HOUSING MARKET OUTLOOK

Ottawa

Canada Mortgage and Housing Corporation

ISSUE:
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Resale Market

Interest rates, economic rebound and first-time buyers will drive the market

In 2001, when the city's high-tech industry shed 20,000 jobs, the resale market barely blinked. Sales fell by 3.6 per cent, prices continued their double-digit ascent with a 10.3 per cent jump, and the sales-to-listings ratio let up just enough to give buyers and sellers a chance to take a breather.

Through the fall, the generally accepted expectation was that 2002 was going to be a slower year, one in which the job market would take time to heal and recover, the housing market would cool off, and prices would plateau.

The last quarter of 2001 saw the effects of September 11th and of lower interest rates combine into market conditions that set the stage for a robust recovery of consumer confidence, a perceptible uptick in employment, and a return in droves of home buyers - especially on the resale market.

By the time 2001 ended, Ottawa had regained 13,000 jobs and MLS SAAR sales were at record highs. By the end of this year's first quarter there are already 17.6 per cent more MLS sales than last year, and a collapse of this momentum is highly improbable.

What are the forces that will drive the resale market this year?

Interest rates are probably the single most important factor at play. A one year mortgage is available nowadays for at least 300 basis points less than a year ago. As noted on page 6, short-term rates are forecast to stay low for the remainder of this year and long term rates will rise very gradually over the course of the year.

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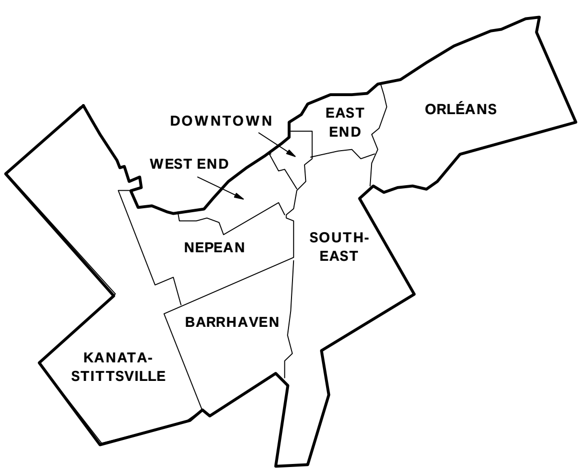
Resale - Urban Sub-Markets



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HOME TO CANADIANS

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How move-up buyers are fuelling the resale market

Let's take a "typical" baby-boomer couple, aged 45-54, whose children may be about to leave the parental home or may already be on their own. There are approximately 123,000 people in this age group, of which 85 per cent are in a family-type household - and in this age group, growth is almost 1,000 households a year.

Let's say this typical household bought their first home fifteen years ago, in 1987, at the average price of just under $120,000 with 10 per cent down. In 15 years, making regular monthly payments, our couple would have paid about $44,000 on their principal.

If they sell this average house for the average MLS price of $195,000 today, they will have $119,000 in cash available for their next purchase, which is a 10% down payment on a house worth $1.19 million. More than likely, however, they would use that as a one-third down payment on a house worth $350,000, and carry this house with monthly mortgage payments of about $1,600 at the current low rates.

What is allowing move-up buyers to move up is that there is strong demand for their resale homes from first-time buyers. After three years of extremely tight rental markets, rising rents and declining interest rates, many are making the jump into ownership through the resale market, which is typically more affordable than the new homes market. Hence, they become the customers of the move-up segment.

Resale Market - Continued

For its part, employment is projected to stay relatively flat this year. The city will add a net 4,000 jobs, just enough to stay on the positive side of growth but a far cry from the 15 to 20 thousand annual jobs witnessed during the high-tech boom.

What, then, are the other factors that will be at play in the housing market?

As the sidebar article on this page points out, demographics has a pivotal role in the turnover of the housing stock on the resale market. The relatively stable economy and the low interest rates, blended with low rental vacancies and high rents, are creating favourable conditions for first-time buyers.

These first-time buyers are a large pool of customers for move-up or move-down buyers. For several years during the 1990's, people who bought property during the late 1980's followed the market with considerable trepidation: values stayed flat or declined, and buyers stayed on the fence.

Now, with the surge in demand and the rapid rise in prices, many are emboldened to cash in on their equity, not only because they can, but because the timing might also be right for a move into a home that better suits their needs.

Not surprisingly, the two types of homes that have seen their value appreciate the most on the resale market are apartment condos and freehold townhouses. The former appeals to a move-down or to a first-time buyer, the latter more typically to a first-time buyer.

Interestingly, single detached homes are a close third in terms of price gain, and this is likely the move-up segment in action.

And, although inventories are expected to remain tight throughout the year, sales will rise this year.

Continued next page

TABLE 1: MLS SALES, URBAN SUB-MARKETS

	2002 Forecast	2001 Total	2000 Total	1999 Total
Orléans	**1,760**	1,932	1,846	1,710
East End	**1,015**	854	886	722
South-East	**1,740**	1,706	1,745	1,532
Downtown	**825**	883	920	904
West End	**1,345**	1,272	1,281	1,153
Nepean	**925**	1,007	1,145	1,069
Barrhaven	**1,025**	702	749	655
Kanata-Stittsville	**1,645**	1,300	1,447	1,365

TABLE 2: MLS AVERAGE PRICE, URBAN SUB-MARKETS

	2002 Forecast	2001 Total	2000 Total	1999 Total
Orléans	**$195,500**	$173,771	$153,064	$144,698
East End	**$168,600**	$147,757	$129,018	$125,286
South-East	**$230,900**	$183,221	$169,662	$155,445
Downtown	**$283,800**	$241,523	$211,169	$192,924
West End	**$214,100**	$178,405	$158,178	$146,567
Nepean	**$188,500**	$176,804	$165,908	$154,229
Barrhaven	**$199,300**	$174,823	$155,169	$142,225
Kanata-Stittsville	**$210,000**	$195,349	$180,063	$160,157

Source: OREB; Forecast: CMHC

The spring market started early in 2002, with first quarter sales at record levels, but activity should moderate during the remainder of the year. As long-term mortgage rates begin to slowly go up later this year, and short-term rates also start increasing in early 2003, the pace of sales will ease. Total sales will grow by 5.0 per cent in 2002, and by 4.6 per cent in 2003.

Affordability will be an increasingly key issue and will probably underpin continued strong demand for apartment condos and townhouses.

In terms of sub-markets, Orléans will surpass Nepean in average price this year, but sales will fall back as sales in the East End take off. The East End is poised for a year of strong price gains on the strength of its location and good value.

Downtown is rapidly running out of inventory, which again will lead to a decline in sales but a very strong increase in prices. It will be a few years before the impact of new condo construction is felt on the available supply.

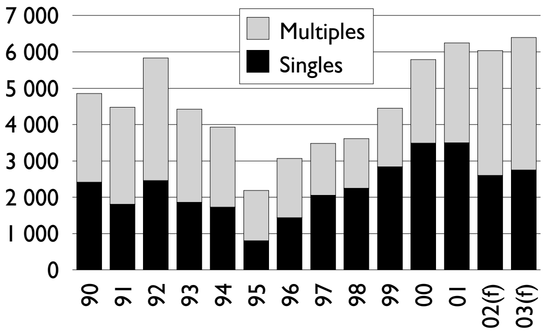
The West End will maintain its share of sales but see average prices soar on the strength of location and product mix. This sub-market's rich stock of older single family homes in stately neighbourhoods will capture the attention of move-up buyers.

Nepean inside the Greenbelt will have a stable year of single-digit price growth and yield some market share in sales to Barrhaven.

Barrhaven has become one of the new darlings on the resale market and will grab an all-time-high 10 per cent market share in sales. Its prices will put it neatly between Orléans and Kanata.

And Kanata-Stittsville will astonish many by putting on a strong sales performance, setting a new high water mark; as sellers remain prudent about their pricing strategies, the average price gain in Kanata-Stittsville will probably remain in the high single digit range this year. ❖

Housing Starts, Ottawa CMA



Source: CMHC and CMHC Forecasts

New Homes Market

Apartments, strong early-year sales, move-up buyers will have starts surpassing 6,000 this year again

The new homes market experienced a boom in 2001, recording the most housing starts since 1988. Weak new home sales throughout the second half of the year led to the expectation that 2002 would see housing starts fall back to the mid-5000 units. Most of the decline was anticipated to be focused on single detached homes.

Three factors have since emerged that affect this analysis.

First, plans for multiple unit construction have come forward with very bold construction schedules. Be they rental, condominium, life-lease or even residences, 2002 has a number of apartment projects on the books. It's anticipated that 1,360 dwellings in multiple-unit buildingss of all types will be started this year.

Rental construction comes as a result of three years of extremely tight conditions on the rental market, which have propelled economic rents to levels at which high-end construction has become feasible. About 800 rental units are expected to be started this year and, although most can be considered to be upscale product, some will also be geared to students. In total, five rental projects are expected to start in 2002. Next year, there are already plans for at least two more rental buildings, although the new supply is expected to nudge the vacancy rate up this year and perhaps cool the ardours of rental construction. Our forecast calls for 650 rental units next year.

The second factor fuelling new home construction is the move-up buyer. The very tight resale market is providing property owners with an abundance of clients and a climate of strong price growth, which in turn is allowing them to purchase a new home.

Move-up buyers are being drawn by the new homes market because it allows them the opportunity to choose their layouts and upgrades and to customize their home to a much greater degree.

Continued next page

Move-up buyers seem to be falling into two categories: those who move up in terms of living space, and those who downsize into a more luxurious but less maintenance-intensive unit.

Buyers purchasing more space have been responsible for a 45 per cent increase in single detached home sales in the first quarter of 2002. The number of new single homes sold in the first three months of this year is 10 per cent greater than the number of singles sold during the first quarter of boom-year 2000.

The expectation for single homes starts is therefore taking on an entirely different complexion. Based on soggy 2001 sales and on strong 2002 sales, the forecast for this year is 2,600 single starts, and 2,750 in 2003.

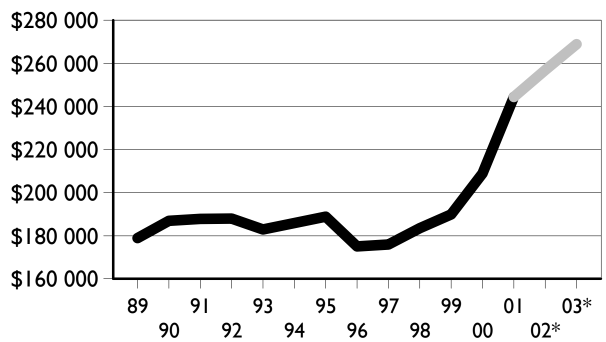
Some move-up buyers, especially empty-nesters, are looking to downsize, and are looking for a more care-free lifestyle and in several cases, proximity to cultural amenities, restaurants, shopping and services within walking distance.

Enter the condo market. As the resale market has practically run out of supply in the past couple of years, new condo projects have moved into this market niche. There are presently 12 new condo apartment projects at the various stages of active marketing or construction, and more are expected to be announced this year and next.

Based on the assumption that the resale market is between 2 and 3 times greater than the new homes market, it has been estimated that the Ottawa market can absorb about 500 new condo apartment units per year. The number of apartment condos being sold on the resale market, however, has been constrained by a lack of supply.

The number of existing apartment condominiums in the whole city of Ottawa is estimated to be no more than 17,250, just under 5 per cent of the city's entire housing stock. There may therefore be room for more absorptions given the strength of the demand.

Median Price of a New Single Detached Home 1989-2003 (f)



Source: CMHC

This year, the forecast calls for 560 condo starts, and 850 units next year.

Semi-detached dwellings had an upsurge in popularity over the past two years, but seem to be returning to more average levels. Semis are mostly targeted to move-up buyers. Between 225 and 250 semis are forecasted to be started each year in 2002 and 2003.

The third major factor propelling new home construction is low interest rates. Aside from move-up buyers who are taking advantage of their equity and low rates to buy a new home, some first-time buyers who might otherwise get sticker-shock at the price of a new home, find that low mortgage rates in some cases allow them to purchase new.

The townhouse has had an established slice of the Ottawa market for many years, and this typically tends to be the starter home for several first-time buyers.

Freehold or condo townhouses are offered at price points that allow first-time buyers to own for a roughly similar amount to rent for a two- or three-bedroom apartment. With low mortgage rates, some first-time buyers are therefore jumping into the new homes market.

Some, although few, of the condominium projects currently being marketed are targeting the first-time buyer as well. There seems to be a growing recognition that some first-time buyers are single professionals who are seeking maintenance-free living.

Likewise, some townhouses are geared toward a more upscale market. Large and wide townhouses in prime locations or with distinctive features and architecture are appealing to downsizing buyers.

The forecast is for 1,850 townhouses in 2002 and 1,900 in 2003.

Low interest rates are therefore allowing a greater diversification of product by letting the new homes market appeal both to first-time and move-up buyers.

Construction costs and a continuing shortage of trades will continue to exert pressure on prices, although increases are expected to moderate this year and next. The median price of a new single jumped by 17 per cent in 2001.

In 2002, this increase should be closer to 5 per cent and will put the median new single at $256,900. In 2003, a 4.7 per cent rise will take the median new single to $269,000. ❖

High-tech sector helps drive Ottawa's housing market

Ottawa's position as a major high-tech centre is well deserved. Its homegrown companies include Nortel, Alcatel, Corel and JDS Uniphase. Many such firms and their futuristic brethren are listed on the NASDAQ stock exchange. Since stock prices generally reflect investors' assements of companies' economic health, broad market indicies are frequently cited as broader economic indicators.

Given high-tech firms' local prominence and the propensity of such firms to list their stocks on the NASDAQ, a link between NASDAQ performance and that of the local economy seems logical. High-tech is generating significant local job growth, as the importance of government employment traditionally associated with Ottawa declines. Statistics Canada estimates that public administration's share of Ottawa employment fell from 22 per cent in 1991 to 17 per cent in 2001.

Further, monthly changes in the NASDAQ's index level over the last five years appear closely related to similar changes in a variety of locally-measured variables.

Monthly changes in Ottawa CMA employment bear an uncanny similarity to similar changes in the NASDAQ. Both enjoyed solid growth through most of 1999, but began to erode late in that year. NASDAQ growth was negative through most of 2000 and 2001 but recovered in late 2001. Fallout from such high-tech woes depressed Ottawa CMA employment; monthly job changes turned sharply negative by mid-2001, before staging a late-year recovery. A recent downturn in NASDAQ growth is mirrored in a similarly easing job growth.

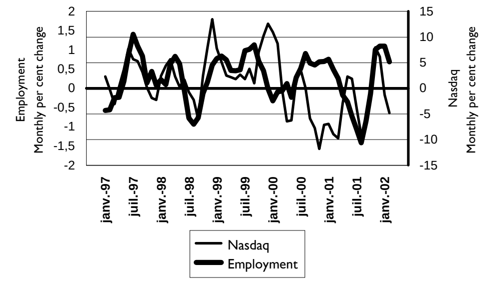
Conceptual links between the NASDAQ exchange and Ottawa housing markets centre on employment generated by NASDAQ-listed companies. Rising share prices reflect healthier companies; these hire more workers, who, in turn buy or build houses.

As shown in this section's charts, changes in both MLS sales and singles starts generally move in tandem with NASDAQ changes. While conceding low interest rates' role in boosting housing markets in Ottawa and across Canada, the 2001 troughing and subsequent recovery of NASDAQ growth is certainly reflected in similarly- accelerating MLS volumes.

On the singles side, the 2000-01 NASDAQ downdraft prompted starts growth to plateau in late 2000 and plunge in early 2001. Both housing market measures have seen their growth recently decelerate along with that in the NASDAQ's index value.

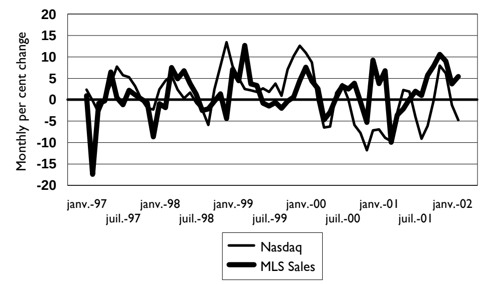
So watch that NASDAQ. Ottawa's economy and housing markets certainly do.

Nasdaq and Employment



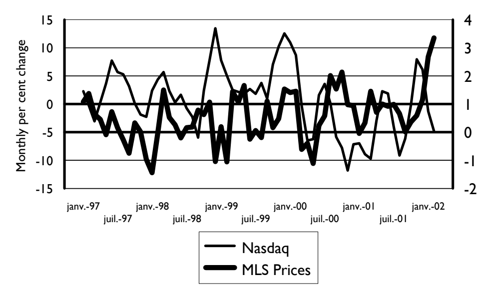
Employment seasonally adjusted
Source: Statistics Canada and Economy.com

Nasdaq and MLS sales



MLS sales seasonally adjusted
Source: Ottawa Real Estate Board and Economy.com

Nasdaq and MLS prices



MLS prices seasonally adjusted
Source: Ottawa Real Estate Board and Economy.com

Economic Overview

Stability and consolidation in 2002, return to stronger growth in 2003

The slowdown in the telecommunications sector has hit Ottawa's employment market, but not to the extent feared. The city's more broadly diversified economy has been able to offset its high-tech job losses with new jobs in other sectors.

Thus can be summarized the story on the economic front for the past twelve months.

Early-year readings in 2002 suggest a stable year of little job growth, and a return to a more vigorous economic expansion over the course of the following twelve months.

Most affected by the high-tech slowdown were the fibre-optics and internet technology sectors. Two large companies, Nortel Networks and JDS Uniphase, have accounted for about three-quarters of the high-tech layoffs in Ottawa.

The fortunes of those companies are closely tied with the North American stock markets and, more specifically, with telecommunications companies in North America. Both companies were, and remain, heavily reliant on exports to the United States.

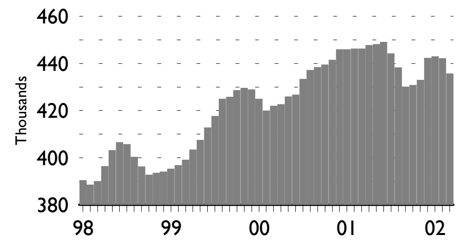
Other telecom companies, especially Alcatel, have a more global client base and have been able to weather the storm much better.

Still, a recovery in the telecom sector in the United States will set the stage for resumed growth in this sector in Ottawa, and such recovery does not appear to be immediate.

This transpires in a number of indicators. Individual and business bankkruptcies have crept up and retail sales have softened somewhat.

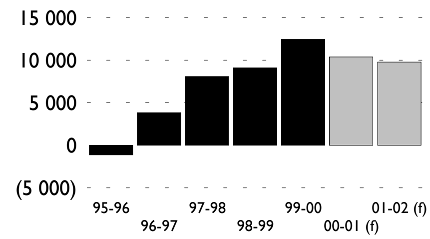
At the same time, the high-tech layoffs have created opportunities of their own. The wealth of technical,

Total employment, Ottawa CMA
1998-2002



Source: HRDC

Net Migration, Ottawa (Ont.) CMA
1995-2002 (f)



Source: Statistics Canada and CMHC

scientific and management talent available in Ottawa has lured $1.062 billion in venture capital in 2001, almost double the amount invested in the Greater Toronto Area.

Last year, Ottawa accounted for 22 per cent of the country's high-tech venture capital, making it the best-financed technology centre in

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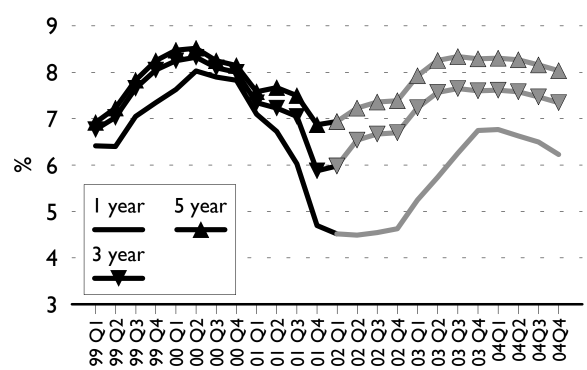
Mortgage Rates Outlook

While open and variable rate mortgages generally track lenders' prime rate, fixed rate mortgages move in tandem with the bond market. As the prime rate, money market, and short-term bond yields are expected to remain stable in 2002, so will short-term mortgage rates.

However, as the economy strengthens and financial markets foresee some monetary tightening, long-term interest rates and mortgage rates will increase.

The outlook for short-term mortgages in 2002 remains favourable with the one-year mortgage rate in the 4.00 - 5.00 per cent range. The three- and five- year mortgage rates will remain in the 6.00 - 7.00 and 7.00 - 8.00 per cent ranges, respectively.

Mortgage Rates Forecast 2002-2004



Source: CMHC

Short-term mortgage rates are expected to stay low throughout 2002 and then gradually rise over the following year in tandem with longer-term rates. Longer-term rates will have a much smoother evolution. The one-year rate is not expected to cross above 7 per cent, and the 5 year rate would barely peek over the 8 per cent threshold.

Canada.

Along with these infusions of seed money, Ottawa has secured the National Research Centre's (NRC) Canadian Photonics Fabrication Centre. This $40-million scientific facility will allow photonics companies to have their highly-specialized components built in Ottawa, as opposed to other laboratories around North America. It is expected to become a magnet for photonics companies and an incubator for start-ups in this area.

Other developments in the high-tech field continue to unfold and may foretell a strong recovery for the sector in Ottawa once the wind turns. Accelio's takeover by Adobe Systems came with a commitment to locate a large number of Adobe R&D jobs in Ottawa.

Also, the genomics and biotech sectors are poised to receive the largest chunk of venture capital in Ottawa this year, according to a study by Deloitte and Touche. Already, a 800,000 square-foot, $100-million biotech campus is in the works for the Ottawa Life Sciences Park. These developments contribute to further diversify the city's economy.

In the more traditional sectors, the past year saw a loss of jobs in manufacturing, construction, education and food services, but an increase in management, trade, health care and, especially, public administration. In this last sector, employment has climbed by 15 per cent in the last year.

The federal government is actively recruiting to backfill an increasing number of positions left vacant, either by retirements, or by defections to the private sector. Another sector likely poised for growth over the coming two years is education, with the impending arrival of the double cohort.

And a steady stream of construction projects will keep this sector busy. Federal demand for office space will see the addition of up to three new downtown towers, including the possible move of CBC studios to Sparks Street. Work on the airport's Terminal 2 continues for the next two years. Lebreton Flats will soon see the start of the new War Museum, and Parliament Hill of the new departmental building at Bank and Wellington. Other projects of various sizes have sustained building permits in both residential and non-residential sections at high levels.

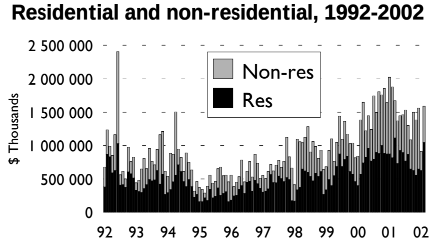
With a reasonably stable job market and an increasing variety of vibrant sectors, in-migration will continue to be a driver for housing demand.

In 1999-2000, Ottawa attracted 12,500 new immigrants, second only to Toronto in the province of Ontario, and just 5,000 fewer than Montreal. With the economic slowdown this total will likely ease to around 10,000 per year in each of the next two years, but will remain at relatively high levels.

Net job creation is expected to remain modest this year at about 4,000, and resume growth in 2003 with 6,600. Unemployment will hover between 6.5 and 7.0 per cent this year, and fall to the 6.0 per cent range in 2003. ❖

Value of building permits, SAAR*

Residential and non-residential, 1992-2002



**SAAR = Seasonally Adjusted at an Annualized Rate*
Source: Stats Can and CMHC

Census 2001

Ottawa-Gatineau one of four Canadian metro areas of more than one million

The results of the 2001 Statistics Canada Census shows that Ottawa-Gatineau was again Canada's fourth-largest metropolitan area, with a population of 1.064 million.

Ottawa-Gatineau is part of the Ottawa-Montreal corridor which, with its 4.5 million people, is second only to the Toronto-Golden Horseshoe area in population.

Within the Ottawa-Gatineau CMA, the new City of Ottawa grew in population by 7.3 per cent and the new City of Gatineau by 4.2 per cent.

On the fringe, both the Highway 417 and Highway 7 commutersheds saw strong population growth. North Grenville (the Kemptville area) saw a 7.4 per cent rise in new residents, Carleton Place 7.1 per cent, and Beckwith (which surrounds Carleton Place) 10.7 per cent. Clarence-Rockland (5.3 per cent) and Russell (4.5 per cent), on the other hand, experienced more moderate growth.

POPULATION
(IN THOUSANDS)

CMA	2001	1996
Toronto	4,683	4,264
Montréal	3,426	3,326
Vancouver	1,987	1,832
Ottawa-Gatineau	1,064	1,005
Calgary	951	822
Edmonton	938	863
Québec	683	672
Winnipeg	671	667

Source: Statistics Canada

FORECAST SUMMARY

Ottawa CMA Spring 2002

RESALE MARKET	1999	2000	2001	% chg.	2002F	% chg.	2003F
MLS Sales	11,329	12,692	12,237	*-3.6*	12,850	*5.0*	13,440
MLS Average Price, all units	$149 650	$159 511	$175,971	*10.3*	$198,500	*12.8*	$217,500
MLS Average Price, Single det.	$172,562	$188,156	$205,094	*9.0*	$226,400	*10.4*	$240,700
MLS Average Price, Condo	$100 669	$107 958	$124,087	*14.9*	$147,700	*19.0*	$164,600
Sales to New Listings Ratio	0.65	0.79	0.71	-	0.77		0.74
HOUSING STARTS							
Total	4,447	5,786	6,251	*8.0*	6,035	*-3.5*	6,400
Single detached dwellings	2,837	3,494	3,502	*0.2*	2,600	*-25.8*	2,750
Semi & Row dwellings	1,418	1,716	2,074	*20.9*	2,075	*0*	2,150
Condo Apartments	138	30	285	*850.0*	560	*96.5*	850
Private Rental	54	546	390	*-28.6*	800	*105.1*	650
Median price, Single detached	$194 900	$208 900	$244,400	*17.0*	$256,900	*5.1*	$269,000
RENTAL MARKET							
Vacancy Rate (October)	0.7	0.2	0.8	-	1.2	-	1.6
Average Rent (2-bedroom)	$783	$882	$914	*3.6*	$945	*3.4*	$975
ECONOMIC OVERVIEW							
Mortgage Rate - 3 year term	7.97	8.17	6.88		6.47		7.52
Mortgage Rate - 5 year term	8.13	8.35	7.41		7.23		8.21
Employed	414,200	431,500	441,800	*10.3*	445,800	*0.9*	452,400
Employment Growth	17,800	17,300	10,300	*-40.5*	4,000	*-61.2*	6,600
Net Migration	7,700	9,800	12,500	*27.6*	10,300	*-17.6*	11,400

Sources: Ottawa Real Estate Board; The Corporate Research Group; Statistics Canada; Human Resources Development Canada; Canada Mortgage and Housing Corporation

The Ottawa Real Estate Board is an industry association of 1,400 sales representatives and brokers in the Ottawa area. The OREB website is www.ottawarealestate.org

M.L.S. (Multiple Listings Service) is a registered certification mark owned by the Canadian Real Estate Association.

F = CMHC Forecast

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