

HOUSING MARKET INSIGHT

Ottawa¹



CANADA MORTGAGE AND HOUSING CORPORATION

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"It is difficult to price a home amid changing economic and market conditions. Potential sellers that did not adjust their listing price enough were more often than not unable to sell their property. A property value assessment provides a useful benchmark for sellers to set their expectations about both the price and the likelihood of selling at that price."



Jean Sébastien Michel
Principal, Market Analysis

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Unsold Listings and their Impact on the Ottawa Real Estate Market

Summary

From April 2011 to March 2016, cancelled and expired MLS®¹ listings together were as frequent as sold listings in the Ottawa CMA existing home market.

Why did these listings not sell?

- The primary reason that cancelled and expired listings did not sell is that, on average, they were priced over \$63,000 or 17 per cent higher than sold listings in the past five years. On a comparable basis, cancellations were overpriced in the range of 5.4 to 14.5 per cent relative to sales, whereas for expirations the overpricing was in the range of 6.1 to 9.0 per cent. These results suggest that some sellers' expectations were overly optimistic.
- However, the gap between the list price of cancellations or expirations and the list price of sales shrank from about \$82,000 or 23 per cent in 2011 to around \$47,000 or 12 per cent in 2015, indicating that sellers have adjusted their beliefs over time.

What was the impact of elevated listing prices on the housing market?

- Our evidence is consistent with the notion that the large gap between expected market values and assessed values in Ottawa turned off buyers, which contributed to a slow down in price growth.
- In particular, when the gap between the list price and the assessed value was large, sales were less likely while cancellations and expirations were more likely.
- Moreover, a decrease in the gap between the list price and the assessed value caused a shift in market conditions that favoured buyers slightly more, one quarter following this decrease.

¹ Ontario part of Ottawa-Gatineau CMA

Cancelled and Expired Listings Have Increased Relative to Sold Listings

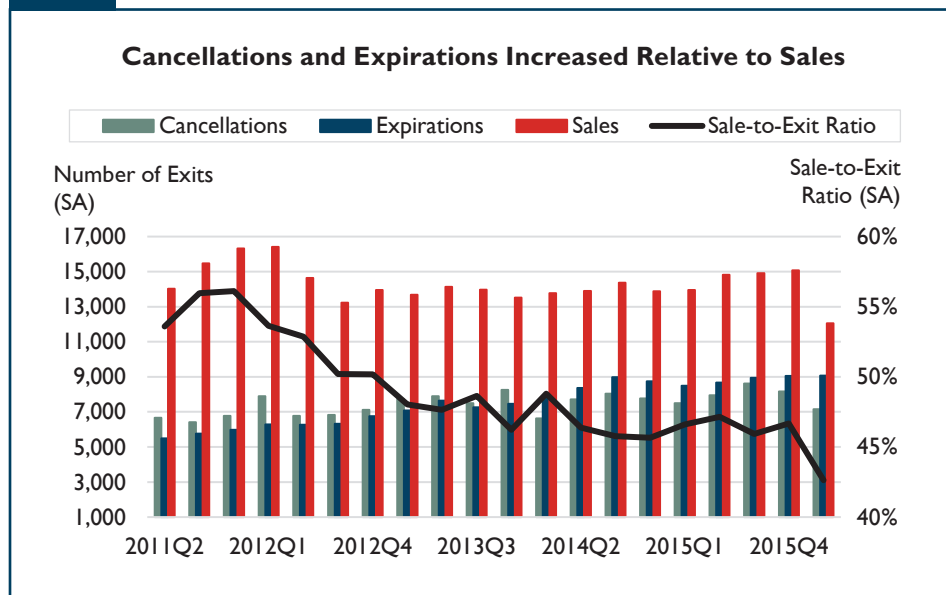
In general, unsold listings can either be cancelled or allowed to expire.² Cancelled and expired listings together were as frequent as sold listings in the Ottawa CMA existing home market. Over the last five years, 71,476 listings were sold, while 37,614 listings were cancelled and an additional 37,598 listings expired.³ The number of cancelled and expired listings steadily increased between 2011 and 2015, while the number of sales remained relatively flat. As such, sales as a share of all exits decreased from around 55 per cent in 2011 to about 45 per cent in 2015, which indicates that the resale market has been slowing down over this period.

Listing cancellations and expirations were most prevalent among single-detached homes, which is not surprising given that 6 out every 10 homes listed on MLS® during this period were single-detached. On a relative basis however, apartment unit cancellations and expirations account for 61.5 per cent of listing exits compared to 53.8 per cent for single-detached homes, 45.6 per cent for semi-detached homes, and 38.0 per cent for row homes. In other words, the fraction of listed row homes that sold is the highest out of all housing types, while this fraction is the lowest for apartments. Row homes have been gaining in popularity since they are more centrally located and relatively more affordable than single and semi-detached homes.

Listing Prices Were much Higher for Cancelled and Expired Listings

The primary reason that cancelled and expired listings did not sell is that they were priced too high. The more

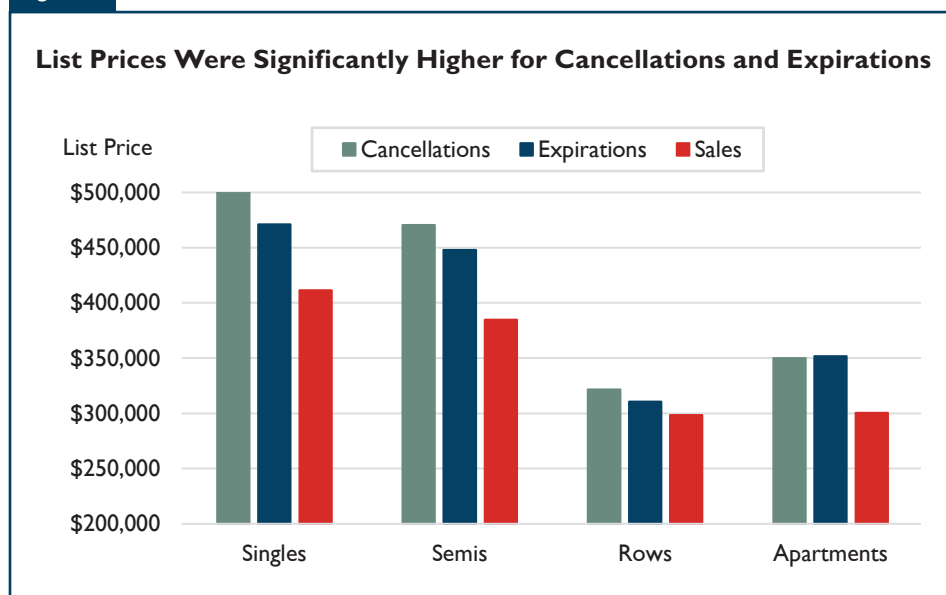
Figure 1



SA: Seasonally Adjusted

Source: CMHC, adapted from OREB

Figure 2



Source: CMHC, adapted from OREB

relevant question is how much higher were cancelled and expired listings priced compared to listings that are sold? On average, in the past five years, cancelled or expired listings were priced over \$63,000 or 17 per cent more than sold listings, based on the most recent listing

price prior to the cancellation, expiry or sale. The price difference between cancelled and sold listings was the highest for single-detached homes, where it was \$89,215 or 21.7 per cent, and was the lowest for row homes, where it was \$23,207 or 7.8 per cent. For apartments, the

price difference between cancelled listings and sold listings was \$49,529 or 16.5 per cent. The expired-sold listing price differences were in general slightly lower than the cancelled-sold listing price differences.

However, during the past five years, the gap between the average list price of cancellations or expirations and the list price of sales shrank from about \$82,000 to around \$47,000, indicating that sellers may have adjusted their expectations as markets softened. Specifically, the list price of sales has gradually increased in the past five years, while the list price of cancellations and expirations has remained relatively flat with a slight downward trend in the last two years. These trends were mainly driven by apartments. In 2011, the gap between the list price of sold apartments and the list price of cancelled or expired apartments was about \$80,000. In 2015, this same gap had dropped to about \$40,000 and the number of apartment listings represented a greater proportion of total listings. Row and semi-detached houses also experienced declines in the gap between the list price of sales versus cancellations/expirations between 2011 and 2015, but to a lesser extent.

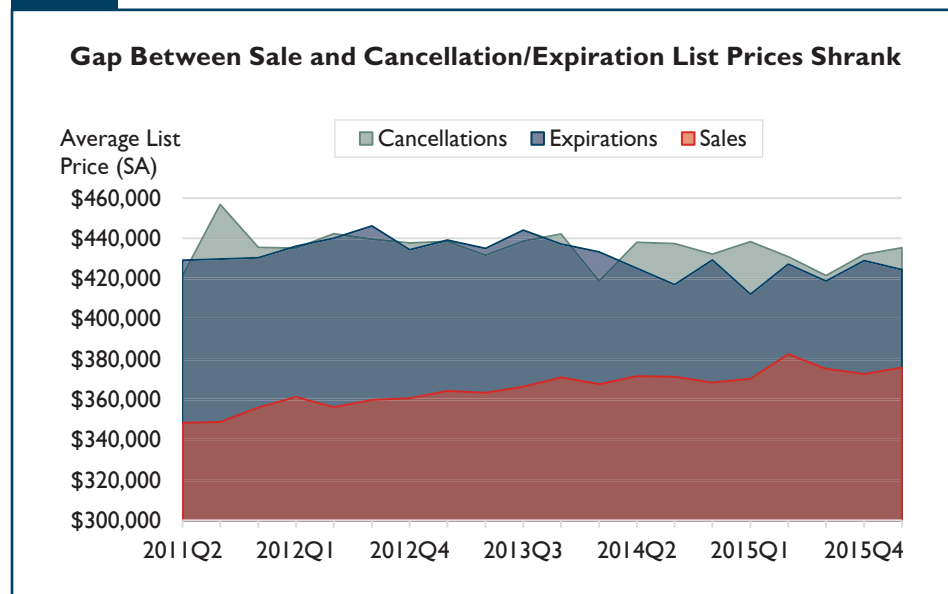
The differences between the list prices of cancellations, expirations and sales may be driven by other factors in addition to the unit type.⁴ Most significantly, the assessed value explains the variation in listing prices across homes. Using the assessed value as a basis for comparison, we find that cancelled listings were overpriced relative to sold listings in the range of 5.4 to 14.5 per cent, whereas for expired listings the overpricing was in the range of 6.1 to 9.0 per cent.⁵ These results suggest that some sellers' expectations were overly optimistic.

Sales Were Less Likely for Properties with a Large Gap between the List Price and Assessed Value

58 per cent of listings with a small gap between their list price and assessed value were sold, while the other

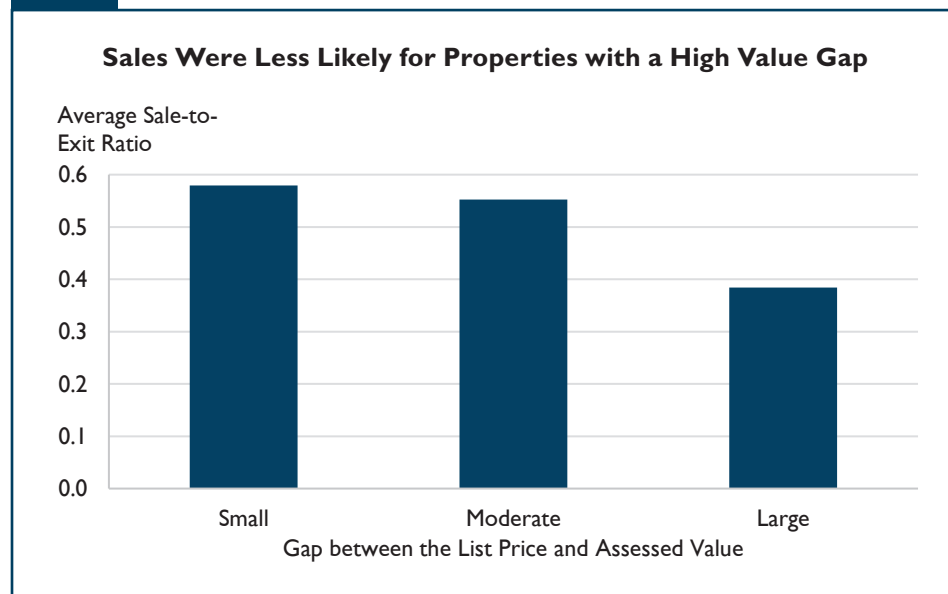
42 per cent of listings were either cancelled or allowed to expire. For properties with a moderate value gap, the likelihood of selling a listing declines modestly to 55 per cent. However, for properties with a large value gap, the likelihood of selling a listing declines significantly to 38 per cent.

Figure 3



SA: Seasonally Adjusted
Source: CMHC, adapted from OREB

Figure 4



Source: CMHC, adapted from OREB

A decrease in the gap between the list price and the assessed value leads to a shift in market balance a quarter later to conditions that favor buyers slightly more, while an increase has the opposite effect. In the case of Ottawa over the past five years, these findings are consistent with the notion that the large gap between expected market values and assessed values cooled the existing home market, which led price growth to slow down.

ENDNOTES

- ¹ MLS® is a registered trademark of the Canadian Real Estate Association.
- ² Unsold listings can also contribute to a growing inventory of active listings. Active listings grew from 5,086 units in 2011 to 7,895 units in 2015, an increase of 55 per cent. However, the additional 2,809 units in the active inventory represents less than 2 per cent of the 146,688 listing exits during the same period that occurred from sales, cancellations and expirations.
- ³ The statistics used in this report are calculated using transactional data obtained from the Ottawa Real Estate Board (www.oreb.ca) between April 2011 and March 2016. The only exceptions are for the number of completed and unsold condominium apartments that is obtained from CMHC's Housing Market Information Portal (<https://www03.cmhc-schl.gc.ca/hmiportal/en/>), and the public administration employment numbers that are obtained from Statistics Canada (<http://www.statcan.gc.ca/>).
- ⁴ We examined the gap between the list prices of cancellations, expirations and sales, controlling for many factors. In particular, we controlled for the unit type, the number floors in the house, the neighbourhood, the year of the listing, the month of the year. These variables were included in an ordinary least squares regression as independent variables along with variables that indicate whether the listing was sold or not, cancelled or not, and allowed to expire or not. The list price is the dependent variable in this regression. The reported results can therefore be interpreted as the impact of sales, cancellations or expirations on the list price, holding all other variables constant.
- ⁵ We present a range of values since different models produced different levels of overpricing.

DEFINITIONS

Cancellation

An agreement between the listing brokerage and the seller of a property to remove a property, which has been listed on the MLS® system under certain terms and conditions agreed to by both parties.

Expiration

An agreement between the listing brokerage and the seller of a property to remove a property from the MLS® system on a specified future date. Expiration dates may be extended with an amendment to the listing agreement.

Sale

A property has been sold and a record of MLS® sale has been completed.

Exit

The removal of a property from the MLS® system through cancellation, expiration or sale.

List Price

The price at which a property is listed on the MLS® system. It is important to note that we use the last list price prior to sale, cancellation or expiration, and not the original list price unless it is explicitly stated. Therefore in many cases, sellers have already changed the original list price to adjust their pricing strategy. For example, the original list price of homes that are not selling is often adjusted downward, such that the list price is lower than the original list price.

Assessed Value

The value assessment prior to the listing date. To establish a property's assessed value, MPAC analyzes sales of comparable properties in the area (more detail is available on the MPAC website: <https://www.mpac.ca/HowAssessmentWorks/HowMPACAssessesProperties>). In order to estimate the assessed value, we divided the most recent property taxes paid by the overall municipal tax rate for that year.

METHODOLOGY

Sale-to-Exit Ratio

The number of sales divided by the number of exits in a given time period. This ratio provides a measure of the likelihood of selling a property in a given quarter. As such, it is also a useful measure of market balance between demand (i.e. the number of sales) and potential supply (i.e. the number of exits). When demand approaches potential supply, most sellers are finding buyers, whereas sellers are not finding buyers when demand is far from potential supply.

Gap between List Price and Assessed Value

The percentage difference between the list price and the assessed value. The median percentage difference for the small, moderate and large categories are 8, 26 and 49 per cent, respectively. These categories are determined each year, such that they are representative of a comparison at a point in time, and not across time. For example, a large gap in 2015 is smaller than a large gap in 2011, but it is still large relative to other transactions in 2015.

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