HOUSING MARKET OUTLOOK
Kelowna CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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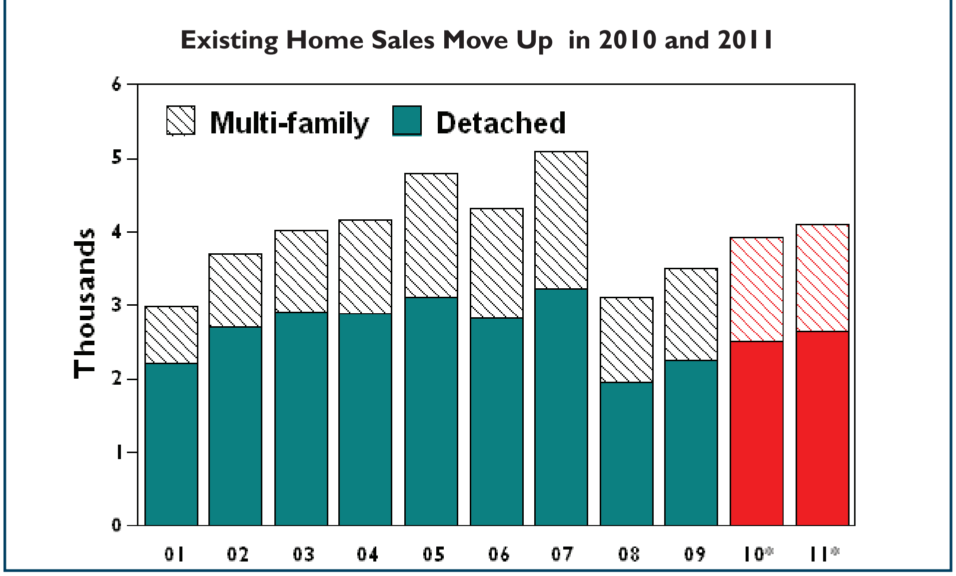
Kelowna Highlights

- Demand for new and existing homes is forecast to pickup as the provincial and regional economies record stronger growth.
- Sales of existing homes will increase this year and next. Rising interest rates will temper growth in demand later this year and in the first half of 2011.
- Expect existing home prices to edge up as demand improves and the supply of listings is drawn down.
- Kelowna area housing starts, led by the detached home sector, will move higher in 2010 and 2011.

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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Existing Home Sales Move Up

Sales of existing homes will move up in 2010 and 2011, but gains will be modest. Monthly detached home sales rebounded sharply in the second half of 2009, recording double-digit year-over-year gains. Last year's upswing has carried over into 2010, with lower prices, a good supply of listings and favourable mortgage interest rates attracting more buyers. Sales are expected to level out in the second half of 2010. Rising interest rates will contribute to higher monthly payments, dampening growth in demand later this year. Pent-up demand among first-time buyers has, to a large extent, been satisfied during the past year.

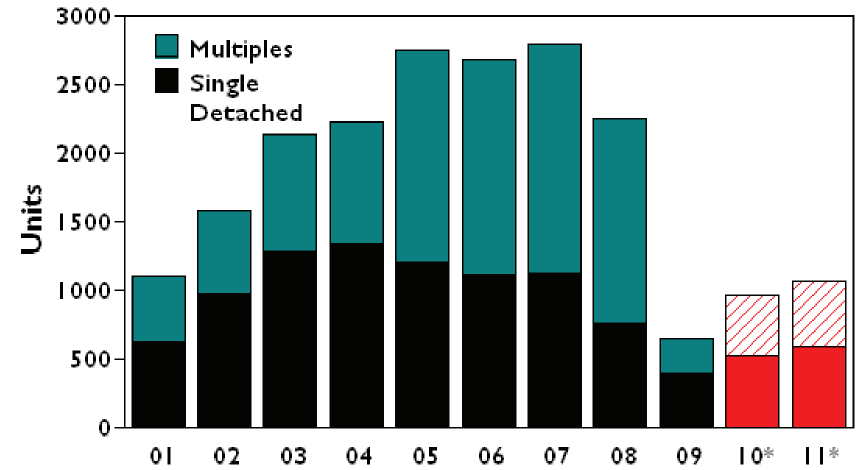
Home buyers will continue to benefit from an ample supply of listings. The supply of listings, among all housing types, will remain at high levels this year. Sellers have adjusted list prices downward to better reflect current market conditions. Kelowna's existing home market moved to a balanced from a buyer's market classification last year and is expected to remain stable in balanced market territory throughout 2010.

Existing home prices are forecast to edge up this year and next. An ample supply of listings in combination with modest growth in demand will temper upward pressure on prices. Detached home prices stabilized by mid 2009 after trending down since the previous Spring. Lower prices have contributed to improved affordability and helped trigger last years uptick in existing home sales.

The focus of market demand among home buyers has been for moderately priced homes. Single family homes (detached and semi-detached units) priced at less than $400,000, captured 40 per cent of sales last year, compared to only 24 per cent in 2008. Expect sales of higher priced detached homes to pick up as demand broadens to include more move-up buyers.

Figure 2

Housing Starts Increase - Detached Home Sector Leads



Source: CMHC.

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.

Condominiums and townhomes are expected to see stronger growth in demand this year. First quarter sales have increased by more than half from the unusually low levels recorded during the same three month period in 2009. Kelowna's condominium sector was slower to rebound last year, recording a more modest uptick in sales than detached homes. Demand for resort homes and second residences, until 2008, 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 new and existing home prices have also resulted in more competition from townhouses and single and semi-detached housing, ownership options previously beyond the reach of many buyers. Condominium prices have stabilized and are forecast to remain essentially flat through most of 2010.

Detached Home Construction Moves Up in 2010 and 2011

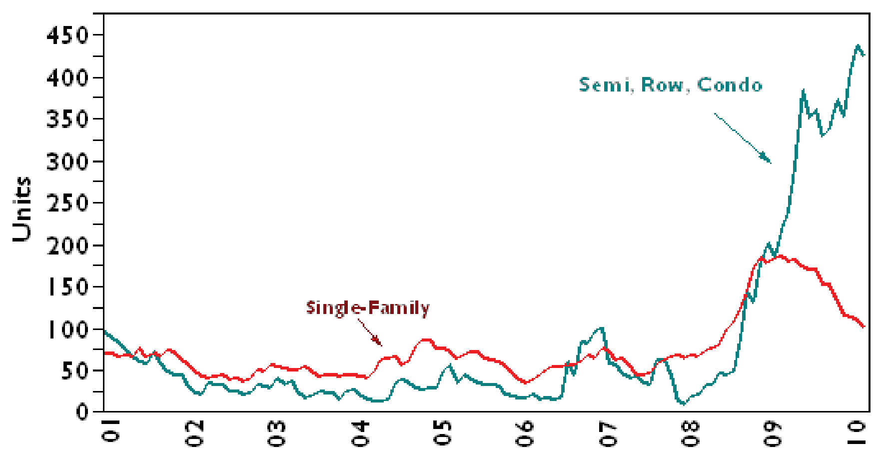
Starts of detached homes are forecast move higher in both 2010 and 2011. Kelowna's detached home sector began 2010 on a stronger note with first quarter housing starts more than doubling from the same three month period in 2009. The inventory of completed and unoccupied detached homes has steadily declined since mid 2009 after climbing to record levels earlier last year. Lower lot prices and construction costs have allowed builders to compete more effectively with existing homes and attract more buyers. New home buyers can look forward to an ample supply of building lots this year and next, a big change from the shortages seen prior to 2008. Lot prices have come down in response to moderating demand and increased supply. The introduction of the Harmonized Sales Tax (HST) in mid 2010 together with rising mortgage interest rates may result in some new home buyers bringing forward their plans to build, leading to higher levels of detached home construction during the first half of the year. Competition from the existing home market will continue to exert downward pressure on new home prices in 2010.

Moderately priced homes will remain the focus of new detached home demand in 2010 and 2011. 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 single family home market continues to face especially strong price competition from a well-supplied existing home market.

Rental apartment construction will account for the largest share of multi-family starts in 2010 despite higher vacancy rates during the past year. Developers of multi-family rental housing are building in anticipation of lower vacancy rates. With 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. Rental apartment starts will total 200 – 250 privately and publically initiated units this year, the highest annual level since the early 2000s.

Figure 3

High Inventories Constrain Condominium Construction in 2010



Source: CMHC.

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. Demand has shifted more to local buyers from investors and those seeking resort homes and second residences. Apartment condominium starts will total 100 units in 2010. The attached home sector, including both townhouses and semi-detached homes, will follow suit, with more starts next year. For now, builders will remain cautious, focusing on smaller and phased projects until demand improves in a more robust way and inventories come down.

Vacancy Rate Will Remain at Higher Level in 2010

Kelowna's apartment vacancy rate is forecast to remain unchanged at about three per cent in 2010. Slower employment growth, strong competition from secondary rental units and the movement of some renters to home ownership pushed up the apartment vacancy rate to three per cent in 2009, from 0.3 per cent the previous year. Kelowna's vacancy rate will begin to edge lower next year as the inventory of new, completed and unoccupied condominiums and supply of existing homes available for sale – key sources of investor-owned condominiums - are slowly drawn down. Stronger employment growth will also contribute to slightly increased demand for rental housing in 2011. At the same time, rising mortgage interest rates and home prices will dampen the flow of renters to the home ownership market.

Rents will remain flat, edging down slightly this year in response to higher vacancy rates.

Despite higher vacancy rates, Kelowna will see additions to the stock of purpose-built apartment rental housing this year. Favourable construction and financing costs and expectations of stronger growth in rental demand and lower vacancy rates have triggered more interest in rental construction.

Employment Outlook More Positive in 2010

The Kelowna area economy will record stronger growth in 2010 and 2011. Growth will support demand for housing. The non-residential construction sector, including infrastructure and institutional construction projects will remain a key source of job creation this 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 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 continue to 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.

A high Canadian dollar may dampen tourism, tempering the pace of economic and employment growth this year. The forest products industry will also face another challenging year in 2010. Reduced demand for softwood lumber south of the border, export taxes and supply issues stemming from the pine beetle epidemic have led to some job losses at Okanagan operations during the past two year period.

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. Looking ahead, we expect that short-term interest rates will begin to rise in the second half of 2010.

With the overnight rate expected to increase in the coming months, mortgage rates have begun to rise. According to CMHC's base case scenario, posted mortgage rates will gradually increase throughout the course of 2010, but will do so at a slow pace. For 2010, the one-year posted mortgage rate is assumed to be in the 3.6-4.8 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.2-6.7 per cent range. For 2011, the one-year posted mortgage rate is assumed be in the 5.0-6.0 per cent range, while three and five-year posted mortgage rates are forecast to be in the 5.6-7.2 per cent range. Rates could, however, increase at a faster pace if the economy recovers more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

Figure 4

Mortgage Interest Rates to Rise - Remain Low By Historical Standards

Source: Bank of Canada.

Forecast Summary Kelowna CMA Spring 2010	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market							
MLS® Sales [1]	5,584	3,445	3,660	4,100	12.0	4,300	4.9
MLS® New Listings [1]	9,320	11,737	9,515	11,000	15.6	10,000	-9.1
MLS® Average Price ($) [2]	507,780	541,131	489,453	512,000	4.6	528,000	3.1
New Home Market							
Starts:							
Single-Detached	1,130	765	404	525	30.0	600	14.3
Multiples	1,675	1,492	253	450	77.9	475	5.6
Semi-Detached	100	98	62	75	21.0	75	0.0
Row/Townhouse	233	207	55	50	-9.1	75	50.0
Apartments	1,342	1,187	136	325	139.0	325	0.0
Starts - Total	2,805	2,257	657	975	48.4	1,075	10.3
Average Price ($):							
Single-Detached	629,741	716,494	751,103	725,000	-3.5	700,000	-3.4
Median Price ($):							
Single-Detached	549,000	599,900	582,645	570,000	-2.2	550,000	-3.5
New Housing Price Index (% chg) (B.C.)	6.5	2.1	-6.5	2.3	-	2.0	-
Rental Market							
October Vacancy Rate (%)	0.0	0.3	3.0	3.0	0.0	2.5	-0.5
Two-bedroom Average Rent (October) ($)	846	967	897	890	-	910	-
One-bedroom Average Rent (October) ($)	715	803	737	730	-	745	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	4.23	0.2	5.56	1.3
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	6.20	0.6	7.06	0.9
Annual Employment Level	88,250	95,300	95,700	96,650	-	98,100	-
Employment Growth (%)	1.5	8.0	0.4	1.5	-	2.5	-
Unemployment rate (%)	4.6	5.1	8.8	8.0	-	7.5	-
Net Migration (B.C.)	58,819	63,320	58,571	61,600	5.2	63,000	2.3

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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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