HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Ottawa[1]

CANADA MORTGAGE AND HOUSING CORPORATION

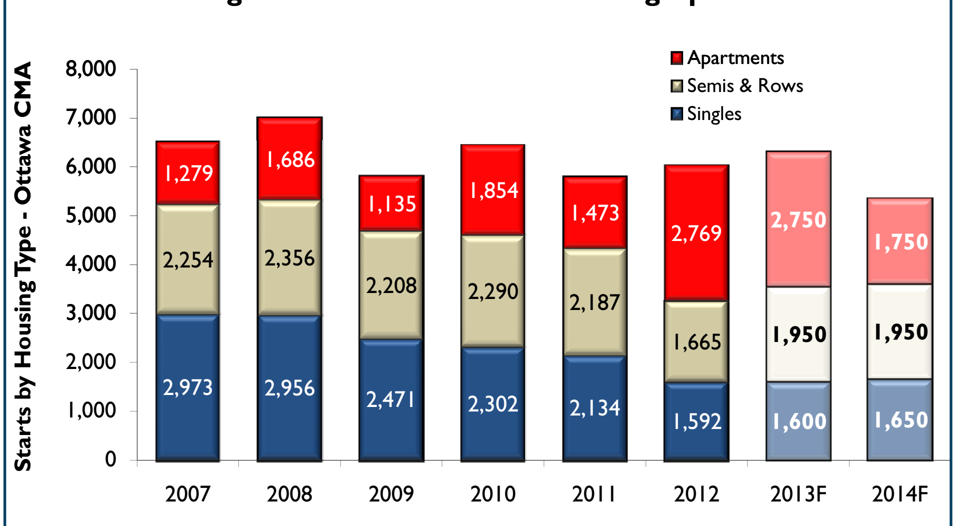
Date Released: Fall 2013

Highlights

- MLS® sales in the Ottawa CMA will rise heading into next year before moderating once more as mortgage rates start rising by mid 2014.
- Balanced market conditions will support home price growth in line with inflation.
- Following strong market activity since 2012, new home starts are set to soften in 2014, remaining more in line with demographic needs.

Figure 1

Housing Starts Consistent with Demographic Needs



Source: CMHC

The forecasts included in this document are based on information available as of October 16, 2013.

[1] Ontario part of Ottawa-Gatineau CMA

Table of Contents

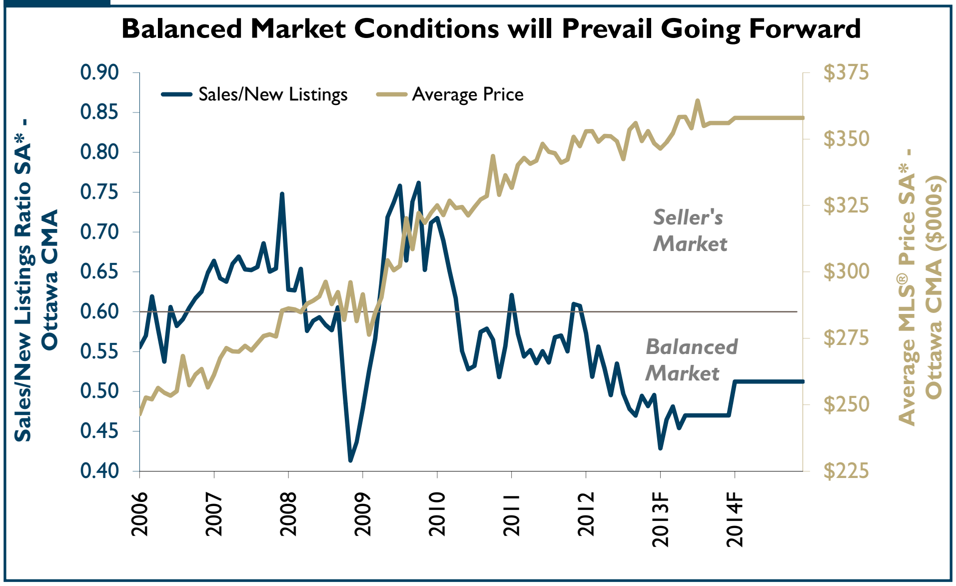
Resale Market: Sales to Edge Lower before Firming into 2014 Spring

Although resale activity posted strength in the third quarter, softer sales have characterized the overall behaviour of the existing home market this year in the Ottawa CMA. September year-to-date sales have declined 3.4 per cent compared to last year. The number of resale transactions is forecast to slowly rebound next year as overall economic and employment conditions stabilize, but will remain below 2012 levels.

Weaker labour market activity has affected overall demand in the CMA especially that for big-ticket items including housing. Year-to-date freeholds have seen their sales scale back 2.8 per cent while condominiums declined 4.3 per cent. The number of homes exchanging hands in the existing home market will close the year with the same trend established in the first nine months of the year. Strengthening consumer confidence in Ontario and a decreasing unemployment rate should support a firming in demand into 2014.

Notably, the upward pressure on bond yields has led major banks to slowly begin hiking their mortgage rates. The expectation of a continued increase in bond yields and the ensuing rise in mortgage rates may convince some on-the-fence buyers to go ahead with their purchase to take advantage of the relatively lower mortgage rates. Sales should be trending a bit higher into the early months of 2014 before scaling back once more as interest rates start inching up by the second half of the year.

Figure 2



Source: CREA; CMHC Forecast ranges
* Seasonally adjusted.
(MLS® is a registered trademark owned by the Canadian Real Estate Association)

West Ottawa to gain in Prominence

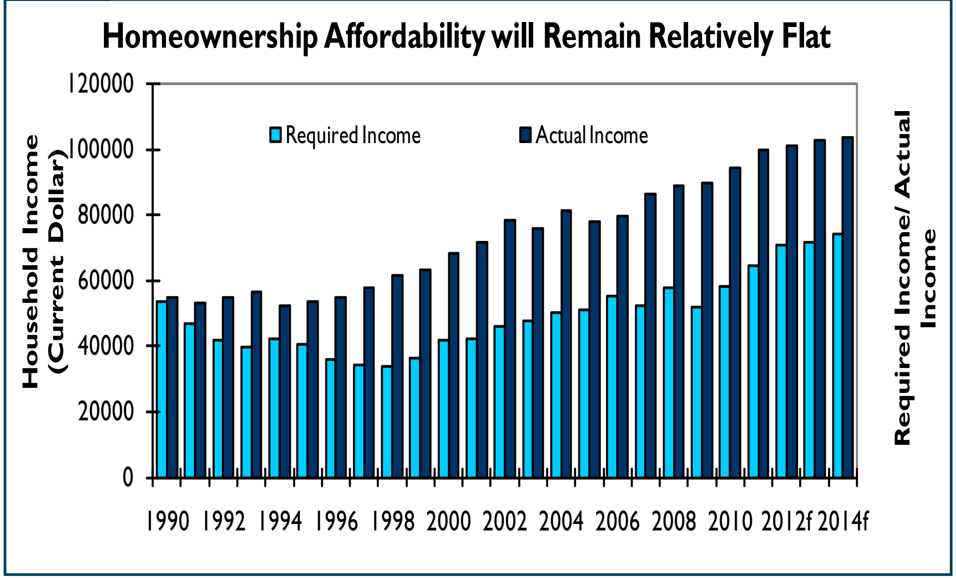
So far, demand in the existing home market has been strongest in Ottawa West, which includes the West End, Kanata, Stittsville and Nepean. This area has experienced a robust increase in sales compared to last year, while most other areas in Ottawa saw their sales drop. Year-to-date to September prices also firmed in the West, above the overall average growth in prices. With population expanding in the West at a higher rate than the average for the CMA and family incomes relatively higher than other areas in Ottawa, these trends promise to continue into 2014 as West Ottawa gains further in popularity.

Balanced Market Conditions and Moderate Price Growth are Forecast

The Ottawa CMA will remain this year and next in a balanced market where neither buyers nor sellers have the upper hand. Following record growth in listings earlier in the year, the third quarter saw listings more realigned with demand, improving the Sales to New Listings ratio (SNLR). By year end listings will be flat compared to a year earlier, while sales will decelerate. This will result in the SNLR moving to a cooler side of the spectrum of the balanced market. In 2014, as sales pick up and listings growth moderates slightly, the SNLR will be pressured upwards once more, rendering the market into the warmer side of the balanced territory.

Prices are anticipated to close the year rising in line with inflation, as is their typical behaviour under balanced market conditions. Excess capacity in the Canadian economy suggests inflationary pressures will remain muted - limiting home price growth in the Ottawa area into 2014. Following slightly stronger growth this year, next year prices will grow 0.6 per cent, just below the rate of inflation. Despite the slower growth in house prices, housing affordability will be somewhat pressured, as earnings are expected to rise at a more modest rate next year. Weaker employment in the CMA this year, mainly due to public sector cuts, will continue pressuring demand. While housing may be slightly less affordable next year, the stabilization in employment into 2014 should aid resale market activity to pick up once more.

Figure 3



Souce: CMHC, Statistics Canada, CREA

New Home Market: New Home Construction to be Front-Loaded over Forecast

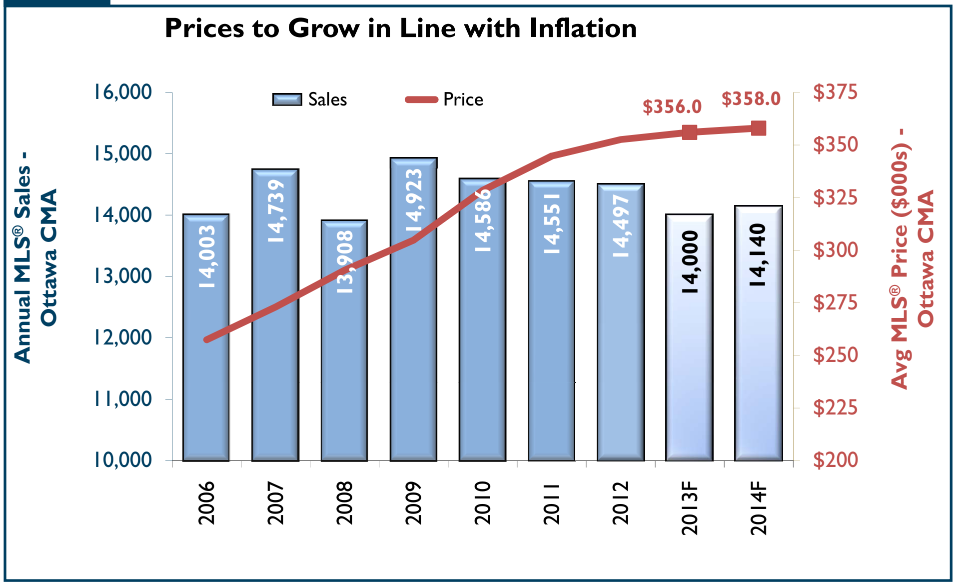
Although the year began with a slower pace of construction activity compared to the previous year, by midyear starts saw a revitalization in single-detached and row construction. Apartments also posted strong growth, despite rising inventories, defying market expectations of more modest growth this year compared to 2012. Over the forecast horizon (2013-2014), construction activity will be front-loaded with starts rising by 4.5 per cent this year but winding down by 15 per cent next year.

Higher than normal condominium apartment inventory has meant that some projects were put on hold even after breaking ground, awaiting the absorption of the existing condominium stock. Ottawa has 259 units of completed but unabsorbed condominium apartments year-to-date. This, together with a record number of under construction units, promises the city will see a decrease in total apartment construction in 2014 as the market goes through the existing supply of completed and unsold units. Construction in the CMA should begin to exhibit a stabilizing tendency for a more evenly split market between the main dwelling types, more in line with historical trends.

Row Starts may be a Rising Trend

As apartment construction retreats in 2014, low-rise multifamily dwellings will be regaining some lost ground as semis and rows offer more spacious alternatives to apartments and a cheaper option to single-detached homes. The long awaited rise in row construction may have begun. Rows are expected to capture close to 27 per cent of the market this year and a greater share next year at approximately 30 per cent, aligning once again with historical trends.

Figure 4



Source: Ottawa Real Estate Board; CMHC Forecast
(MLS® is a registered trademark owned by the Canadian Real Estate Association)

The shift in the demographic picture of Ottawa`s population is expected to continue to support multifamily dwellings. As the baby boomers are ageing, they will continue to be an important source for smaller-housing demand, such as rows and apartments. Undoubtedly, the 55+ age group will comprise a rising and significant portion of the population. By the 2011 Census, their share had risen to a quarter, up from 20 per cent a decade earlier. In turn, the first-time homebuyer group`s share has been declining since 2001. Nevertheless, they capture around one third of the buying population between 25 and 75 years old. First-time homebuyers usually will support multi-family homes as they look for relatively more affordable options for their first home.

Rental Market: Vacancy Rate to Edge Higher

The rental vacancy rate is expected to edge to 3.2 per cent this year before moderating slightly to 3.0 per cent in 2014 as employment in the CMA firms once more. Weak overall employment conditions in Ottawa have meant that the employment of the more typical renters, the youth (15-24), has also been pressured. Year-to-date both full- and part-time employment of the youth retreated. By next year, the trend should begin to reverse as the job market recovers, thereby easing some of the pressure on the vacancy rate.

Another important factor affecting Ottawa's vacancy rate is that the rise in condominium completions will mean an increased supply of more modern accommodations competing with the traditional rental apartment units. Together with the fact that since 2012 until the present 344 new traditional rental apartments have been completed adding to the rental stock, up from an average 104 units for the preceding 5 years, further pressuring the vacancy rate.

Economic Overview: Labour Market Conditions to Stabilize in 2014

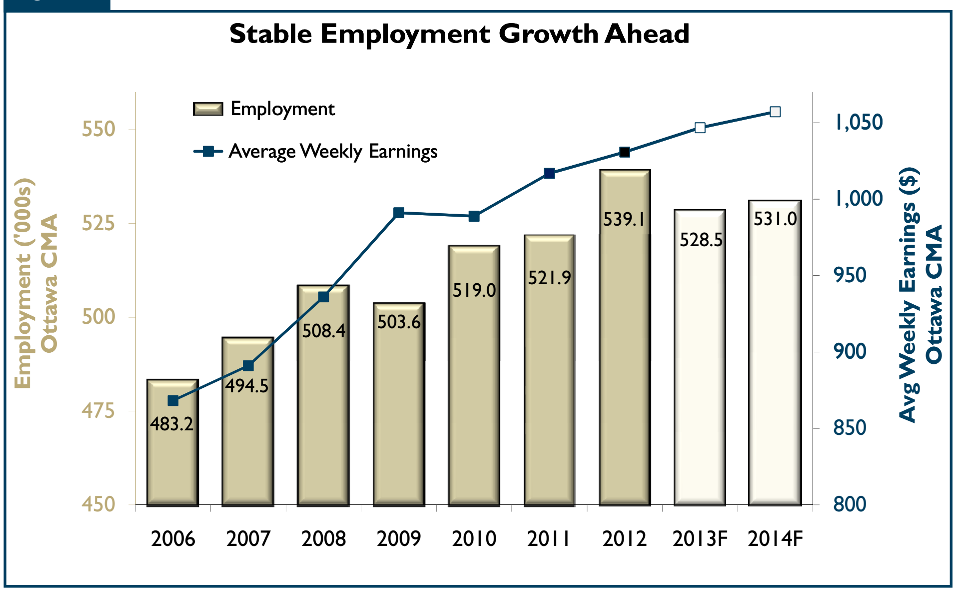
The labour force pool has continued to shrink since the beginning of the year, as job seekers grew discouraged about employment picking up in the CMA this year. Despite steady high inflows of migrants to the capital city over the last few years, the continuous stronger performance of Western Canada may also be drawing away some job seekers. Labour force supply is expected to drop this year before recording some growth next year as economic activity improves.

Following robust employment growth in 2012, employment has been on the decline for most part of this year. The year is expected to close on employment retreating 2 per cent compared to 2012 before stabilizing in 2014. The retrenchment in employment has been mostly driven by cuts in public administration jobs (the second largest employer in the CMA). However, public sector employment should stabilize and some of the winding down in the sector should be balanced out by attrition. Additionally, the coming online of the LRT project will begin to boost Ottawa`s employment in 2014 and beyond. After a decline employment in 2013, it will inch up at a higher rate than the labour force bringing down the unemployment rate to 6.3 per cent next year.

Average Earnings Growth to Moderate

The stabilization of public sector jobs by 2014 is key to earnings growth in Ottawa. Public sector jobs are relatively higher paying than other sectors in the economy, and therefore largely drive income growth. The combined effect of public administration jobs scaling back this year and modest inflation will lead average weekly earnings to clock in only 1.5 per cent higher than last

Figure 5



Source: Statistics Canada; CMHC Forecast year. Subdued inflation expectations for next year and an increase in the pool of job seekers should pressure earnings growth around 0.5 per cent over 2013. Since earnings will perform modestly next year, this will weigh on housing demand. The weakness in the fundamental drivers of housing market activity such as employment and income is the basis for the forecast of reduced start activity and a continued softer resale market as compared to historical averages.

Mortgage Rate Outlook

- Mortgage rates to see modest and gradual increases late in the forecast horizon but will remain low by historical standards.
- Following the June meeting of the Federal Open Market Committee (FOMC) of the U.S. Federal Reserve Board, interest rates rose modestly and then remained steady in both the U.S. and Canada. According to the Federal Reserve Bank of New York, this reflected a change in the risk assessment of investors and not a change in the expected future path of interest rates[1].
- CMHC's interest rate forecast mirrors this view. Hence, mortgage rates have been slightly revised up in the third quarter of 2013 but, thereafter, follow the same interest rate path as before. Nevertheless, this interest rate outlook will continue to be supportive of housing market activity over the forecast horizon, as mortgage rates will remain low by historical standards.
- Mortgage rates are expected to increase gradually and steadily over the forecast horizon. By the end of 2014, mortgage rates are forecast to be somewhat higher than in the third quarter of 2013. According to CMHC's base case scenario for 2013, the average for the one-year posted mortgage rate is forecast to be within 3.00 per cent to 3.50 per cent, while the average for the five-year posted mortgage rate is anticipated to be within 5.00 per cent to 5.50 per cent. For 2014, the average for the one-year posted mortgage rate is expected to rise and be in the 3.25 per cent to 3.75 per cent range, while the average for the five-year posted mortgage rate is forecast to be within 5.25 per cent to 6.00 per cent.

Mortgage rates		
1 Year	Q3 2013	3.14
	Change from Q3 2012	0.04
	2013 (F)	3.00 - 3.50
	2014 (F)	3.25 - 3.75
5 Year	Q3 2013	5.27
	Change from Q3 2012	0.03
	2013 (F)	5.00 - 5.50
	2014 (F)	5.25 - 6.00

Source: Bank of Canada, CMHC Forecast
NOTE: Mortgage rate forecast is based on Q3 2013 data

[1] "Preparing for Takeoff? Professional Forecasters and the June 2013 FOMC Meeting." Federal Reserve Bank of New York (2013). Richard Crump, Stefano Eusepi, and Emanuel Moench (http://libertystreeteconomics.newyorkfed.org/2013/09/preparing-for-takeoff-professional-forecasters-and-the-june-2013-fomc-meeting.html)

Trends at a Glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	While mortgage rates are expected to remain at historic lows over the forecast horizon, some increase in rates is expected which may have an effect on frontloading demand before sales moderate as mortgage rates continue to rise.
Employment	The firming in the CMA employment in 2014 will support housing demand going forward.
Income	Slight income growth next year will weigh on demand for housing.
Population	Ottawa has been growing at just less than 2 per cent annually, while starts have been growing at a higher annual rate, surpassing household formation. As population growth is expected to remain constant, some moderation in housing starts is expected.
Resale Market	As activity in the resale market leads starts activity, the moderation in the resale market will translate into lower starts levels next year.

Forecast Risks

- Mortgage interest rates are still near their historical low. Should mortgage interest rates rise sooner or faster than expected by potential buyers and existing mortgage holders, this could lead to a lower level of activity in Canada's housing market and generate some financial risks for the more heavily indebted homeowner households in the medium to longer term.
- Despite recent improvements in the growth of household credit, elevated levels of household debt and house prices in some urban centres have made the country`s economy more vulnerable to some economic shocks. If interest rates or unemployment were to increase sharply and significantly, some of the more heavily indebted households could be forced to liquidate some of their assets, including their home. This could put downward pressure on house prices and, more generally, on housing market activity. Although this risk can arise in the shorter term, its impact would not be immediate on most indebted households because of the prevalence of fixed mortgage terms.
- A stronger-than-expected U.S. economic recovery could positively impact Canadian economic growth, contributing to a higher level of activity in Canada's housing markets.

Forecast Summary
Ottawa CMA
Fall 2013

	2010	2011	2012	2013f	% chg	2014f	% chg
New Home Market							
Starts:							
Single-Detached	2,302	2,134	1,592	1,600	0.5	1,650	3.1
Multiples	4,144	3,660	4,434	4,700	6.0	3,700	-21.3
Semi-Detached	362	361	286	385	34.6	350	-9.1
Row/Townhouse	1,928	1,826	1,379	1,565	13.5	1,600	2.2
Apartments	1,854	1,473	2,769	2,750	-0.7	1,750	-36.4
Starts - Total	6,446	5,794	6,026	6,300	4.5	5,350	-15.1
Average Price ($):							
Single-Detached	431,729	478,292	482,586	488,000	1.1	494,000	1.2
Median Price ($):							
Single-Detached	419,990	455,990	461,900	472,518	2.3	482,000	2.0
New Housing Price Index (% chg) (Ottawa-Gatineau)	4.0	3.0	2.6	1.2	-	2.0	-
Resale Market							
MLS® Sales	14,586	14,551	14,497	14,000	-3.4	14,140	1.0
MLS® New Listings	25,061	25,949	28,332	29,750	5.0	29,000	-2.5
MLS® Active Listings	50,804	64,177	70,126	72,600	3.5	71,000	-2.2
MLS® Average Price ($)	328,439	344,791	352,610	356,000	1.0	358,000	0.6
Rental Market							
October Vacancy Rate (%)	1.6	1.4	2.5	3.2	0.7	3.0	-0.2
Two-bedroom Average Rent (October) ($)	1,048	1,086	1,115	1,140	2.2	1,150	0.9
Economic Overview							
Mortgage Rate (1 year) (%)	3.49	3.52	3.17	3.00 - 3.50	-	3.25 - 3.75	-
Mortgage Rate (5 year) (%)	5.61	5.37	5.27	5.00 - 5.50	-	5.25 - 6.00	-
Annual Employment Level	519,000	521,900	539,100	528,500	-2.0	531,000	0.5
Employment Growth (%)	3.1	0.6	3.3	-2.0	-	1.9	-
Unemployment rate (%)	6.5	5.6	6.2	6.4	-	6.2	-
Net Migration	10,035	7,796	7,800	8,500	9.0	9,000	5.9

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:

The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:

The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:

Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:

Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:

Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:

Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:

Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:

Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October **Rental Market Survey** (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:

The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:

The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:

Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

CMHC—HOME TO CANADIANS

Canada Mortgage and Housing Corporation (CMHC) has been Canada's national housing agency for more than 65 years.

Together with other housing stakeholders, we help ensure that the Canadian housing system remains one of the best in the world. We are committed to helping Canadians access a wide choice of quality, environmentally sustainable and affordable housing solutions that will continue to create vibrant and healthy communities and cities across the country.

For more information, visit our website at www.cmhc.ca or follow us on Twitter, YouTube and Flickr.

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.

The Market Analysis Centre's (MAC) electronic suite of national standardized products is available for free on CMHC's website. You can view, print, download or subscribe to future editions and get market information e-mailed automatically to you the same day it is released. It's quick and convenient! Go to www.cmhc.ca/housingmarketinformation

For more information on MAC and the wealth of housing market information available to you, visit us today at www.cmhc.ca/housingmarketinformation

To subscribe to priced, printed editions of MAC publications, call 1-800-668-2642.

Housing market intelligence you can count on

CMHC's Market Analysis Centre e-reports provide a wealth of detailed local, provincial, regional and national market information.

- **Forecasts and Analysis** – Future-oriented information about local, regional and national housing trends.
- **Statistics and Data** – Information on current housing market activities – starts, rents, vacancy rates and much more.

FREE REPORTS AVAILABLE ON-LINE

- Canadian Housing Statistics
- Housing Information Monthly
- Housing Market Outlook, Canada
- Housing Market Outlook, Highlight Reports – Canada and Regional
- Housing Market Outlook, Major Centres
- Housing Market Tables: Selected South Central Ontario Centres
- Housing Now, Canada
- Housing Now, Major Centres
- Housing Now, Regional
- Monthly Housing Statistics
- Northern Housing Outlook Report
- Preliminary Housing Start Data
- Rental Market Provincial Highlight Reports
- Rental Market Reports, Major Centres
- Rental Market Statistics
- Residential Construction Digest, Prairie Centres
- Seniors' Housing Reports

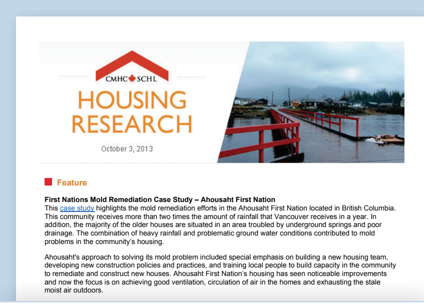
Get the market intelligence you need today!

Click www.cmhc.ca/housingmarketinformation to view, download or subscribe.

Are you interested in housing research?

Stay up-to-date with the latest housing research findings and events related to sustainable housing, housing conditions and trends, housing finance and more.

Subscribe Today to CMHC's Housing Research E-Newsletter!


CMHC SCHL
HOUSING RESEARCH
October 3, 2013

Feature

First Nations Mold Remediation Case Study – Ahousaht First Nation
This case study highlights the mold remediation efforts in the Ahousaht First Nation located in British Columbia. This community receives more than two times the amount of rainfall that Vancouver receives in a year. In addition, the majority of the older houses are situated in an area troubled by underground springs and poor drainage. The combination of heavy rainfall and problematic ground water conditions contributed to mold problems in the community's housing.

Ahousaht's approach to solving its mold problem included special emphasis on building a new housing team, developing new construction policies and practices, and training local people to build capacity in the community to remediate and construct new houses. Ahousaht First Nation's housing has seen noticeable improvements and now the focus is on achieving good ventilation, circulation of air in the homes and exhausting the stale moist air outdoors.

64311_2013_B02