

## HOUSING MARKET OUTLOOK

## Kelowna CMA



Canada Mortgage and Housing Corporation

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## Existing Home Market Remains Strong

Demand for new and resale homes will remain strong in Kelowna over the next couple of years. Growing employment, wages and home equity will support high levels of both resale home activity and new home construction. The Kelowna area economy is firing on all cylinders and will continue to expand in 2007. Employment is up overall despite job losses in the forest industry sectors. Robust job growth will lead to higher levels of in-migration. Lifestyle - the Kelowna area's unique

combination of climate, setting, accessibility and range of services, and housing choices, remain a big draw fuelling population growth. Mortgage rates are forecast to stay low during the remainder of 2007 and into 2008.

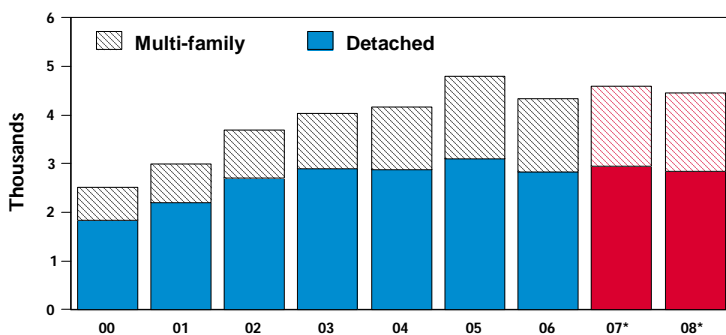
Strong demand for homes will keep Kelowna area existing home sales at near record high levels in 2007 and 2008. Home sales, led by the multiple family home sector, will inch back up in 2007 after trending

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Figure 1

### Sales Remain At High levels



Source: OMREB. Multiples: Apartment and all Townhouses. CMHC Forecast. MLS® Multiple Listing Service (MLS®) is a registered certification mark owned by the Canadian Real Estate Association.

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down throughout most of 2006. Home sales will flatten out later this year and edge lower in 2008 as rising construction costs and higher interest rates bite into demand. Kelowna's resale market will move towards more balanced market conditions in 2007.

Sales of existing singles detached homes began 2007 on a strong note. Strong demand in combination with big price gains have drawn more sellers into the marketplace, pushing up the supply of active listings. Better supply and selection has, in turn, triggered an increase in sales activity. Expect this spring's upswing in detached home sales to level out and moderate slightly in 2008.

The supply of homes listed for sale increased sharply this year and will take some pressure off rising home prices. Single-detached home listings are up 30 per cent from a year ago. However, with move-up home buyers driving the demand for single-detached resale homes, the price distribution of detached home listings has shifted dramatically into the higher home price ranges. Detached homes priced less than \$300,000 currently account for only five per cent of listings, down from 26 per cent just two years ago.

Home prices will continue to rise and record consecutively smaller increases this year and next. The median price of a single-detached resale home jumped 23 per cent to \$432,056 in 2006. Prices have doubled in just five years. The median resale detached house price will climb another 12 per cent to \$485,000 in 2007.

The Core area, Rutland and Glenrosa remain the most modestly priced locations. Black Mountain, Glenmore, Lake Country, North Glenmore, Peachland and Shannon Lake are the focus of buyers seeking mid-priced detached units, homes in the \$400,000-\$475,000 price range. Southeast Kelowna, Dilworth Mountain, the Mission area and sections of North Glenmore, Lakeview Heights and West Kelowna command the highest prices.

The resale condominium and townhouse markets will remain strong performers in 2007. First quarter sales have rebounded sharply and posted large year-over-year gains. With the price of detached homes up sharply, more first-time buyers will turn to multiple-family homes. Higher density housing has become more widely accepted among younger Kelowna area buyers, representing a significant shift in buyer attitudes. Retirees, move-down buyers and others seeking resort and lifestyle-oriented housing also remain big sources of demand. In addition, sustained low vacancy rates, rising rents, low cost of financing and prospects for signifi-

| Price Distribution of MLS ® Singles Listings |        |        |
|--|--------|--------|
| Price Range                                  | 2007 * | 2005 * |
| < \$300,000                                  | 4.5%   | 26.9%  |
| \$300-\$399                                  | 15.9%  | 31.4%  |
| \$400-\$499                                  | 21.7%  | 15.1%  |
| \$500-\$999                                  | 57.2%  | 27.1%  |
| \$1,000,000+                                 | 15.7%  | 5.6%   |
| * April. Source: OMREB.                      |        |        |

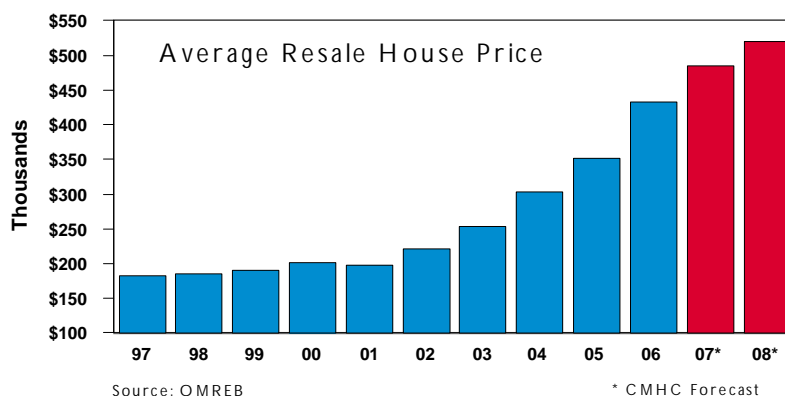
cant price gains have led to more interest by investors.

On the supply side, high levels of construction activity have pushed up the supply of condominium listings. The supply of active condominium listings jumped to an all time high in March. Townhouse listings have seen a smaller increase, due in part to the growing demand for modestly priced family-oriented housing - a less costly alternative to detached housing.

Strong, more broadly-based demand will continue to drive up condominium and townhouse prices in 2007. However, price gains will be more modest this year, reflecting intense price competition from an increasingly well supplied market.

Figure 2

### Home Prices See Smaller Increases



## New Home Construction Will Moderate

Kelowna area housing starts in both 2007 and 2008 will move down from their record levels of the last two years in response to rising construction costs and stronger competition from a well supplied resale market. Total housing starts edged down to their second highest level on record of 2,692 units last year, down slightly from 2005's record high. Expect housing starts to edge lower again to 2,500 and 2,200 units in 2007 and 2008, respectively.

Factors keeping home starts high from a historical perspective include Kelowna's strong population growth and sustained demand for resort-oriented housing. Absorption of new homes remains brisk. The inventory of completed and unoccupied units, though up from a year ago, is low and trending back down. Building industry capacity constraints remain a factor limiting new construction.

Multiple-family home construction will surpass single detached home starts. Starts of detached units will edge down again in 2007, pulled down by soaring construction costs. More builders are targeting buyers seeking mid-priced detached housing. Skyrocketing resale house prices and a greater availability of mid priced building lots have enabled developers to better compete for entry-level home buyers.

Lifestyle oriented housing and neighbourhoods which bring together the right combination of

housing types, form, setting and amenities, will stay front and centre. Larger, multiple-phase developments have become the norm. Lake and valley view properties will remain the strongest performers.

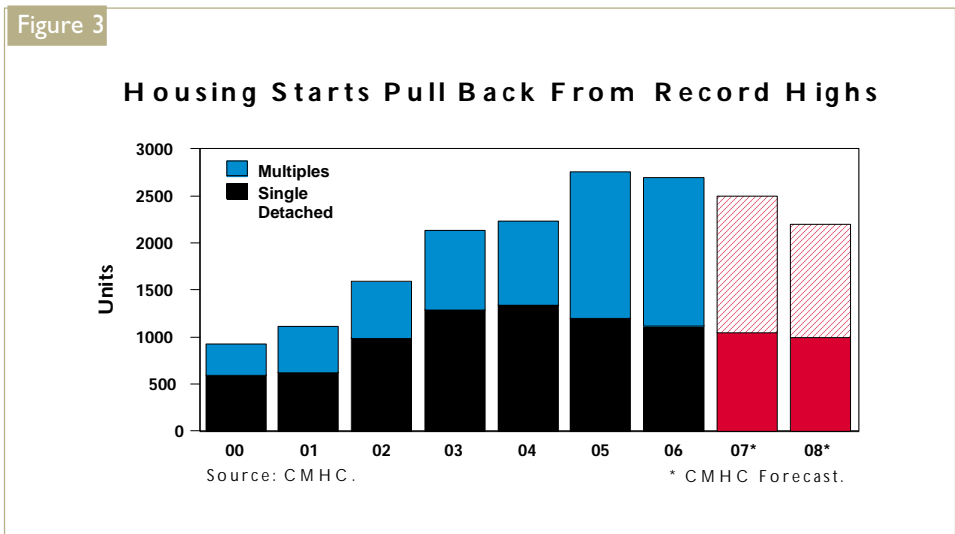
Construction activity will follow lot supply. Lot supply has barely kept pace with demand, leaving developers scrambling to bring more on stream. Single detached home development will shift outward as municipalities extend infrastructure into new areas. Dilworth Mountain, Gallaghers Canyon and Quail Ridge - long standing sources of building lots - have moved ahead with their final phases. Lake Country, North Glenmore, Black Mountain, Kirschner Mountain and the Shannon Lake area have seen new, multiple-phase subdivisions come on stream in the past 18-24 month period.

Take-up among entry level buyers has been strong. With land costs

lower in some outlying areas, more entry-level building lots - lots priced in the \$145,000 - \$160,000 price range, have become available. These lots, in turn, have enabled builders to produce more modestly priced detached homes in the \$375,000 - \$425,000 range.

Lot prices, which mushroomed in response to the strong demand and tight supply, will continue to push up the cost of new housing. The median lot price will climb to \$180,000 in 2007. The \$145,000-\$160,000 price range now represents the low end in most new subdivisions. Premium lake and valley view lots are commanding prices in the \$200,000-\$225,000 plus range.

Strong demand for upscale homes, rising lot prices and extended construction periods have pushed up new home prices. The median new house price jumped by almost a third to \$469,000 in 2006. Expect the new home price to break the



\$500,000 mark this year.

Condominium starts will approach 2006 levels and exceed the 1,000 unit mark for the third consecutive year. New condominium absorption remains strong and inventories low. Home pre-sales are holding up, with almost 80 per cent of condominium units under construction already sold.

The condominium market has moved in new directions, attracting a broader range of buyers over the past eighteen months. Look for more first-time buyer oriented projects in 2007. With the price of both new and resale detached homes up sharply, more first-time buyers are turning to the new condominium and townhouse markets. Sales in housing projects offering lower to mid priced units have been strong. Retirees, move-down buyers, and the resort and lifestyle markets will all remain key sources of condominium demand in 2007. The latter has become the fastest growing segment of the condominium market. Resort and conventional condominium markets will see more and more overlap.

Kelowna is seeing an increase in larger projects. While mixed use developments faced considerable buyer resistance just a few years ago, many projects now include a commercial component.

Peachland, Westbank, and Lake Country have all recorded a surge in multiple-family home construction since 2004. The Westbank area is poised to see even higher levels of multiple-family starts this year and next. The prospects of a new bridge across Lake Okanagan and health care facilities and recent expansion of retail services will attract more home buyers to the West Side.

Condominium prices have moved up sharply, with each project pushing the price envelope to new highs. The up-tick in prices reflects both soaring construction costs and strong demand for upscale homes. Shortages of skilled labour have led to lengthy delays in construction. Balancing home pre-sales with rapidly escalating construction costs has emerged as the key challenge for developers of multiple-family housing. Many builders have implemented phased pricing schemes, which release blocks of

units at prices which reflect changing construction costs.

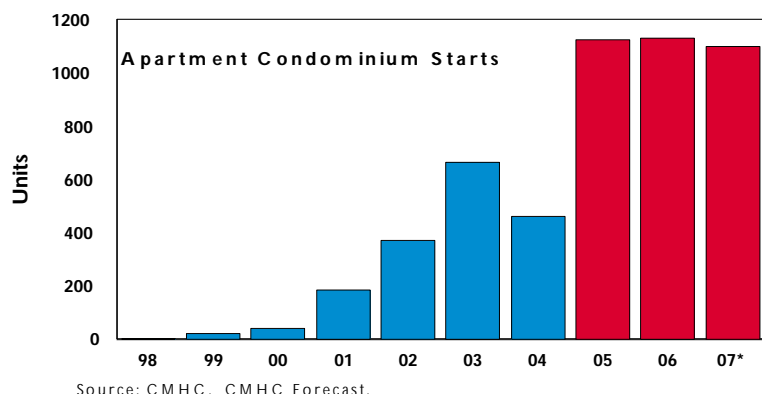
The resort market has evolved quickly, with the “wealth effect” or growth in home equity a key driver, fuelling demand for resort types of housing. Segmentation of the resort market by product type, tenure, location, building style and amenities has been the key to its expansion. Many resort dwellings are second residences, investor-owned units or purchased in anticipation of retirement. Alberta is, at present, the largest source of buyers of Kelowna’s resort-oriented condominiums. Though an ageing population and the hot Alberta and BC economies point to sustained demand for resort and other types lifestyle-oriented housing in Kelowna, this market potentially faces oversupply. The many development proposals moving through the approval process in the Okanagan and elsewhere across southern BC will compete for the same buyer group.

The Kelowna area condominium market will become increasingly competitive in 2007. 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 fuelling 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.

Figure 4

**Condominiums in Demand  
Retirees and Lifestylers Key Markets**



## Economic And Population Growth Will Sustain Housing Demand

Growth in the Kelowna area's economy continue drive housing demand. The Regional District of Central Okanagan grew by almost 10 per cent between 2001 and 2006, which made it the fastest growing Regional District in BC. An expanding economy has led to employment opportunities and attracted job seekers to the Kelowna area. The Construction, Manufacturing, Personal Services and Health Care sectors are the area's largest sources of job creation. A shortage of skilled workers has extended across all industry sectors, becoming a constraint to economic growth.

Diversification remains the Kelowna area economy's greatest strength. The Kelowna International Airport and UBC Okanagan (University of British Columbia - Kelowna Campus) have emerged as high growth sectors. UBC has added a whole new dimension to the Kelowna area economy - direct and spin-off employment, capital expenditure, research dollars, industry partnerships, profile and demand for housing.

The forest products industry faces another challenging year in 2007. Declining lumber prices, reduced demand, supply issues and changing regulatory environment has had some impact on local operations. Despite some job losses, the Kelowna area unemployment rate will remain at among the lowest levels in over a decade.

Even though the BC economy will grow more slowly, it will expand at an above average pace in both 2007

and 2008. Declining lumber exports to the U.S. will dampen trade, resulting in the slower economic growth in British Columbia. On the domestic side of the BC economy, consumer spending and investment in residential and non-residential building and infrastructure, will remain strong performers. The labour force is not growing fast enough to meet demand. Despite near record low unemployment rates, job growth will drop back from 3.1 per cent in 2006 to 2.1 per cent by 2008. Low inflation and an ongoing shortage of labour imply strong wage gains. Jobs and higher wages will attract people and fuel demand for housing. Historically, people moving to British Columbia from other provinces have been a big source of Kelowna area housing demand. Close to 100,000 people will come to BC during next two year period, causing a total net migration doubling from 2002 levels.

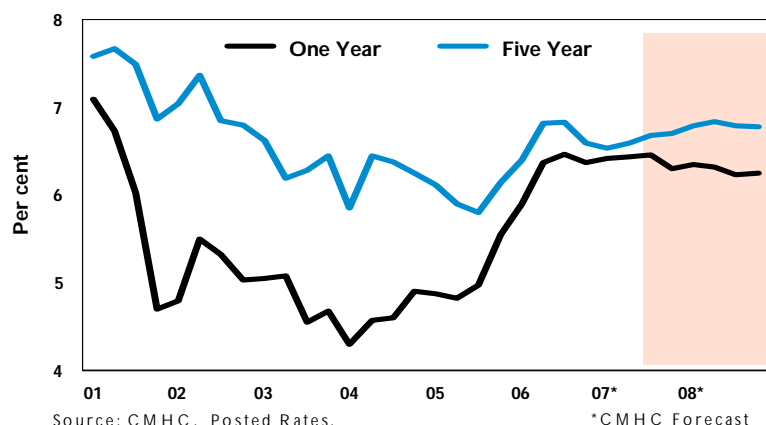
A booming Central Okanagan economy and high Vancouver area home prices have also led to high levels of intra-provincial migration - people coming to Kelowna from

within BC. The Kelowna area population will, exclusive of seasonal in-migrants, grow by 2.5% - 3.0% this year and next. Additionally, the Kelowna area's attractive lifestyle will remain a huge draw and will fuel population growth. An influx of buyers seeking second residences and resort-oriented housing - non-permanent residents - have emerged as a key source of housing demand and major contributor to the local economy.

Attractive mortgage rates will support housing demand. A slowing Canadian economy in combination with moderate inflation and a strong Canadian dollar vis-a-vis the U.S. dollar, will keep Canadian interest and mortgage rates low this year and next. Short-term mortgage rates will ease as the prime rate nudges down over the next twelve months, while long term mortgage rates will rise slightly in line with bond rates. One, three and five year posted mortgage rates are forecast to be in the 5.75-6.75, 6.00-7.00 and 6.25-6.75 per cent ranges, respectively, over the remainder of this year and in 2008.

Figure 5

### Mortgage Rates Remain Low



Source: CMHC. Posted Rates.

\*CMHC Forecast

| Forecast Summary<br>Kelowna CMA<br>Spring 2007 |         |         |         |         |       |         |       |
|--|---------|---------|---------|---------|-------|---------|-------|
|  | 2004    | 2005    | 2006    | 2007f   | % chg | 2008f   | % chg |
| <b>Resale Market</b>                           |         |         |         |         |       |         |       |
| MLS® Sales (1)                                 | 4,570   | 5,256   | 4,790   | 5,100   | 6.5   | 4,800   | -5.9  |
| MLS® New Listings (1)                          | 7,289   | 7,883   | 7,432   | 8,400   | 13.0  | 7,900   | -6.0  |
| MLS® Average Price (\$) (2)                    | 303,589 | 352,228 | 432,056 | 485,000 | 12.3  | 519,000 | 7.0   |
| <b>New Home Market</b>                         |         |         |         |         |       |         |       |
| <b>Starts:</b>                                 |         |         |         |         |       |         |       |
| Single-Detached                                | 1,342   | 1,205   | 1,122   | 1,050   | -6.4  | 1,000   | -4.8  |
| Multiples                                      | 882     | 1,550   | 1,570   | 1,450   | -7.6  | 1,200   | -17.2 |
| Semi-Detached                                  | 148     | 112     | 170     | 125     | -26.5 | 100     | -20.0 |
| Row/Townhouse                                  | 171     | 206     | 268     | 225     | -16.0 | 175     | -22.2 |
| Apartments                                     | 563     | 1,232   | 1,132   | 1,100   | -2.8  | 925     | -15.9 |
| Starts - Total                                 | 2,224   | 2,755   | 2,692   | 2,500   | -7.1  | 2,200   | -12.0 |
| <b>Average Price (\$):</b>                     |         |         |         |         |       |         |       |
| Single-Detached                                | 394,377 | 422,928 | 538,658 | 600,000 | 11.4  | 650,000 | 8.3   |
| <b>Median Price (\$):</b>                      |         |         |         |         |       |         |       |
| Single-Detached                                | 349,900 | 374,000 | 469,000 | 520,000 | 10.9  | 560,000 | 7.7   |
| New Housing Price Index (% chg) (B.C.)         | 5.3     | 4.8     | 6.5     | 6.3     | -     | 5.5     | -     |
| <b>Rental Market</b>                           |         |         |         |         |       |         |       |
| October Vacancy Rate (%)                       | 1.0     | 0.5     | 0.6     | 0.8     | 0.2   | 1.0     | 0.2   |
| Two-bedroom Average Rent (October) (\$)        | 723     | 755     | 800     | 835     | 4     | 860     | 3     |
| One-bedroom Average Rent (October) (\$)        | 589     | 616     | 661     | 690     | 4     | 710     | 3     |
| <b>Economic Overview</b>                       |         |         |         |         |       |         |       |
| Mortgage Rate (1 year) (%)                     | 4.80    | 5.80    | 6.30    | 6.40    | 0.10  | 6.29    | -0.12 |
| Mortgage Rate (5 year) (%)                     | 6.05    | 6.30    | 6.45    | 6.63    | 0.18  | 6.80    | 0.17  |
| Annual Employment Level                        | 82,475  | 81,525  | 86,925  | 93,000  | -     | 97,650  | -     |
| Employment Growth (%)                          | 10.3    | -1.2    | 6.6     | 7.0     | -     | 5.0     | -     |
| Unemployment rate (%)                          | 4.9     | 5.5     | 5.9     | 5.0     | -     | 5.2     | -     |
| Net Migration (B.C.)                           | 38,646  | 43,654  | 44,047  | 47,900  | 8.7   | 51,700  | 7.9   |

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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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