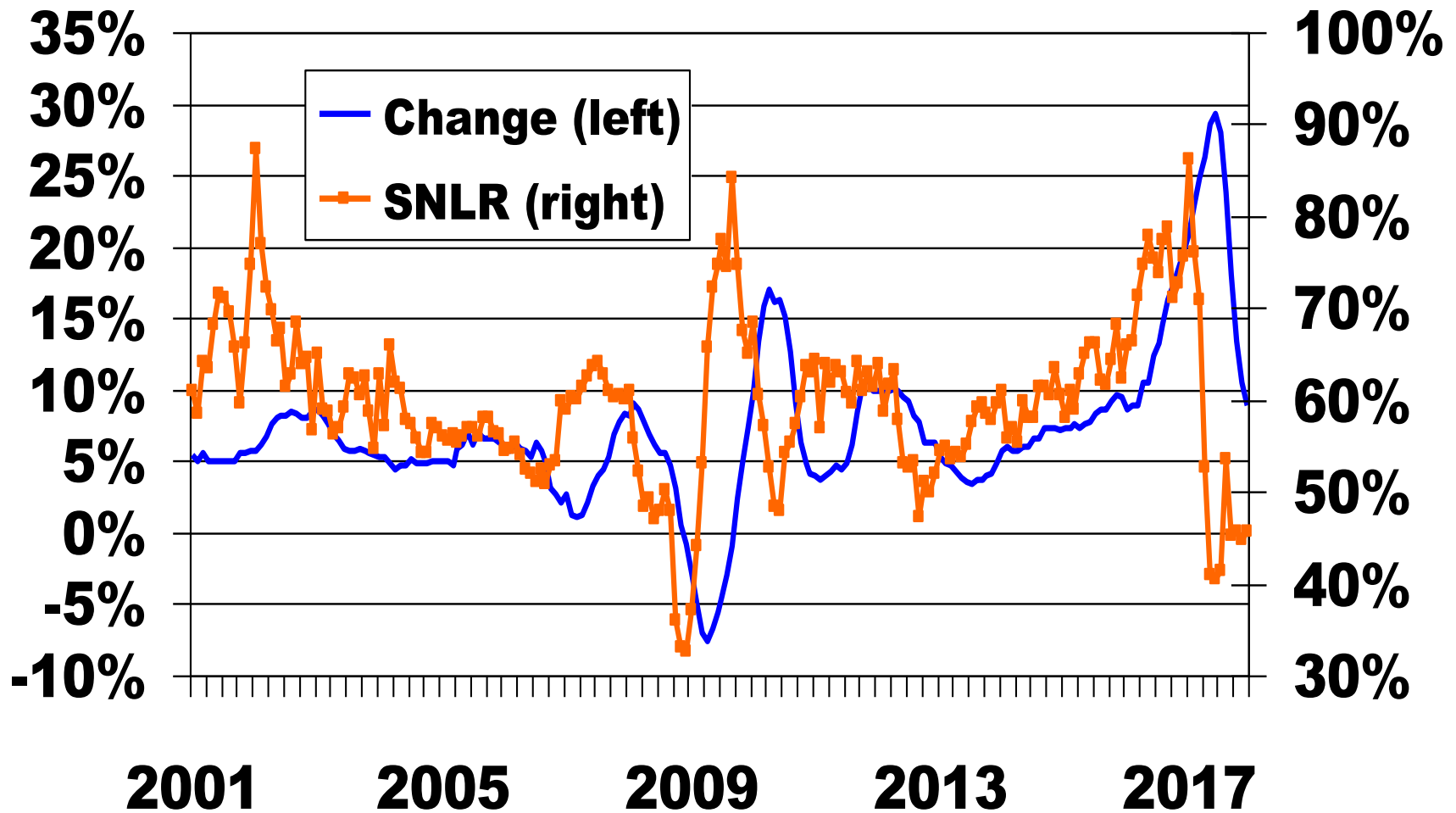
Source: Teranet / National Bank

House Price Growth in the GTA



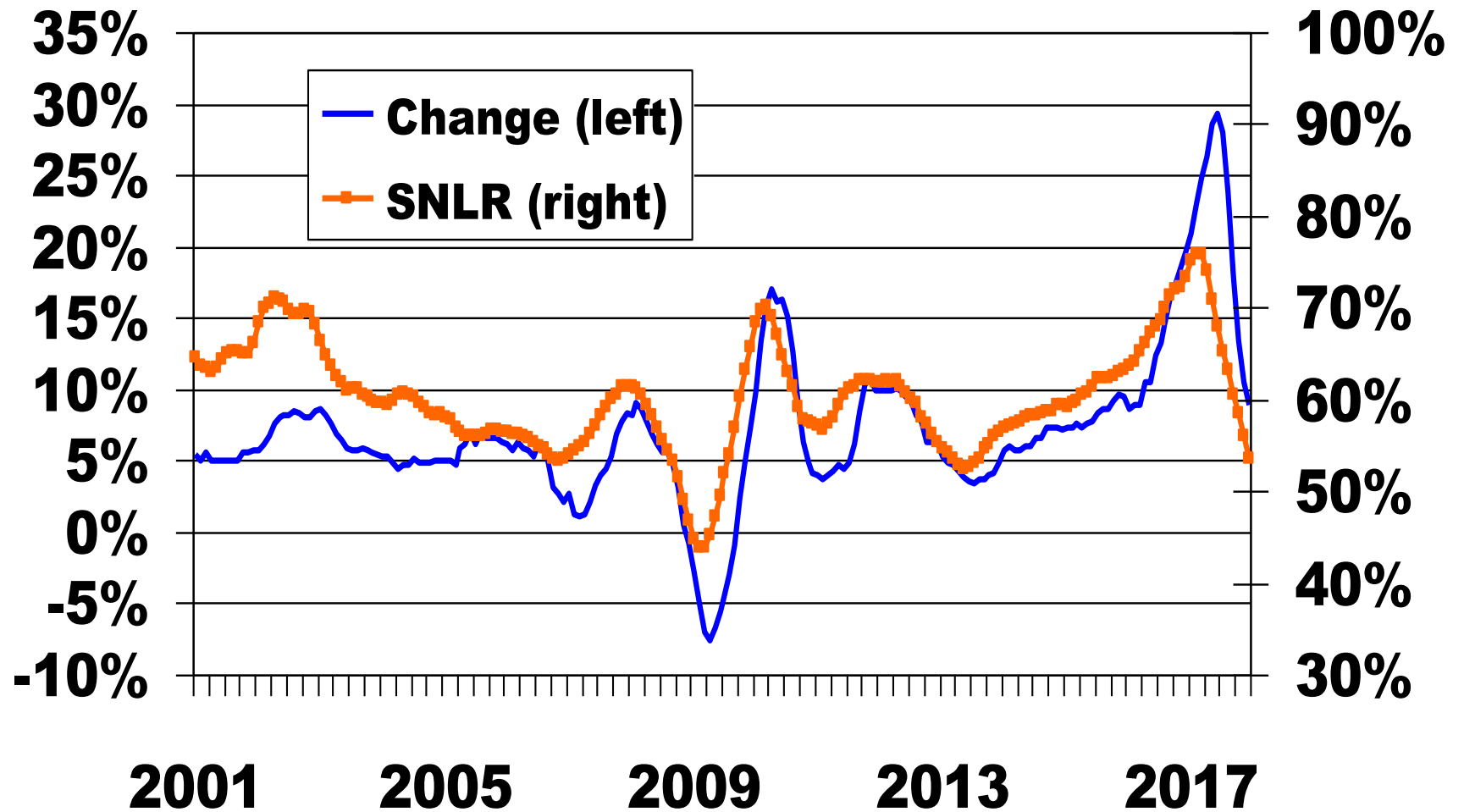
Source: Teranet / National Bank

GTA House Price Growth vs SNLR



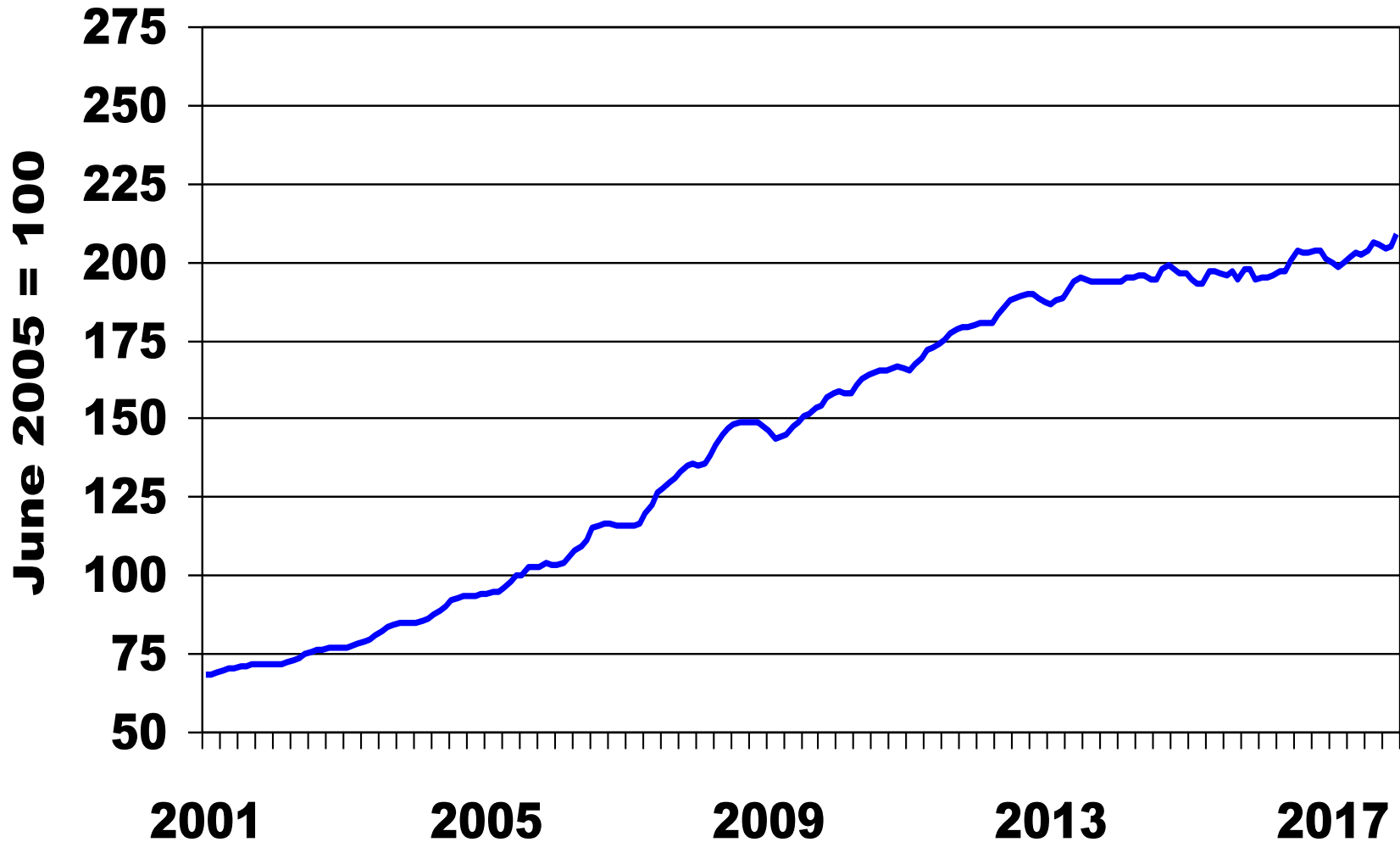
Source: Teranet / National Bank / CREA

GTA House Price Growth vs Trend of SNLR



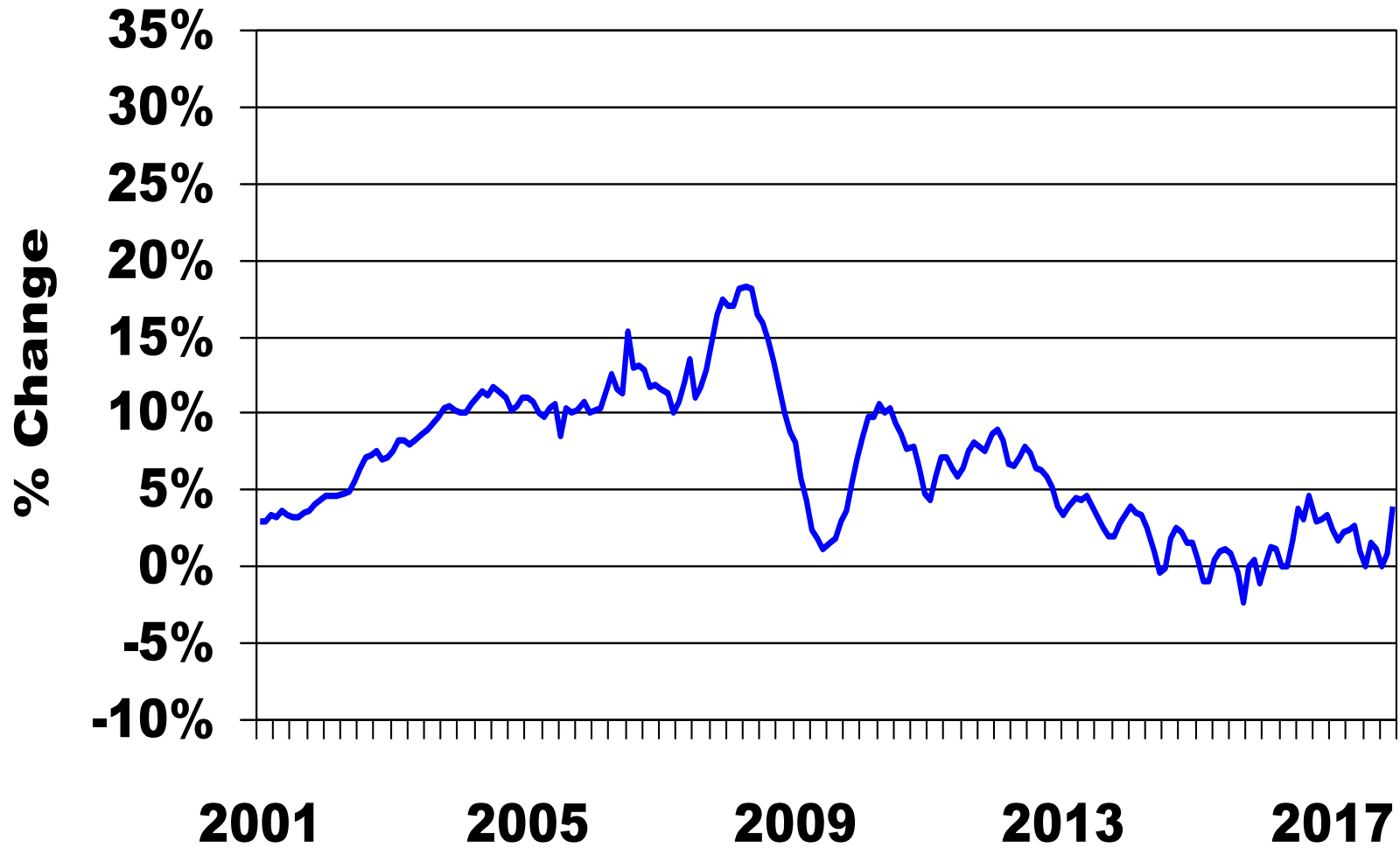
Source: Teranet / National Bank / CREA

House Price Index for Winnipeg



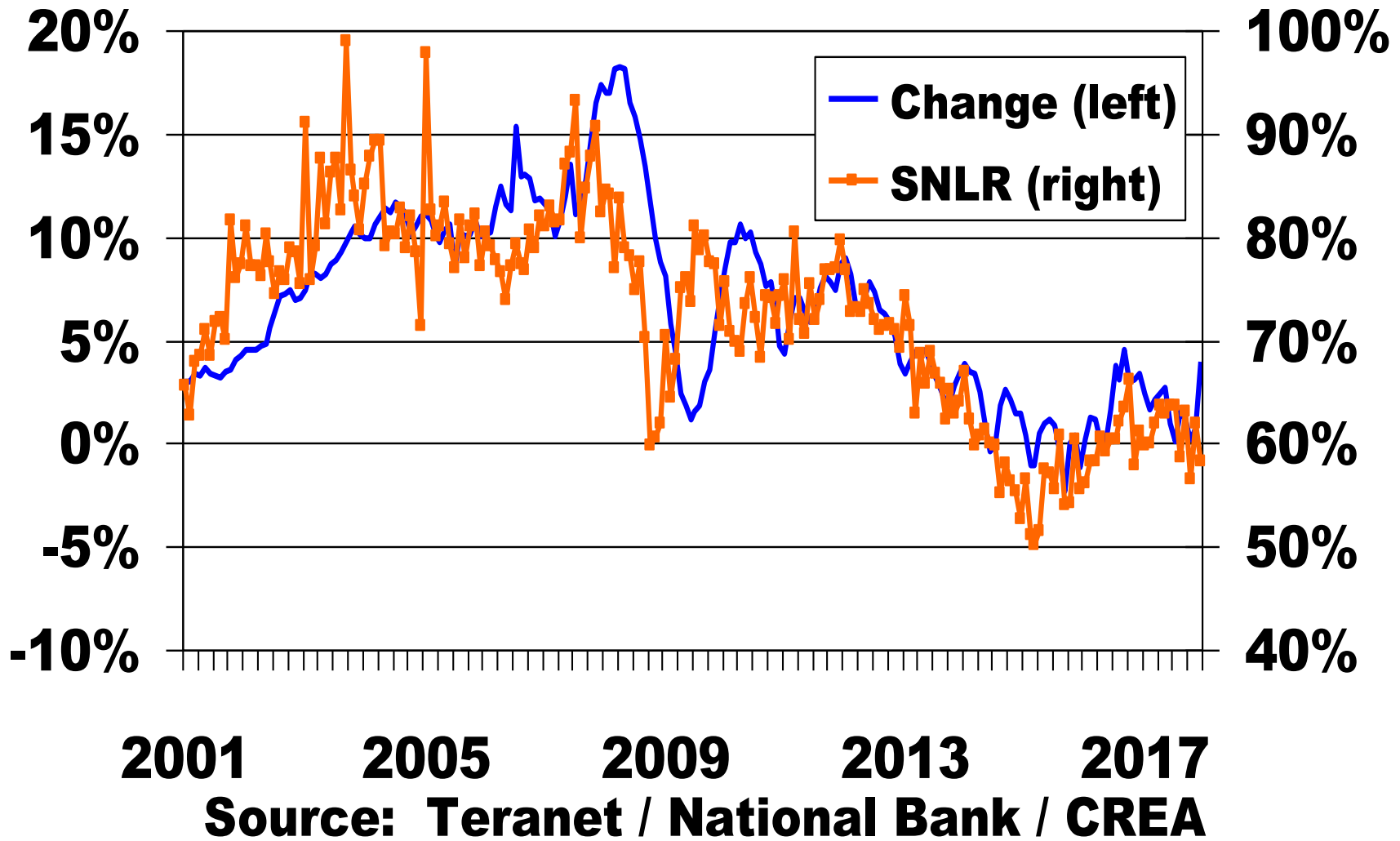
Source: Teranet / National Bank

House Price Growth in Winnipeg

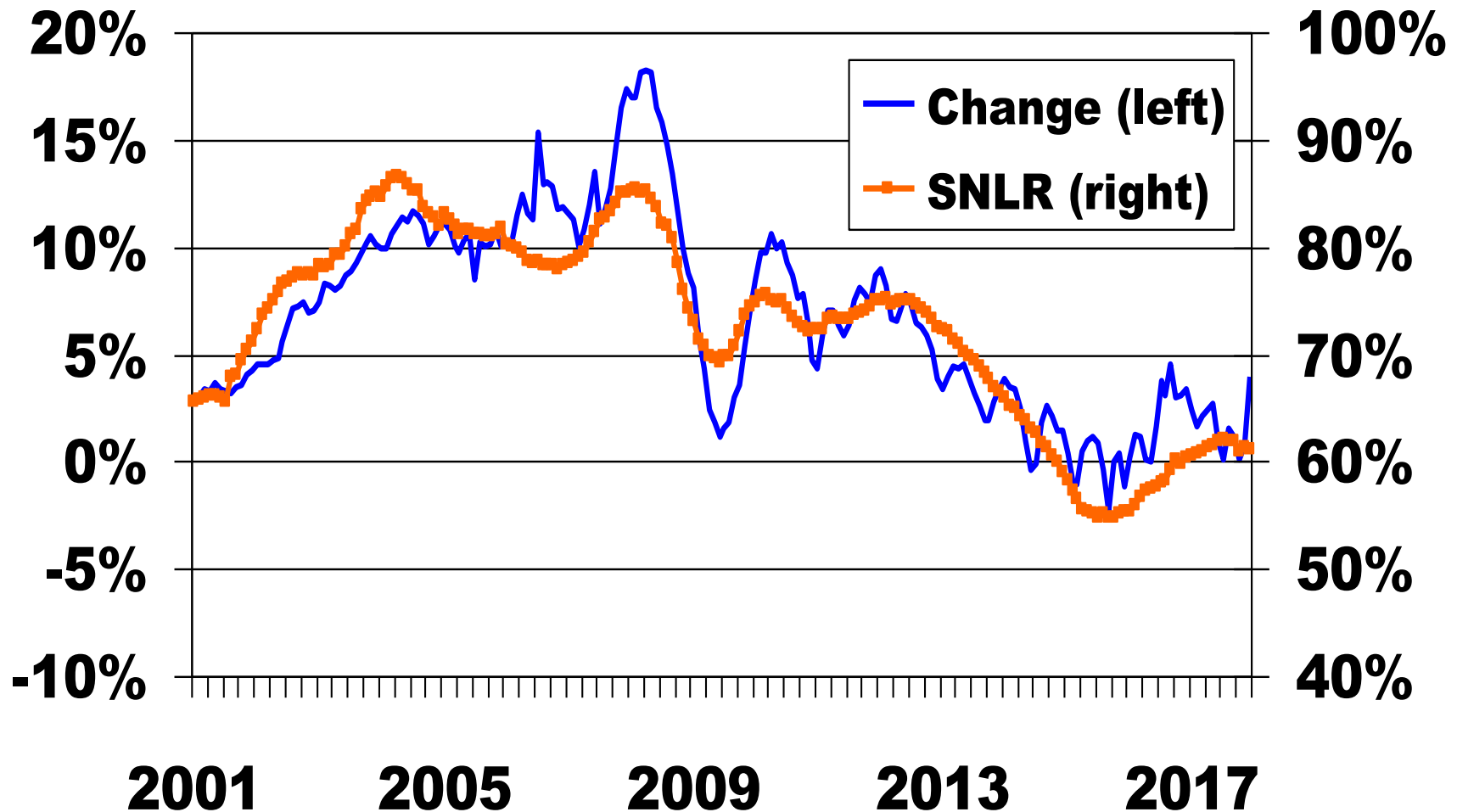


Source: Teranet / National Bank

Winnipeg House Price Growth vs SNLR



Winnipeg Price Growth vs Trend of SNLR



Source: Teranet / National Bank / CREA

Results of Statistical Analysis

SNLR does a good job of “explaining” price growth.

Winnipeg price growth = 2% when SNLR = 62%

- *At 72% SNLR, should expect 6.6% price growth;*

- *At 52%, expect -2.6%*

But:

- *Is the relationship stable?*

- *SNLR explains 80% of price growth. What about the other 20%?*

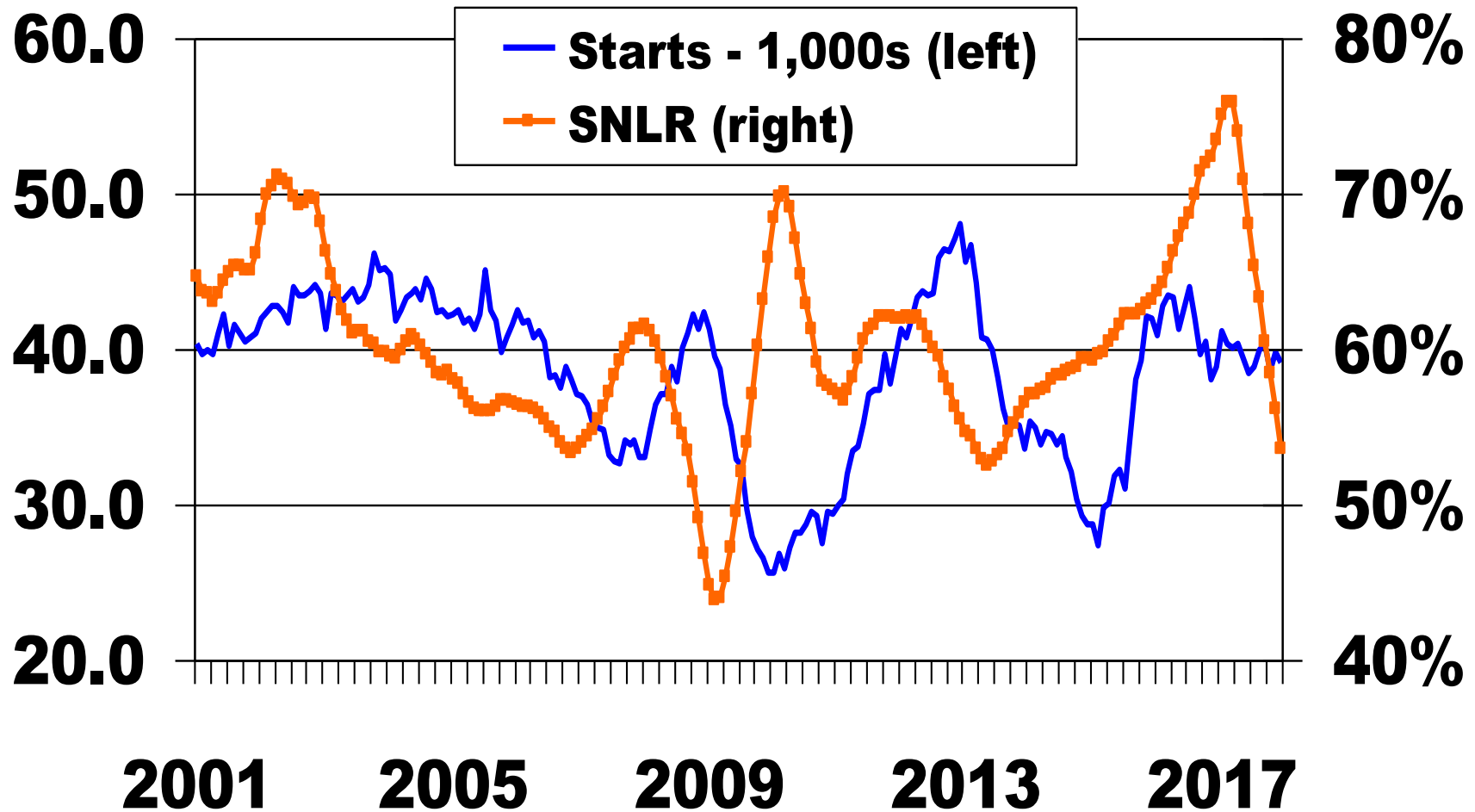
- *To use this in forecasting, I need to know what will happen to SNLR.*

“Economists Don’t Predict the
Future Because They Know;
They Predict Because They’re
Asked”

John Kenneth Galbraith

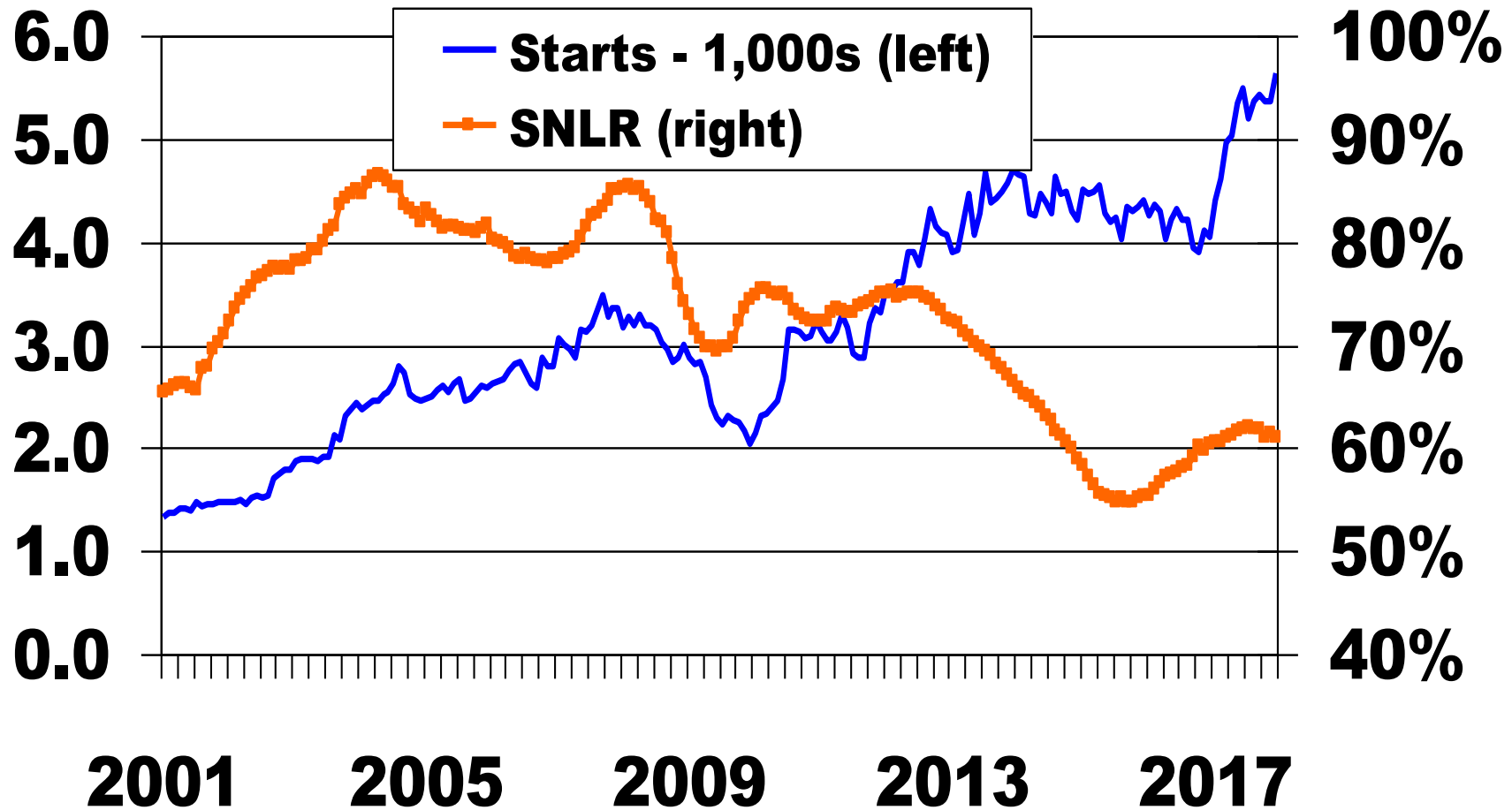
Housing starts are
influenced by the state of
the resale market

Toronto Starts vs SNLR (Trends)



Source: CREA / CMHC

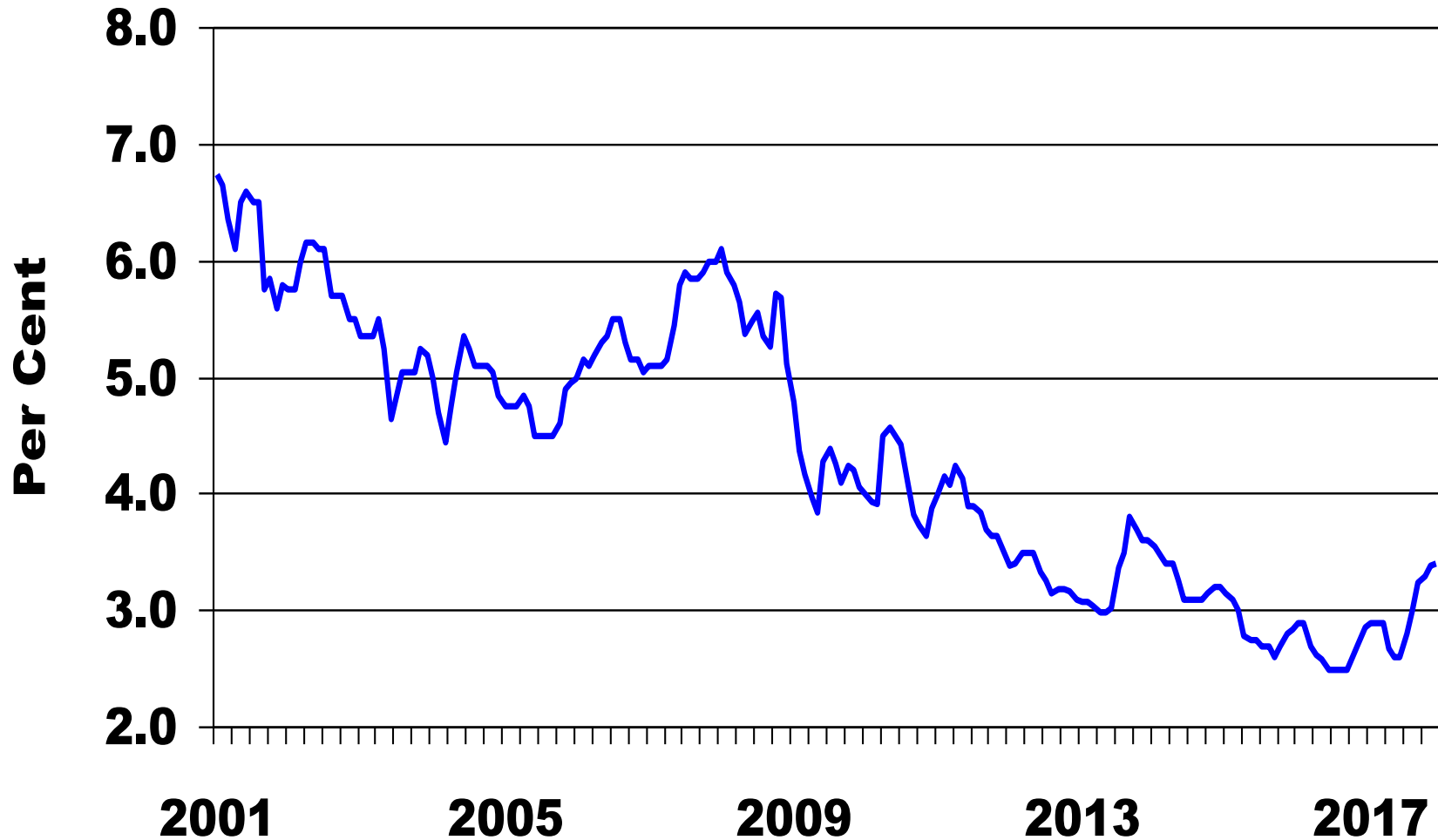
Winnipeg Starts vs SNLR (Trends)



Source: CREA / CMHC

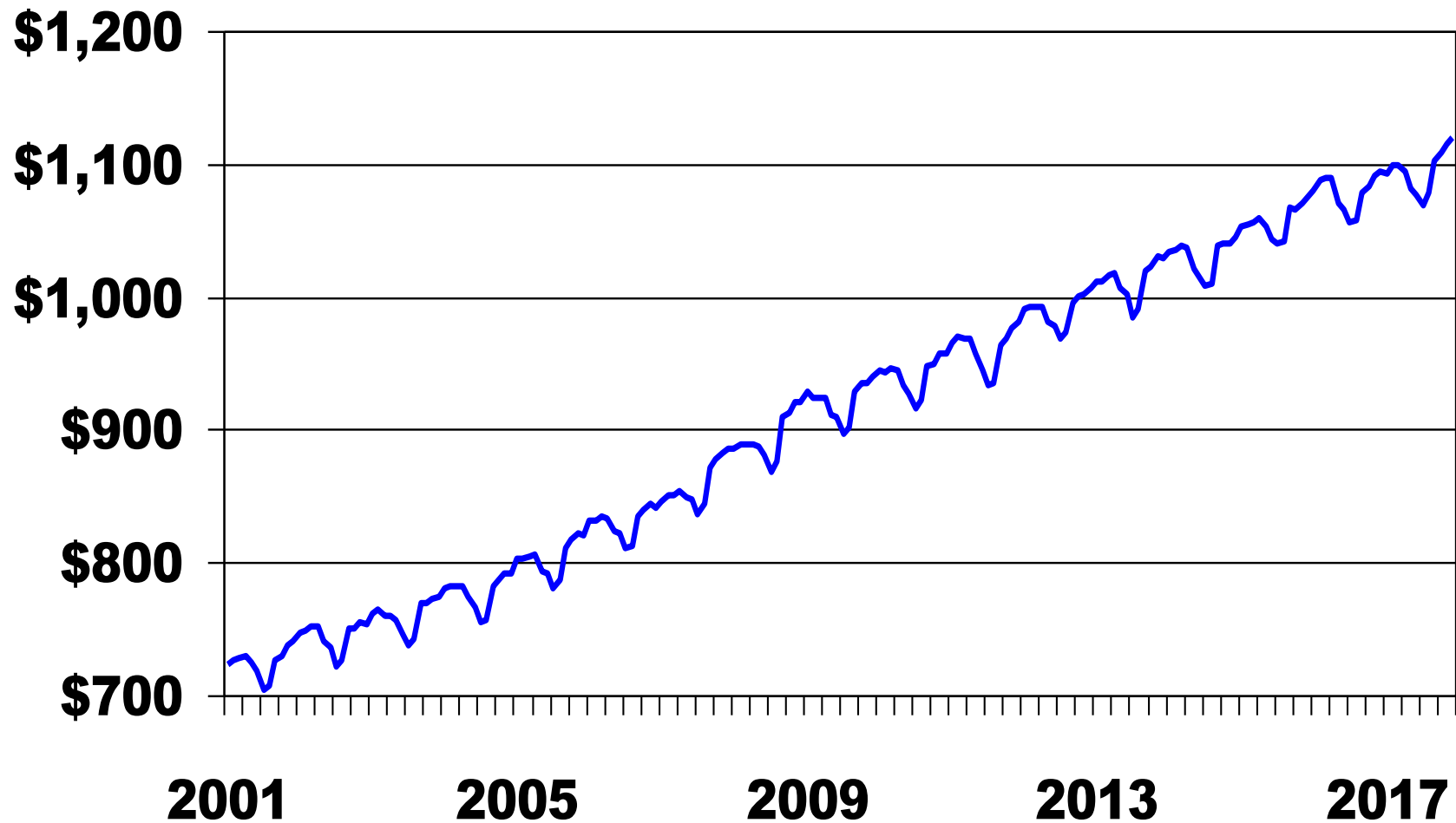
Home ownership
affordability is much better
than is widely stated

“Special Offer” Mortgage Rates



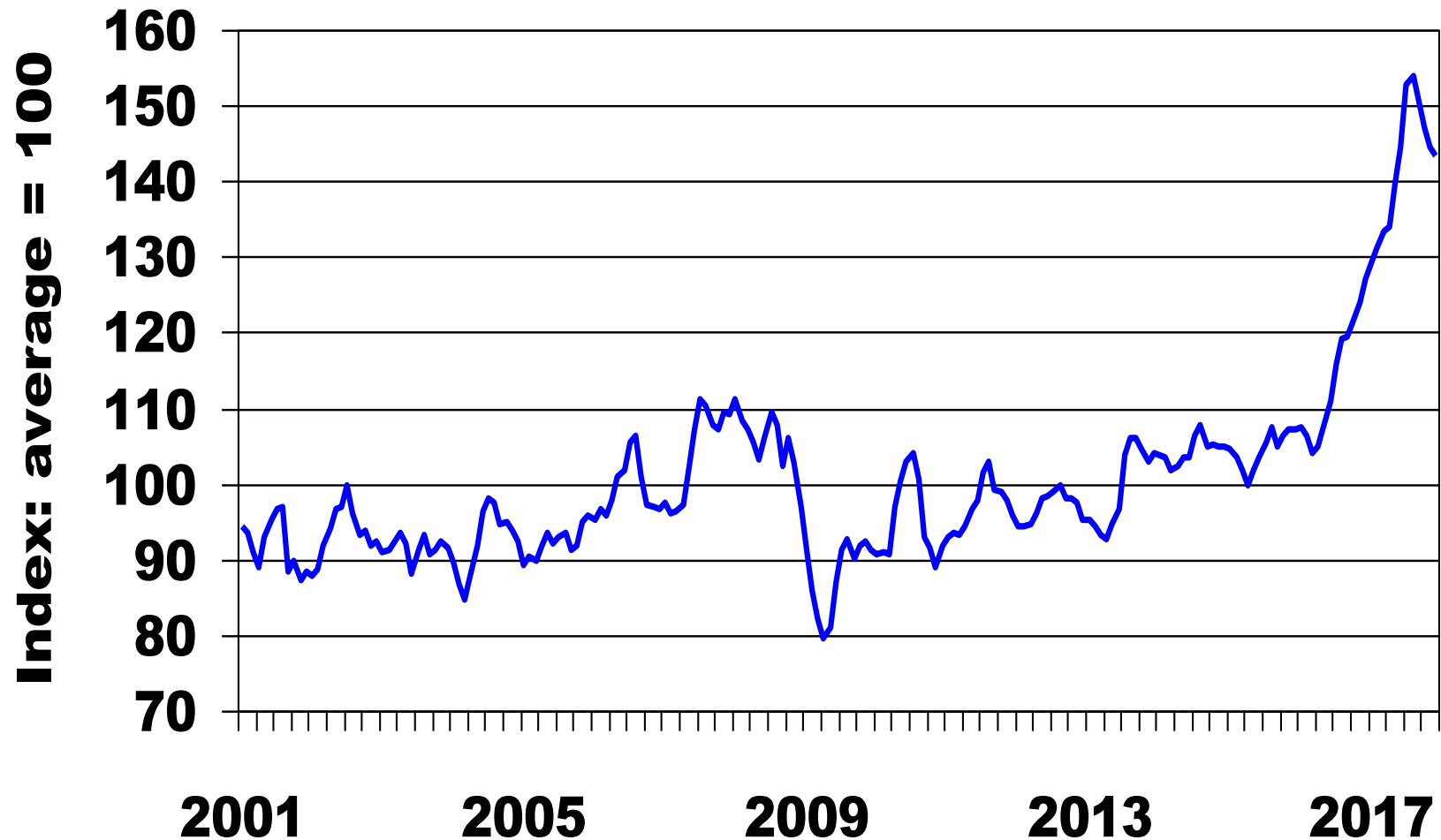
Source: Will Dunning

Average Wages (Canada)



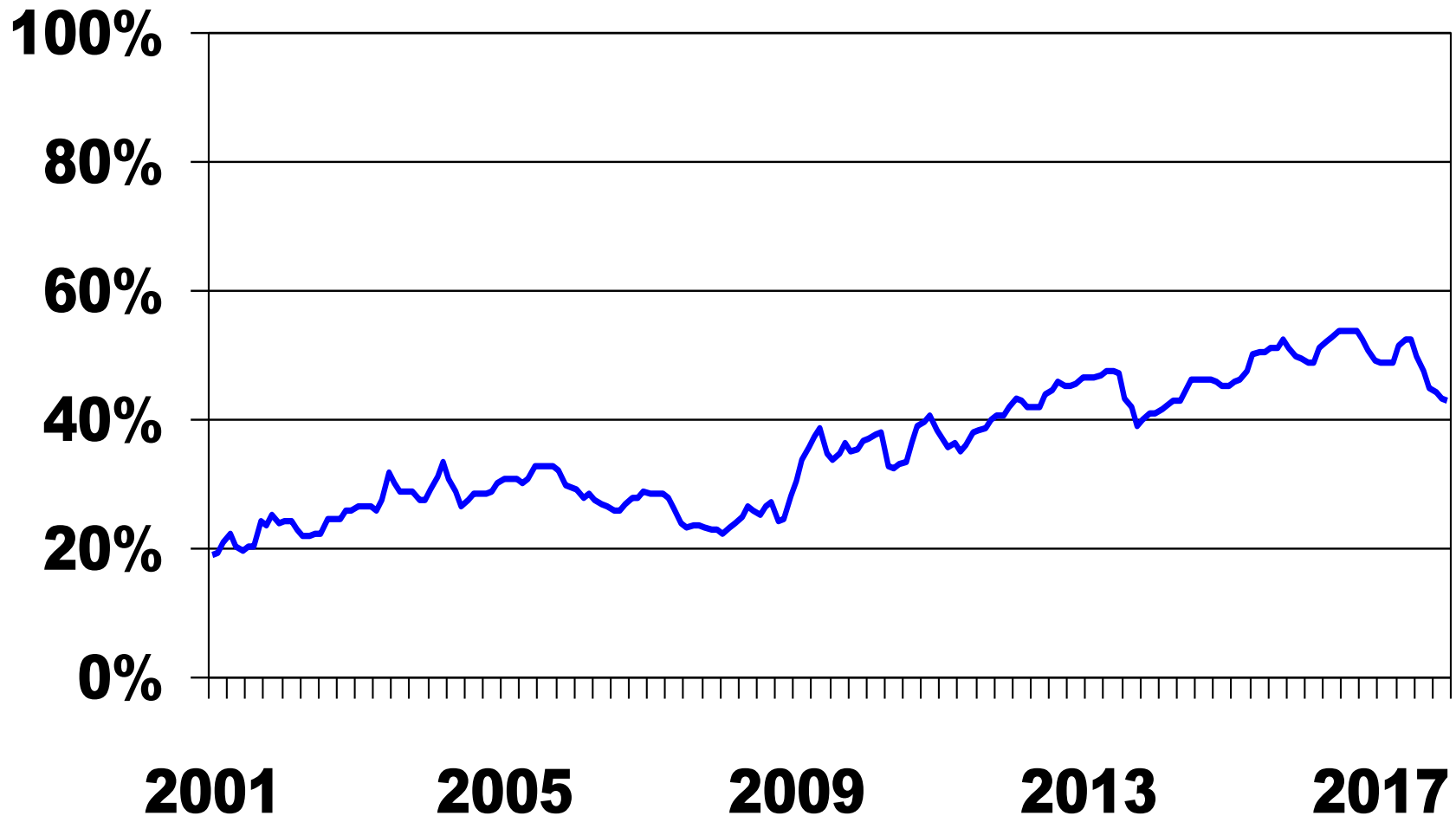
Source: Statistics Canada

Mortgage Cost Index – Toronto



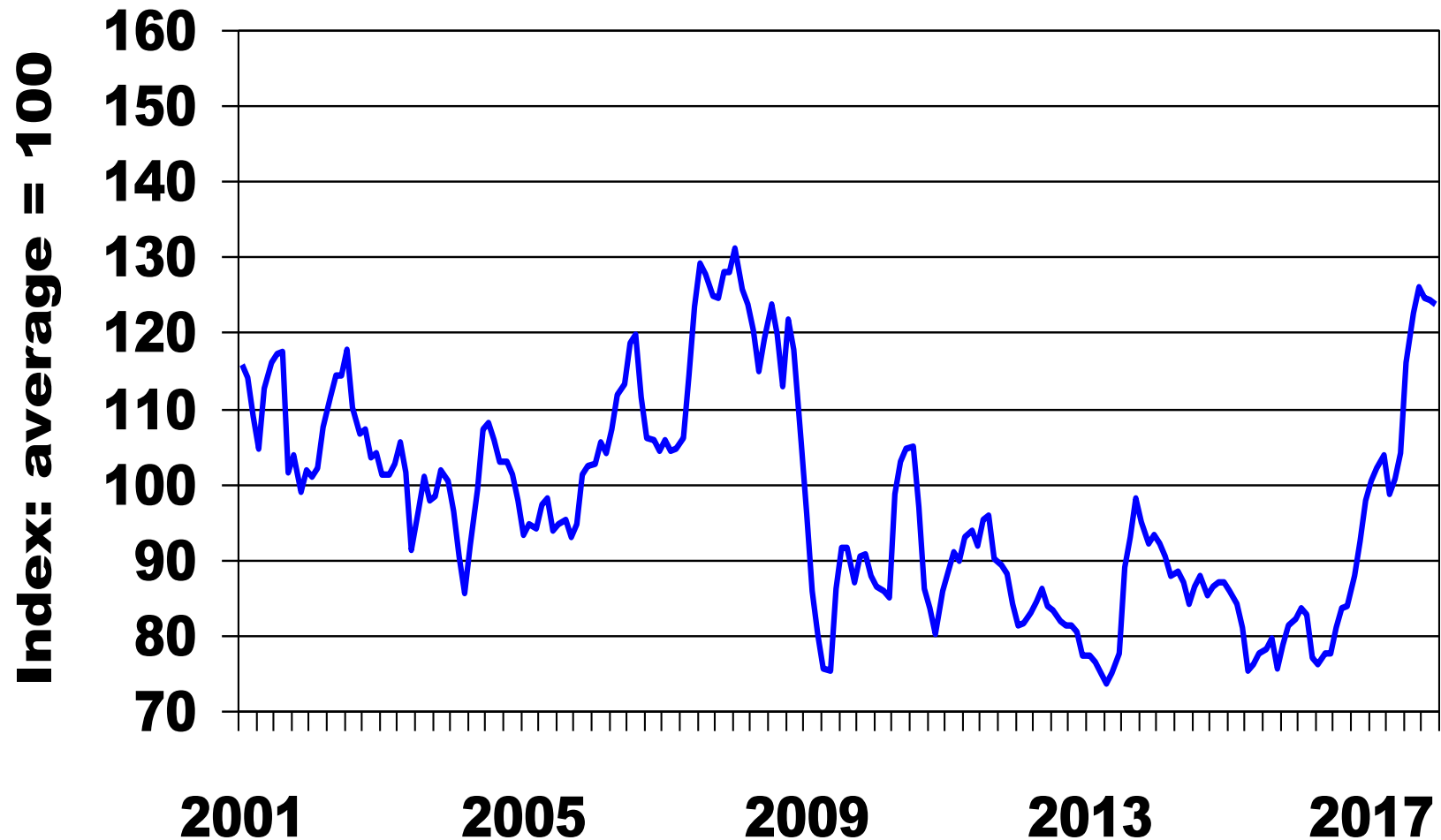
Source: calculations by Will Dunning

% of 1st Payment Going to Principal



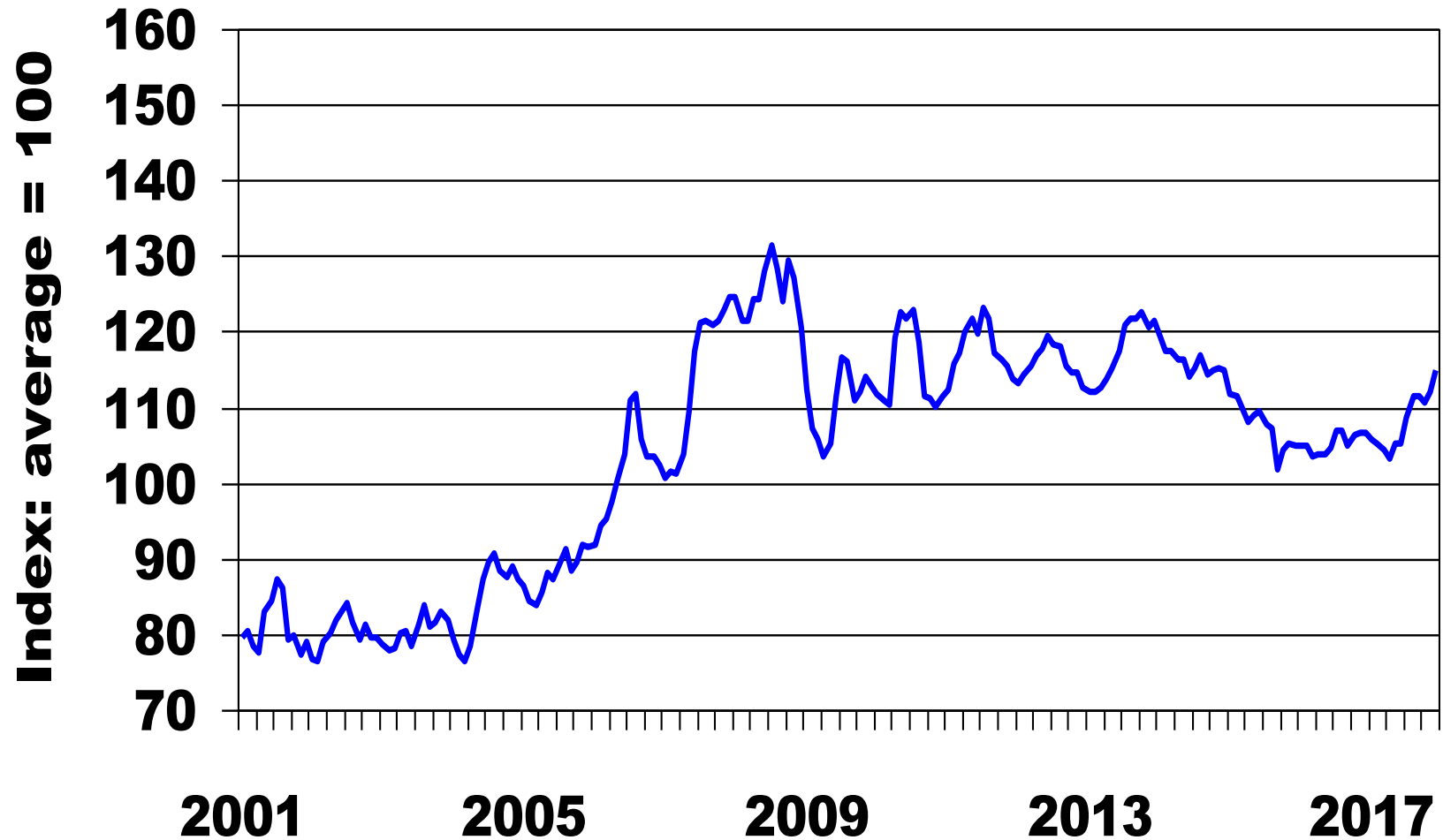
Source: calculations by Will Dunning

Net Mortgage Cost Index – Toronto



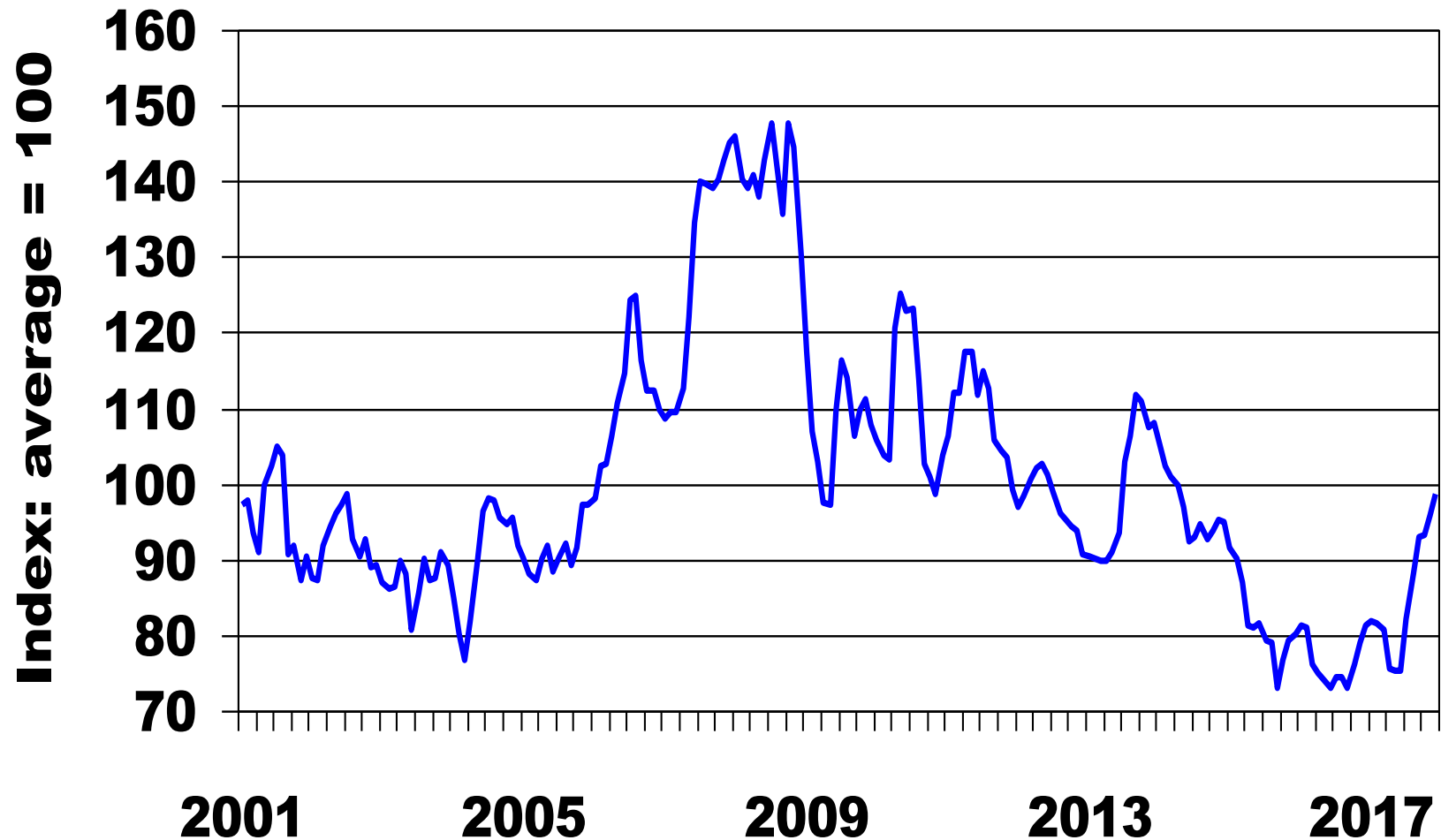
Source: calculations by Will Dunning

Mortgage Cost Index – Winnipeg



Source: calculations by Will Dunning

Net Mortgage Cost Index – Winnipeg



Source: calculations by Will Dunning

Owning vs Renting - Assumptions

| Mississauga Town Home | |
|-------------------------|-----------|
| Purchase Price | \$650,000 |
| Rent (Monthly) | \$1,800 |
| Tax Rate | 0.849372% |
| Utility Costs (Monthly) | |
| Heat | \$150 |
| Hydro | \$150 |
| Water tax | \$50 |
| Maintenance | \$50 |

Cost Comparison

| Monthly Cost | Renting | Owning |
|----------------------------|---------|----------|
| Rent | \$1,800 | |
| Mortgage Payment | | \$2,461 |
| Realty tax | | \$460 |
| Utility Costs | \$350 | \$350 |
| Maintenance | | \$50 |
| Total | \$2,150 | \$3,321 |
| Minus Principal Repayment | | -\$1,169 |
| Net Cost | \$2,150 | \$2,152 |
| Difference | | -\$2 |
| Return on \$130,000 Equity | | -0.02% |

In 5 Years

| Monthly Cost | Renting | Owning |
|----------------------------|---------|----------|
| Rent | \$2,037 | |
| Mortgage Payment | | \$2,461 |
| Realty tax | | \$521 |
| Utility Costs | \$396 | \$396 |
| Maintenance | | \$57 |
| Total | \$2,433 | \$3,434 |
| Minus Principal Repayment | | -\$1,357 |
| Net Cost | \$2,433 | \$2,077 |
| Difference | | \$355 |
| Return on \$130,000 Equity | | 3.28% |

“Macroprudential Mortgage Regulation”

- Seems to be influenced by heat in Toronto and Vancouver
- Data shows stronger growth of prices, sales volumes, and mortgage debt
- “Rest of Canada” wonders why it should be included
- Toronto and Vancouver residents believe they are responsibly acting in their best interests
 - Demand suppression used to address a problem with supply
 - So much for supporting the middle class
 - Preventing movement to home ownership hurts renters

The “Stress Test”

- Mortgage insurance – 5 year posted
- OSFI proposal – Posted or Contract + 2 points
- Which interest rate to use?
 - Testing today for impact in the future.
 - Neglects principal repayment and income growth
 - 2 point rise 5 years in the future can be simulated today with a 0.75 point premium.
- Use of excessive interest rate, on top of higher interest rates, could reduce housing activity by 12-15% (80,000-100,000 per year) and cost up to 150,000 jobs.