HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Kelowna CMA

Canada Mortgage and Housing Corporation

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Kelowna Housing Markets Moderate

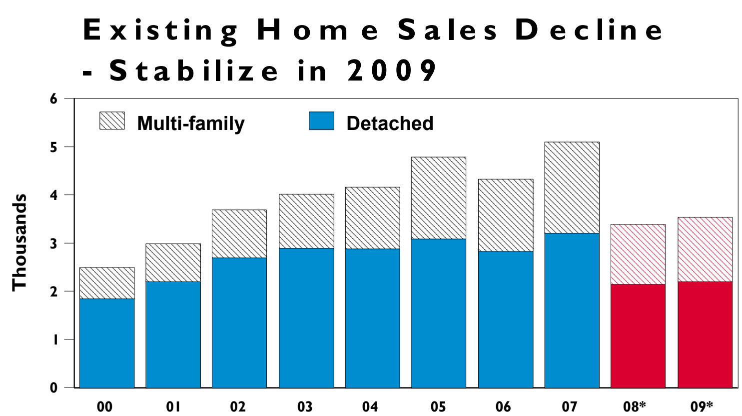
New home starts and sales of existing homes will moderate in 2008 and 2009, dropping back from 2007's record levels. Demand has softened in response to slower economic and employment growth and increased costs of home ownership. Expect existing home prices to adjust downward in 2009.

The outlook remains positive despite fewer sales and housing starts.

Kelowna's diversified economy and growing population together with rising wages and favourable interest rates will help support demand for new and resale housing next year.

Sales and housing starts are forecast to stabilize at lower levels next year and begin picking up later in the second half of 2009. Home buyers will benefit from stronger price competition and better selection of existing homes.

Figure 1



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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Housing Starts Drop in 2009

Kelowna housing starts will dip to 1,850 homes in 2009. Fewer apartment condominium starts will account for most of next year's decline. Expect housing starts to drop back as builders adjust to reduced demand, rising inventories of unsold units and stronger price competition from a well supplied existing home market. This spring's surge in apartment condominium construction will keep housing starts at high levels in 2008. Housing starts will total 2,400 homes this year.

With the inventory of complete and unsold homes up sharply, expect starts of detached homes to move lower next year. Unlike the multi-family sector, singles starts recorded monthly year-over-year declines in 2008. Retirees, move-down and move-up buyers will remain the focus of new singles demand.

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

Until recently, lot supply has barely kept pace with demand, leaving developers scrambling to bring more building lots on stream. Single detached home development has shifted 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, the Shannon Lake area and Rutland Bench, have seen new, multiple-phase subdivisions come on stream in the past 18-24 month period. The supply of building lots is now increasing as demand for new detached homes cools down.

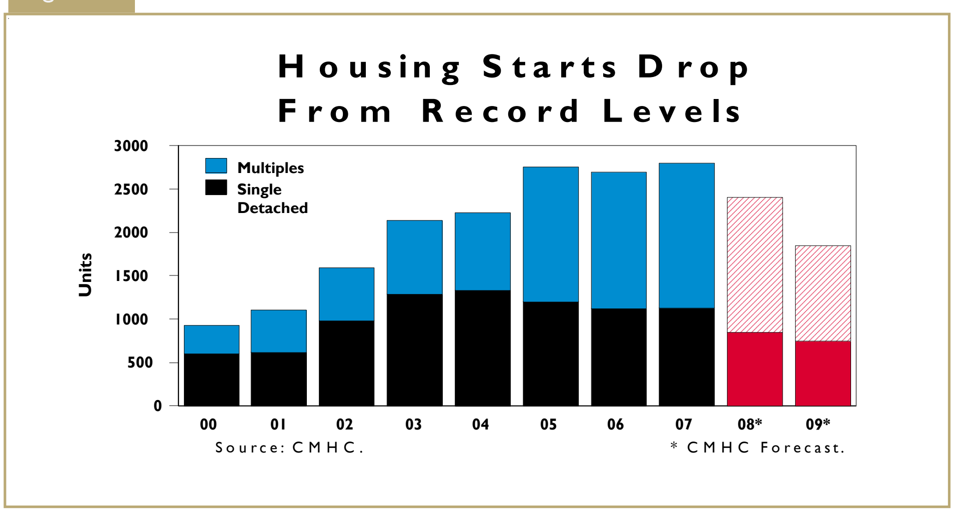
Rising lot prices have continued to push up the cost of new housing. The annual median lot price will reach $235,000 in 2008. The $180,000-$200,000 price range now represents the low end in most new subdivisions. Better lake and valley view lots are commanding prices in the $275,000-$350,000 plus range. Reduced demand together with increased supply will keep lot prices in check next year.

Strong demand for upscale homes, rising lot prices and other costs and extended construction periods have all contributed to higher new home prices. The average time to build a detached home has increased from four months in 2000 to just over nine months by 2008. A shortage of labour, larger, more complex homes and challenging hillside building sites have led to longer build times. The annual average new detached home price will reach the $695,000 mark this year, up ten per cent in 2008. Expect growth in new home prices to flatten out as upward pressure on labour and materials costs and lot prices ease in response to moderating demand.

Kelowna will see fewer apartment condominium starts in 2009. Demand for multi-family homes is softening. With the supply of active condominium listings now at an all time high, the new condominium market will face much stronger competition next year.

Although 65 per cent of apartment units under construction have been pre sold, both absorption and pre sales have fallen off in recent months. The inventory of complete and

Figure 2

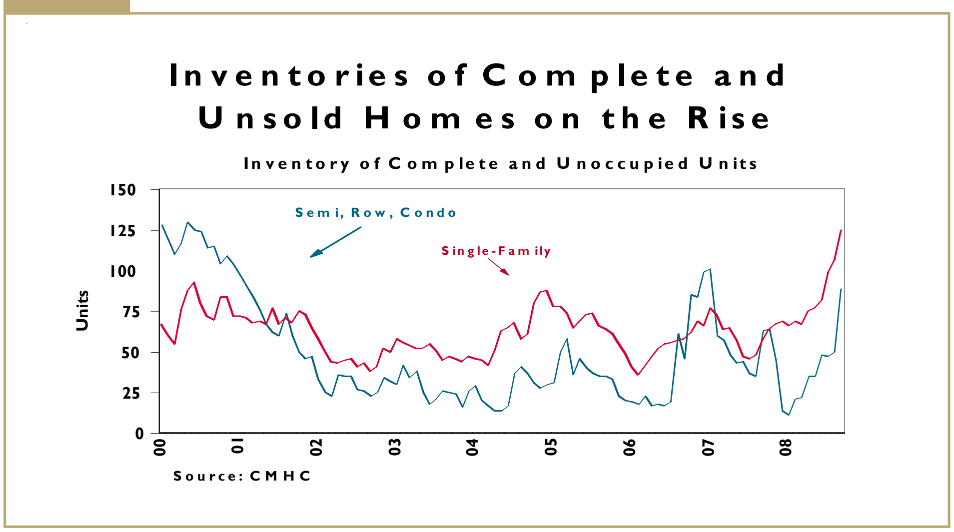


unsold units, while low, is climbing higher and does not include units available for resale through the assignment of contracts. Reduced demand in combination with sharply increased supply of new and existing units and tighter credit conditions for builders of larger multi-family projects will constrain apartment condominium construction next year.

Apartment condominium starts will climb to near record levels in 2008, despite an increasingly competitive market. The majority of this year's condominium starts occurred in the first half of 2008. Many were substantially pre sold the previous year.

Retirees, move down buyers and the resort and lifestyle markets will all remain key sources of condominium demand through the longer term. All three buyer groups will be less active in 2009. Also, with few detached units available for less than $400,000, multi-family housing is attracting more first-time buyers.

Figure 3



Kelowna's condominium market continues to move in new directions. Kelowna is seeing larger projects, many including a mix of low and high rise apartment condominiums and townhouses. More and even higher towers are on the way. Mixed residential and commercial use projects are now the norm. Condominium construction has also become more widespread as outlying communities develop the necessary infrastructure to accommodate higher density housing.

Condominium prices have increased with each new project, pushing the price envelope to new highs. The up tick in prices reflects both rising construction costs and strong demand for upscale homes. Longer build times due to shortages of skilled labour have also contributed to rising costs. Balancing pre-sales with escalating construction costs has emerged as a key challenge for developers of multi-family housing. Most builders have now implemented phased pricing schemes, releasing blocks of units at prices which take into account changing construction costs.

Looking forward, cost pressures will ease in response to moderating demand and stronger competition from the existing home market.

New townhouse projects will also face stronger competition from better supplied existing home markets in 2009. Expect townhouse starts to drop back from the high levels seen during the past few years.

Kelowna will see more rental housing starts this year and next. A three phase, 144 unit apartment building is currently under construction, the first larger, privately-initiated rental building since 2005. The City of Kelowna announced construction will begin on up to 140 units of publicly-initiated rental housing in 2009. This housing is intended to accommodate clients with special needs. A similar 30 unit apartment project came on stream this year.

Despite sustained low vacancy rates, Kelowna has seen few additions to the stock of apartment and townhouse rental housing in recent years. The viability of new rental housing is problematic given achievable rents and high land prices and construction costs. The scarcity of sites is also a challenge for developers of rental housing. The secondary rental market, comprised mainly of accessory suites and investor-owned condominiums, has been the biggest source of new rental housing in recent years. More condominiums may become available as investor-owned rentals as the condominium market adjusts to reduced demand and increased supply.

Existing Home Sales Stabilize in 2009

Sales of existing homes will decline by one third in 2008. Expect sales to stabilize and begin picking up later in 2009.

The supply of active singles listings has shot up in the wake of reduced demand. Softening prices have triggered a surge in listing activity. High levels of new home construction have also contributed to increased supply. The supply of active listings will come down as some sellers choose not to re-list their homes and wait for more favourable supply and demand conditions. Home buyers will benefit from increased choice this year and next.

Buyers with equity from previous homes account for the lion's share of detached home sales. This group includes retirees and move-up and move-down buyers. More first-time buyers are now turning to higher density housing, representing a significant shift in buyer attitudes. Price is the motivating factor.

The average annual sale price of a detached home is expected to edge down in 2009, adjusting to moderating demand and increased supply. After recording double-digit increases since 2002, growth in existing home prices began slowing this past spring. Prices will continue to soften through the balance of 2008. Lower prices will contribute to improved affordability. Although prices are now trending down, the average annual house price will climbseven per cent to $545,000 in 2008, due to price growth experienced earlier this year.

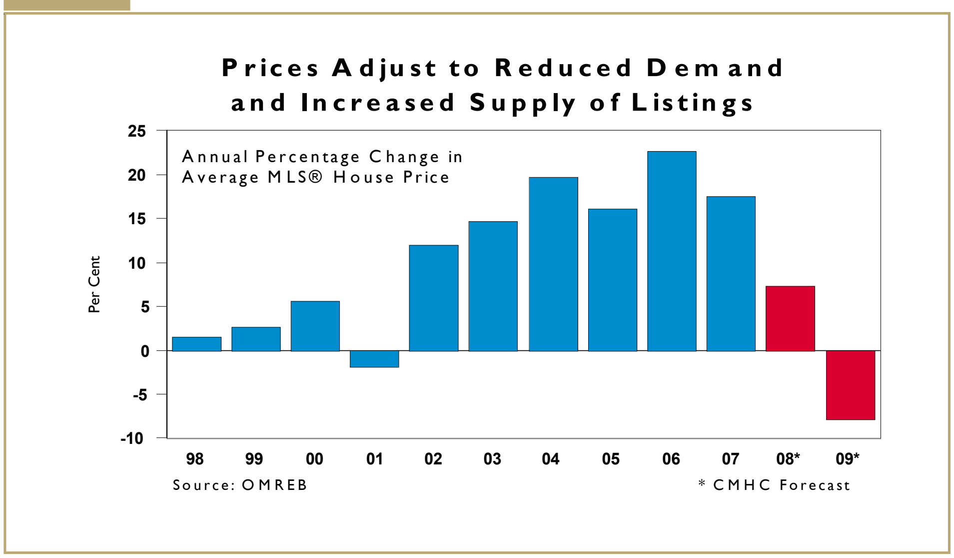
Rutland, Westbank, Glenrosa and the Core area will be the most modestly priced locations. Black Mountain, Glenmore, Lake Country, North Glenmore, Peachland and Shannon Lake are the focus of buyers seeking mid-priced detached homes. Southeast Kelowna, Dilworth Mountain, the Mission area and sections of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

The spectacular growth in demand for resort-oriented homes seen since 2002 has cooled off. Stronger competition from US resort markets and growing number of resort developments elsewhere in BC have contributed to fewer condominium sales. Alberta buyers, a key source of condominium demand, have also been less active this year. Other factors, including softening prices and volatile financial markets, have led some investors to adopt a "wait and see" position. Looking forward, this year's downturn in existing apartment condominium and townhouse sales is forecast to begin levelling out by mid 2009.

The supply of active apartment condominium listings has risen to record levels in 2008, supply almost tripling from the previous year. High levels of construction activity have pushed up supply, with condominium units currently under construction or less than one year old, accounting for more than 50 per cent of active listings. More town homes are now also available for sale. Both apartment and town home prices are also expected to slip back in 2009, reflecting both reduced demand and more intense price competition.

Kelowna's existing home market has shifted to a buyers' from a sellers' market position.

Figure 4



Economic and Employment Growth Moderate in 2009

The Kelowna area economy will grow at a more modest pace in 2009. The Kelowna International Airport and UBC Okanagan (University of British Columbia – Okanagan campus) have emerged as key growth sectors. UBC Okanagan has become a major economic driver since its creation in 2005, bringing to Kelowna direct and spin-off employment, significant capital expenditure, industry partnerships, research dollars, profile and demand for housing. Kelowna's airport runway has now been extended to accept direct overseas flights. Improved accessibility will enhance the area's appeal to both tourists and potential home buyers. Kelowna General Hospital is being expanded to include health care services currently available only in Vancouver, an important consideration for retirees seeking to relocate to this region.

The incorporation of Westbank and other neighbourhoods located on the west side of Lake Okanagan will generate additional economic activity and employment growth. The new bridge across Lake Okanagan opened earlier this year. Improved traffic flows and recent expansion of retail services will attract more home buyers to the West Side.

Kelowna area employment is forecast to grow by 3.5 and 1.5 per cent in 2008 and 2009, respectively. New jobs will be added in the high tech, trade, health care, personal and other service related industry sectors. The construction industry will see employment growth shift to the non residential from the residential sectors. Kelowna's unemployment rate, though forecast to edge up, will remain near historical lows in 2009. Rising wages together with low interest rates will also help support demand for both new and existing homes in 2009.

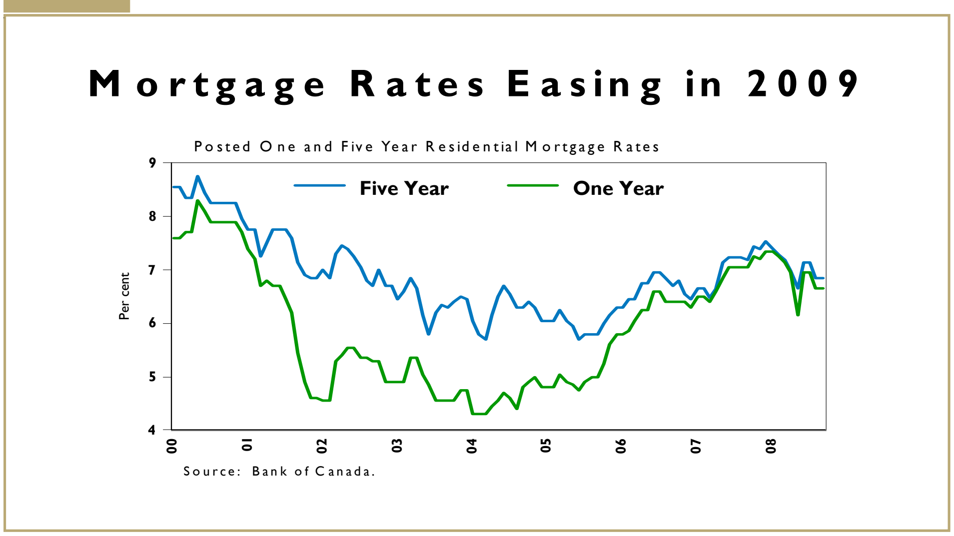
Despite job losses in some sectors, Kelowna continues to experience a shortage of workers. Tight labour markets will fuel in-migration and demand for housing. High housing costs and near zero rental vacancy rates have emerged as key concerns for businesses seeking to attract and retain low and middle wage earners.

The Kelowna area population will, exclusive of seasonal in-migrants, grow by 1.0 -1.5 per cent in 2009.

Mortgage Rates

Mortgage rates are expected to be relatively stable throughout the last quarter of this year, remaining within 25-50 basis points of their current levels. Posted mortgage rates will decrease slightly in the first half of 2009 as the cost of credit to financial institutions eases. Rising bond yields, however, will nudge mortgage rates marginally higher in the latter half 2009. For the last quarter of 2008 and in 2009, the one year posted mortgage rate will be in the 6.00-6.75 per cent range, while three and five year posted mortgage rates are forecast to be in the 6.50-7.25 per cent range.

Figure 5



Forecast Summary Kelowna CMA Fall 2008							
	2005	2006	2007	2008f	% chg	2009f	% chg
Resale Market							
MLS® Sales (1)	5,256	4,790	5,584	3,800	-31.9	4,000	5.3
MLS® New Listings (1)	7,883	7,432	9,320	12,000	28.8	10,500	-12.5
MLS® Average Price ($) (2)	352,228	432,056	507,780	545,000	7.3	502,000	-7.9
New Home Market							
Starts:							
Single-Detached	1,205	1,122	1,130	850	-24.8	750	-11.8
Multiples	1,550	1,570	1,675	1,550	-7.5	1,050	-32.3
Semi-Detached	112	170	100	110	10.0	75	-31.8
Row/Townhouse	206	268	233	240	3.0	175	-27.1
Apartments	1,232	1,132	1,342	1,200	-10.6	850	-29.2
Starts - Total	2,755	2,692	2,805	2,400	-14.4	1,850	-22.9
Average Price ($):							
Single-Detached	422,928	538,658	629,741	695,000	10.4	715,000	2.9
Median Price ($):							
Single-Detached	374,000	469,000	549,000	605,000	10.2	625,000	3.3
New Housing Price Index (% chg) (B.C.)	4.8	6.5	6.4	6.3	-	5.5	-
Rental Market							
October Vacancy Rate (%)	0.5	0.6	0.0	0.3	0.3	0.6	0.3
Two-bedroom Average Rent (October) ($)	755	800	846	905	-	940	-
One-bedroom Average Rent (October) ($)	616	661	715	770	-	805	-
Economic Overview							
Mortgage Rate (1 year) (%)	5.06	6.28	6.90	6.75	-0.15	6.31	-0.44
Mortgage Rate (5 year) (%)	5.99	6.66	7.07	7.05	-0.02	6.92	-0.13
Annual Employment Level	81,700	86,900	88,200	91,350	-	92,750	-
Employment Growth (%)	-1.1	6.4	1.5	1.5	-	1.5	-
Unemployment rate (%)	5.4	6.0	4.6	5.0	-	5.2	-
Net Migration (B.C.) (3)	80,822	52,789	58,277	57,900	57,400	57,100	-1.4

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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. (3) 2007 migration data is forecasted

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