FRONTIER Backgrounder
FRONTIER CENTRE FOR PUBLIC POLICY
BRIEF ANALYSIS

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Winnipeg's Housing Bust

Residential Property Values 1986 - 2000

EXECUTIVE SUMMARY:

This backgrounder explores the hypothesis that the value of residential property reflects the rate of economic growth; and that slow growth implies low demand and lower house prices.

Over the period 1986 to 2000, Winnipeg homes averaged an increase in price of 23.6%, compared to faster growing cities like Calgary (125.2%), Vancouver (166.5%) and Toronto (91.8%). With the consumer price index increasing by 46% over that period, an investment in Winnipeg housing during this period generated a negative return of almost 23%.

While some policy makers have been tempted to portray Winnipeg's low housing prices as a positive for the economy, they can also be seen as a symptom of soft demand in a slowly growing economy. Several indicators connect the slow rise in Winnipeg home prices and the associated loss of wealth by residential property owners with Manitoba's relative lack of economic growth. Over the same 16 years, Manitoba had the lowest increase in GDP among the Western provinces, a minimal increase in the value of building permits and a marginal increase in the size of its labour force.

A comparatively weak housing market has serious consequences for the broader economy. It translates into falling wealth for all property owners, but especially for vulnerable groups like seniors, who hold most of their net worth in their homes. Low house prices accelerated dependency on government for many seniors, as the value of their assets are exhausted over time.

Reversing a policy environment responsible for depreciating the wealth of Winnipeg homeowners is a complicated task. Winnipeg's relative decline in economic importance speaks to the depth of the problem. The city was the largest urban centre in the Canadian West and the third largest Canadian city earlier last century. Today it is the fourth largest Western city and the eighth largest city in Canada.

The correlation between housing prices and the rate of economic expansion indicates that policies that promote higher rates of growth must form part of the solution. More competitive provincial tax policies to attract investment and jobs, sharply lower property taxes, including an end to funding education with property tax, and aggressive promotion of immigration would provide the growth needed to support higher demand and prices for housing in Winnipeg.

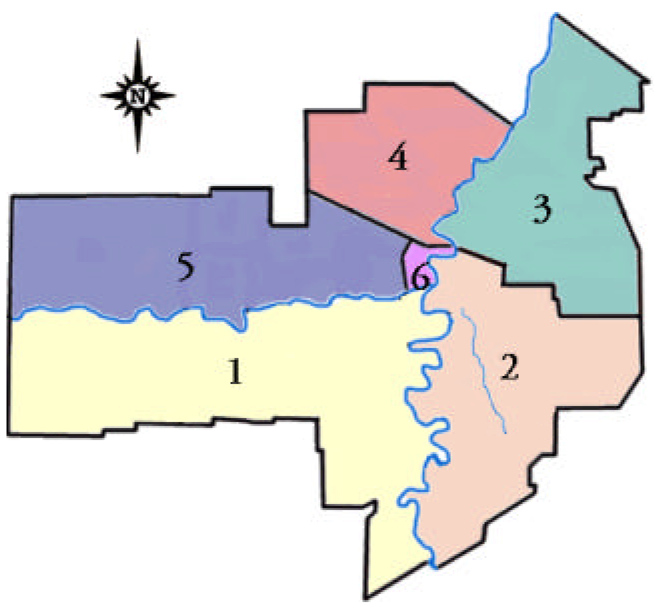

Figure 1 – WREB's Six Sectors

House Prices as a Barometer of Growth

What is the value of comparing home prices from one period to another? Such an analysis helps describe the current economic condition of a community by tracing the historic change in the value of residential property. Housing prices are very sensitive to the rate of economic expansion or contraction and thus serve as an accurate barometer of economic activity. Economic growth promotes population increase which, in turn, creates greater demand for housing.

This analysis compares the selling price of homes in 1986 to that of 2001. The Winnipeg Real Estate Board (WREB) has a record of home sales dating back to 1986 which allows a comparison of the same group of homes over this period. The WREB divides the city into six areas (figure 1) and further reduces these into 14 multiple listing sectors (MLS). Each MLS area is comprised of a group of similar homes within the same neighbourhood. Homes constructed after 1986 are omitted from this comparison.

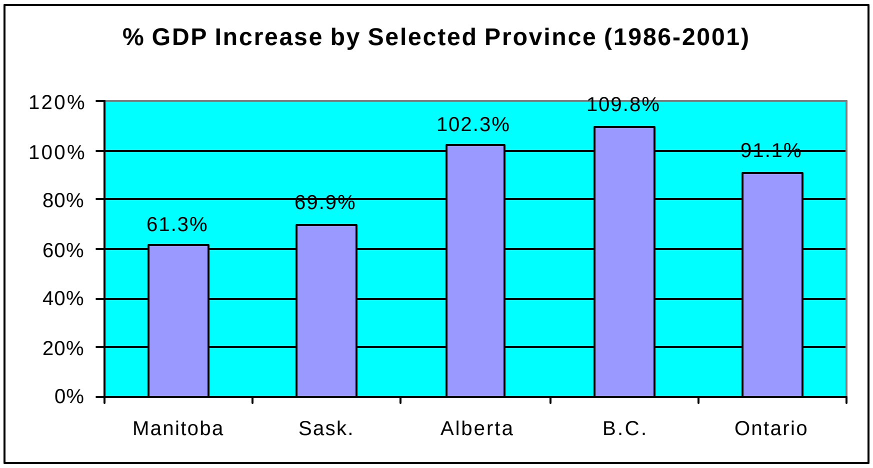

Figure 2 - Little Increase in Market Value over Period Measured

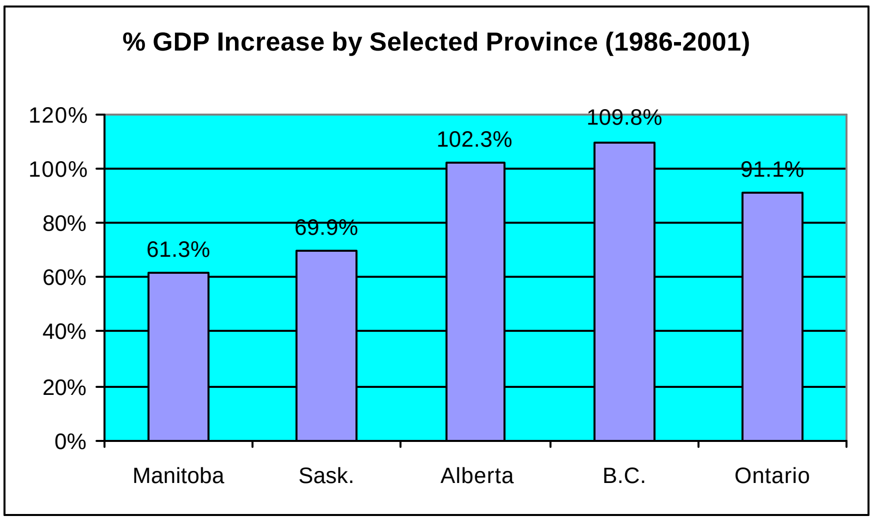

Figure 3 - Slowest Growing Economy in Western Canada

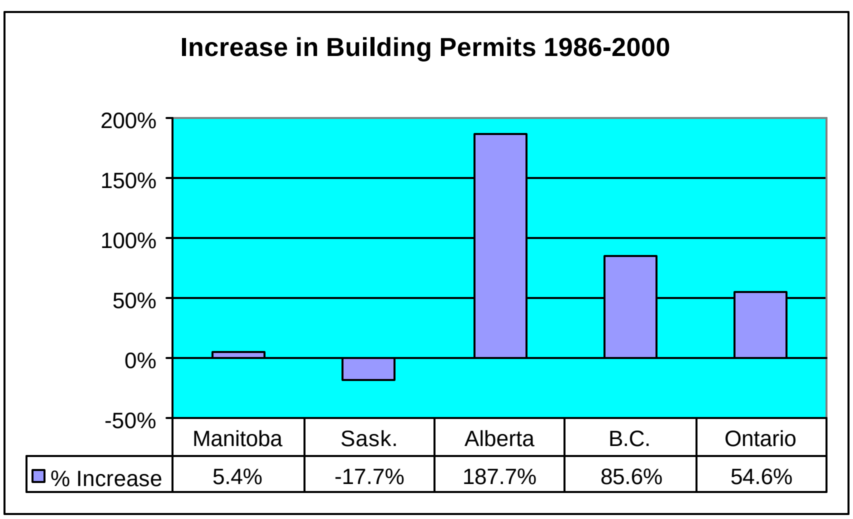

Figure 4 - Minimal Increase in Housing Construction Permits

Figure 2 compares the housing prices in 1986 and 2001 for each of the six areas.

Figure 3 expresses the change in price as a percentage. To provide some context or additional comparison, it includes the rate of inflation (CPI) together with home price increases in Calgary, Vancouver and Toronto. The six sectors experienced price increases ranging from 14.3% in sector six to 52% in sector one. The latter sector experienced substantial new growth after 1986 and therefore is omitted from the comparison. The average price increase of sectors two through six was 23.6%, well below the CPI and dramatically lower than price increases in the other cities.

A comparison of home prices at the MLS level helps explain the reason for the modest increase in Winnipeg. For example homes in area 4H (North End) decreased in price from an already depressed value of $33,122 in 1986 to $22,770 in 2001. Area 3A (East Kildonan) remained virtually unchanged, $46,106 in 1986 and $46,405 in 2001. Expensive older homes suffered a similar fate. In area 1N (Old Tuxedo) prices declined slightly from $233,000 to $227,332. Homes in the mid-price range located in the suburbs did much better. For example in area 3M (Canterbury Park, Transcona) homes grew by 39.4% from $62,015 to $86,430.

In a healthy economy, housing costs should at least keep pace with the CPI. For many individuals their home is often their largest asset. If the local economy under-performs consistently over a long period of time the value of this asset erodes. Seniors are particularly vulnerable since they have left the work force and have a significant portion of their wealth held in their home. For seniors in Winnipeg, who own about 30,000 homes, the average price increase since 1986 of 23.4% leaves them 22.6% below inflation. This translates into about a $25,000 "short fall" per home or a collective non-taxable loss of $750,000,000. This loss of wealth shows that a stagnant economy harms everyone, not just those seeking employment.

The housing price comparison points to an under-performing economy. To confirm this, we reviewed three other economic indicators over the same period: growth in provincial GDP, value of housing building permits, and labour force growth. Figure 4 sets out the increase in Gross Domestic Product of five provinces. Comparatively the economies of Ontario, Alberta and British Columbia grew at a much higher rate than Manitoba's. Ontario's GDP growth was, on a per capita basis, 49% larger than Manitoba's over this period of time.

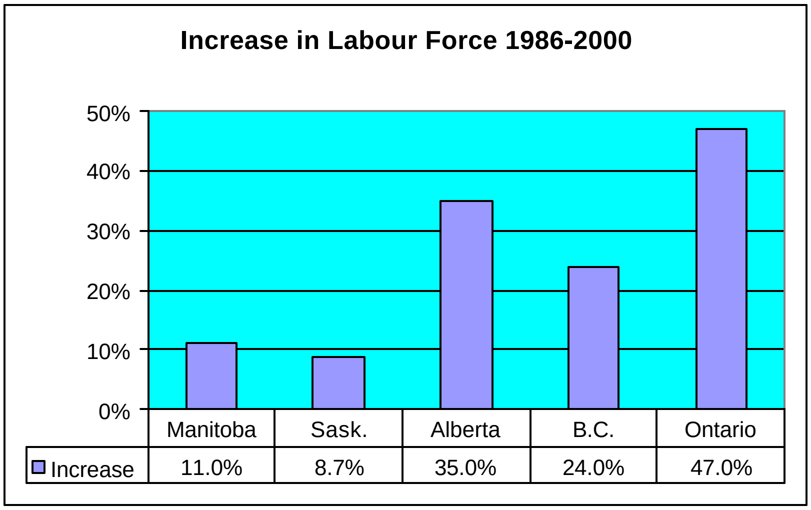

Figure 5 - Little Growth in Labour Pool

Alberta's was 67% and B.C.'s 78%. Even Saskatchewan, a province similar to Manitoba but with a less diversified economy and a severe debt crisis in the early 1990s, slightly outgrew Manitoba.

New housing construction permits, another major indicator of growth, are set out in figure 5. Manitoba's increase was only 5.4% compared to Alberta at 187.7%, B.C. and Ontario at approximately 54% each. Saskatchewan's permit level fell by 17.7%.

Labour force increase, possibly the most telling indicator of economic growth, is set out in figure 6. The growth in Manitoba's work force was 11%, compared to Alberta's 35%, Ontario's 24%, and B.C.'s 47%. Only Saskatchewan had a smaller increase in labour force over 1986-2000, at 8.7%.

Natural or Artificial Stagnation?

While most of Canada was booming Manitoba was relegated to the sidelines. Why? One view is that the Canadian economy changed dramatically by moving from its resource and agricultural base to an industrial and service one. For example, nickel production fell from a high of 278 million metric tonnes to 181 between 1970 and 2000. The situation was the same for the other base metals. Agriculture was impacted by low commodity prices and foreign subsidies. Unfortunately for Manitoba, mining and agriculture were two of its large growth areas and today both are reduced in relative value.

These forces are at play, however, in all provinces so there must be something more fundamental happening. We suggest that are three key policy variables in Manitoba responsible for the province's low economic growth which in turn ties back to Winnipeg's depressed housing values. Provincial government spending is proportionately higher than in most other provinces. Higher spending, in turn, has an impact on tax levels. It is well established, that higher taxes suppress growth and investment. At a provincial level, Manitoba applies the highest rates on different tax bases, compared to other provinces. Some of these comparative indicators are shown in the following table:

SIZE OF GOVERNMENT AND TAX RATES	British Columbia	Alberta	Sask	Manitoba	Canada Average
Provincial Spending as % of Provincial GDP	21.0%	14.5%	19.1%	24.0%	19.1%
Top tax rates (June 2002) -					
Personal Income Tax	14.70%	10.00%	15.50%	17.40%	-
Corporate Tax	13.50%	13.00%	17.00%	16.50%	-
Small Business Tax	4.50%	4.50%	6.00%	5.00%	-
Provincial Sales Tax	7.50%	0.00%	6.00%	7.00%	-
Capital Tax	3.00%	0.00%	3.25%	3.00%	-
Payroll Tax	0%	0.00%	0.00%	2.15%	-

Source: Frontier Centre for Public Policy Charticles, June and September 2002

Winnipeg also has among the highest property taxes in Canada. While the city government disputes the results of different independent surveys, property tax payers do pay the highest education-related property taxes in Canada.

Conclusion - Improving House Values in Manitoba

Some Manitoba politicians still suggest that Winnipeg's dismal housing prices are indeed a big plus for the province since they help keep the cost of living low in Manitoba. Unfortunately, low house values are a symptom of broader challenges like lack of economic growth and uncompetitive taxes.

The correlation between housing prices and the rate of economic expansion indicates that policies that promote higher rates of growth must form part of the solution. More competitive provincial tax policies to attract investment and jobs, sharply lower property taxes, including an end to funding education with property tax, and aggressive promotion of immigration would provide the growth needed to support higher demand and prices for housing in Winnipeg.

Three policy reforms hold the potential for the greatest impact:

1. A more competitive tax policy. The correlation between rates of taxation and economic growth is clearly established. The people of Manitoba pay higher rates of taxation than those in provinces with higher levels of economic growth. Reducing Manitoba's tax levels to those in more prosperous provinces would result in higher levels of wealth generation and higher values for hard assets.
2. Reductions in Winnipeg property taxes. Another depressor of urban property values is the city's relatively high rate of effective municipal property taxes, a relationship described in the Frontier Centre policy study *2002 Canada Property Tax Comparison*, available at [INSERT WEB LINK]. It discusses several methods of reducing reliance on property taxes, which include broad reform of urban service delivery models and a delinking of public school funding from property taxes.
3. An expansion of the labour force. An aggressive new immigration policy, to increase levels to an amount well above the current 5,000 that Manitoba now attracts each year, would expand demand for housing. This strategy is explored in *Immigration, Manitoba's Lifeline - More Citizens Needed to Defuse Demographic Timebomb*, available at www.fcpp.org. The province's objective should be at least 10,000 to 15,000 new workers per year for the next decade, a rate that would increase the size of the tax base by 100,000 to 150,000 workers and make possible tax reductions that would still further increase economic growth.

This growth in population would arrest the erosion of residential real estate values, and help to increase them to a level consistent with urban growth centres in Canada. A combined of this with a general reduction in tax levels and property tax reform would stem and reverse the decline in real housing prices in the City of Winnipeg.

Statistical Sources:

Figure 2, Market Value of Winnipeg Homes: Winnipeg Real Estate Board (WREB)
Figure 3, Market value increase Winnipeg Areas and selected Cities: WREB, Canada Mortgage and Housing Corporation (CMHC)
Figure 4, GDP Increase by selected provinces: Canadian Economic Observer Stats Canada Table 41 Historical Statistical Supplement 2000/1
Figure 5, Provincial building permits increase: Canadian Economic Observer Stats Canada Table 42 Historical Statistical Supplement 2000/1
Figure 6, Labour Force Increase: Canadian Economic Observer Stats Canada Table 44 Historical Statistical Supplement 2000/1

Additional information at www.fcpp.org –

For a comparison of size of provincial spending as a percent of the provincial economy in western Canada see:
Frontier Centre Charticle The West's Biggest Government, September 2002

For a discussion of comparative tax loads in western Canada see:
Frontier Centre Charticle *The 2002 Tax Load Index – The Gap Widens*, June 2002.

For more on immigration, see:
Frontier Centre Backgrounder *Immigration, Manitoba's Lifeline - More Citizens Needed to Defuse Demographic Time bomb*, January 2002