

HOUSING MARKET OUTLOOK

Ottawa CMA



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New Home Market

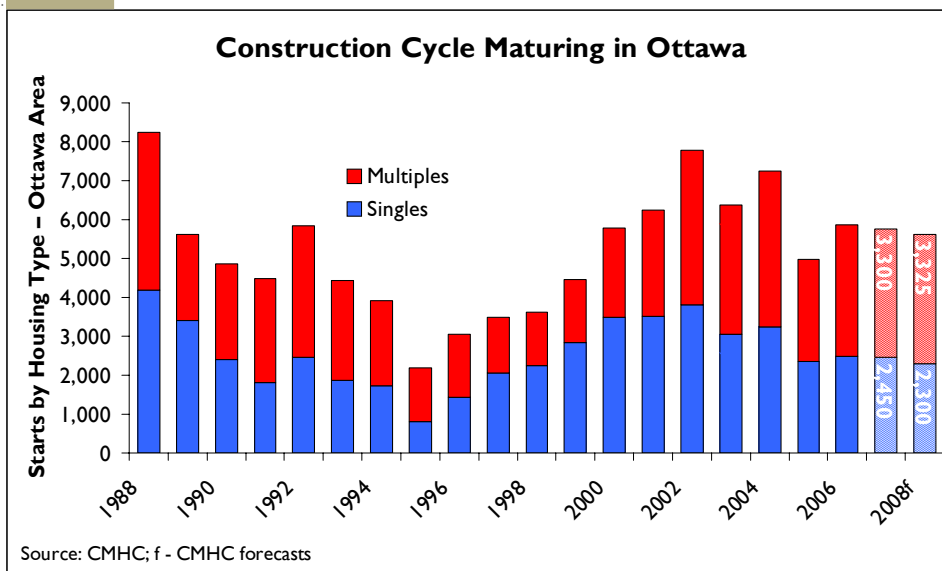
Residential Construction to Decline

In 2007, residential construction in Ottawa will show a slight downward movement, and this trend will continue in 2008. With multi-family housing activity remaining relatively strong, the slowdown is expected to occur in the single-detached home segment. In all, 5,750 starts are anticipated this year and 5,625 in 2008.

Urban intensification, observed in recent years, will continue in the area. In the 1990s, one in two dwellings was a single-detached house. Now, nearly 60 per cent of starts are multiples. Rising prices, a scarcity of land in certain areas, and local government targets to raise population density contributed to this change.

Nevertheless, multi-family housing construction will slow down somewhat in the Ottawa area this year, before posting renewed growth in 2008. Fewer major projects got

Figure 1



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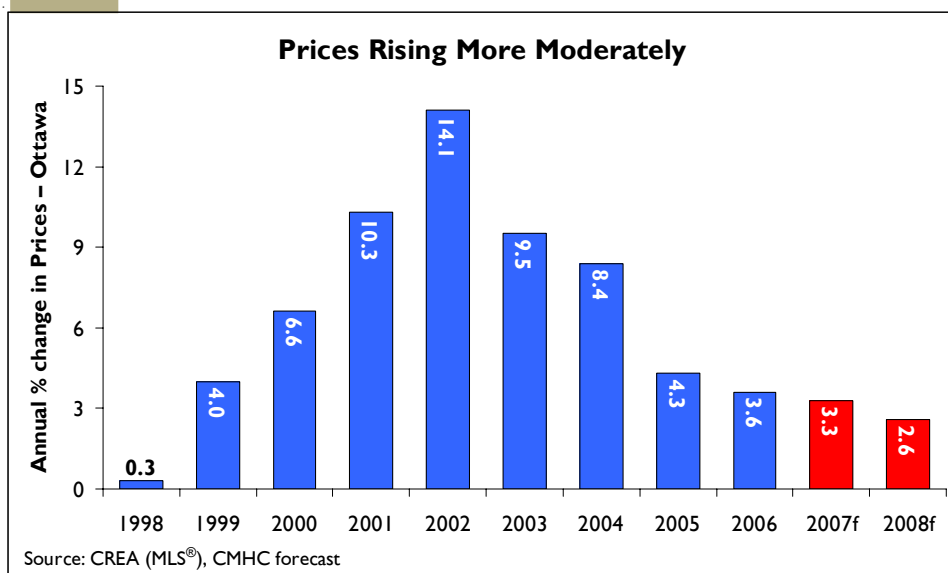
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Figure 2



underway at the beginning of 2007, and will not be made up as the year progresses.

The steady decrease in the vacancy rate observed in the Ottawa area in recent years will encourage developers to start up new rental housing projects next year. As well, a significant share of the new residential projects will be condominiums, a housing type that meets the needs of an aging population seeking to live close to services and urban amenities.

Townhouses are also gaining in popularity in the Ottawa area. Dwellings of this type appeal to many buyers, as they are less expensive than single-detached homes but more spacious than apartments. About 1,750 townhouses will be started in 2007 and a record 1,850 more next year. Semi-detached home starts are expected to rise, as well, reaching 375 units this year and 425 in 2008.

In the apartment segment, builders will lay foundations for 1,175 units

this year, before slowing down the pace to 1,050 starts next year. Fewer large projects have been announced for the next few quarters than during the previous period.

Single-detached Homes Getting Expensive

Single-detached home construction has been very active in recent quarters. However, the average price of

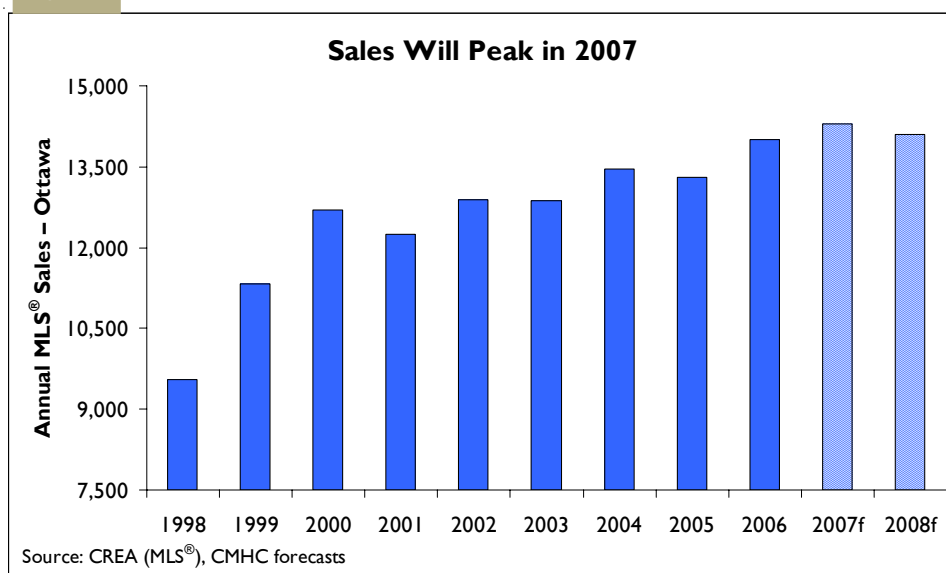
homes, which surpassed the \$385,000 mark in 2006, will dampen demand. As a result, single-detached home starts will decline this year and will fall even more significantly in 2008.

Resale Market

Market to Set Another All-time High

Residential property sales will set a new record this year before declining next year. In 2007, Multiple Listing Service (MLS)® transactions will reach 14,300 units—an all-time high for the area. Strong employment growth in 2006 and low mortgage rates continue to encourage many households to move into homeownership. However, the decline in employment registered in the second half of 2006 and the continued increase in home prices will have a negative impact on the resale market next year. Typically, the resale market tends to peak around four to seven quarters after the job market. In 2008, rising

Figure 3



mortgage carrying costs¹ will cause existing home sales to fall to 14,100 units.

Seller's Market Continues

Active listings, the supply of properties for sale, have been rising at a slightly slower pace than sales over the last few quarters. As a result, the market remains favourable to sellers. With sales expected to peak at mid-year, market conditions will become progressively more balanced. The seasonally adjusted sales-to-new listings ratio will be around 60 per cent this year and 55 per cent in 2008, slightly above the balanced market range. Consequently, resale market conditions will support price increases still exceeding the rate of inflation in 2007. The average MLS® price of homes will reach \$266,000 in 2007, for an increase of 3.3 per cent over 2006.

The market is vigorous in all areas of the Ottawa metropolitan area. The West End and Downtown stood out last year with above-average price hikes. The supply of homes for sale was somewhat more limited in these sectors, as many consumers were seeking well-situated properties close to services. These two areas will remain popular in 2007 and 2008.

Economic Overview

Long-term Employment Picture Strong

Ottawa's economy was strong in 2006, but began to slow down after

mid-year. Overall, job growth clocked in at an impressive 4.3 per cent in 2006. Employment will decline by 0.4 per cent in 2007. Nevertheless, total employment in the region will remain close to record levels. For next year, investment and a resurgent technology sector will allow employment to increase by one per cent.

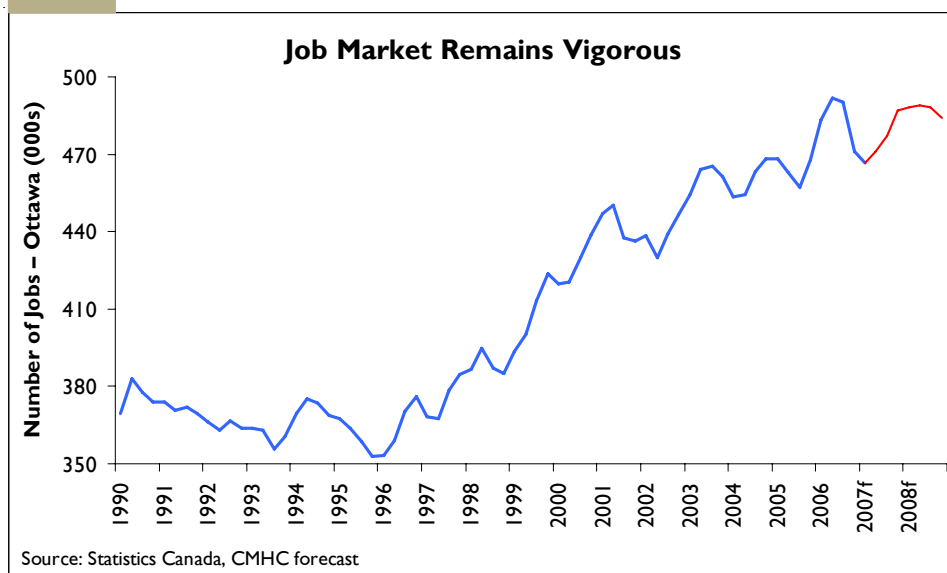
Public administration is a large part of employment in Ottawa. Close to one worker out of five is working in the public administration sector in Ottawa. After a vigorous expansion of 5.6 per cent from 1999 to 2004, employment in the public administration sector fell by 4.2 per cent in 2005. This sector continued to lose jobs last year, posting its second consecutive annual employment decline in 2006. We expect the public sector to make a modest recovery through 2007, however,

the federal government's main priorities will not trigger substantial hiring in the region.

The prospects are good for the technology sector, with investments projected to remain strong. The high-tech sector, which represents more than 13 per cent of the total employment in the region, performed better than others last year.

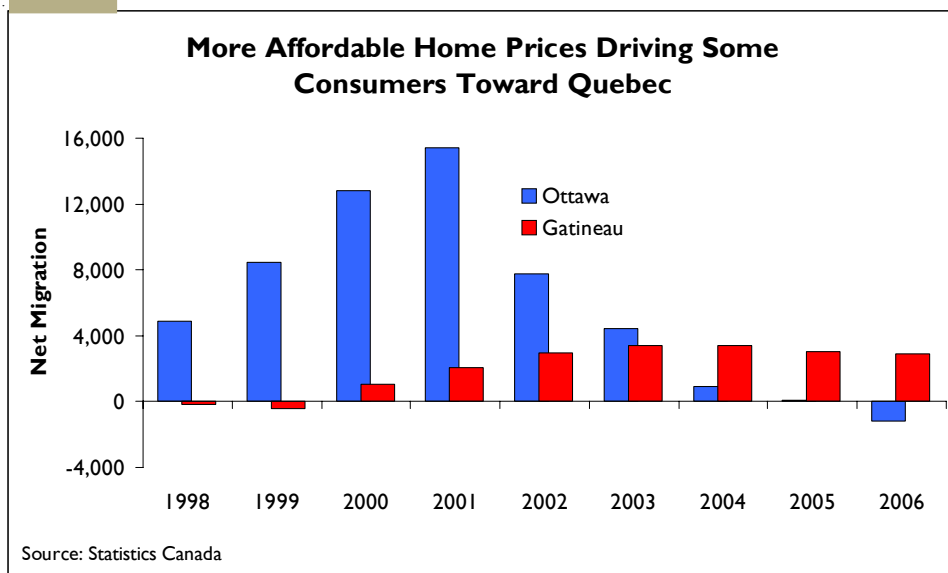
Despite the cancellation of the O-Train project, a number of other non-residential construction projects are underway or about to start and will be attracting workers to the city. Three office buildings are currently under construction and several hospitals have begun expansion projects. Employment in the construction sector will therefore be up in 2007 and 2008, after registering a decrease in 2006.

Figure 4



¹ Calculated using the average MLS® price (\$ of 2004), a 10 per cent down payment, a five-year mortgage rate and a 25-year amortization period.

Figure 5



Net Migration is Negative

According to the latest data available for the National Capital Region, net migration hit a low point in 2006 in Ottawa, as the year ended with a loss of 1,181 residents. In 2007, net migration should stabilize, mainly due to the international component.

However, interprovincial and intraprovincial migration levels have been declining in recent years, as Ottawa has been losing some of its population to other municipalities in Ontario and other provinces in Canada. While Ottawa has negative net interprovincial migration, it is just the opposite in Gatineau, where net interprovincial migration is positive and keeps rising year after year.

The attraction is mainly attributable to home prices, on both the new and existing home markets, as well as the rental market. In fact, a comparison of average prices in the Ottawa and Gatineau resale markets reveals a difference of about \$93,000. In 2006, a new single-detached house cost an average of \$386,000 in

Ottawa, or \$173,400 more than on the Quebec side. For many households, this price gap more than offsets the income tax advantages available in Ontario, so they opt for the Quebec side when the time comes to decide on a place of residence.

Rental Market

Vacancy Rate Expected to Fall in Ottawa

The rental housing vacancy rate reached 2.3 per cent in October 2006 in Ottawa, down from the level recorded during the same month in 2005. This was the third consecutive decrease of this indicator, which now stands close to the average for the last 15 years. Given the few rental housing units started in recent years in Ottawa, this downward trend should continue this year and next year. The vacancy rate should therefore fall to 2.1 per cent in October 2007 and then to 1.9 per cent in October 2008.

This decrease will be mainly attribut-

able to the low volume of rental housing construction in the area and also to the fact that some households, confronted with rising home prices, may decide to postpone their home buying decision and opt to rent a dwelling instead. These factors will work in favour of a decrease in the proportion of vacant units.

On the other hand, the decline in employment among young people (aged from 15 to 24 years) observed for the past several months and the migration of Ottawa residents to Gatineau will limit the extent of the decrease.

Rents to Keep Rising

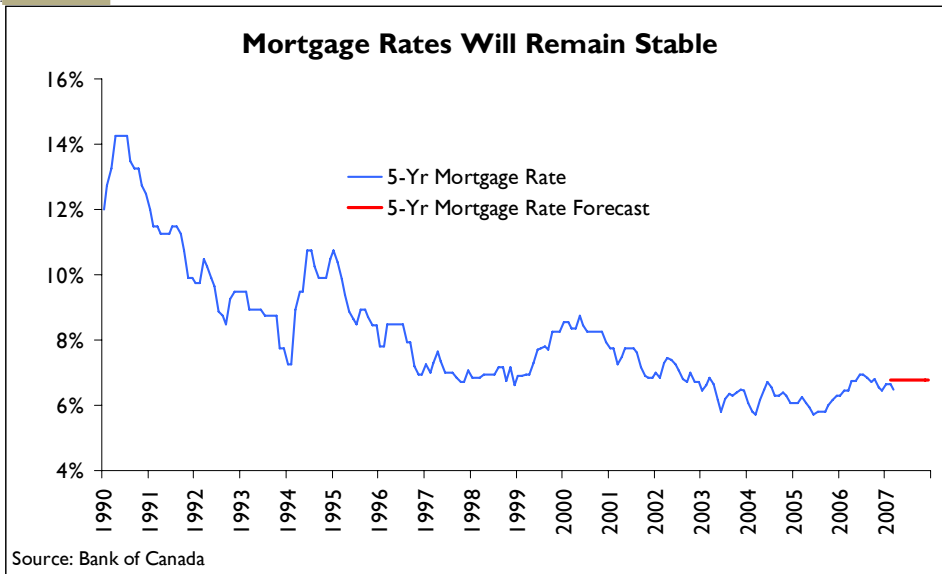
The higher vacancy rates registered from 2003 to 2005 held off any rent increases in Ottawa until the end of this period. However, the tighter market conditions allowed rents to start rising again in 2005, and this trend will continue. It is expected that the average rent for a two-bedroom apartment will reach \$960 in 2007, before rising by a slightly larger amount in 2008. The scarcity of units on the market, combined with renewed employment growth and the stabilization of net migration, will account for these rent increases, and the average rent for a two-bedroom apartment will move closer to the \$1,000 mark, reaching \$985.

Mortgage Rate Forecast

Mortgage Rates to Stay Low

A combination of a slowing economy, strong Canadian dollar vis-à-vis the

Figure 6



U.S. dollar and moderate inflation will help keep Canadian interest and mortgage rates low over the remainder of this year and in 2008.

Short-term mortgage rates will also ease as the prime rate nudges down over the next twelve months, while long-term mortgage rates will rise slightly in line with bond rates.

One-, three- and five-year posted mortgage rates are forecast to be in the 5.75-6.75, 6.00-7.00 and 6.25-7.25 per cent ranges, respectively, over the rest of this year and in 2008.

Forecast Summary Ottawa CMA Spring 2007							
	2004	2005	2006	2007f	% chg	2008f	% chg
Resale Market							
MLS® Sales	13,457	13,300	14,003	14,300	2.1	14,100	-1.4
MLS® Average Price (\$)	238,152	248,358	257,481	266,000	3.3	273,000	2.6
New Home Market							
Starts:							
Single-Detached	3,245	2,350	2,480	2,450	-1.2	2,300	-6.1
Multiples	3,998	2,632	3,395	3,300	-2.8	3,325	0.8
Semi-Detached	348	300	383	375	-2.1	425	13.3
Row/Townhouse	2,450	1,578	1,793	1,750	-2.4	1,850	5.7
Apartments	1,200	754	1,219	1,175	-3.6	1,050	-10.6
Starts - Total	7,243	4,982	5,875	5,750	-2.1	5,625	-2.2
New Housing Price Index (% chg) (Ottawa-Gatineau)							
	6.6	4.6	3.1	3.3	-	2.8	-
Rental Market							
October Vacancy Rate (%)	3.9	3.3	2.3	2.1	-0.2	1.9	-0.2
Two-bedroom Average Rent (October) (\$)	940	920	941	960	2	985	3
Economic Overview							
Mortgage Rate (1 year) (%)	4.80	5.80	6.30	6.40	0.10	6.29	-0.12
Mortgage Rate (5 year) (%)	6.05	6.30	6.45	6.63	0.18	6.80	0.17
Annual Employment Level	461,500	464,300	483,100	481,000	-0.4	486,000	1.0
Employment Growth (%)	0.0	0.6	4.0	-0.4	4.4	1.0	1.4
Unemployment rate (%)	6.6	6.6	5.1	6.1	19.6	5.4	-11.5
Net Migration	949	68	-1,181	n/a	-	n/a	-

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

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