

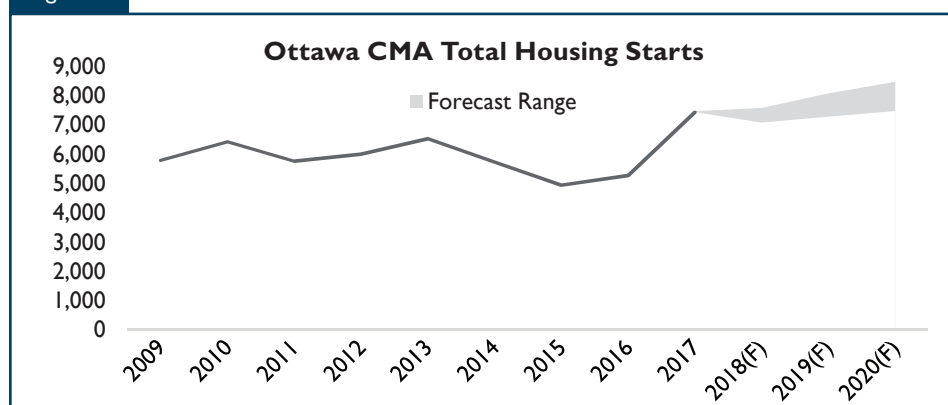
HOUSING MARKET OUTLOOK

Eastern¹ Ontario

CANADA MORTGAGE AND HOUSING CORPORATION

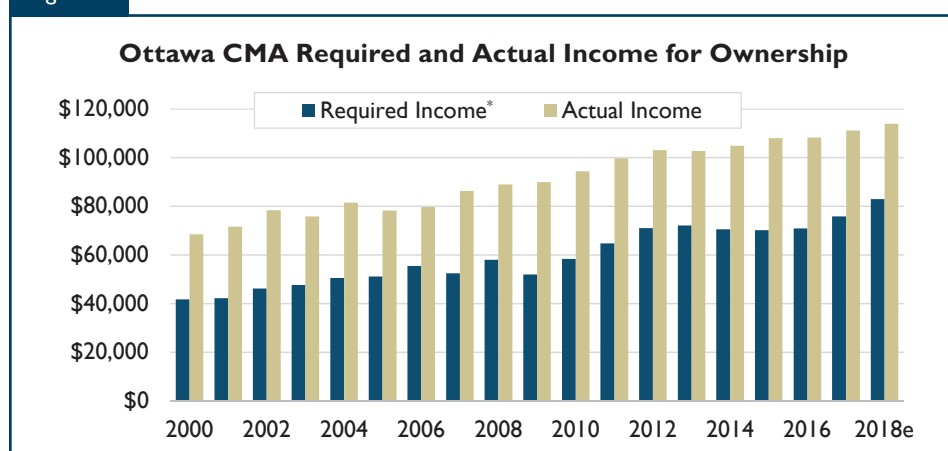
Date Released: Fall 2018²

Figure 1



Source: CMHC; (F): CMHC Forecast

Figure 2



Source: CMHC, Statistics Canada, CREA, e=estimate

*Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32% gross debt service ratio. Mortgage carrying costs are calculated on the average MLS® price, a 10% down payment, the fixed five-year mortgage rate and the longest available amortization.

Highlights

- Strong resale market activity in Ottawa is expected, driven by continued growth in employment and earnings, while Kingston activity trails slightly behind.
- Since Eastern Ontario experienced less of a run-up in prices over the last few years, it will remain affordable over the two year forecast period.
- Vacancy rates in Eastern Ontario will remain near historical lows through 2020.

Ottawa CMA

Single-detached starts to edge higher and regain lost market share

Starts activity is expected to grow only slightly over the two-year forecast horizon of 2019-2020. Multi-unit³ starts will dampen total starts activity over the next two years due to an expected moderation in apartment construction. In 2017, an unprecedented level of apartments were started, which are expected to

¹ Eastern Ontario includes the Ottawa-Gatineau (Ontario part) and Kingston Census Metropolitan Areas.

² The forecasts and historical data included in this document reflect information available as of October 5, 2018.

³ Multi-unit dwellings include semi-detached homes, row and apartment units.

be completed by the end of 2019 and into 2020 adding to market supply both for rental apartments and condominiums almost evenly.

Year-to-date to September, apartment starts are down 43%, while all other dwelling types have posted strong growth as low-rise dwellings remain the most sought after dwelling type for home buyers. Single-detached starts are expected to rise in 2019, and multiples should gain some momentum over the 2018 low. Higher construction costs and a shortage of skilled labor could drag high-rise construction below our forecast range as concrete structures are the most costly dwelling type for builders.

Resale market activity to trend higher on robust demand conditions

Ottawa is one of the few Ontario Census Metropolitan Areas (CMAs) where sales and prices rose continuously since 2015 and so far into 2018. Ottawa existing home sales and prices are expected to continue to grow in 2019 and into 2020. Ottawa has outperformed because of a healthy economy and the city's relative affordability. Employment, especially full-time job creation, as well as earnings growth have been robust since 2016 and have supported homeownership demand despite rising MLS® prices. Year-to-date to September, the unemployment rate recorded its lowest level in over a decade at 4.7%.

Public administration employment and a substantial information technology sector with higher average incomes give Ottawa a slight edge over other major CMAs. A significant price gap between new and resale homes for all dwelling types also

makes the resale market attractive to buyers, especially first-time buyers. Row homes and condominium apartments, the most affordable options on the market, have seen strong sales growth so far in 2018 as rising interest rates have encouraged a shift in demand to less expensive housing. A stronger rise in interest rates is a key risk to the forecast that could pressure home sales lower than expected. In addition, a rebalancing of government budgets in light of the larger deficit, could pull public administration jobs lower than expected and pressure forecast numbers down.

Rental market to remain tight on strong demand

Robust population growth and a rise in net migration levels are supporting strong household formation and housing demand. Particularly, rising numbers of immigrants, international students, as well as temporary workers have increasingly supported rental demand. Temporary Residents saw a 17%⁴ increase in their level in 2017 and numbers have continued to rise so far in 2018. Evidence suggests that even the rental supply increases seen in the last couple of years are having little effect on easing vacancy rates. The fluctuation in the employment of the younger age groups, particularly the first-time buyer group, together with mortgage rule changes and rising interest rates is pushing some potential buyers to rent for longer as well.

We expect the vacancy rate to trend lower to 1.3% in 2018. As more supply comes on the market in 2019 and 2020, the vacancy rate should move up slightly. Rent control on existing occupied units will keep a cap on average rent increases, so that rents rise by about 2% in each of the forecast years. Upside risks

to the forecast, which could pressure vacancy rates down further, include stronger employment growth, stronger net migration levels and lower ownership demand by first-time buyers than we expect.

Kingston CMA

Total housing starts to edge lower

Total housing starts will decline slightly through 2020. Rising mortgage carrying costs is the swing factor behind expected lower housing starts. There is no significant risk of a continuous decline, as solid economic and demographic conditions will support housing demand especially for the more affordable dwellings such as rows and apartments. It is expected that over the 2019-2020 period multi-unit starts will exceed their 2017 level. As for single-detached starts, rising borrowing costs without a similar rise in earnings will restrict their growth, pushing their numbers downward, well below the 10-year average.

A slower pace of job creation, escalating construction costs combined with fewer than expected serviced lots available for development could pull starts below the forecast range. Alternatively, stronger growth in household formation and fewer choices in the resale market could push starts to the upper end of the forecast range. Though, we project that the downside risks will likely dominate.

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⁴ Immigration, Refugees and Citizenship Canada, Statistics and Open Data.

Subdued sales and moderate price growth

Kingston CMA existing home sales are projected to decline in 2019 and 2020, yet remain above the 10-year average. In recent years Kingston experienced less of a run-up in prices and therefore represents a relatively affordable market. Nonetheless, rising mortgage carrying costs will restrain first time buyer demand.

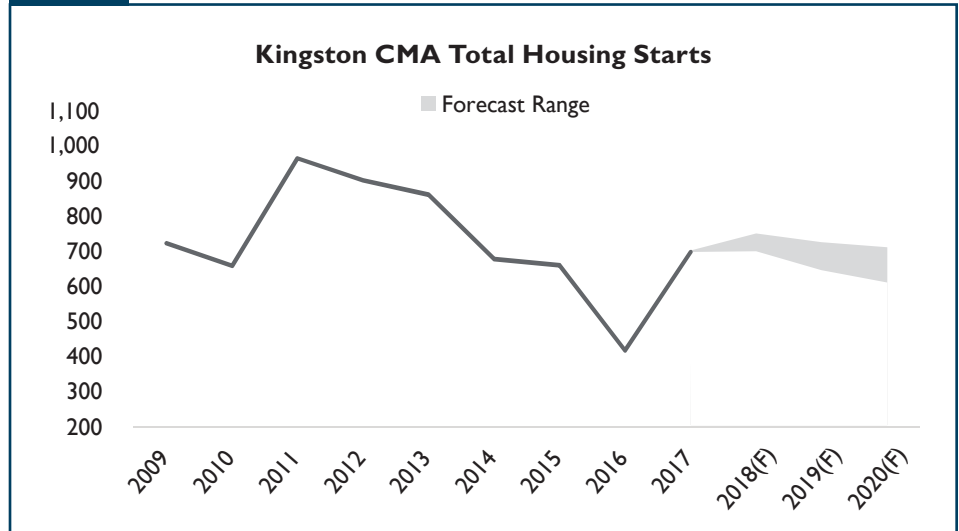
More muted homebuyer demand will dampen price growth compared to 2018. Thus we forecast only modest price increases in the two-year period ahead. It is expected that Kingston will remain affordable during the forecast period, as the average household income in Kingston will still be about 15% higher than what is required⁵ to buy and own a home at the average MLS® price.

However, a faster erosion of affordability and weaker than expected employment could place downward pressure on sales. Alternatively, greater than anticipated migration to Kingston may push sales and therefore prices toward the upper end of the forecasted range.

Rental vacancy rate to inch higher in 2019

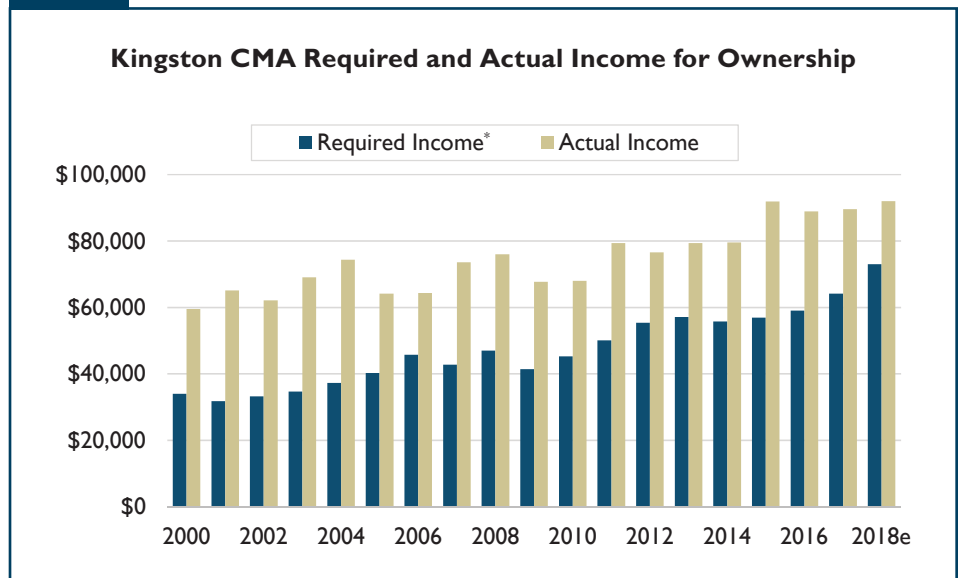
The vacancy rate⁶ is anticipated to edge marginally higher in 2019, as rental supply will increase more than demand. Next year rental and condominium supply will grow at a faster rate than during 2018 and will be affected by at least 187 rental and 31 condominium apartment units that were completed after the June 30th cut-off date⁷. As of October 2018, there were 364 rental apartment units under construction, meaning

Figure 3



Source: CMHC; (F) = CMHC Forecast

Figure 4



Source: CMHC, adapted from Statistics Canada, CREA, e=estimate

*Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32% gross debt service ratio. Mortgage carrying costs are calculated on the average MLS® price, a 10% down payment, the fixed five-year mortgage rate and the longest available amortization

that in the latter part of 2019 and in 2020 there will be additional newly completed units added to the existing rental stock. With more rental and condominium completions, renter

households in the primary rental market will have more choice, placing upward pressure on vacancy rates.

⁵ Required income is mortgage carrying cost divided by 0.32 to reflect the usual 32% gross debt service ratio. Mortgage carrying costs are calculated on the average MLS® price, a 10% down payment, the fixed five-year mortgage rate and the longest available amortization.

⁶ In apartment structures with three or more units purpose-built for the rental market.

⁷ The time period for inclusion of a newly completed rental structures into the 2019 CMHC Rental Market Survey (RMS) is from July 1, 2018 to June 30, 2019.

Forecast Summary Ottawa CMA Fall 2018									
	2015	2016	2017	2018(F)		2019(F)		2020(F)	
				(L)	(H)	(L)	(H)	(L)	(H)
New Home Market									
Starts:									
Single-Detached	1,992	1,990	2,283	2,600	3,000	2,700	3,100	2,800	3,200
Multiples	2,980	3,308	5,174	4,500	4,600	4,600	5,000	4,700	5,300
Starts - Total	4,972	5,298	7,457	7,100	7,600	7,300	8,100	7,500	8,500
Resale Market									
MLS® Sales	14,842	15,756	17,327	17,100	18,500	17,500	19,200	17,900	20,000
MLS® Average Price(\$)	369,477	373,604	394,464	403,300	414,700	417,400	432,600	431,000	453,000
Economic Overview									
Mortgage Rate(5 year)(%)	4.67	4.66	4.78	5.00	5.60	5.40	6.20	5.50	6.50

	2015	2016	2017	2018(F)	2019(F)	2020(F)
Rental Market						
October Vacancy Rate (%)	3.4	3.0	1.7	1.3	1.5	1.5
Two-bedroom Average Rent (October)(\$)	1,174	1,201	1,232	1,270	1,300	1,320
Economic Overview						
Population	1,000,679	1,018,204	1,040,346	1,056,000	1,072,000	1,088,000
Annual Employment Level	531,100	543,400	546,700	560,000	570,000	577,000

Multiple Listing Service® (MLS®) is a registered trademark of the Canadian Real Estate Association (CREA).

Rental Market: Privately initiated rental apartment structures of three units and over.

The forecasts (F) included in this document are based on information available as of 5th October 2018. (L)= Low end of range. (H)= High end of range.

It is possible that the low end (L) and the high end (H) of forecast ranges for residential housing starts for singles and multiples jointly may not add up to the total. This is caused by rounding as well as the volatility of the data.

Source: CMHC (Starts and Completions Survey - Market Absorption Survey - Rental Market Survey). Statistics Canada. CREA(MLS®). CMHC Forecast (2018-2020).

Forecast Summary Kingston CMA Fall 2018									
	2015	2016	2017	2018(F)		2019(F)		2020(F)	
				(L)	(H)	(L)	(H)	(L)	(H)
New Home Market									
Starts:									
Single-Detached	275	300	315	300	330	270	320	240	300
Multiples	380	112	377	395	415	370	400	365	405
Starts - Total	655	412	692	695	745	640	720	605	705
Resale Market									
MLS® Sales	3,530	3,900	4,080	3,645	3,715	3,580	3,700	3,530	3,690
MLS® Average Price(\$)	299,647	311,227	333,840	355,000	365,000	357,000	373,000	362,000	382,000
Economic Overview									
Mortgage Rate(5 year)(%)	4.67	4.66	4.78	5.00	5.60	5.40	6.20	5.50	6.50

	2015	2016	2017	2018(F)	2019(F)	2020(F)
Rental Market						
October Vacancy Rate (%)	2.8	2.6	0.7	0.5	0.9	1.1
Two-bedroom Average Rent (October)(\$)	1,096	1,119	1,157	1,180	1,205	1,235
Economic Overview						
Population	169,643	171,431	173,862	175,300	176,700	178,000
Annual Employment Level	82,900	83,600	87,300	87,100	87,300	87,700

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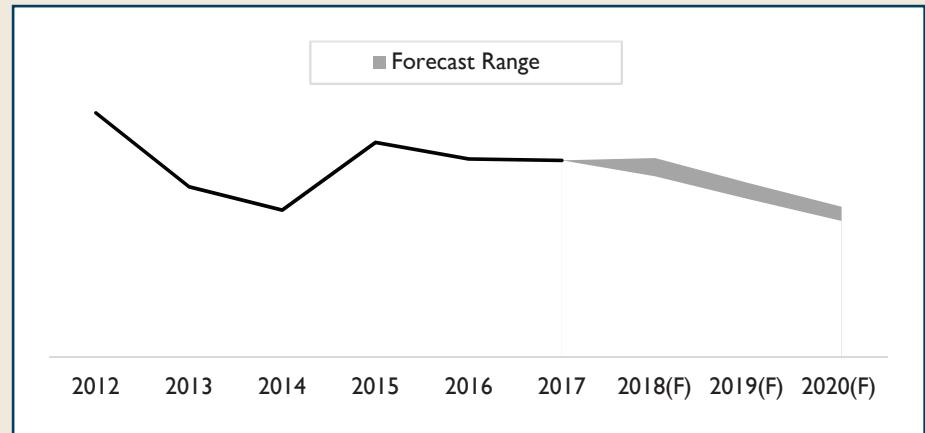
Methodology for forecast ranges

This edition of *Housing Market Outlook* incorporates forecast ranges for housing variables. However, all analyses and forecasts of market conditions continue to be conducted using the full range of quantitative and qualitative tools currently available.

The range provides a relatively precise guidance to readers on the outlook while recognizing the small random components of the relationship between the housing market and its drivers. The range is based on the coefficient of variation* of historical data and on past

forecast accuracy. It provides precision and direction for forecasts of housing variables,

given a specific set of assumptions for the market conditions and underlying economic fundamentals.



* The coefficient of variation in this case is the standard deviation divided by the mean of that series. A higher coefficient of variation would produce wider ranges due to the higher volatility of the data, while a lower coefficient of variation would produce tighter ranges.

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.

Dwelling Types

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.

Intended Market

Freehold Start:

Refers to the commencement of construction of a residence where the owner owns the dwelling and lot outright.

Condominium (including Strata-Titled) Start:

Refers to the commencement of construction of an individual dwelling which is privately owned, but where the building and/or the land are collectively owned by all dwelling unit owners. A condominium is a form of ownership rather than a type of house.

Rental Start:

Refers to the commencement of construction of a dwelling constructed for rental purposes regardless of who finances the structure.

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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- Preliminary Housing Starts Data
- Rental Market Reports, Canada and Provincial Highlights
- Rental Market Reports, Major Centres
- Seniors' Housing Reports
- Mortgage and Consumer Credit Trends Report

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- Funding and Securitization Data
- Household Characteristics
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- Housing Market Indicators
- Mortgage and Debt Data
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