HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Kelowna CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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Kelowna Housing Markets Stronger in 2010

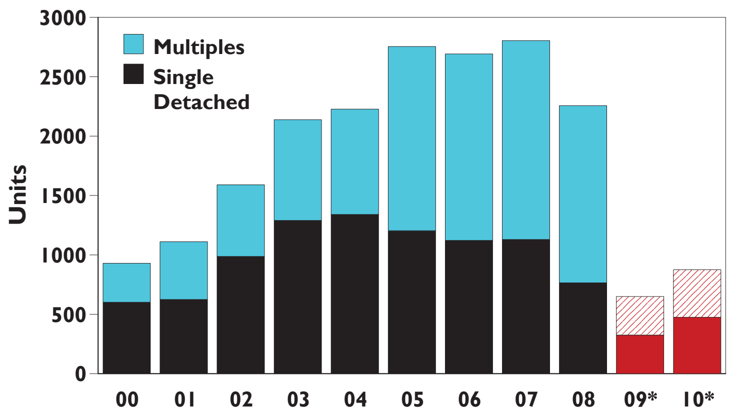
Kelowna area housing starts and sales of existing homes will move higher in 2010. Expect demand for both new and existing homes to pick up as the BC and Canadian economies record stronger growth.[1]

Housing starts, led by the detached home sector, will increase in next year. Strong price competition from a well-supplied existing home market and rising inventories of new, completed and unoccupied apartment condominium units will constrain multi-family construction during the first half of 2010.

This year's upswing in existing home sales will carry over into 2010. Competitive pricing, a good selection of listings and favourable interest rates will help sustain growth in demand for existing homes next year. Expect existing home prices to edge back up as demand improves and the supply of listings is drawn down.

Figure 1

Housing Starts Increase - Detached Home Sector Leads



Source: CMHC. * CMHC Forecast.

[1] The forecasts included in this document are based on information available as of October 1, 2009.

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Demand For New Homes Improves

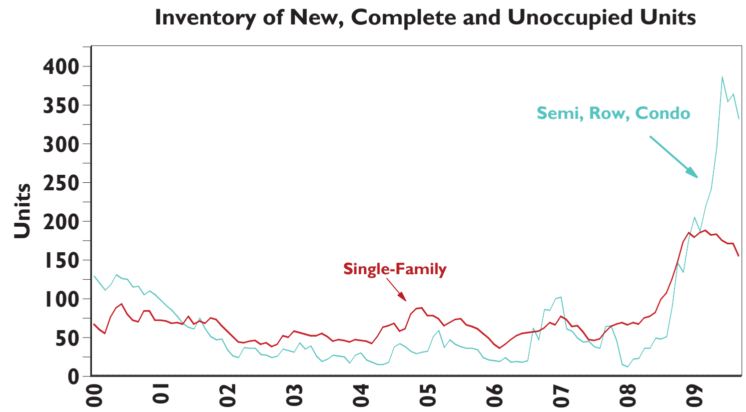
Starts of detached homes are forecast to increase next year, surpassing multi-family construction for the first time since 2004. The inventory of new, completed and unoccupied detached homes has begun to edge back down after climbing to record levels earlier this year. Lower lot prices and construction costs have allowed builders to more effectively compete with existing homes. Lot prices have declined in response to moderating demand and increased supply. New home buyers can look forward to an ample supply of building lots next year, a big change from the shortages seen prior to 2008. Competition from the existing home market will continue to exert downward pressure on new home prices in 2010.

Moderately price homes will remain the focus of new singles demand in 2010. Builders are targeting buyers seeking new detached homes in the $450,000 -$550,000 price range. Fewer buyers of resort-oriented homes and second residences have contributed to less demand for higher priced new homes this year. This segment of the new singles market continues to face especially strong price competition from a well-supplied existing home market.

Apartment rental construction will account for the lion's share of multi-family starts in 2009 and first half of 2010. 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 free up some building sites for rental construction. Starts of apartment rental housing will total 140 units this year and another 150-200 units in 2010, the highest annual levels since the early 2000s.

Figure 2

Inventories of New, Completed and Unoccupied Homes Begin to Come Down



Source: CMHC.

New rentals will face competition from the condominium market in the short term 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.

Expect condominium construction to pick up later next year as the inventory of new, completed and unoccupied condominium units and supply of existing condominiums is slowly drawn down. Condominium absorption has improved during recent months, but remains sluggish. Apartment condominium starts will total 150-200 units in 2010. The townhouse condominium sector will follow suit, with more starts next year.

Existing Home Sales Move Up

Sales of existing homes will move up in 2010. Detached home sales have rebounded sharply following a slow first quarter, recording double-digit monthly year-over-year gains since April 2009. Stronger employment growth in combination with competitive prices, a good supply of listings and low interest rates will attract more buyers next year.

Home buyers will continue to benefit from more choice than in previous years. Although listing activity has moderated and the supply of active listings – all types – is trending down, supply remains at high levels. Sellers have adjusted list prices to better reflect current market conditions.

Existing home prices will rise next year, edging up in response to stronger demand and reduced supply. Detached home prices stabilized by mid 2009 after trending down since the previous spring. Lower prices have contributed to improved affordability and helped trigger the surge in sales recorded earlier this year. Much like in the new home sector, the focus of demand has been on moderately priced homes. Single family homes (detached and semi-detached units) priced at less than $400,000 captured 42 per cent of sales during the first eight months of 2009, compared to only

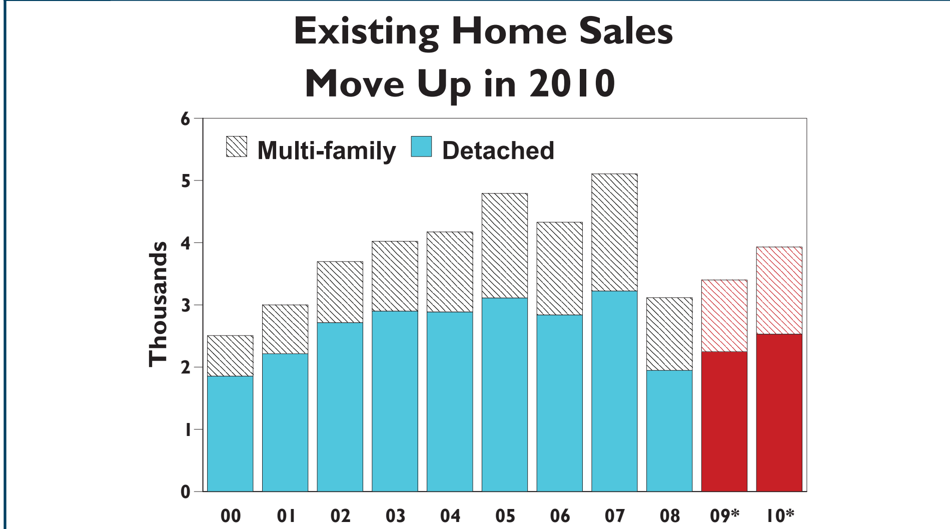
23 per cent during the same period in 2008. Expect sales of higher priced detached homes to pick up as demand broadens to include more move-up buyers.

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.

Kelowna's condominium sector has been slower to rebound, recording a more modest uptick in sales than detached homes. Demand for resort homes and second residences, until last year the fastest growing segment of Kelowna's condominium market, waned as economies across North America experienced slower growth. Investors 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 British Columbia also contributed to fewer sales. Lower prices have resulted in more competition from townhouses and single and semi-detached housing, ownership options previously beyond the reach of many buyers. Demand for condominiums is expected to pick up in a more robust way later next year as the cost of lower density housing begins to rise. Condominium prices are forecast to stabilize by year-end and remain essentially flat through the first half of 2010.

Kelowna's existing home market has moved to a balanced from a buyer's market position earlier this year and will remain in balanced market territory through most of 2010.

Figure 3



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.

Economy and Employment to Grow

The Kelowna area economy will record a mixed performance in 2010. The non-residential construction sector, including infrastructure and institutional construction projects will remain a key source of job creation next year. With housing starts forecast to increase, the residential construction sector is also expected to see a modest uptick in employment. Consumers have become more active as evidenced by the recent surge in existing home sales. The British Columbia outlook is also more positive, with both the economy and employment poised to grow in 2010.

Kelowna's unemployment rate is trending down after peaking at just over twelve per cent earlier this year, but remains well above levels seen in the early and mid 2000s. The forest products industry will face another challenging year in 2010. 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 slower economic growth here and abroad, have taken a bite out of tourist traffic. Call centres have been impacted by a slowing US economy, with operations throughout the Thompson-Okanagan region closing their doors. Reduced government spending will limit growth in public sector employment next year.

Despite job losses in some sectors, Kelowna's economy has diversified and 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. Enrolment at both UBC Okanagan and Okanagan College are up this year. Kelowna's airport runway has now been extended to accept direct overseas flights. Looking forward, 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. Businesses seeking to attract workers will benefit from higher vacancy rates, lower home prices and a better selection of both new and existing homes.

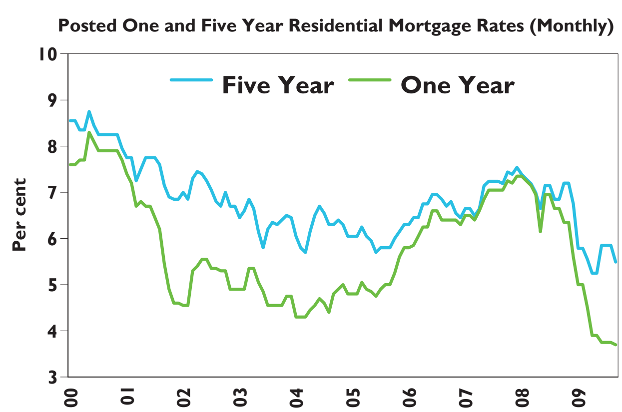
Mortgage Rates

The Bank of Canada cut the Target for the Overnight Rate in the early months of 2009. The rate was 1.50 per cent at the start of 2009 and has since fallen to 0.25 per cent. The Bank has committed to keeping this rate at 0.25 per cent through the middle of 2010 unless inflationary pressures warrant an increase.

Mortgage rates have fallen over the course of 2009, but are now expected to remain relatively stable for the rest of the year. Posted mortgage rates will gradually increase through 2010, but will do so at a slow pace. For 2010, the one-year posted mortgage rate will be in the 3.50-4.25 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.50-6.00 per cent range.

Figure 4

Home Buyers Benefit From Low Mortgage Interest Rates



Source: Bank of Canada.

Forecast Summary
Kelowna CMA
Fall 2009

	2006	2007	2008	2009f	% chg	2010f	% chg
Resale Market							
MLS® Sales (1)	4,790	5,584	3,445	3,600	4.5	4,100	13.9
MLS® New Listings (1)	7,432	9,320	11,737	10,000	-14.8	11,000	10.0
MLS® Average Price ($) (2)	432,056	507,780	541,131	490,000	-9.4	512,000	4.5
New Home Market							
Starts:							
Single-Detached	1,122	1,130	765	325	-57.5	475	46.2
Multiples	1,570	1,675	1,492	325	-78.2	400	23.1
Semi-Detached	170	100	98	50	-49.0	50	0.0
Row/Townhouse	268	233	207	50	-75.8	60	20.0
Apartments	1,132	1,342	1,187	225	-81.0	290	28.9
Starts - Total	2,692	2,805	2,257	650	-71.2	875	34.6
Average Price ($):							
Single-Detached	538,658	629,741	716,494	750,000	4.7	700,000	-6.7
Median Price ($):							
Single-Detached	469,000	549,000	599,900	585,000	-2.5	550,000	-6.0
New Housing Price Index (% chg) (B.C.)	6.5	6.4	2.1	-5.0	-	1.0	-
Rental Market							
October Vacancy Rate (%)	0.6	0.0	0.3	3.0	2.7	3.0	0.0
Two-bedroom Average Rent (October) ($)	800	846	967	970	-	950	-
One-bedroom Average Rent (October) ($)	661	715	803	810	-	800	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.28	6.90	6.70	4.03	-2.7	3.83	-0.2
Mortgage Rate (5 year) (%)	6.66	7.07	7.06	5.55	-1.5	5.75	0.2
Annual Employment Level	86,900	88,200	95,300	92,000	-	92,900	-
Employment Growth (%)	6.4	1.5	8.0	-3.5	-	1.0	-
Unemployment rate (%)	6.0	4.6	5.1	9.0	-	7.5	-
Net Migration (B.C.)	52,789	58,277	61,559	58,300	-5.3	60,800	4.3

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

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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