HOUSING MARKET OUTLOOK

Kelowna CMA

Canada Mortgage and Housing Corporation

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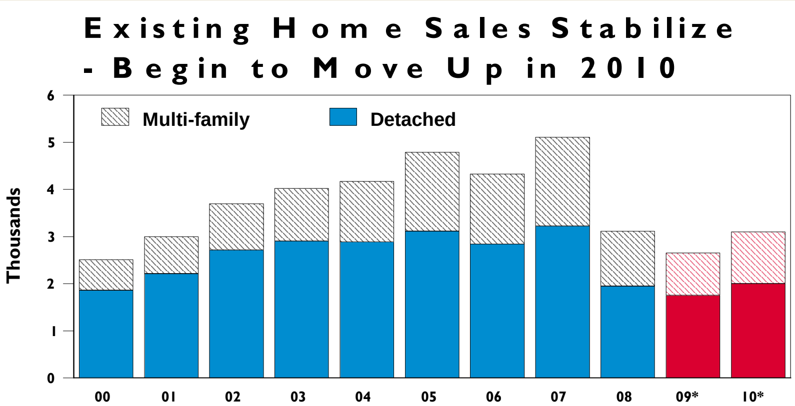
Kelowna Housing Markets Stabilize

The Kelowna area will see sales of existing homes and housing starts move down in 2009. Demand has softened in response to slower employment and population growth. Expect existing home prices to adjust downward in 2009.

Sales of existing homes will stabilize at lower levels by mid year and begin picking up in the second half of 2009. Demand for existing homes, led by first-time buyers, is forecast to record a modest recovery next year. Expect declining home prices to stabilize later this year and remain flat through 2010. Home buyers can look forward to lower prices, favourable interest rates and a good selection of listings this year and next.

Both single and multiple family housing starts will drop back from the record levels of the past few years. Rental construction will comprise the bulk of multi-family starts in 2009.

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.

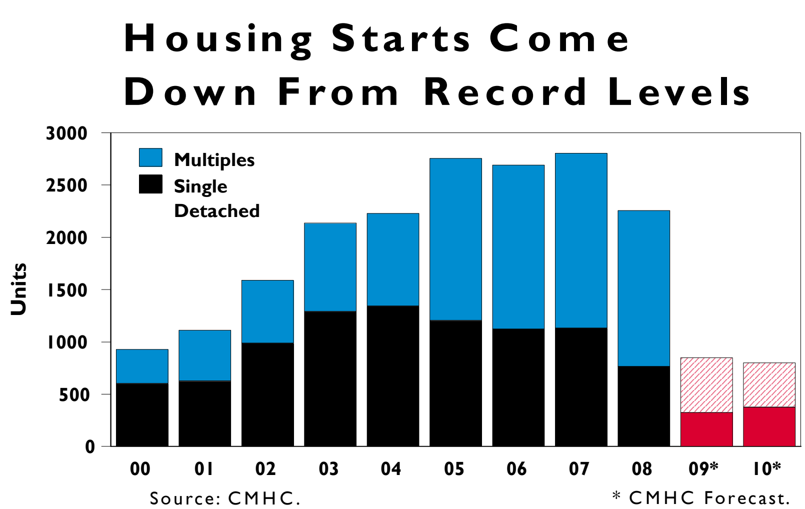
Table of contents

Housing Starts Pull Back From Record Levels.

Demand for new homes has softened in response to stronger price competition from a well supplied existing home market. Builders have pulled back, adjusting to reduced demand and rising inventories of complete and unsold units. Kelowna area housing starts will total 850 homes in 2009, down from the exceptionally high levels of new home construction recorded during the past five year period. Fewer apartment condominium and townhouse starts will account for most of this year's decline. Total housing starts will remain about the same in 2010, slightly higher levels of singles, townhouse and apartment condominium construction offset by fewer rental housing starts.

Kelowna's new home construction sector has begun the year on a slow note. First quarter housing starts are well below the record levels seen in 2008.

Figure 2



Starts of single-detached homes will move lower in 2009. The inventory of completed and unsold detached homes has increased sharply, pointing to a drop in new singles construction this year. The focus of new singles demand has shifted to more moderately priced homes. The shift in demand reflects fewer move-up buyers, declining construction costs and lower existing home prices. Most recently, detached homes in the $475,000 - $600,000 price range have been the strongest sellers. With the supply of active singles listings near all-time highs and resale home prices softening, the existing home market will capture the lion's share of detached home sales this year. Single-detached starts will pick up later in 2010 as the economy begins to see stronger employment growth and the supply of unsold new and existing homes is drawn down.

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. The supply of building lots is now increasing as demand for new homes cools down. 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 two year period.

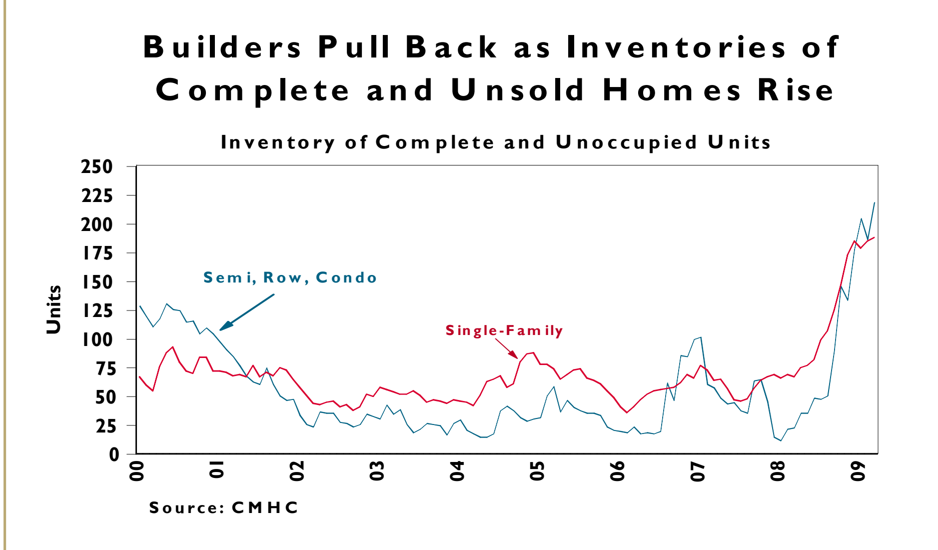
Expect new home prices to soften as labour and materials costs and lot prices come down in response to moderating demand. Strong price competition from the resale market will also exert downward pressure on new home prices. Although construction costs are easing, completions of higher cost homes started earlier last year will keep the average annual new singles price high in 2009. Lower costs together with increased demand for more modestly appointed homes will bring the price of new detached units down later this year and in 2010.

Apartment rental construction will outstrip condominium starts in 2009. With rents up sharply and construction costs coming down, rental construction has become a more viable development opportunity than in recent years. Reduced demand for condominiums may also free up some building sites for rental construction. Despite sustained low vacancy rates, Kelowna has seen few additions to the stock of apartment and townhouse rental housing since the early 2000s. The viability of new rental housing has been challenging given achievable rents, high land and construction costs and scarcity of building sites. The secondary rental market, comprised mainly of accessory suites and investor-owned condominiums has been, until now, the biggest source of new rental housing.

Starts of privately-initiated apartment rental housing will total 150 – 200 units this year. 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 last year. New rentals will face competition from the condominium market as some developers rent out unsold units and more investor-owned rentals become available. The apartment vacancy rate is forecast to increase this year and next.

Condominium construction will pull back sharply in 2009. Weaker demand in combination with an increased supply of new and existing homes will constrain apartment condominium construction this year. Apartment condominium starts will total 100 units in 2009.

Figure 3



The spectacular growth in demand for new condominiums, especially resort homes and second residences, has cooled off, pushing the inventory of completed and unsold units higher. Absorptions and presales have moderated in recent months. Although 67 per cent of apartment condominium units currently under construction have been pre sold, most of the sales occurred in 2007 and the first half of 2008. No apartment condominium projects have started since August 2008. Several projects under construction have been put on hold. Developers are beginning to rent out unsold inventory.

With the supply of active condominium listings more than doubling during the past year, the new condominium market will face much stronger competition from the resale market this year. The townhouse sector will follow suit, seeing fewer starts in 2009. Expect both apartment and townhouse construction to begin picking up later next year as inventories of unsold units and the supply of active listings is drawn down.

Risks to the Kelowna new home forecast are on the downside this year and include a slower than expected economic recovery south of the border and here in Canada.

Buyers Benefit from Lower Prices and More Choice in 2009

Resale market conditions will favour buyers this year and next. Buyers will benefit from increased choice. The supply of active listings has increased in the wake of reduced demand, peaking at record levels last fall. Although listing activity has since slowed, supply remains at high levels.

Existing home prices will move down in 2009. Home prices peaked last spring and have since declined in response to weaker demand and sharply increased supply of listings. The average annual sale price of a detached home will drop by 17 per cent to $450,000 in 2009. The decline reflects, in part, stronger demand for lower price homes. Moderately priced homes have been the focus of singles demand this year. Detached homes priced at less than $400,000 captured 49 per cent of singles sales this year compared to only 24 per cent during the same three month period in 2008. Lower prices will contribute to improved affordability. Expect detached home prices to stabilize later this year and remain flat in 2010.

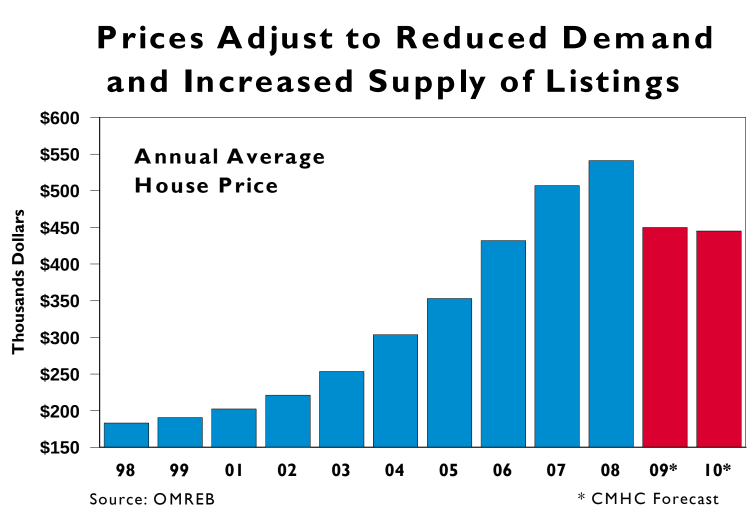
Sales of existing homes will stabilize by mid year after trending down since last spring. Existing home sales dropped by 38 per cent in 2008. Expect sales to begin edging back up later in 2009 as the Canadian and U.S. economies see stronger growth. Also, favourable interest rates in combination with lower prices and improved selection of listings will boost demand, especially among first-time buyers. Sales will continue to move up in 2010.

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 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.

The Kelowna area condominium market will become increasingly competitive in 2009. Demand for discretionary housing, until last year, the fastest growing segment of Kelowna's condominium market, has waned as economies across North America experience slower growth. Investors have pulled back in the wake of heightened uncertainty and softening home prices. Stronger competition from US resort markets and a growing number of new resort developments elsewhere in BC have also contributed to fewer sales. The supply of apartment condominium listings has more than doubled from a year ago. Expect condominium prices to adjust downward in 2009 and 2010.

Homes will take longer to sell this year. Homebuyers have sharpened their pencils and are presenting more conservative offers. The sale price to list price ratio slipped to 89 per cent in the first quarter of 2009, down from 97 per cent during the same three month period last year. Kelowna's existing home market shifted to a buyers' from a sellers' market last year and will remain in a buyers' market position in 2009.

Figure 4



Growth Moderates in 2009

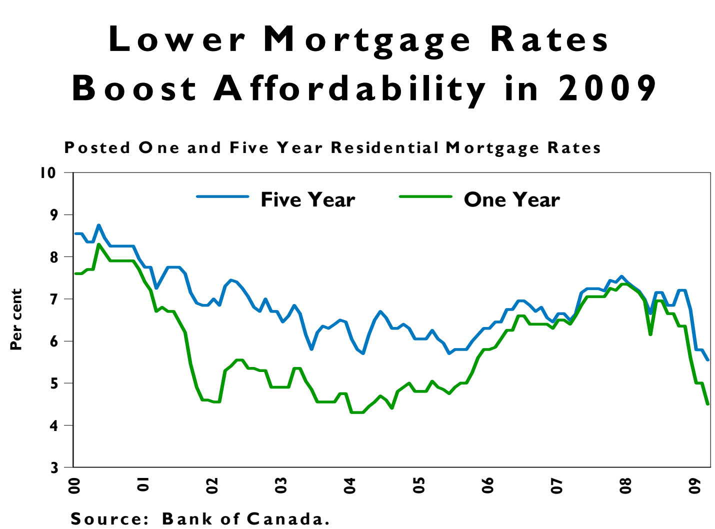
The BC and Kelowna area economies will grow at a more modest pace in 2009. Fewer employment opportunities will mean slower population growth and less demand for housing.

Despite job losses in some sectors, Kelowna's economy is better positioned to cope with slower growth than in previous downturns. 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. Other projects include the expansion of Kelowna General Hospital 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 the recent expansion of retail services will attract more home buyers to the West Side.

New jobs will be added in the health care and other service-related industries. The construction industry will see employment growth shift to the non residential from residential sector. Businesses seeking to attract workers will benefit from slightly higher vacancy rates, lower home prices and a better selection of both new and existing homes.

Kelowna's unemployment rate is rising. The regional forest products, manufacturing, residential construction and the tourism sectors are shedding jobs. The forest products industry will face another challenging year in 2009. Reduced demand for softwood lumber south of the border, low lumber prices, export taxes and supply issues stemming from the pine beetle epidemic have led to some job losses at Okanagan operations. A high Canadian dollar and rising energy costs earlier last year and, more recently, slower economic growth here and abroad, have taken a bite out of tourist traffic. Call centres have also been impacted by a slowing US economy, with operations throughout the Thompson-Okanagan region downsizing or closing their doors.

Figure 5



Mortgage Rates

Mortgage rates are expected to be relatively stable throughout 2009, remaining within 25-75 basis points of their current levels. Posted mortgage rates will increase very gradually during the course of 2010, reflecting a rise in government of Canada bond yields. For 2010, the one year posted mortgage rate will be in the 4.75-6.00 per cent range, while three and five year posted mortgage rates are forecast to be in the 5.00-6.75 per cent range.

Forecast Summary Kelowna CMA Spring 2009	2006	2007	2008	2009f	% chg	2010f	% chg
Resale Market							
MLS® Sales [1]	4,790	5,584	3,445	2,900	-15.8	3,350	15.5
MLS® New Listings [1]	7,432	9,320	11,737	10,000	-14.8	11,000	10.0
MLS® Average Price ($) [2]	432,056	507,780	541,131	450,000	-16.8	445,000	-1.1
New Home Market							
Starts:							
Single-Detached	1,122	1,130	765	325	-57.5	375	15.4
Multiples	1,570	1,675	1,492	525	-64.8	425	-19.0
Semi-Detached	170	100	98	25	-74.5	40	60.0
Row/Townhouse	268	233	207	50	-75.8	60	20.0
Apartments	1,132	1,342	1,187	450	-62.1	325	-27.8
Starts - Total	2,692	2,805	2,257	850	-62.3	800	-5.9
Average Price ($):							
Single-Detached	538,658	629,741	716,494	700,000	-2.3	665,000	-5.0
Median Price ($):							
Single-Detached	469,000	549,000	599,900	585,000	-2.5	550,000	-6.0
New Housing Price Index (% chg) (B.C.)	6.5	6.4	2.1	-3.0	-	-1.5	-
Rental Market							
October Vacancy Rate (%)	0.6	0.0	0.3	2.2	1.9	2.7	0.5
Two-bedroom Average Rent (October) ($)	800	846	967	980		965	
One-bedroom Average Rent (October) ($)	661	715	803	820		810	
Economic Overview							
Mortgage Rate (1 year) (%)	6.28	6.90	6.70	4.80	-1.90	5.29	0.49
Mortgage Rate (5 year) (%)	6.66	7.07	7.06	5.64	-1.42	5.94	0.30
Annual Employment Level	86,900	88,200	95,300	88,500	-	89,900	-
Employment Growth (%)	6.4	1.5	8.0	-7.1	-	1.6	-
Unemployment rate (%)	6.0	4.6	5.1	7.5	-	7.7	-
Net Migration (B.C.) [3]	52,789	58,277	61,559	62,700	1.9	63,000	0.5

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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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