HOUSING MARKET OUTLOOK
Kelowna CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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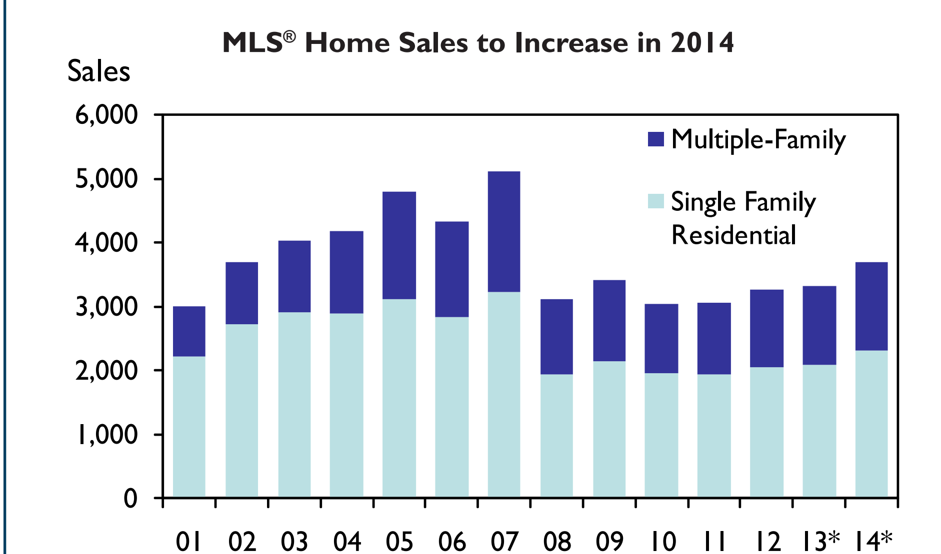
Kelowna Highlights[1]

- Demand for new and existing homes is expected to strengthen later this year and in 2014. Stronger employment growth coupled with low mortgage interest rates will support increased demand for housing in Kelowna.
- MLS® home sales are forecast to remain stable in 2013. Expect sales to move higher, increasing 11 per cent in 2014. Buyers will continue to benefit from an ample supply of listings and price competition among sellers.
- Prices are forecast to stabilize in 2013 and edge higher in 2014 as demand improves and the supply of listings is drawn down.
- Kelowna area housing starts are forecast at 1,000 homes this year

Figure 1



Source: Okanagan Mainline Real Estate Board (OMREB). Multiples: Apartment and all Townhouses (not including Big White Ski Resort). MLS® Multiple Listing Service (MLS®) is a registered certification mark owned by the Canadian Real Estate Association. *CMHC Forecast.

[1] The forecasts included in this document are based on information available as of April 26, 2013.

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and 1,100 homes in 2014. Both single-detached and multiple-family starts are forecast to move higher.

- Kelowna's apartment vacancy rate is expected to edge lower in 2013 and 2014.

MLS® Home Sales Stable in 2013 and Increasing in 2014

Kelowna area home sales are forecast to remain stable in 2013, matching 2012 levels. Expect MLS® home sales to move higher in 2014. Total residential sales increased six per cent in 2012 compared to 2011 levels with townhouse and apartment condominium sales recording the biggest percentage gains. Kelowna's MLS® home market began 2013 on a slower note with first quarter residential sales trailing levels recorded during the same three month period in 2012. Demand is expected to strengthen later this year and in 2014 as British Columbia records higher levels of migration and the provincial and Kelowna area economies experience stronger employment growth. Low interest rates coupled with stable prices will also support demand for existing homes this year and next.

Kelowna's resale market is forecast to remain well supplied with homes listed for sale in 2013. This means that buyers will continue to benefit from price competition among sellers. The supply of single-family homes listed for sale and new listing activity, while trending slightly lower during the past year, remains at elevated levels. Apartment condominiums and townhouses experienced a similar, more marked decline in the supply of active listings and listing activity. This was partly due to the uptick in sales recorded in 2012. Other factors may have included sellers choosing not to list or relist their properties until condominium prices stabilize and begin to show upward movement. Expect the supply of active listings to move lower in 2014 as demand improves.

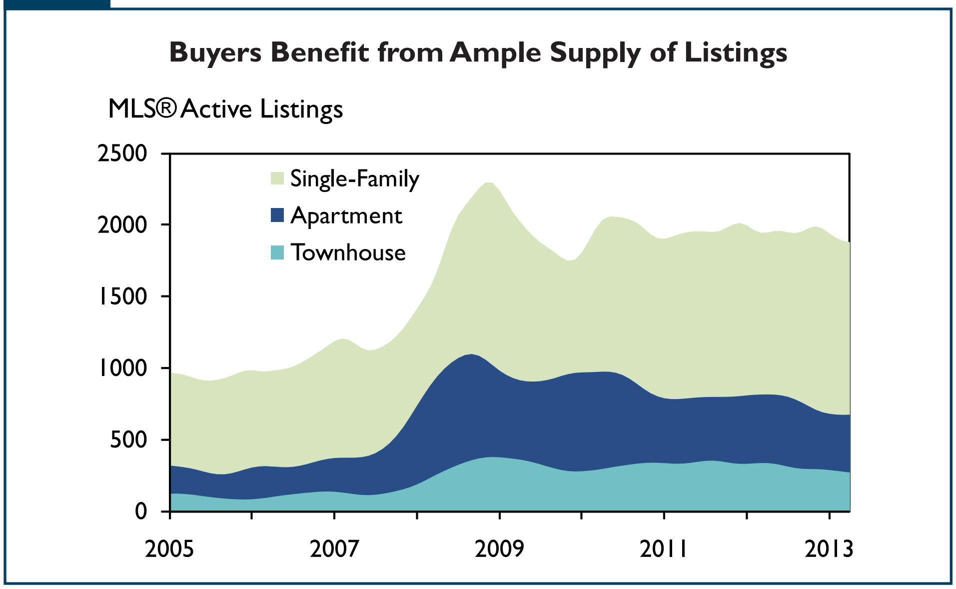
MLS® single-family home prices (detached and semi-detached units) are forecast to stabilize in 2013. Modest growth in demand coupled with an ample supply of listings will continue to dampen upward pressure on prices this year. The average annual single-family home sale price edged down one per cent in 2012 compared to 2011. The price trend has moved lower in 2013 due mainly to a shift in the price composition of sales to include a larger share of modestly price homes this year than in 2012. Single-family home prices are expected to edge higher later in 2014 as demand picks up and the supply of listings is drawn lower.

While the focus of home buyers has been moderately priced homes in 2013, demand will broaden to include higher priced homes in 2014. Single-family homes priced at less than $400,000 represented 51 per cent of first quarter home sales in 2013 compared to 45 per cent during the same three month period in 2012.

Rutland, Westbank, Glenrosa and the Core area will be the most modestly priced locations in Kelowna. Black Mountain, Glenmore, Lake Country, North Glenmore, Peachland and Shannon Lake are the focus of home buyers seeking mid-priced single-detached homes. Southeast Kelowna, Dilworth Mountain, the Mission area and sections of North Glenmore, Lakeview Heights and West Kelowna will command the highest prices.

As in the detached home sector, apartment condominium and townhouse sales have trended lower since mid 2012. In 2013, first quarter sales were below levels recorded in the previous year. Condominium and townhouse sales are expected to see stronger growth in demand later this year and in 2014 as the price of detached homes stabilize and begin to edge higher. Modestly priced home ownership units will remain the focus of demand this year.

Figure 2



Source: OMREB. Data is seasonally adjusted

With the Alberta and Saskatchewan economies continuing to expand, Kelowna's resort market can expect to attract a few more condominium buyers in 2013. Demand from out-of-region buyers for resort condominiums and second residences has moderated from levels recorded during 2003-2008. Stronger competition from US resort markets and a growing number of new resort developments elsewhere in British Columbia also contributed to fewer sales of this type of home during the past several years. More recently, US resort home prices have begun to stabilize and edge higher in some locations. This may lead to renewed interest in Canadian resort markets, including Kelowna.

Condominium prices are forecast to stabilize by year-end 2013 and edge higher later next year as demand strengthens.

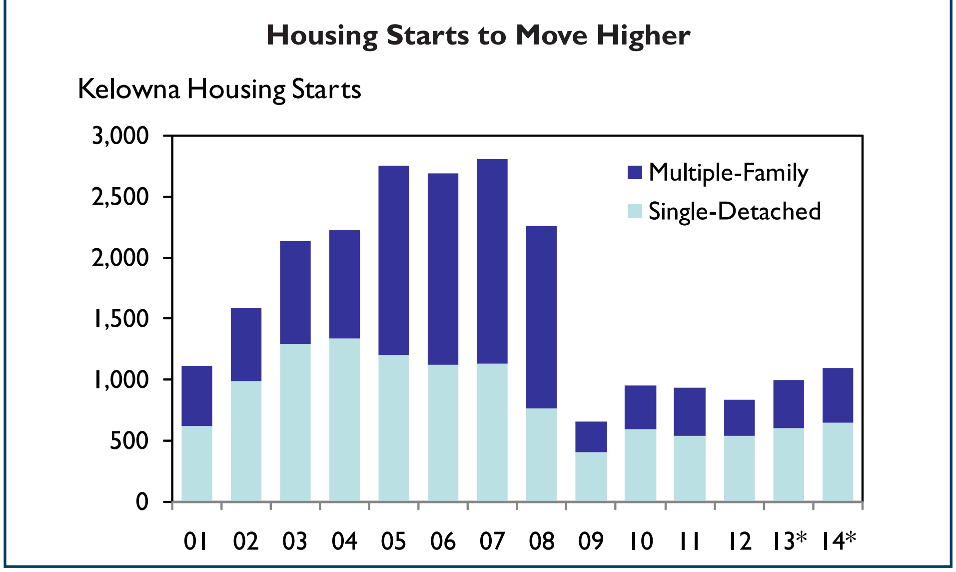
Modest growth in demand coupled with an ample supply of listings and stable prices will keep Kelowna's MLS® home market in a buyers' market position this year. Kelowna's MLS® home market is expected to move to balanced from buyers' market conditions later in 2014.

Housing Starts to Move Higher in 2013 and 2014

Kelowna area housing starts are forecast at 1,000 homes in 2013, up from 836 homes last year. Housing starts will move higher, reaching 1,100 homes in 2014. Both detached home and multiple family starts are expected to increase this year and next (see Figure 3).

In 2012, housing starts moved lower compared to 2011 levels, with fewer multiple-family starts accounting for the decline. Single-detached starts

Figure 3



Source: CMHC. *CMHC Forecast.

matched 2011 levels. Competition from a well supplied resale market and lingering inventories of new, completed and unoccupied apartment condominium units were factors constraining the pace of new multiple-family home construction in 2012. Fewer rental apartment starts also contributed to lower levels of new home construction last year.

Single-detached home starts are forecast to increase this year and in 2014. The inventory of new, completed and unoccupied detached homes has moved lower, dropping to 100 units in March 2013 from 129 units one year ago. Lower inventories of unsold new homes will contribute to higher levels of detached home construction. Lower lot prices and construction costs have also enabled builders to better compete with the existing home market. The supply of building lots listed for sale has begun to trend lower, but remains adequate to meet projected demand in 2013.

Sales of new detached homes priced at more than $600,000 picked up slightly in 2012. This price category is a key market for builders of custom homes. In contrast, the upswing in demand for homes priced below $500,000 recorded during the previous two year period has flattened out. Despite a few more sales of higher priced homes last year, modestly priced homes are forecast to remain the focus of new single-detached home demand in 2013.

Kelowna's multiple-family sector will record higher levels of starts this year and in 2014 compared to 2012. With few exceptions, builders have focused on smaller, home owner-oriented attached housing projects during the past two years rather than apartment condominium buildings. Combined townhouse and semi-detached starts totalled 194 units in 2012 compared to 138 and 157 units in 2010 and 2011 respectively. This trend has carried over into 2013. This type of project is more easily released to the market in phases. New projects are targeting local rather than out-of-region buyers or those seeking resort homes and second residences. As in the detached home sector, demand has been strongest for moderately-priced homes.

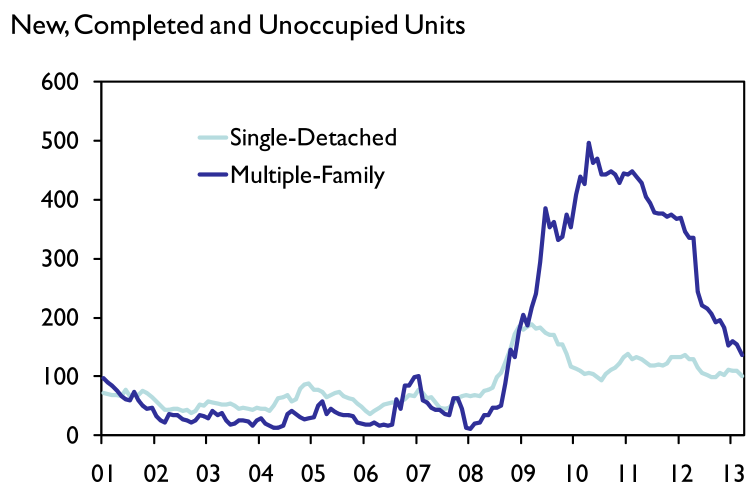
Apartment condominium starts have been slower to rebound than lower density multiple-family starts with only one larger project starting in 2012 and none in the first three months of 2013. Reduced demand for second residences, resort homes and other types of investor-oriented condominiums in combination with elevated inventories have led to lower levels of condominium starts during the past several years. Condominium absorption has picked up, but remains below levels recorded in the mid 2000s despite price reductions and other builder incentives to attract buyers.

The inventory of new, completed and unabsorbed condominiums has come down; declining to 64 units in March 2013 from 230 units twelve months earlier (see Figure 4). Declining inventories were due in part to the conversion of several condominium projects to rental buildings. Similarly, the supply of condominiums under construction has come down, decreasing to 268 units in March 2013 from almost 3,000 units four years ago. While lower inventories together with fewer projects under construction better position Kelowna's condominium sector for expansion, price competition from the resale market will remain a constraining factor, tempering the pace of condominium starts in 2013.

Condominium construction is forecast to increase later this year and in 2014 as demand improves and the supply of resale homes listed for sale and the inventory of new completed and unoccupied condominiums move lower. The City of Kelowna has reported an increase in the number of multiple-family development proposals in 2013 compared to the past several years. Recent condominium development proposals have targeted niche market locations and buyer groups rather than the broader marketplace

Figure 4

Inventories Move Lower



Source: CMHC.

Vacancy Rate to Edge Lower

The Kelowna area vacancy rate is forecast to edge lower in 2013 and 2014, but remain at elevated levels compared to vacancy rates recorded during the mid 2000s. Rising enrolment at both UBC Okanagan (University of British Columbia – Okanagan Campus) and Okanagan College along with stronger employment growth will contribute to slightly increased demand for rental housing this year and next. Higher mortgage interest rates and rising home prices may dampen the outflow of renters to the home ownership market later in 2014. Competition from investor-owned condominiums and other types of rental housing including secondary suites will keep vacancy rates in purpose-built rental apartments above the ten-year average.

Kelowna's apartment vacancy rate increased to four per cent in October 2012 from three per cent in October 2011. Additions to the stock of rental housing coupled with competition from investor-owned condominiums were key factors underlying rising vacancy rates last year.

Average rents will remain essentially flat in response to sustained higher vacancy rates, increasing only slightly this year.

Kelowna Economy and Population Growth to Support Demand for Housing

Kelowna area population and employment are forecast to expand at a modest pace, supporting growth in demand for housing. The employment outlook calls for conservative gains later this year and in 2014 with the construction industry and the service producing sector forecast to record stronger employment growth.

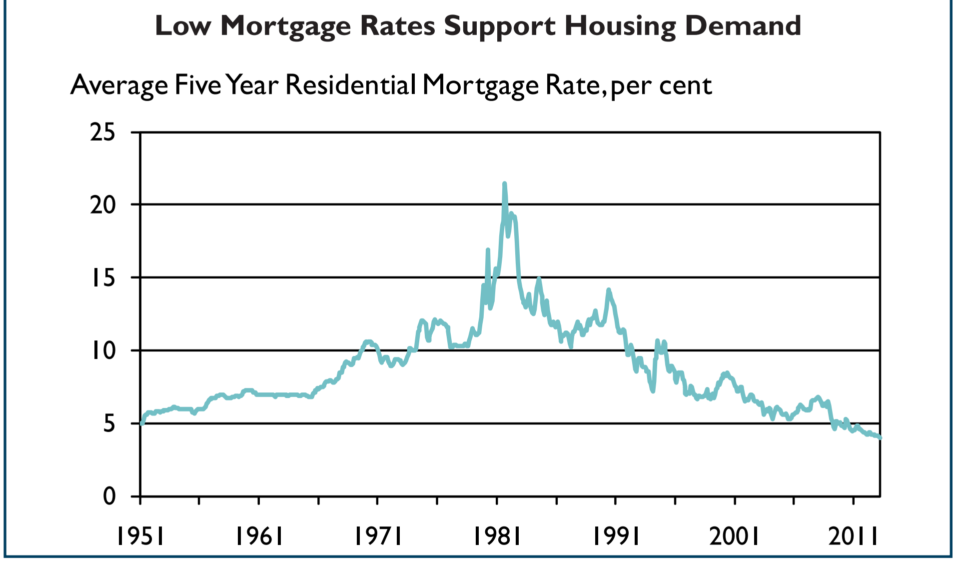
The Kelowna International Airport and associated business cluster and the University of British Columbia – Okanagan Campus (UBC Okanagan) remain key regional employment hubs.

UBC Okanagan has become a major economic driver since its creation in 2005. Enrolment has more than doubled to over 8,000 students since 2005, reaching normal capacity last year. While the initial plan for campus build-out is now complete and student enrolment is forecast to grow at a more modest pace, the Kelowna area will continue to benefit from both direct and spin-off employment, capital expenditure, industry partnerships, research dollars and profile. UBC Okanagan's impact on the Kelowna area economy and employment contributes to increased demand for housing. The Kelowna International Airport is now ranked among Canada's busiest airports with passenger volumes reaching record high levels in 2012. Further expansion to the terminal facilities will be ongoing through 2016. Improved accessibility to the Okanagan will enhance the area's appeal to tourists, business and potential home buyers.

Other large construction projects include the on-going expansion of Kelowna General Hospital to include health care services currently available only in Vancouver. Accessible health care is an important consideration for those seeking to relocate to this region. The Interior Health Authority's recent announcement to proceed with the construction of a tower in the downtown core will also contribute to employment growth.

Kelowna area population growth has moderated from levels recorded a few years ago. BC Stats estimates Kelowna's population grew by 0.6 per cent in 2012 down from 3.5 – 4.0 per cent per annum in the mid 2000s. Population growth is expected to increase as migration picks up, the population ages and the BC and regional economies improve. BC Stats projects population growth to remain steady in the 1.0 – 1.5 per cent range through 2025[2].

Figure 5



Source: Bank of Canada.

Mortgage Rates to See Modest and Gradual Increases, but Will Remain Low

In line with the consensus among private-sector forecasters, increases in the Target Overnight Rate by the Bank of Canada are not anticipated before mid-2014, later than anticipated at the time of the 2013 First Quarter Housing Market Outlook. This reflects the downward revisions in GDP forecasts since the publication of the First Quarter Housing Market Outlook, particularly the expectations of a slower economy in 2013. The expected delay in interest rate increases will continue to be

[2] BC Stats P.E.O.P.L.E. 36 population projection model results.

supportive of housing market activity over the forecast horizon.

According to CMHC's base case scenario for 2013, the one-year mortgage rate is forecast to be within 3.00 per cent to 3.25 per cent with an average of 3.13 per cent, while the five-year posted mortgage rate is anticipated to be within 5.00 per cent to 5.50 per cent with an average of 5.28 per cent. For 2014, the one-year posted mortgage rate is expected to rise and be in the 3.25 per cent to 3.75 per cent range with an average of 3.42, while the five-year posted mortgage rate is forecast to be within 5.25 per cent to 5.75 per cent with an average of 5.53 per cent, consistent with higher economic growth prospects in 2014.

Mortgage rates are not expected to increase until mid 2014. The anticipated small and steady increases in mortgage rates will lead to somewhat higher mortgage rates by the end of 2014. However, these rates will remain low, by historical standards, over the forecast horizon.

Forecast Summary Kelowna CMA Spring 2013							
	2010	2011	2012	2013f	% chg	2014f	% chg
New Home Market							
Starts:							
Single-Detached	595	539	544	600	10.3	650	8.3
Multiples	362	395	292	400	37.0	450	12.5
Semi-Detached	68	83	68	75	10.3	70	-6.7
Row/Townhouse	70	96	126	140	11.1	130	-7.1
Apartments	224	216	98	185	88.8	250	35.1
Starts - Total	957	934	836	1,000	19.6	1,100	10.0
Average Price ($):							
Single-Detached	769,670	734,110	737,419	750,000	1.7	760,000	1.3
Median Price ($):							
Single-Detached	610,000	574,900	589,450	600,000	1.8	615,000	2.5
New Housing Price Index (% chg) (B.C.)	2.6	-0.4	-0.8	-0.8	-	0.4	-
Resale Market							
MLS® Sales	3,289	3,330	3,516	3,600	2.4	4,000	11.1
MLS® New Listings	9,987	9,202	8,851	8,800	-0.6	9,550	8.5
MLS® Average Price ($)	525,491	507,392	504,644	500,000	-0.9	507,500	1.5
Rental Market							
October Vacancy Rate (%)	3.5	3.0	4.0	3.5	-0.5	3.0	-0.5
Two-bedroom Average Rent (October) ($)	898	922	927	935	-	942	-
One-bedroom Average Rent (October) ($)	740	736	750	760	-	770	-
Economic Overview							
Mortgage Rate (1 year) (%)	3.49	3.52	3.17	3.00 - 3.25	-	3.25 - 3.75	-
Mortgage Rate (5 year) (%)	5.61	5.37	5.27	5.00 - 5.50	-	5.25 - 5.75	-
Annual Employment Level	94,600	94,400	92,900	90,500	-2.58	91,800	1.44
Employment Growth (%)	8.1	-0.2	-1.6		-		-
Unemployment rate (%)	7.7	7.9	6.8	7.0	-	7.0	-
Net Migration (B.C.)	43,405	35,248	27,328	36,700	34.3	41,300	**

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).
(1) The 2013 and 2014 migration data is a forecast
Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM), OMREB (Okanagan Mainline Real Estate Board).
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over.
(1) MLS® Sales and New Listings = Total Residential. (2) MLS® Average Sale Price = Single Family Residential.

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