# HOUSING MARKET OUTLOOK

# Ottawa

Canada Mortgage and Housing Corporation

www.cmhc.ca

ISSUE:
FALL 2005

## Resale Market

### *Sales rebounding but prices cooling*

Ottawa's resale market showed renewed vigor over the summer, but the frantic pace witnessed earlier this decade has clearly subsided. The local market is currently in a balanced position and this should persist through the rest of this year and into 2006. Affordability will continue to be a significant factor in the demand for resale homes.

The rapid price hikes seen in recent years are contributing to slackening demand and prompting additional supply now. Weaker housing demand has other causes. Net domestic migration was negative in both 2003 and 2004; this outflow reduced potential purchasers. Soft employment, a cessation of interest rate decreases this year and perhaps some purchaser price resistance further diminished customer interest.

These factors have cut Ottawa MLS® sales modestly in 2005 through August from the equivalent year-earlier period. Sales were particularly weak during the first quarter, but rebounded during the summer, as hints of interest rate increases spurred buyers. In fact, Ottawa has just seen its heaviest August volume of the last 20 years. Despite the pickup, sales will end 2005 slightly behind last year's level. Still, CMHC's volume forecast implies a solid year for the area's resale market, even by this decade's robust standards.

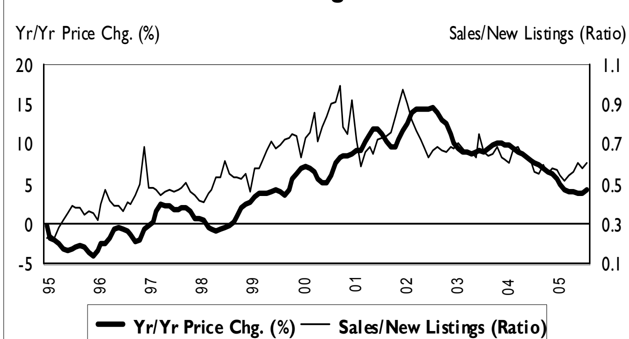
Home vendors intrigued by higher prices, along with some of Ottawa's net out-migrants, have boosted the supply of new listings year-on-year for 28 straight months to August. Their volume hit nearly an 11-year high, seasonally adjusted, that month.

Softer sales and rising listings have steadily cut the sales to listings ratio, the most important measure of market balance and a key predictor of future price growth, from stratospheric levels in 2001-2002 to more modest, but still healthy level. This barometer is currently consistent with a strong balanced market. A recent modest upswing indicates some price growth ahead.

**IN THIS ISSUE**



**Sales-to-new listing ratio - Ottawa**




Sales to New Listings Ratio: seasonally adjusted
Price %: Six month moving average
Source: Canadian Real Estate Association

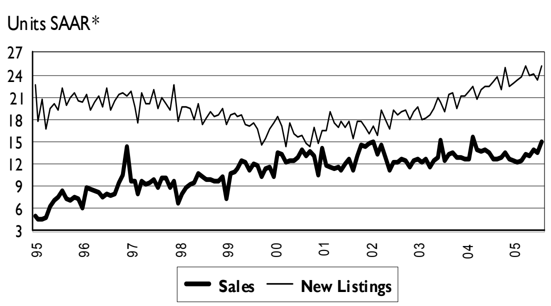
**CMHC Ottawa, Market Analysis**
**Christian Douchant, Robin Wiebe**
**(613) 748-5120**

Canada

CMHC SCHL

Ottawa's cooling market balance has prompted slowing resale price growth. Double-digit percentage hikes in the area's average resale price in 2000-2002 have given way to more sustainable, single-digit growth this year. Such gradual slowing price growth is a much preferred alternative to any potential bursting of a housing bubble, which could lead to actual average price drops. Available evidence indicates it is the growth rate of prices, not their level, which is diminishing. The area's average resale price should increase in lower single-digit percentage terms both this year and next.

**Sales and New Listings - Ottawa**




* Seasonally adjusted at an annual rate
Source: Canadian Real Estate Association

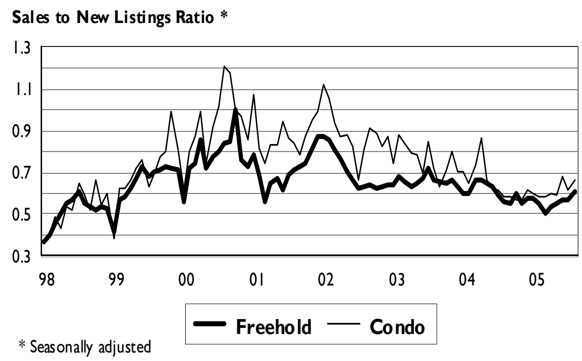
Persistent price appreciation and low interest rates have cut sales for freehold dwellings priced under $200,000 from just under a third to just over a quarter of total transactions. Houses priced over $300,000, particularly those priced $300,000 - $400,000, have been the largest beneficiary of this shift; their volumes have jumped roughly a sixth through August this year, from 2004's equivalent period. Modest mortgage rates mean buyers can obtain "more house" for only a slightly higher payment.

*Home buyers seek affordability*

Resale row units have seen sales volumes advance this year, while those of singles and semi- detached homes have all fallen.
Row units share many attributes with single-family dwellings and are thus a viable yet lower-priced choice for first time buyer families.
It is important to note, the market for condominiums, also an affordable ownership option, remains tighter and features faster price appreciation than that for freehold dwellings, despite this year's slight softness (see insert). Among single-detached dwellings, both sales levels and price appreciation for relatively low - priced bungalows are outpacing those for their more expensive two-storey counterparts.

Emerging economic recovery in the city's West, along with the hunt for affordability, colour neighbourhood resale patterns. The broadly western locations of Kanata - Stittsville, the West End and Barrhaven have all enjoyed relatively strong year-on-year price growth in 2005 to August, an indication of their popularity. Listing supply could be an issue in Barrhaven; the area features both Ottawa's fastest price growth and its second largest percentage volume drop this year. Price growth in the West End and Kanata - Stittsville rank second and third respectively among our seven Ottawa regions. By contrast, the downtown's residential market, which features the CMA's highest prices, appears weak: its sales drops and price advances are Ottawa's weakest.

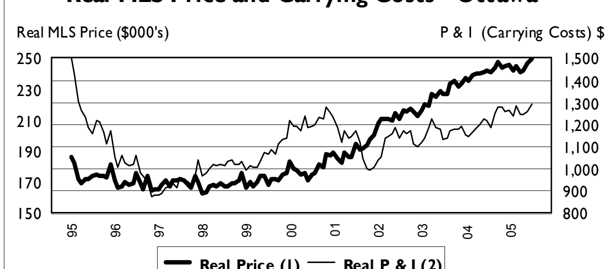
**Condminiums' market slightly tighter than freeholds**




* Seasonally adjusted
Source: Canadian Real Estate Association

Continuing moderate mortgage interest rates have kept principle and interest carrying costs low this decade despite house prices' run-up. While the principle and interest (P & I) payment required to finance Ottawa's average resale dwelling, after removing inflation and seasonality, hit a 10-year high in August, this monthly payment was less than $1200 for 38 of 40 months to April this year, before breaking decisively upward. Furthermore, even August's relatively high P & I payment remains well below 1989-1991 levels.

**Real MLS Price and Carrying Costs - Ottawa**




(1) In 2005 dollars. Adjusted by national CPI.
(2) Based on avg. real price, 1-yr. mort. rate, 10 % down, 25 year amort.
Source: Canadian Real Estate Association, Bank of Canada.

# New Home Market

*Residential construction pulls back hard*

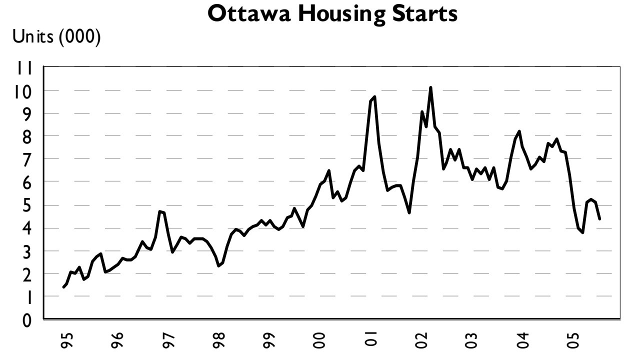
Ottawa's new home market is retrenching after several torrid years, but this market is not collapsing. While both single and multiple starts are well off year-earlier levels, lack of an inventory back-up among singles means that starts should respond relatively quickly to any improved demand, while the affordability of multiple units means they remain popular with consumers.

Single detached starts have fallen significantly this year after five years during which these starts exceeded 3,000 units. At their current pace, singles starts will sag to their lowest level since 1998. Competition from the rising number of relatively affordable resale listings is a key factor cooling this market to a more sustainable pace.

Sales of new singles suggest further softness ahead. Customers purchased fewer singles than they did a year earlier in each of the six months to August; year-to-date sales are more than a fifth behind last year's pace. Still, an easing rate of decay prompts optimism. While sales in March to June were more than 300 units, or about a third, lower than in 2004, similarly-calculated July and August sales declines totaled fewer than 10 units.

Builders appear to have largely adjusted to a softer environment and have not developed a serious overhang of singles inventory that could impair future starts. Still, caution should prevail in this market as the number of completed and unoccupied, or "unabsorbed" singles has exceeded year-earlier levels in 12 straight months. Industry is also no doubt aware that, based on the recent take-up of new singles, August's supply of singles under construction and those unabsorbed should last just over seven months, a level exceeded in only 19 of the most recent 200 months. Nonetheless, this year's average of 90 unabsorbed singles remains well below the 121-unit average suffered in January to August 2000.

**Ottawa Housing Starts**




Seasonally adjusted at annual rate, three month moving average
Source: CMHC

Price growth in the new singles market prompted the $300,000 - $399,000 price range to supplant the $200,000 - $299,000 range as

## Correction unlikely in Ottawa condo market

Rising condominium starts and active condominium resale markets across Ontario, particularly in Toronto, have fostered discussion of an emerging condominium market bubble. For Ottawa, the data suggests a condominium market that is firmly grounded.

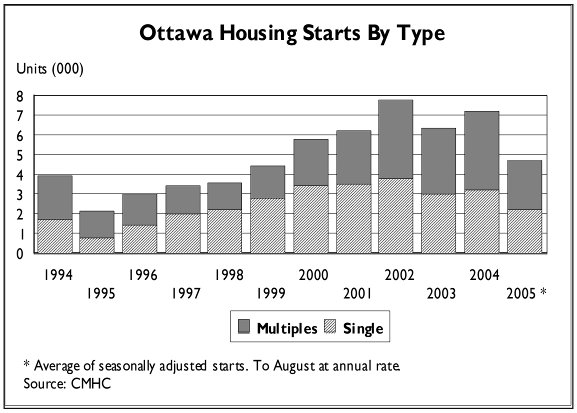
The resale market still shows vigour. The sales to listings ratio for condos remains strong - on a seasonally adjusted basis, this ratio has remained near or above 0.6, a level typically associated with a seller's market. Meanwhile, although price growth is slowing, the 4.7 per cent hike between the average price prevalent in June-August 2004 and this year's equivalent period hardly signals a market collapse.

In common with other jurisdictions, Ottawa's condo market enjoys support from both an aging population and condos' relative affordability. Census data shows that persons aged 55 or more are nearly twice as likely as those younger to live in a condo. Separately, Statistics Canada estimates Ottawa's "55+" population rose nearly a third in the decade to 2004. Expected persistent growth among this group augurs well for condos' future.

Condos are also an attractive alternative for affordable-housing hunters. Average resale condominium prices have been at least $70,000 below average resale freehold prices for six consecutive quarters, the longest such run since at least 1998. Over this period, a widening freehold-condo price gap has been associated with rising condo starts as developers seek to fulfill affordability demand.

Downtown Ottawa contains the most expensive resale condos, with an average price of $267,539 year-to-date. However, downtown also had Ottawa's slowest resale price growth, suggesting buyers could be seeking less pricey units like those in Kanata-Stittsville, which featured a $175,376 average price, but the area's fastest price growth.

Resale pricing for both apartment and row condominium continues to advance, although apartments' 5.5 per cent hike through August this year from 2004's same period outstrips rows' 3.0 per cent growth. Year-to-August sales volumes for both styles are off fractionally from 2004.




* Average of seasonally adjusted starts. To August at annual rate.
Source: CMHC

Ottawa's most populous new construction category in 2004 and again this year. While total absorptions are off seven per cent through August, those in the former category are up eight per cent, compared to the latter's nearly one third drop-off. Higher price ranges do not appear to be suffering either, as absorption of homes priced above $400,000 is above 2004 levels.

Quality-adjusted new home prices continue to advance, although not at an alarming rate. Statistics Canada's New House Price Index for Ottawa-Gatineau was just over five per cent above 2004 levels in 2005 to August: the NHPI advanced nearly seven per cent in 2004 and nearly 12 per cent in 2001. Lot and building prices are equally responsible for the index's rise, since both the "land" and "house" sub-indicies have risen in the low five per cent range.

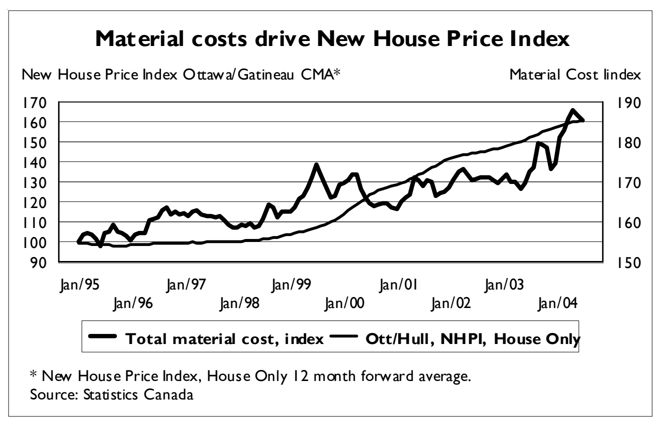
Ottawa builders and consumers should expect continued growth in new house prices as construction input costs advance. Commodity traders have sharply boosted prices for key lumber inputs in anticipation of rebuilding demand following recent hurricanes in the United States. For instance, the Bank of Nova Scotia reports that the price of Western Spruce, Pine Fir 2 x 4's jumped from $US 286 before the storms to $US 348, a 22 per cent hike. More broadly, this year's average level of Statistics Canada's Material Cost Index is 7.3 per cent above 2003's, more than twice the 3.5 per cent rate of general, Consumer Price Index, inflation.

Multiple dwelling starts are also sagging as the CMA's relatively high vacancy rate (3.9 per cent last October) discourages rental construction and the condominium sector regroups following last year's record outburst. Multiples' medium-term outlook remains reasonable, however, as an aging population downsizes, singles' increasing cost prompts younger buyers to seek the affordability multiple structures provide and municipalities seek to intensify residential areas.

Measured by starts, row units are Ottawa's most popular multiple home. During the 10 years to 2004 the CMA saw roughly 2.5 times as many starts of row units than of apartment units, the next most numerous multiple. Row starts are throttling back this year following two years of 2000+ starts, but should still slightly exceed their 10 year average, 1,535 units.

Apartment starts hit 1,200 units last year, the second-highest volume in the last ten years. Thus, while these starts are running about a third behind year-earlier volumes in 2005 to August, they remain poised for a year more than a third above their average over the previous decade.

Condominium tenure has exploded in Ottawa. While new construction intended for condominium tenure roughly equaled rental starts in the five years to 1999, the subsequent five years saw 20 per cent more condo starts. Condo's advantage widened in 2003 and 2004, when their starts outnumbered rentals' more than three to one.

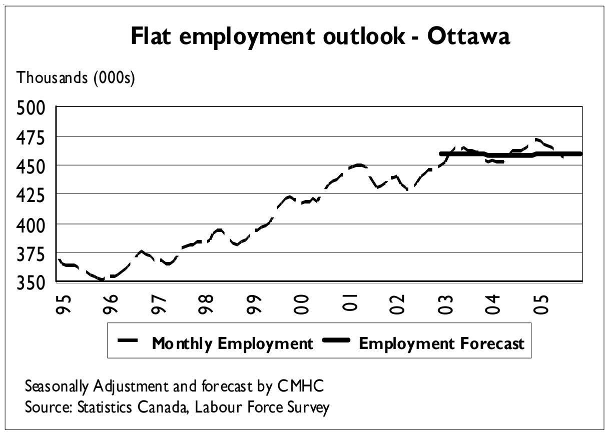



* New House Price Index, House Only 12 month forward average.
Source: Statistics Canada

# Economic Overview

*Flat employment outook for 2006*

It has been a roller coaster ride for the Ottawa economy in the new millennia. First, there was the huge run up in job growth to 2001. Then the high tech meltdown, which should have put a break on economic growth, but instead was offset by a Federal government hiring spree, which created an estimated 15,000 jobs. Since then, the Ottawa economy has not grown significantly, with the job market growing at less than one per cent per annum since 2003 according to Statistic Canada's own revised estimates. As of September 2005, year-to-date employment levels in Ottawa are at an estimated one per cent ahead of the same period a year earlier, but only almost flat in terms of the average level when compared to 2004. The current trend shows that the Ottawa economy can expect little growth for the rest of 2005 and into 2006.




Some sectors have been showing promise. High-tech (including computer manufacturing and professional services) have revealed strong job growth since the beginning of 2005. From January to September, the number of people employed in science and technical services has grown by an estimated 5,000 jobs, while manufacturing employment, particularly computer manufacturing, has grown by an estimated 3,000 jobs. Most important, these particular sectors are high paying compared to other sectors, except for public sector.

Meanwhile, low paying employment sectors have been recording some job loss, particularly in retail trade. In addition, there has been already some job loss in public sector employment. Full-time employment has been flat in terms of its year-to-date average, while part-time employment has made marginal gains.

Building permit activity is up for non-residential construction due to public and commercial projects. This will at least sustain employment in construction, which is up year-to-date compared to last year. Those in the trades will benefit well, while workers in residential construction will be hit negatively as a consequence in the slowdown in new home activity.

In terms of migration, Ottawa continues to lose to other parts of Ontario and Canada. Part of this out-migration is of course residents in Ottawa who continue to take advantage of cheaper housing in Gatineau . However, Ottawa does seem to capture more immigrants and therefore gains in net migration every year. In fact, any population growth in Ottawa is due primarily to international migration to the city.

Overall, the economic outlook for Ottawa is mixed. High tech does seem to be showing some recovery but there still some uncertainty regarding the overall prognosis. There are still companies being bought out by larger players outside of Ottawa; meanwhile, some companies in that sector still announce lay-offs on occasion. As for the public sector, there is still speculation as to whether the Federal Government will be consolidating services into the creation of a new single delivery department. This will likely negatively impact Ottawa if it takes place.

With these considerations, CMHC forecasts that employment will continue to be flat in 2006, albeit that growth will take place in some high paying sectors which will still stimulate demand for big ticket items like housing. Along with modest population growth, due to net positive migration, low mortgage rates (see insert) will keep demand for housing fairly strong next year. However, there is no question that this demand will be dampened by the flat employment outlook. Therefore expect the demand for resale and new homes to slip even more in 2006.

### Mortgage rates

Mortgage rates will remain low in 2005 and rise moderately in 2006. Tame inflation, and a strong Canadian dollar vis-à-vis the U.S. dollar will restrain the size and speed of Canadian interest and mortgage rate increases in 2005 and 2006.

Short-term mortgage rates are expected to be 25-35 basis points higher in 2005 than in 2004 while longer-term rates will be lower by a similar amount in 2005 compared to the previous year. While still low by historical norms, mortgage rates are expected to rise gradually by 25- 50 basis points in 2006. One, three and five-year mortgage rates are forecast to be in the 4.50-5.75, 5.25-6.25, and 5.50-6.50 per cent ranges respectively in 2005-06.

# FORECAST SUMMARY

## Ottawa CMA Fall 2005

| | 2003 | 2004 | 2005F | % chg. | 2006F | % chg. |
|---|---|---|---|---|---|---|
| **RESALE MARKET** | | | | | | |
| MLS Sales | 12,877 | 13,457 | 12,800 | -4.9 | 12,500 | -2.3 |
| MLS Average Price, all units | $219,713 | $238,152 | $249,100 | 4.6 | $256,600 | 3.0 |
| MLS Average Price, Freehold Res. | $232,922 | $251,415 | $262,300 | 4.3 | $269,500 | 2.7 |
| MLS Average Price, Condo | $164,590 | $173,567 | $182,000 | 4.9 | $188,000 | 3.3 |
| Sales to New Listings Ratio | 0.65 | 0.60 | 0.55 | - | 0.50 | - |
| **HOUSING STARTS** | | | | | | |
| Total | 6,381 | 7,243 | 5,000 | -31.0 | 4,700 | -6.0 |
| Single-detached dwellings | 3,055 | 3,245 | 2,300 | -29.1 | 2,100 | -8.7 |
| Semi-detached dwellings | 357 | 348 | 200 | -42.5 | 150 | -25.0 |
| Row dwellings | 2,241 | 2,450 | 1,600 | -34.7 | 1,550 | -3.1 |
| Apartment Dwellings - Total | 728 | 1,200 | 900 | -25.0 | 900 | 0.0 |
| Average price, Single detached | $305,923 | $332,419 | $354,000 | 6.5 | $371,000 | 4.8 |
| **RENTAL MARKET** | | | | | | |
| Vacancy Rate (October)* | 2.9 | 3.9 | 4.1 | - | 3.9 | - |
| Average Rent (2-bedroom) | $932 | $940 | $945 | 0.5 | $950 | 0.5 |
| **ECONOMIC OVERVIEW** | | | | | | |
| Employed | 460,300 | 459,300 | 460,000 | 0.2 | 461,000 | 0.2 |
| Employment Growth | 21,500 | -1,000 | 700 | - | 1,000 | - |
| Net Migration | 4,200 | 1,400 | 1,500 | 7.1 | 1,000 | -33.3 |

*Sources: Ottawa Real Estate Board; Statistics Canada, Canada Mortgage and Housing Corporation*

*The Ottawa Real Estate Board is an industry association with sales representatives and brokers in the Ottawa area.*
*The OREB website is www.ottawarealestate.org*
*M.L.S. (Multiple Listings Service) is a registered certification mark owned by the Canadian Real Estate Association.*

** Private rental apartments with three or more units*
*F = CMHC Forecast*