

H

OUSING MARKET

OUTLOOK

Kelowna - Spring 2006

RESALE MARKET

Canada Mortgage and Housing Corporation

SALES REMAIN AT RECORD PACE

Kelowna area home sales will maintain a blistering pace in 2006. Last year's surge in condo and townhouse sales will carry over into 2006, pushing resale market activity to another record high. Expect singles sales to begin flattening out in response to sharply rising prices and higher interest rates. Prices will see double-digit, though smaller increases this year. Kelowna's resale market will remain a seller's market in 2006.

The demand outlook remains positive. BC's economy will continue to expand in 2006. Robust employment growth will boost in-migration from other provinces. Consumers

are in the mood to spend. Growth in employment, incomes and home equity will support high levels of

Kelowna's resale market remains a seller's market in 2006.

resale and new home construction activity through 2006.

The Kelowna area economy is firing on all cylinders. Strong employment growth has, in turn fueled demand for both new and resale housing. Retirees and more recently, an influx of others seeking lifestyle-oriented housing have also contributed

Continued on the next page.

IN THIS ISSUE

- Resale Market 1**
- New Home Market 3**
- Rental Market 5**
- Economic Overview 6**
- Housing Market Overview ... 7**
- Forecast Summary8**

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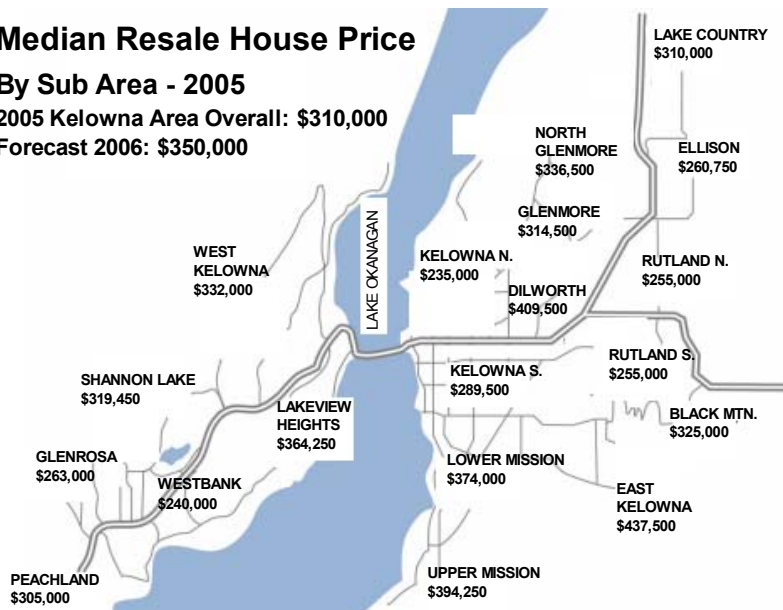
HOUSING MARKET OUTLOOK is CMHC's bi-annual forecast for new and resale home markets. Issues are released in the spring and fall each year.

Median Resale House Price

By Sub Area - 2005

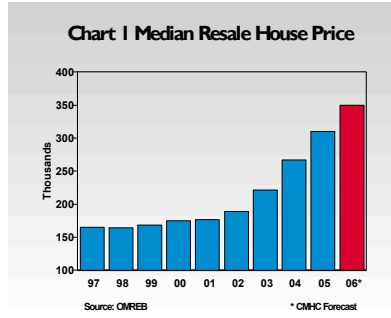
2005 Kelowna Area Overall: \$310,000

Forecast 2006: \$350,000



to increased demand.

Singles sales will level out in 2006, matching last year's record performance. Soaring prices have lead to stronger competition from both the new



and resale multi-family sectors. Rising interest rates will also temper growth in demand.

The supply of singles listings will remain tight despite high levels of completions. Strong demand in combination with reduced supply and expectations of price appreciation continue to drive up list prices. The market has seen a dramatic shift in the price distribution of singles listings. Detached units priced at less than \$300,000 currently account for only 10% of singles listings, down from almost 60% just three years ago. For now, move-up buyers remain the focus of resale singles demand.

The resale singles market will continue to see strong upward pressure on prices, recording double-digit increases for the fourth straight year. The median resale singles price will move up another 16%, reaching \$360,000 in 2006. Prices will have doubled in just five years. Rising prices extend across all sub-market locations. Look for

smaller price gains as growth in demand begins to moderate later this year and on into 2007.

The Core area, Rutland, Glenrosa and Westbank remain the most modestly priced locations. Southeast Kelowna, Dilworth Mountain, the Mission area and sections of North Glenmore, Lakeview Heights and West Kelowna command the highest prices. Black Mountain, Glenmore, Lake Country, North Glenmore, Peachland and Shannon Lake are the focus of buyers seeking mid-priced detached units, homes in the \$300,000-\$350,000 price range.

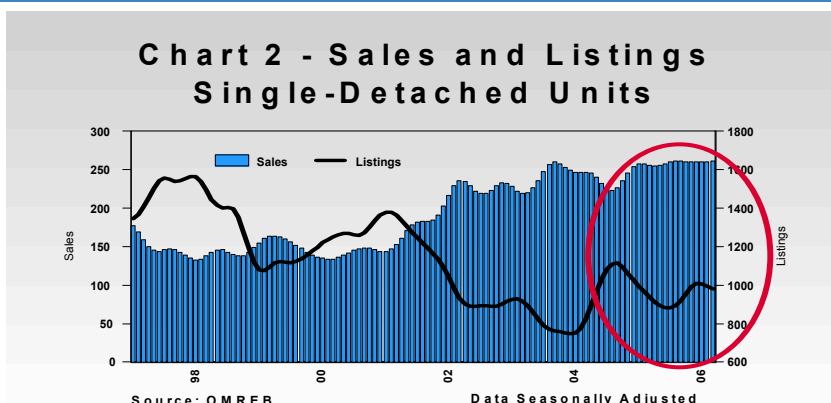
The resale condo and townhouse markets will, once again, see growth in sales outpace the singles sector. Price and lifestyle remain the key drivers. With few detached units priced at less than \$300,000, more first-time buyers are turning to multi-family housing. Higher density housing has now become more widely accepted among younger Kelowna area buyers, representing a major shift in

buyer attitudes. Retirees, move-down buyers and lifestylers also remain big sources of demand. Near zero vacancy rates, rising rents, low

Growth in condo and townhouse sales will outpace the singles sector.

cost of financing and prospects for significant price gains have lead to more interest by investors. High levels of construction activity have pushed up the supply of condo listings. The supply of townhouse listings has trended down over the past year, reflecting both lower levels of construction activity and rising popularity among buyers seeking more affordably priced family-oriented housing.

Strong, more broadly-based demand will continue to drive up prices this year. The median resale townhouse and condo price will 12% and 8% to \$250,000 and \$219,000, respectively in 2006.



Expect singles sales to flatten out after reaching record highs last year.

NEW HOME MARKET

HOUSING STARTS REMAIN AT HIGH LEVELS IN 2006

Housing starts will total 2,725 units in 2006, closely approaching last year's record high. For the second straight year, multi-family starts (combined semi-detached, townhouse and apartment units), will surpass singles starts. Solid market fundamentals and exploding demand for lifestyle-oriented housing have meant more opportunity for expansion this year. Absorption has held up, keeping inventories of complete and unsold units near historical lows.

The singles sector will record another strong performance in 2006. The move-up, move-down and retiree markets will, once again, remain the biggest source of new singles demand. Lifestyle-oriented housing and neighbourhoods which bring together the right combination of housing types, form, setting and amenities, will stay front and centre. Lake and valley view properties will remain the strongest performers. Adult community projects also remain big sellers. Though hugely popular, this type of development faces a growing scarcity of large, flat core area sites.

More builders are now targeting buyers seeking mid priced detached housing, until last year, a largely untapped market. New detached units priced in the \$325,000 - \$375,000 price range - entry level singles - will remain

strong performers in 2006. Sales have been brisk, pent-up demand, skyrocketing resale house prices and greater

For the second straight year, multi-family starts will outpace singles starts.

availability of mid priced lots driving this segment of the market.

The resort sector has pushed it's way into the singles market. Several lakefront developments are now offering detached cottage style units with tenure options usually associated with resort condos - a new niche market.

Strong demand for more upscale housing, rising lot prices and other costs will keep new home

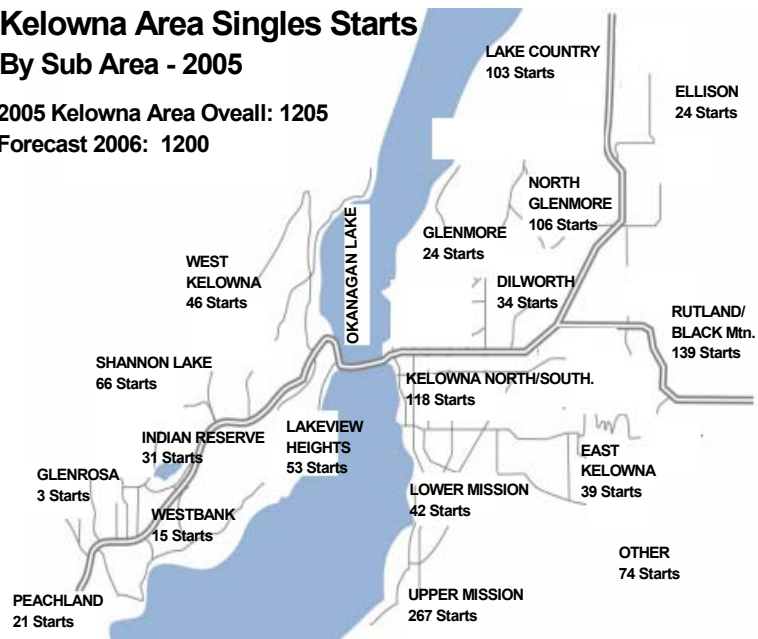
prices high. The median new home price will break the \$400,000 mark in 2006. The average time to build a detached unit has jumped to almost seven months last year from only four months in 2000. Larger more complex homes, more challenging hillside building sites and an ongoing shortage of skilled trades have all contributed to extended construction times. Delays, have in turn, pushed up new home prices.

Lot supply has barely kept pace with demand, leaving developers scrambling to bring more on stream. The focus of singles development is shifting outward as municipalities extend infrastructure into new areas. More entry level building lots, lots

Continued on the next page.

Kelowna Area Singles Starts By Sub Area - 2005

2005 Kelowna Area Overall: 1205
Forecast 2006: 1200



priced in the \$120,000-\$140,000 range, have become available. Look for mid-priced lots in Lake Country, Rutland, Black Mountain a few Upper Mission area subdivisions.

Rising lot prices will continue to push up the cost of new housing. Lot prices have mushroomed in response to strong demand and tight supply. Higher land development costs, leapfrogging past lands in the Agricultural Land Reserve (ALR), Development Cost Charges and more costly hillside development have all contributed to rising lot prices.

The median lot price will climb to \$150,000 in 2006. The \$115,000-\$130,000 price range now represents the low end in most new subdivisions. Premium lake and valley view lots are commanding prices in the \$175,000-\$200,000 plus range.

Condo starts will remain at high levels in 2006, matching last year's surge in construction activity. Retirees, move-down buyers and the resort/lifestyle markets will remain key sources of demand. The resort market has evolved quickly,

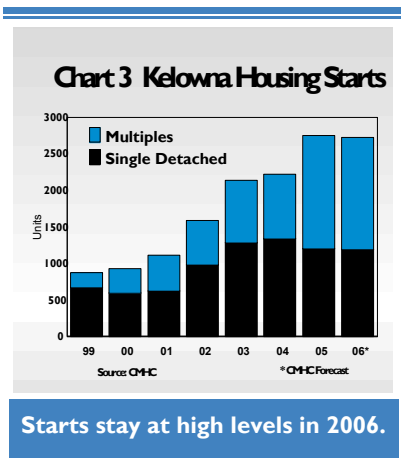
segmentation by product type - tenure, location, building style and amenities - the key to expansion. Many are second residences, investor-owned units or purchased in anticipation of retirement. Resort and conventional condo markets continue to see more and more overlap.

The condo market has moved in new directions, attracting a broader range of buyers over the past eighteen months. With the price of both new and resale detached units up sharply, more first-time buyers are turning to the new condo and townhouse markets. Take-up among projects offering lower to mid

Rising lot prices will continue to push up the cost of new housing.

priced units has been strong. Look for more first-time buyer oriented projects in 2006.

Kelowna is seeing more, larger projects. Many projects now include a commercial component. Mixed use developments faced considerable buyer resistance just a few years ago. More towers are on the way. Towers are now being proposed for locations **outside**



Starts stay at high levels in 2006.

the Core Area, including Rutland, Westbank and Lakeview Heights.

Multi-family housing is becoming more widespread. Expect to see more multi-family housing in outlying areas - Westbank, Lake Country and Peachland.

Prices have trended up sharply, each project pushing the price envelope to new highs. The up-tick in prices reflects both soaring construction costs and strong demand for more upscale product. Absorption remains strong and inventories low. Pre sales are holding up, almost 80% of condos under construction have already been sold. Though good news, balancing presale activity with rapidly escalating

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Singles Starts

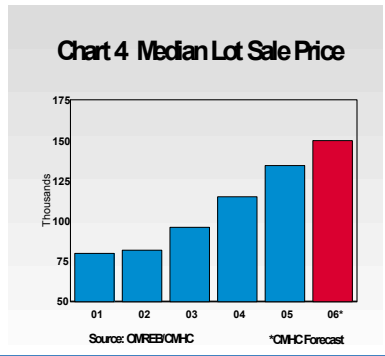
Location	2005	2003
Black Mountain	86	43
Glenmore	24	53
Glenrosa	3	35
Lake Country	103	35
Lakeview Heights	53	104
North Glenmore	106	18
Shannon Lake	66	70
S. E. Kelowna	39	77
Upper Mission	267	257
West Kelowna	46	96

Singles construction activity is following lot supply

Many core area neighbourhoods are now built out. Also, several large, multi-phase developments - Dilworth Mountain, Quail Ridge and Gallaghers Canyon - long standing sources of building lots - are now moving ahead with their final phases. Kelowna is seeing the next generation of subdivisions and planned neighbourhoods come on stream. The focus of singles construction is shifting to **North Glenmore, Lake Country, Black Mountain** and the **Shannon Lake** area. For now, the **Okanagan Mission** remains the biggest source of building lots. Demand has kept pace with new supply, leaving developers scrambling to bring more on stream. Expect lot prices to continue trending up sharply through 2006.

RENTAL MARKET

VACANCY RATE DOWN AGAIN



construction costs has emerged as **the** key challenge for developers of multi-family housing.

The Kelowna area condo market will become **increasingly competitive** in 2006. The market has begun to see more speculative buying, buyers purchasing one or more units with the intention of reselling, often before the building is complete. Strong demand and sharply rising prices are fueling expectations of quick turnover and big price gains.

Townhouses have captured a bigger slice of the new home market, regaining popularity lost through the mid 1990s. Once again, price and lifestyle remain key drivers. Sales among first-time buyer oriented projects have been especially strong. Look for more projects in Rutland, Mission and the West side this year.

Kelowna's seniors housing market will see fewer new congregate housing projects in 2006. The province will continue with its roll out of assisted living units and care beds, beginning construction on three projects totaling 278 beds/units this year.

The Kelowna area vacancy rate fell to a thirteen year low in 2005, dipping to only 0.6% from 1.1% the previous year. Vacancy rates declined both Rutland and the Core area. Strong employment growth has boosted demand for rental accommodation, pushing vacancy rates down. Also, rental housing starts continue to lag behind growth in demand. Looking forward, a buoyant BC and local economy and plans to double enrollment at UBC Okanagan, point to steadily rising demand over the next several years. Expect the vacancy rate to remain below one per cent this year and next.

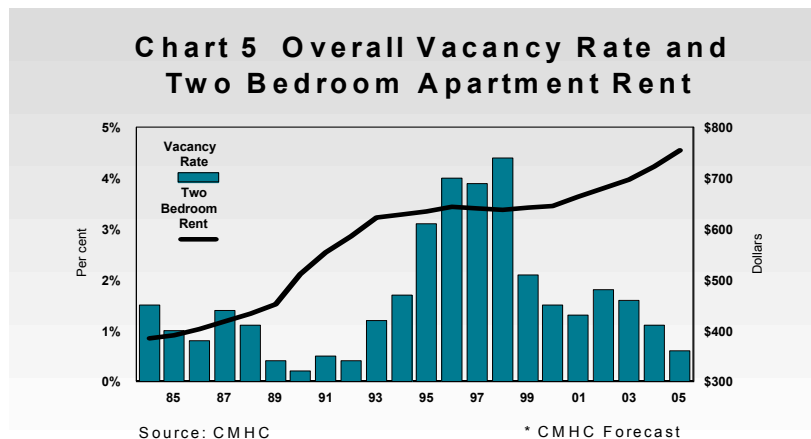
Rents have jumped up in response to declining and sustained low vacancy rates. Average one and two bedroom apartment rents rose 4.6% and 4.4% to \$616 and \$755,

respectively in 2005, the biggest increases since the early 1990s. Townhouse rents were also up sharply. Rents will continue trending up in 2006.

Despite low vacancy rates and rising rents, rental housing starts will total only 50 units in 2006.

Vacancy rate dips to 13 year low. Rents up sharply.

Rental construction has become less attractive in the face of increased land and other costs and competing development opportunities. With demand for condos on the upswing, builders are, for now, focusing on the ownership market. Other types of housing have helped pick up the slack. Secondary suites, investor-owned and resort condos and condos purchased as second residences are a growing source of rental housing.



Vacancy rate will remain low this year and next. Rents will continue to trend up in response to sustained low vacancy rates.

ECONOMIC OVERVIEW

ECONOMY AND POPULATION GROW IN 2006

Growth in the Kelowna area economy and population will continue drive housing demand in 2006. Strong employment growth has spurred in-migration. Kelowna's unemployment rate, though edging up slightly, remains at among the lowest levels in over a decade. Diversification has been key to sustained economic expansion.

The construction, manufacturing, personal services and health care sectors are the biggest sources of job creation. Small business has become the engine of economic growth. Kelowna has also seen a growing trend towards self-employment. The creation of UBC (University of British Columbia) Okanagan will add a whole new dimension to the Kelowna area economy - profile, direct and spin-off employment, capital expenditure, industry partnerships, research dollars **and** demand for housing.

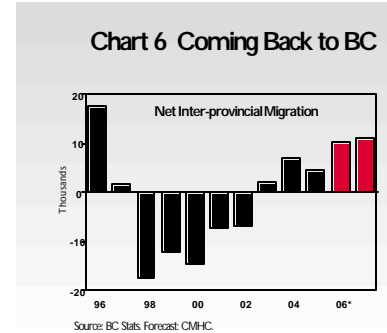
Regional amenities - lifestyle - remain a big draw, fueling population growth. An aging population and hot BC and Alberta economies point to sustained demand for retiree, resort and lifestyle-oriented housing.

The BC economy will expand, recording broad-based growth

through 2006. Strong consumer spending, global demand for commodities and high levels of residential and non-residential construction activity will support growth in employment. BC will lead the provinces in job creation this year. Strong employment growth will, in turn, attract people from other provinces.

BC's population will grow by 1.4% in 2006, up from 0.9% just four years ago. Net inter-provincial migration is forecast to double this year and continue rising through 2007. Historically, people moving to BC from other provinces has been a big source of Kelowna area housing demand. A booming provincial economy and strong Vancouver area real estate markets have also lead to more migrants from within BC.

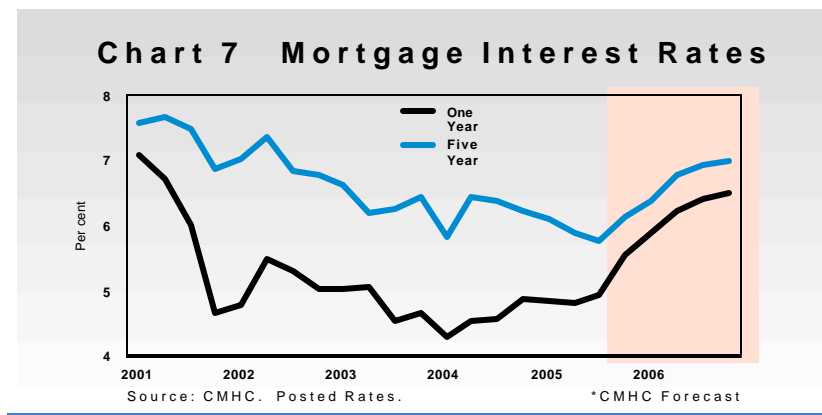
The Central Okanagan has been ranked as the second fastest growing Regional District in the



province. The Kelowna area population will grow by 2.0% - 2.5% in 2006.

Moderate inflation and a strong Canadian dollar will help restrain the size and speed of Canadian interest and mortgage rate increases in 2006-2007.

While still low by historical norms, mortgage rates are expected to rise by 50-75 basis points in 2006. One, three and five year posted rates are forecast to be in the 5.75-6.75, 6.00-6.75 and 6.25-7.25 per cent ranges respectively, in 2006.



Mortgage interest rates edge up in 2006 and 2007.

HOUSING MARKET OVERVIEW

Resale Market Remains Strong in 2006

- Soaring condo and townhouse sales will push resale market activity to another record high in 2006. The singles sector will remain a strong performer, sales flattening out in response to sharply rising prices, higher interest rates, tight supply and competition from the new singles and new and resale multi-family sectors. The median resale house price will see double-digit price increases for the fourth straight year in 2006, jumping another 16% to \$360,000. The Kelowna area resale singles market will remain firmly in sellers' market territory. Condo and townhouse sales will increase again, affordability and lifestyle the key drivers. Strong, more broadly based demand will continue to drive up prices.

Starts Remain at High Levels in 2006

- The Kelowna area new home market will maintain a blistering pace in 2006, housing starts closely approaching last years record performance. Housing starts will total 2,725 units, down slightly from 2,755 units in 2005. Once again, multi-family starts will outpace singles construction.
- The singles sector will remain buoyant through 2006. Though move-up, retiree and move-down markets will remain the focus of demand next year, more builders are targeting buyers seeking modest, mid-priced detached units - until recently, a largely untapped market. New home prices will continue to trend up in response to rising lot prices and other costs. The median new home price will increase to \$415,000 in 2006.
- Apartment condo starts will remain at high levels, matching last year's surge in construction activity. More first-time buyers are now turning to the multi-family sector. Retirees and buyers seeking resort and other lifestyle-oriented housing remain key markets. Absorption remains strong, keeping inventories low.
- The demand outlook remains positive. Growth in the Kelowna area economy and population will continue to drive housing demand in 2006. Construction, manufacturing, personal service and health care sectors remain the biggest sources of job creation. Kelowna's unemployment rate fell to decade lows in 2005. Strong employment growth has, in turn, spurred immigration. The search for lifestyle remains a huge draw, fueling population growth and demand for housing. The Kelowna area remains among the fastest growing regions in the BC. Kelowna's population will grow by 2.0%-2.5% in 2006. Mortgage rates, though remaining low by historical standards, will continue edging up this year and next. Rising interest rates in combination with skyrocketing prices will begin to temper demand later this year.

Rental Market Remains Tight

- The Kelowna area vacancy rate fell to a 13 year low in 2005, dipping to 0.6% from 1.1% the previous year. Declining vacancy rates have pushed up rents, average rents seeing the biggest increases since the early 1990s. Expect vacancy rates to remain below the one per cent level in 2006. Rents will continue to rise in response to sustained low vacancy rates.

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KELOWNA RENTAL MARKET REPORT

CMHC's annual **Kelowna Rental Market Report** gives you an in-depth look at vacancy and rental rate trends for all apartment and townhouses structures of three or more units. Information you need to know!

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FORECAST SUMMARY

Kelowna Area Spring 2006

RESALE MARKET	2003	2004	2005	2006*	% CHG.
MLS Active Listings (Mar.) **	1,258	1,027	1,400	1,298	(7%)
MLS Sales					
Total	3,863	3,978	4,556	4,750	4%
Single-Family	2,902	2,887	3,112	3,100	-
Apartment	631	755	1,012	1,175	16%
Townhouse	330	336	432	475	10%
MLS Median Price					
Single-Family	\$221,500	\$267,000	\$310,000	\$360,000	16%
Apartment	\$124,900	\$159,900	\$203,000	\$219,000	8%
Townhouse	\$158,000	\$183,500	\$223,750	\$250,000	12%

NEW HOME MARKET

Complete and Unoccupied (Mar.)	88	59	132	64	(52%)
Single-Family	54	42	74	41	(45%)
Multi-Family (excludes rental units.)	34	17	58	23	(60%)
Starts					
Total	2,138	2,228	2,755	2,725	(1%)
Single-Family	1,290	1,341	1,205	1,200	-
Multi-Family	848	887	1,550	1,525	(2%)
Median New House Price	\$279,250	\$349,900	\$369,900	\$415,000	12%

Rental Market

Vacancy Rate	1.6%	1.1%	0.6%	0.5%
Rental Rate - % Chg. two bedroom	2.5%	3.7%	4.4%	4.0%
Rental Housing Starts***	54	107	44	50

ECONOMIC OVERVIEW

Mortgage Rate (3 year term)	5.82%	5.65%	5.59%	6.00-6.75%
Mortgage Rate (5 year term)	6.39%	6.23%	5.99%	6.25-7.25%
Net Migration	2,750	3,750	4,000	4,000

* Forecast. ** Single-detached, apartment and townhouse. *** Privately initiated units. Source: CMHC, Okanagan Mainline Real Estate Board.

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