HOUSING MARKET OUTLOOK
Ottawa[1]

CANADA MORTGAGE AND HOUSING CORPORATION

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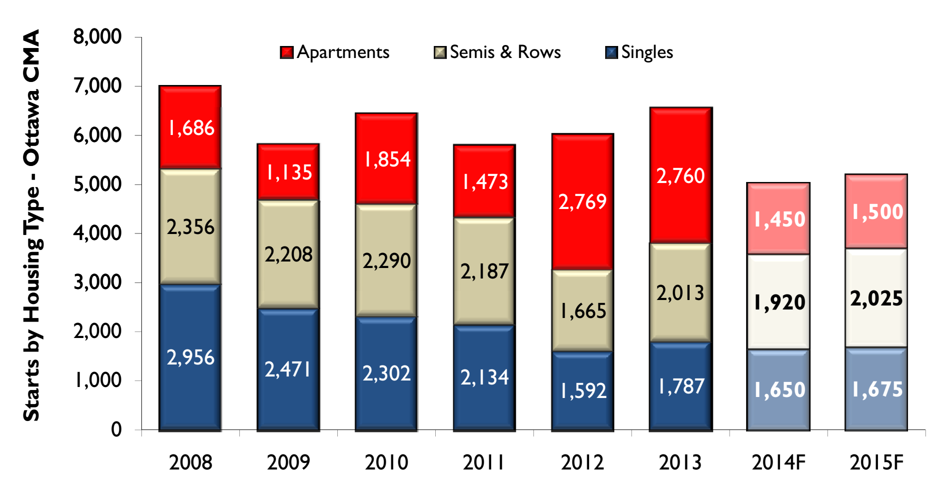
Highlights

- MLS® sales activity in the Ottawa CMA will moderate this year before rebounding in 2015.
- MLS® prices will grow in line with inflation as market supply and demand remain balanced.
- Housing starts will moderate this year before trending slightly higher next year.

Figure 1

Housing Starts Consistent with Demographic Needs



Source: CMHC

The forecasts included in this document are based on information available as of April 30, 2014.

[1] Ontario part of Ottawa-Gatineau CMA

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New Home Market: Low-Rise Construction to Regain Market Share

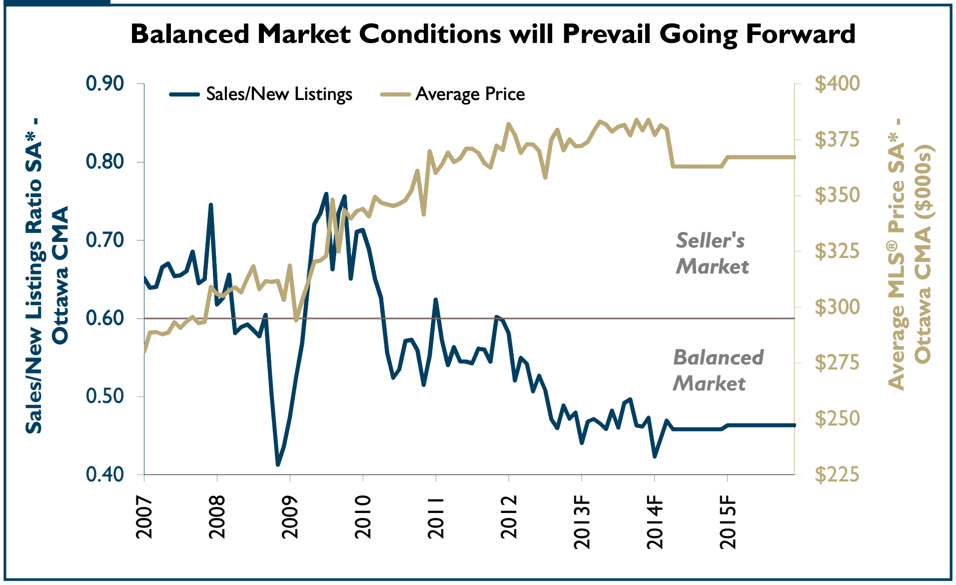
Total housing starts are expected to decline 23.5 per cent compared to last year before stabilizing once more in 2015. Record apartment construction since 2012, mostly condominiums[2], has meant that construction in the Ottawa CMA over the forecast horizon will not match such levels. Apartment starts are slated to retreat 47 per cent below their 2013 level. Once the inventory of completed and unsold units is absorbed, construction will begin to ramp up once more.

Low-rise construction will retreat at a more modest rate (6.1 per cent) relative to apartment starts, before picking up in 2015. Low-rise dwelling units are being absorbed faster into the market explaining the more modest scale-back in their construction. The non-absorption rate for single-detached homes averages 3 per cent of completed units, while the average for rows is 5 per cent. This is much lower than the 20 per cent for apartment units that have been completed but remain to be sold.

Some of the current revitalization in low-rise construction had already begun in 2013. However, as employment conditions are expected to remain modest, developers will scale back the construction of single-detached, semi and row units until employment and income strengthen once more in 2015.

Construction of single-detached homes will continue to be located in the outskirts of the CMA. Increasingly, single-detached and rows have concentrated in West Ottawa as well as Gloucester (Outside the Greenbelt) areas. While construction of single-detached dwellings will not go back to pre –2011 levels, construction is slowly rising above the 2012 low.

Figure 2



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

Row construction will also scale back but remain at a healthy level. As land prices constitute a significant portion of construction outlays making the building of single-detached homes more costly, row units will continue to offer sizeable square footage at a discounted price compared to single-detached homes. Construction activity will be approximately equally split between single-detached, rows and semis, and apartment units, with a slightly greater share for the low-rise segments of the market.

Sustained income growth in 2015 and improving employment conditions should support the new home market. Growth in average weekly earnings in Ottawa has surpassed the Ontario average as well as other major CMAs, maintaining a stable housing demand level in the CMA.

Resale Market: Home Sales to Moderate before Picking up in 2015

Existing home sales in the Ottawa CMA are projected to moderate this year before rebounding in 2015. The first quarter closed off with sales declining 1.5 per cent over the same time last year, as colder than normal temperatures hit market activity. However, data for March showed single-detached home sales firming slightly, driving up their year-to-date

[2] In the last 5 years, condominium apartments have captured just over 80 per cent of total apartment construction.

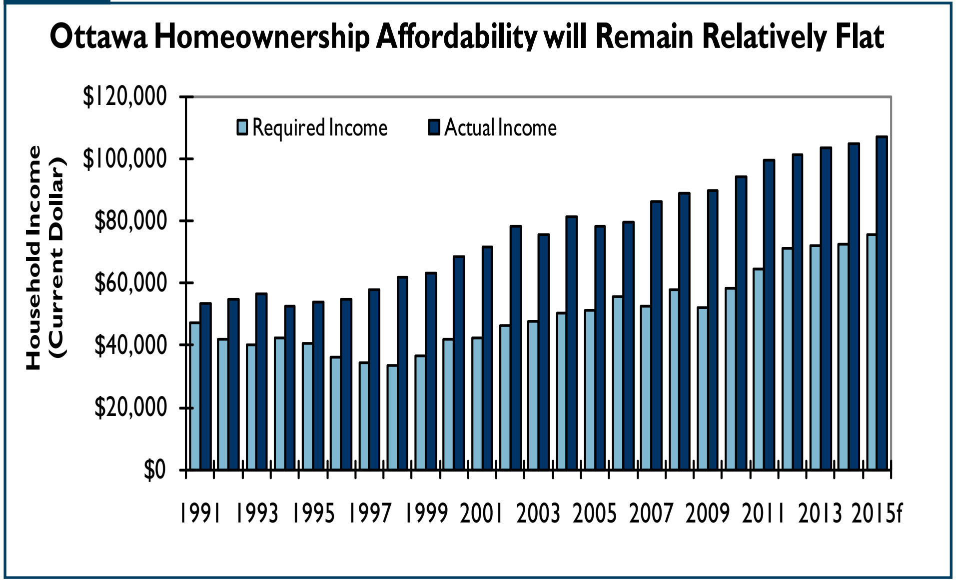
sales, and boosting overall existing home sales this month compared to March 2013. The firming in single-detached home sales, especially at this time of year where activity is usually slower, bodes well for the coming warmer months where market activity is usually strongest as per historical trends.

Household income in Ottawa is set to remain higher relative to other CMAs, sustaining demand for single-detached homes. The growth in single-detached[3] home sales as well as their price is largely due to compositional effects, with a slowly rising portion of homes sold being at the higher end of the price range where there is relatively less selection on the market. Additionally, the gap between new and resale single-detached home price will remain fairly substantial (over 20 per cent), giving existing home sales an edge with respect to affordability.

In contrast, seasonally adjusted condominium[4] sales moderated 7.7 per cent year-to-date to March compared to the quarter ending December while listings remained elevated compared to historical averages. Employment numbers for the 25-44 year-old age group, which constitutes an important segment of potential condominium buyers, weakened compared to March of last year. The 55-64 year-old downsizer group, who tend to buy condos at the higher price end, continues posting robust employment numbers. Consequently, expect condo sales to start gradually slowing their rate of decline. Overall, resale market activity in the CMA will trend slightly lower than the long-term trend of roughly 14,000 transactions per year.

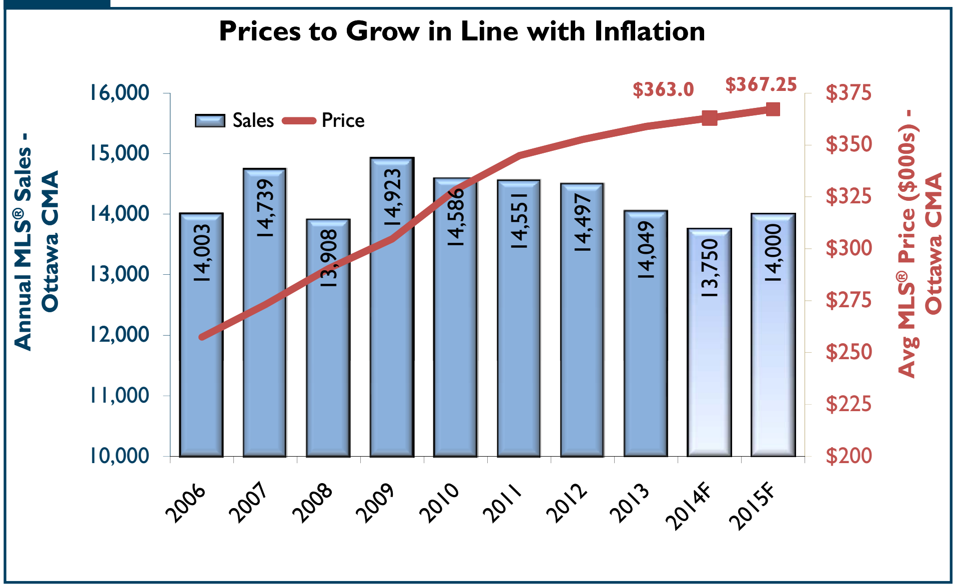
In terms of market supply, the year started off with seasonally adjusted new listings growing a modest 0.4 per cent over the quarter ending in December. It is expected that total listings will continue to rise

Figure 3



Souce: CMHC, Statistics Canada, CREA

Figure 4



Source: Ottawa Real Estate Board; CMHC Forecast
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[3] Single-detached home sales take up on average 55 per cent of total activity, and are therefore a key market driver. Homeowner row and semi-detached sales take up another 18 and 7 per cent respectively. Together they represent the freehold segment of the resale market.
[4] Condo rows represent approximately one third of total condo sales, while condo apartments make up approximately one half of the sales in that segment of the market, the remaining market share is taken up by stacked condos. In total, condominium sales represent an average 20 per cent of all resale market activity.

at a decreasing rate into next year. This continued increase will maintain the Sales-to-New-Listings (SNL) in balanced[5] market territory but closer to the lower boundary. In 2015, as sales activity improves, the SNL ratio will rise slightly to 46.4 per cent.

As listings growth will only slightly outpace sales this year, price growth will remain modest just keeping up with general inflation. Next year, income will increase at a faster pace resulting in a lift in sales activity. This will push prices up at a slightly stronger rate (1.2 per cent). The price growth in the CMA in 2014 will be driven by a rise in the price of freeholds. Condominium prices have been trending downward year-over-year since December 2013 but their price decline has moderated. Condo prices are expected to begin improving next year.

As price growth will remain modest over the forecast horizon, affordability in Ottawa will post no significant change this year. Next year, with slow growth in prices, average income increasing at a relatively healthy rate and interest rates remaining at historical low levels, required income to actual income will be maintained at a stable level.

Economic Overview: Employment to Stabilize in 2015

Employment will grow at a modest 0.3 per cent (or another 2,000 jobs) this year before rebounding further in 2015 to add approximately another 6,000 more jobs. Year-to-date to March compared to the same period last year, employment fell by 2.5 per cent. This decline was driven by a weakening in the public administration sector that shed approximately 10,000 jobs. Although public administration cuts were somewhat cushioned by a rise in service sector jobs, the latter sector's increase was not enough to offset also the declines in other industries, weighing down on total employment in the CMA.

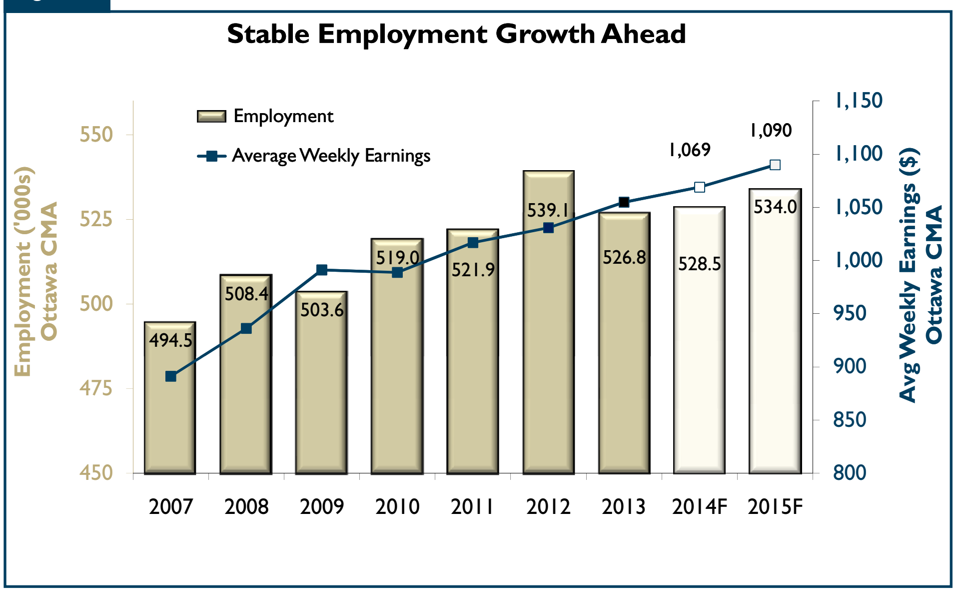
Continued growth in services, trade and IT sectors are expected to pick up the slack from further public administration cuts. While it is not yet confirmed how many jobs the deal struck between Cisco systems and the Ontario Government would ultimately translate into for Ottawa, the IT sector remains key for the province and the capital city. The construction of the LRT project is also set to create a substantial number of jobs over the forecast horizon and in the long run.

The LRT will spur further employment over the life of the project as well as have positive spill-over effects into the economy.

The unemployment rate is expected to edge slightly higher this year to 6.4 per cent as the actual number of people available for work outpaces employment by a small margin. However, it is expected to moderate once more to 6.3 per cent in 2015 as employment slightly surpasses labour force growth.

Average labour wages are forecast to grow in line with inflation this year, slowing down from the 2.3 per cent growth seen in 2013. As the number of job seekers rises more strongly in 2014 compared to last year, there will be a more modest growth in average weekly earnings. By 2015 as economic conditions improve, average weekly earnings will grow at a stronger pace.

Figure 5



Source: Statistics Canada; CMHC Forecast

[5] The benchmark range of a balanced market is 40 to 60 per cent, where supply is closely aligned with demand.

Rental Market: Vacancy Rate To Inch Modestly

The rental vacancy rate is expected to inch to 3.2 per cent this year before easing slightly to 3.0 per cent in 2015 as overall employment in the CMA accelerates. The weak employment conditions of the potential first-time buyers (25-44 year-olds), could keep them longer in their rental accommodations. This will put downward pressure on the vacancy rate this year. Approximately 41 per cent of renter households in Ottawa are between the ages of 25-44 making them the most important age group for the rental market.

Another important age group for the rental market is the 15-24 year old age-cohort. While their propensity to rent is highest at approximately 85 per cent, they capture just 11 per cent of all renter households. Youth employment has been improving slightly so far this year but it remains generally lower than their 2013 average employment, pressuring rental market demand and making some youths remain longer in their parental homes, slightly counterbalancing the downward pressure on the vacancy rate coming from their 25-44 year-old counterparts.

In Ottawa, the existence of a sizeable secondary market may also exert upward pressure on the vacancy rate as secondary units compete with the purpose-built units. Completions of a record number of condominium apartments started over the last couple of years will begin to enter the market, in turn increasing the number of condominium investor units. This increase in completions will push the vacancy rate slightly higher. As overall economic and employment conditions improve next year, the downward pressure on rental demand should ease, flattening the vacancy rate.

Mortgage Rate Outlook

Mortgage rates to see gradual and modest increases by the end of 2015, but will remain low by historical standards

Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to register gradual and modest increases by the latter part of the 2015 forecast horizon. This will lead to increases in mortgage rates. Despite this, mortgage rates will remain low and will continue to support housing market activity over the forecast horizon.

According to CMHC's base case scenario for 2014, the average for the one-year posted mortgage rate is forecast to be within 3.0 per cent to 3.50 per cent, while the average for the five-year posted mortgage rate is anticipated to be within 5.0 per cent to 5.5 per cent. For 2015, the average for the one-year posted mortgage rate is expected to rise and be in the 3.20 per cent to 4.25 per cent range, while the average for the five-year posted mortgage rate is forecast to be within 5.25 per cent to 6.0 per cent.

Mortgage rates		
1 Year	Q1 2014	3.14
	Change from Q1 2013	0.14
	2014 (F)	3.00 - 3.50
	2015 (F)	3.20 - 4.25
5 Year	Q1 2014	5.15
	Change from Q1 2013	-0.06
	2014 (F)	5.00 - 5.50
	2015 (F)	5.25 - 6.00

Source: Bank of Canada, CMHC Forecast
NOTE: Mortgage rate forecast is based on Q1 2014 data

Trends at a Glance

Key Factors and Their Effects on Housing Starts	
Mortgage Rates	Mortgage rates are expected to remain supportive of housing demand over the forecast horizon. Some rise in rates may begin in mid 2015.
Employment	CMA employment should improve more strongly in 2015 as economic conditions improve and public sector cuts moderate.
Income	Income will grow in line with inflation in 2014 before experiencing stronger growth in 2015.
Housing Starts	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 household formation growth is expected to remain relatively constant, housing starts will moderate this year just to begin growing gradually in 2015.
Resale Market	Activity in the resale market should pick up this year and grow at a faster rate in 2015.

Risks to the Outlook

This outlook is subject to some risks, including the following:

- The number of multiple housing units currently under construction in some local markets remains relatively high from a historical standpoint. As these units are progressively completed, inventories of newly completed and unabsorbed units may rise in the short to medium term, if they are not entirely absorbed by demand. Should the inventory of new units post an exceptional increase, builders may delay or reduce the size of some construction projects. This could lead to a sharper-than-expected moderation in starts.

- Canadians are still accumulating debt, albeit at a stable pace. Nonetheless, levels of household debt remain relatively high. With historically elevated house prices in some urban centres, these factors have made the Canada's economy more vulnerable to some economic shocks. For instance, if a sharp increase in interest rates or a large deterioration in employment were to occur, 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.

- The economies of China and other emerging-market countries remain vulnerable to tightening credit conditions and political uncertainty. This could affect the global economic recovery and world financial system. In turn, this could negatively impact demand for Canadian exports, contributing to a weakening of the Canadian economy and potentially lower demand for housing.

- A stronger than expected U.S. economic growth could positively impact Canadian economic growth, contributing to a higher level of activity in Canada's housing markets.

Forecast Summary
Ottawa CMA
Spring 2014

	2011	2012	2013	2014f	% chg	2015f	% chg
New Home Market							
Starts:							
Single-Detached	2,134	1,592	1,787	1,650	-7.7	1,675	1.5
Multiples	3,660	4,434	4,773	3,370	-29.4	3,525	4.6
Semi-Detached	361	286	398	345	-13.3	375	8.7
Row/Townhouse	1,826	1,379	1,615	1,575	-2.5	1,650	4.8
Apartments	1,473	2,769	2,760	1,450	-47.5	1,500	3.4
Starts - Total	5,794	6,026	6,560	5,020	-23.5	5,200	3.6
Average Price ($):							
Single-Detached	478,292	482,586	490,733	500,547	2.0	515,564	3.0
Median Price ($):							
Single-Detached	455,990	461,900	466,900	473,904	1.5	483,382	2.0
New Housing Price Index (% chg) (Ottawa-Gatineau)	3.0	2.6	0.4	1.1	-	2.0	-
Resale Market							
MLS® Sales	14,551	14,497	14,049	13,750	-2.1	14,000	1.8
MLS® New Listings	25,949	28,332	29,876	30,000	0.4	30,200	0.7
MLS® Active Listings	50,804	64,177	70,126	70,400	0.4	70,900	0.7
MLS® Average Price ($)	344,791	352,610	358,876	363,000	1.1	367,250	1.2
Rental Market							
October Vacancy Rate (%)	1.4	2.5	2.9	3.2	0.3	3.0	-0.2
Two-bedroom Average Rent (October) ($)	1,086	1,115	1,132	1,140	0.7	1150	0.9
Economic Overview							
Mortgage Rate (1 year) (%)	3.52	3.17	3.08	3.00 - 3.50	-	3.20 - 4.25	-
Mortgage Rate (5 year) (%)	5.37	5.27	5.24	5.00 - 5.50	-	5.25 - 6.00	-
Annual Employment Level	521,900	539,100	526,800	528,500	0.3	534,000	1.0
Employment Growth (%)	0.6	3.3	-2.3	-2	-	1.9	-
Unemployment rate (%)	5.6	6.2	6.3	6.4	-	6.3	-
Net Migration	13,020	9,922	7,787	8,000	2.7	8,500	6.3

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.

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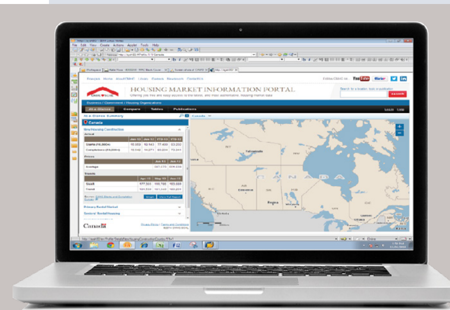

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