HOUSING MARKET INFORMATION

# HOUSING MARKET OUTLOOK
## Ottawa[1]

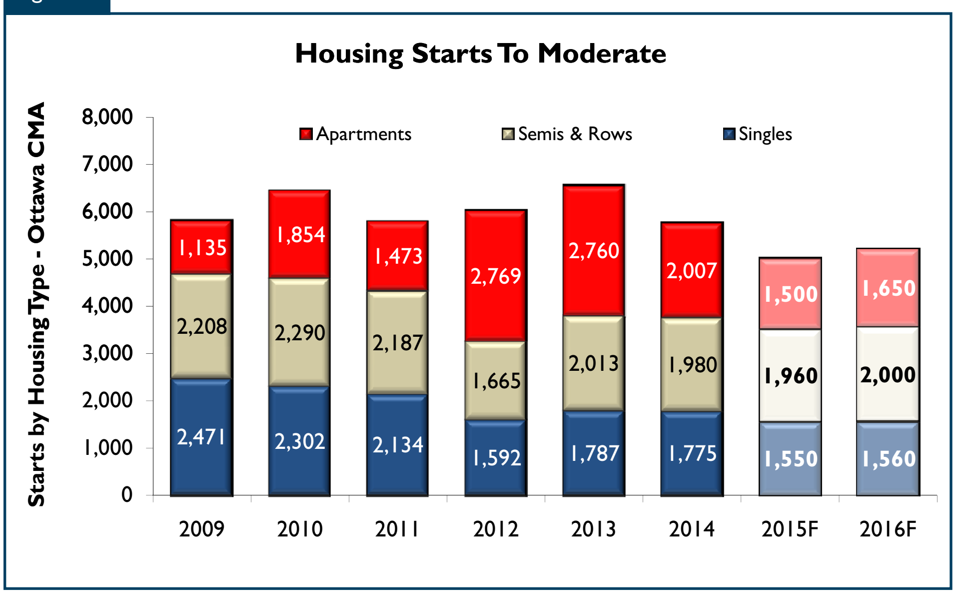
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Spring 2015

## Market Outlook at a Glance

- MLS® sales activity in the Ottawa CMA will retreat modestly this year and in 2016.
- MLS® prices will trail inflation, and supply and demand will remain balanced.
- Housing starts will decline as condominium apartment starts come down from record highs.
- The purpose-built apartment vacancy rate will move up slightly as secondary market units compete for renters.

Figure 1




Source: CMHC

The forecasts and historical data included in this document reflect information available as of April 20, 2015.

[1] Ontario part of Ottawa-Gatineau CMA

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## New Home Market

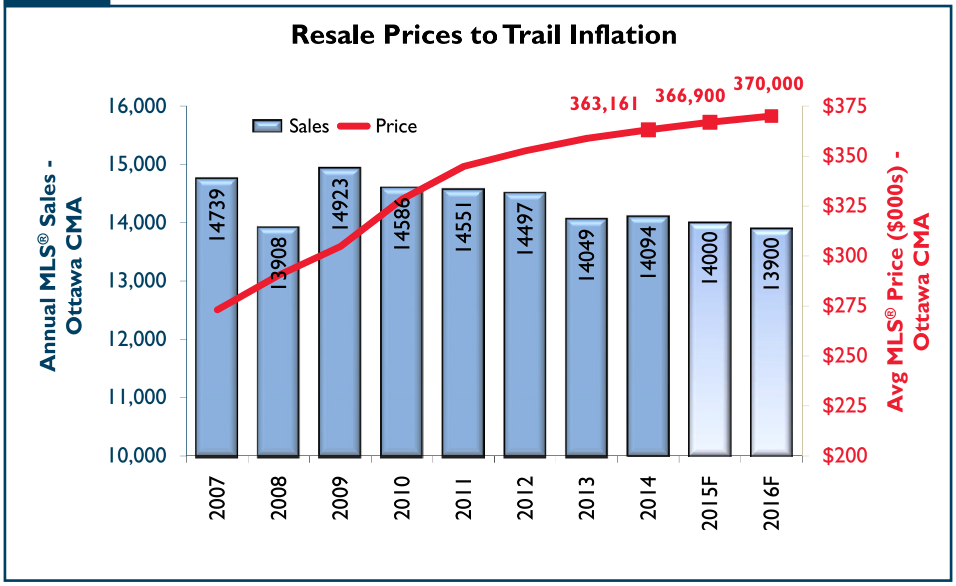
In 2015, housing starts in the Ottawa CMA are expected to decline 11 per cent compared to 2014 largely driven by a retreat in condominium[2] apartments which are slated to drop 23 per cent. That being said, starts for all other dwelling types are expected to retreat as well since market sentiment remains cautious following a year of weak employment and modest prospects over the forecast horizon.

The record high number of condominium apartments which broke ground in 2012 and 2013 has led to a high inventory on the market. In 2014, the number of condo apartment completions rose to a record high of 2,412 units. And so far into the first quarter of 2015 there are 2,037 units under construction in the capital, an elevated level from a historical standpoint. In addition, condominium completions seem to be on track to match last year's level. A substantial proportion of those newly completed units remains unsold. Area builders recognize that the market needs to clear before new projects are initiated.

In the low-rise[3] segment of the market, starts activity is also expected to retreat, albeit at a more modest rate. The forecast is for low-rise starts to come in only about seven per cent lower this year compared to 2014, before recovering modestly next year. For builders, the higher land costs associated with low-rise projects are offset to some degree by lower per square foot construction costs when compared to those associated with high-rise structures. In addition, inventories in the low-rise segment remain in check with the five year average of about four per cent completed but unsold units out of total low-rise completions.

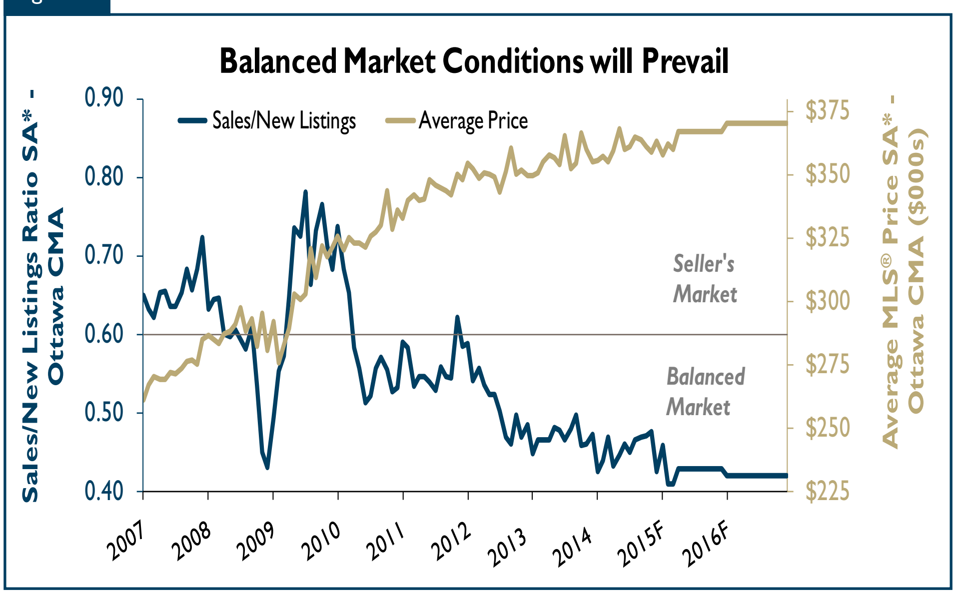
By type of low-rise dwellings, single-detached starts are projected to decline 13 per cent, while rows decline by three percent and semis rebound from a substantial drop last

Figure 2




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

Figure 3




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

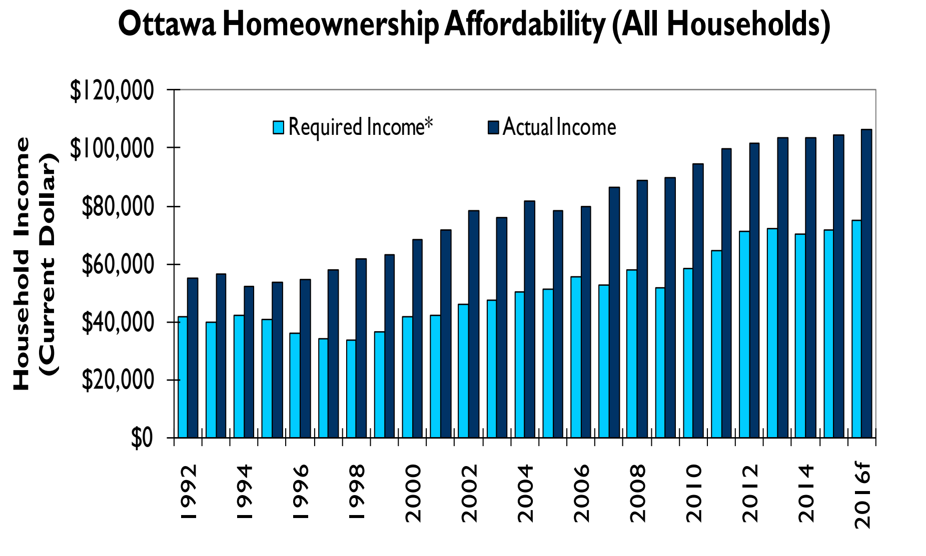
[2] In the last 5 years, condominium apartments have captured just over 80 per cent of total apartment construction.
[3] Low rise starts include: single-detached homes, semi-detached and rows.

year. Demand for row homes even on the resale market has been fairly resilient. Sales of rows on the resale market have trended up for three consecutive years supported by a smaller household size in the CMA. In addition, since both new and resale rows are relatively more affordable and are more easily maintained (most have no yards etc.) than the pricier single-detached homes, their popularity is rising.

By submarket, Ottawa Centre, Gloucester outside the greenbelt (OTG), Kanata and Nepean OTG have tended to be the areas where most starts occur. Housing starts activity has typically been concentrated in these four areas as they are the submarkets with the highest population density. That being said, a rising share of low-rise construction is moving to the outskirts of the city where land is cheaper than in the inner suburbs and builders can offer more affordable dwellings. They are attractive to buyers who are willing to make the trade-off of a longer commute for a price reduction and potentially more space.

The modest employment outlook in the CMA, partly due to an expectation of muted growth in public sector jobs, is a key reason for the scale back in starts activity. Job growth in the capital city since last year, and so far into the first quarter of the year, has come solely from part-time jobs as full-time employment has eased. Employment and earnings are expected to rise modestly in 2015 as public sector employment stabilizes. Less or no job shedding is anticipated in the sector this year.

Figure 4




Souce: CMHC, Statistics Canada, CREA.
*Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 per cent gross debt service ratio. Mortgage carrying costs are calculated based on a 10 per cent down payment, the posted fixed five year mortgage rate and the longest available amortization for a mortgage.

## Resale Market

Over the 2015-2016 period, sales of existing homes are expected to remain fairly flat with a downward trend. Existing home sales have trended down starting in 2010, and have been fairly flat over the last two years. First quarter activity this year inched slightly higher than the same time last year despite colder than normal temperatures that kept many potential buyers from going out to shop for homes in January and February.

Single-detached home sales have sustained resale market activity over the last few quarters cushioning some of the decline in condominium sales. Since transactions for single-detached homes average about 56 per cent of all existing homes traded on the market, movements in single-detached homes heavily influence market activity. Demand for single-detached homes since last year has benefited from several factors that worked together to sustain it. First, the employment rate for the 45-64 age group has been holding up at 54 per cent since last year, edging higher from 53 per cent in 2013. Many move-up buyers come from this group, and most purchase a single-detached dwelling. In addition, this group represents a large share of the population (28.5 per cent) and it grew at a strong rate according to the latest Census (16 per cent). Second, the widening gap between the price of a new single-detached home and one on the resale market makes some households with tighter budgets opt for homes on the resale market. It must be noted that the price difference is not the only motivator here; rising listings have provided potential buyers with more selection on the market. Finally, a rising share of newly built single-detached homes is being started further out of the inner suburbs, making singles on the resale market more desirable for some households who want a shorter commute. As the commute associated with new homes increases, the price gap between new and resale homes may narrow.

At the opposite end of the spectrum, condominium[4] sales were down this quarter compared to the same quarter last year. This trend is expected to continue, leading to lower total sales this year. Condominium listings have trended up for four consecutive months. Together with the high inventory of unsold new units, this means some sellers are facing a tougher time selling, particularly if their unit is older. According to industry contacts, condominium fees are one of the main deterrents for buyers and older units tend to have higher fees. Buyers may find the advantage of a lower price is more than offset by higher fees on older units and choose a newly built unit with a higher price but lower fees. A key driving force behind lower condominium sales is that the employment rate of the 25-44 year olds has weakened since last year. Since members of this age group are a key buyer group for condominium units, sales in this segment of the market have been affected by this group's weak employment.

In 2015, affordability will remain unchanged relative to 2014 in Ottawa. Growth in income will keep up with the rate of growth in home prices. Mortgage payments will rise mainly due to the price increase since mortgage rates are expected to remain at or close to current levels over the forecast horizon. In 2016 homes will be modestly less affordable.

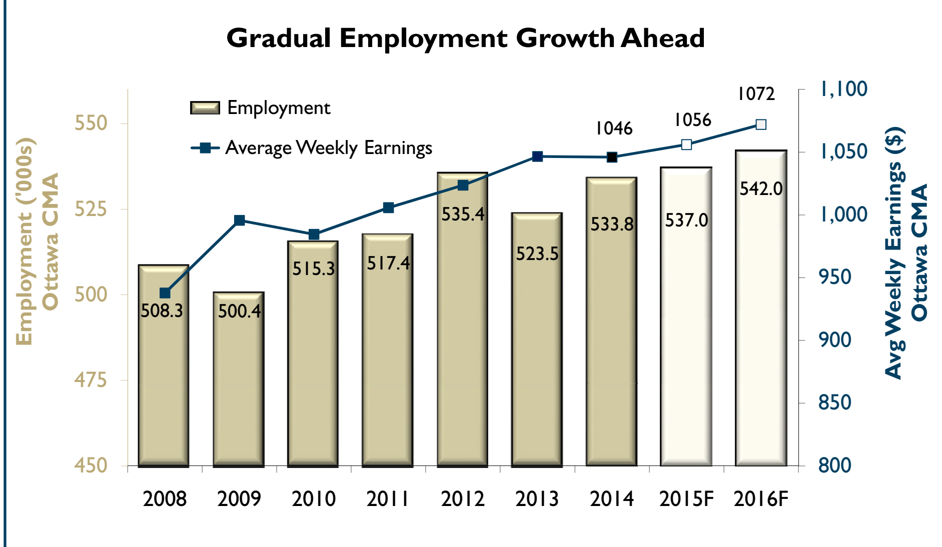
By submarket[5], sales patterns are not expected to change much over the forecast from previous years. Over the last five years, west Ottawa sales averaged 38 per cent of total urban sales. Over the same period, an average 28 per cent of sales occurred in south Ottawa, while an average 26 per cent occurred in east Ottawa. By individual area, Orleans tends to be the area where most sales occur at an average 17 per cent of total urban sales. Area prices average lower than both the urban and CMA average price maintaining the area's popularity.

The second most popular area is typically the Southeast with an average 16 per cent share.

Potential buyers are faced with a gamut of homes to choose from on the resale market as seasonally adjusted listings trended up 4.5 per cent over the quarter ending December. It is expected that listings will continue to rise slightly outpacing sales, so that the Sales-to-New-Listings (SNL) ratio inches down to 43 per cent from 45 per cent in 2014, while still remaining in balanced[6] market territory. Listings growth should rise at a slower rate in 2016 but as sales edge slightly lower, the SNL will moderate slightly to 42 per cent.

Although listings will continue to outpace sales, price growth will be maintained around the rate of inflation mainly driven by growth in freehold

Figure 5




Source: Statistics Canada; CMHC Forecast

[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 townhouse condos. Total condominium sales represent an average 20 per cent of all resale market activity.

[5] The submarkets mentioned in the report are west, east and south. West Ottawa includes: Kanata, the West End, Stittsville and Nepean. South Ottawa includes: Southeast and Barrhaven. East Ottawa includes: East End and Orleans.

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

prices, particularly those of single-detached homes. Condominium price growth will be muted due to ample market supply.

## Rental Market

The purpose-built rental vacancy rate is expected to inch upward to 2.8 per cent in 2015 as growth in supply of rental accommodation outpaces demand. In 2016, the vacancy rate will move down once more to 2.4 per cent. Weaker employment conditions of the potential first-time buyers (25-44 year-olds) in 2014 kept this group longer in their rental accommodations and pressured vacancy rates down. In addition, improved employment conditions for the 15-24 age group also contributed to bolstering rental demand.

The upward pressure on the vacancy rate this year will be supply driven, as no major shifts in demand are expected. While net migration into Ottawa remains at a healthy level, it is down from previous highs recorded in 2010 and 2012. The rise in interprovincial migration that occurred last year was offset by weaker international migration so that net migration declined slightly from 2013. Potential renters will not have to compromise on their preferences because they will face ample choice due to the expected rise in purpose-built units as well as competing secondary market (condominium apartment units). With some improvement in economic conditions next year drawing more people into the capital city, the vacancy rate will go down once more.

## Economic Overview

Employment growth will remain muted in the capital region. The rally seen in service sector employment since 2012 up to the first half of 2014 is winding down. Service sector employment had cushioned some of the fall in the public administration sector. The summer months should bring about some revitalization in service sector job growth as per seasonal trends.

On the other hand, employment in the public administration sector continues to be pressured down as it is not expected that the sector will be expanding any time soon. Public sector jobs earn higher pay and are a key part of the economy capturing roughly 21 per cent of the employed workforce. This proportion fell to 20 per cent in 2014 and 19 per cent this quarter. However, employment in the city will be sustained by some ongoing major construction projects. Yet, it is not expected that employment growth will be stellar this year. Employment should rise slightly into 2016 as overall economic activity stabilizes and the LRT project expands further.

The labour force will grow modestly in 2015 and rise at a somewhat stronger rate in 2016, outpacing the growth in employment. This will push the unemployment rate up to 6.7 per cent by 2016. Rising labour supply together with muted growth in the public sector will keep a cap on growth in average weekly earnings that are expected to grow around inflation in 2015 and another 1.5 per cent in 2016. The lower Canadian dollar may provide some reprieve to export-oriented firms as the year progresses, and some of the cost reductions could be passed on as higher earnings to employees supporting income growth. That being said, sectors of the economy more dependent on imports may lose as they would be facing higher costs.

## Mortgage Rate Outlook

### Mortgage Rates Are Expected to Remain at or Close to Current Levels over the Forecast Horizon

Mortgage rates will continue to be supportive of housing demand. Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to remain at or very close to current levels over the forecast horizon.

According to CMHC's base case scenario for 2015, the one-year mortgage rate is expected to be in the 2.30 to 3.50 per cent range, while the five-year rate is forecast to be within the 4.00 to 5.50 per cent range. For 2016, the one-year mortgage rate is expected to be in the 2.40 to 4.00 per cent range, while the five-year rate is forecast to be within the 4.20 to 6.20 per cent range.

| Mortgage rates | | |
|---|---|---|
| 1 Year | Q1 2015 | 2.97 |
| | Change from Q1 2014 | -0.17 |
| | 2014 | 3.14 |
| | 2015 (F) | 2.30 to 3.50 |
| | 2016 (F) | 2.40 to 4.00 |
| 5 Year | Q1 2015 | 4.76 |
| | Change from Q1 2014 | -0.40 |
| | 2014 | 4.88 |
| | 2015 (F) | 4.00 to 5.50 |
| | 2016 (F) | 4.20 to 6.20 |

Source: Bank of Canada, CMHC Forecast
NOTE: Mortgage rate forecast is based on Q1 2015 data

## Trends at a Glance

| Key Factors and Their Effects on Housing Starts | |
|---|---|
| Mortgage Rates | Mortgage rates are expected to support housing demand over the forecast horizon. |
| Employment | Employment growth will be rather flat in 2015 but should inch higher in 2016 as confidence in overall economic conditions improves. |
| Income | Income will grow in line with inflation in 2015 before growing faster in 2016. |
| Resale Market | Activity in the resale market should weaken slightly over both forecast years as ample supply on the new home front competes with stock on the resale market. |
| Resale Market | Activity in the resale market should moderate over the forecast horizon as interest rates begin to rise in 2015 pressuring demand for housing. |

## Risks to the Outlook

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

- For Ottawa, the number of multiple housing units currently under construction remains relatively high from a historical standpoint. As these units are progressively completed, inventories of newly completed and unsold units may rise in the short to medium term. 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.
- Given that Canada is an open economy, there are a number of global market risks to consider as well that could put added pressure on housing market supply imbalances and the ability of households to service their debt, through their impact on household incomes, employment and lending rates, were they to occur.
- While lower oil prices are a net positive globally, global growth in the first quarter has disappointed. There is risk of a period of protracted global economic weakness and slow, possibly negative, price growth.
- Growth in Emerging Market Economies (EMEs) could disappoint. In China, economic growth projections have been revised downwards closer to 7%.
- While a soft landing in the housing market remains the most likely scenario, near record-high house prices and debt levels relative to income leave households vulnerable to adverse shocks. A disorderly unwinding of household sector imbalances, should it materialize, could have sizable negative effects on other parts of the economy and on inflation.
- An upside risk to the outlook is a stronger than expected growth in the United States since it would benefit Canadian exporters and likely drive greater-than-expected housing demand.

| **Forecast Summary Ottawa CMA Spring 2015** | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015(F) | % chg | 2016(F) | % chg |
| **New Home Market** | | | | | | | |
| **Starts:** | | | | | | | |
| Single-Detached | 1,592 | 1,787 | 1,775 | 1,550 | -12.7 | 1,560 | 0.6 |
| Multiples | 4,434 | 4,773 | 3,987 | 3,460 | -13.2 | 3,650 | 5.5 |
| Semi-Detached | 286 | 398 | 279 | 310 | 11.1 | 330 | 6.5 |
| Row/Townhouse | 1,379 | 1,615 | 1,701 | 1,650 | -3.0 | 1,670 | 1.2 |
| Apartments | 2,769 | 2,760 | 2,007 | 1,500 | -25.3 | 1,650 | 10.0 |
| Starts - Total | 6,026 | 6,560 | 5,762 | 5,010 | -13.1 | 5,210 | 4.0 |
| | | | | | | | |
| **Average Price ($):** | | | | | | | |
| Single-Detached | 482,586 | 490,733 | 514,381 | 522,500 | 1.6 | 530,500 | 1.5 |
| | | | | | | | |
| **Median Price ($):** | | | | | | | |
| Single-Detached | 461,900 | 466,900 | 485,900 | 489,000 | 0.6 | 501,000 | 2.5 |
| | | | | | | | |
| New Housing Price Index (% chg) (Ottawa-Gatineau) | 2.6 | 0.4 | -1.1 | 2.0 | - | 1.5 | - |
| | | | | | | | |
| **Resale Market** | | | | | | | |
| MLS® Sales | 14,497 | 14,049 | 14,094 | 14,000 | -0.7 | 13,900 | -0.7 |
| MLS® New Listings | 28,332 | 29,876 | 31,119 | 32,750 | 5.2 | 33,500 | 2.3 |
| MLS® Active Listings | 5,348 | 6,992 | 7,868 | 8,100 | 2.9 | 8,300 | 2.5 |
| MLS® Average Price ($) | 352,610 | 358,876 | 363,161 | 366,900 | 1.0 | 370,000 | 0.8 |
| | | | | | | | |
| **Rental Market** | | | | | | | |
| October Vacancy Rate (%) | 2.5 | 2.9 | 2.6 | 2.8 | 0.2 | 2.4 | -0.4 |
| Two-bedroom Average Rent (October) ($) | 1,115 | 1,132 | 1,132 | 1,140 | 0.7 | 1,160 | 1.8 |
| | | | | | | | |
| **Economic Overview** | | | | | | | |
| Mortgage Rate (1 year) (%) | 3.17 | 3.08 | 3.14 | 2.30 to 3.50 | - | 2.40 to 4.00 | - |
| Mortgage Rate (5 year) (%) | 5.27 | 5.24 | 4.88 | 4.00 to 5.50 | - | 4.20 to 6.20 | - |
| Annual Employment Level | 535,400 | 523,500 | 533,800 | 537,000 | 0.6 | 542,000 | 0.9 |
| Employment Growth (%) | 3.5 | -2.2 | 2.0 | 0.6 | - | 0.9 | - |
| Unemployment rate (%) | 6.1 | 6.5 | 6.6 | 6.6 | - | 6.7 | - |
| Net Migration | 9,784 | 7,107 | 6,905 | 7,000 | 1.4 | 7,200 | 2.9 |

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.

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