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HOUSING MARKET OUTLOOK
Kelowna CMA

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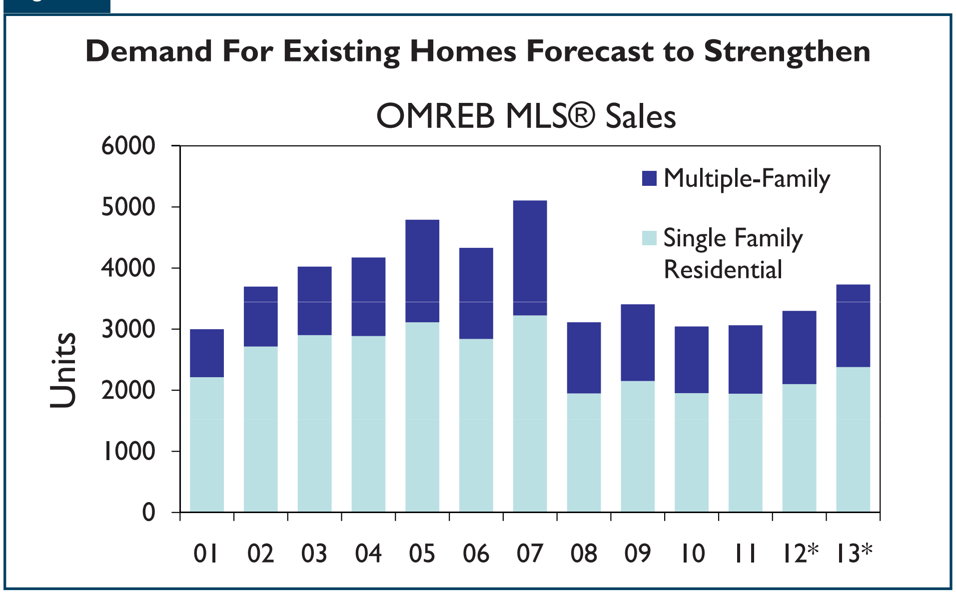
Date Released: Spring 2012

Kelowna Highlights[1]

- Stronger employment growth coupled with favourable interest rates will support demand for housing in Kelowna in 2012 and 2013.
- MLS® home sales are expected to increase eight per cent this year and 14 per cent in 2013. Buyers will continue to benefit from an ample supply of listings and strong price competition among sellers.
- Existing home prices are forecast to be stable in 2012. Expect prices to edge higher, increasing two per cent in 2013 as demand improves and the supply of listings is drawn down.
- Kelowna area housing starts are forecast at 850 homes in 2012 compared to 934 homes in 2011. Housing starts are expected to pick up, increasing to 1,150 homes in 2013.

Figure 1



Source: Okanagan Mainline Real Estate Board. (OMREB.) Multiples: Apartment and all Townhouses (not including Big White Ski Resort). MLS® Multiple Listing Service (MLS®) is a registered certification mark owned by the Canadian Real Estate Association. *CMHC Forecast.

[1] *The forecasts included in this document are based on information available as of April 27, 2012.*

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MLS® Home Sales Pick Up in 2012 and 2013

Kelowna area MLS® home sales are forecast to move higher in 2012. Sales are expected to strengthen in 2013 as British Columbia records stronger employment growth and higher levels of migration. Favourable mortgage interest rates coupled with an ample supply of homes available for sale and stable prices will also support growth in demand for homes this year and next. Kelowna's resale market began 2012 on a positive note. First quarter sales were on par with the same three month period in 2011 with higher levels of apartment condominium and townhouse sales offsetting slightly fewer sales of single-family residential homes.

Kelowna's resale market will remain well supplied with homes listed for sale in 2012. The supply of active listings, though trending lower during the past year, has remained at high levels.

MLS® home prices are expected to stabilize this year and edge higher in 2013. An ample supply of listings in combination with modest growth in demand will temper upward pressure on prices this year. Buyers will continue to benefit from strong price competition among sellers. The average MLS® home price edged lower in the first quarter of 2012, reflecting both price depreciation and strong demand for moderately priced homes.

Single-family residential homes (detached and semi-detached units) priced at less than $400,000 represented 46 per cent of home sales in the first quarter of 2012 compared to 40 per cent in 2011. This price range accounted for only 24 percent of sales in 2008. The availability of low, longer term fixed rate mortgages earlier this year contributed to an increase in first-time buyer activity and demand for entry level homes. Demand for higher priced homes is expected to pick up later this year and in 2013.

Rutland, Westbank, Glenrosa and the Core area will be the most modestly priced locations in Kelowna. Black Mountain, Glenmore, Lake Country, North Glenmore, Peachland and Shannon Lake are the focus of home 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.

Apartment condominiums and townhouses are expected to see stronger growth in demand this year and next as the price of detached homes stabilizes and begins to edge higher. Sales of condominiums and townhouses were up 16 and eight per cent, respectively, in the first quarter of 2012 compared to 2011 levels. Low interest rates in combination with ample supply and soft prices supports demand among first-time buyers and local investors. As in the detached home sector, lower-priced units have been the focus of demand.

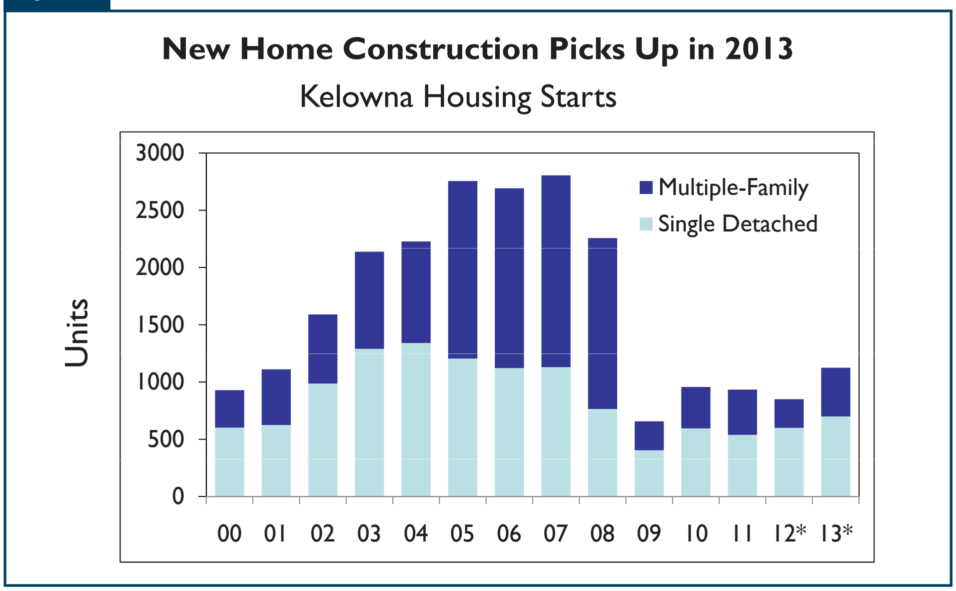
Demand from out-of-region buyers for resort condominiums and second residences has moderated from levels recorded during 2003-2008. Stronger competition from US resort markets and a growing number of new resort developments elsewhere in British Columbia also contributed to fewer sales of this type of home during the past several years.

Condominium prices are forecast to stabilize in 2012 and edge higher next year as demand strengthens and the supply of listings is slowly drawn down.

Kelowna's resale home market is expected to move to a balanced from a buyers' market position later in 2012. Ample supply together with slow growth in demand and flat prices has kept the Kelowna area resale market in a Buyers' market position.

[2] *The terms "absorbed" and "absorption" means that a housing unit is no longer on the market (i.e. has been sold or rented).*

Figure 2



Source: CMHC. *CMHC Forecast.

Demand for New Homes Strengthens in 2013

Kelowna area housing starts are forecast at 850 homes in 2012 compared to 934 homes last year. Strong competition from a well supplied resale market and lingering inventories of new, completed and unoccupied apartment condominium units will constrain the pace of new home construction in 2012. Fewer rental apartment starts will also contribute to lower levels of new home construction this year. Housing starts are expected to pick up, increasing to 1,150 homes in 2013.

Single-detached home starts are forecast to increase both this year and next. The inventory of new, completed and unoccupied detached homes has come down from peak levels recorded in 2008. First quarter detached home starts increased to 82 homes from 66 homes last year.

Lower lot prices and construction costs have enabled builders to better compete with the existing home market and attract buyers looking for lower priced housing options. The median price of new detached homes absorbed[2] in 2011 was six per cent lower than in the previous year.

Demand for detached homes has shifted away from higher-priced to less costly homes. Detached homes priced at less than $500,000 accounted for 36 per cent of absorptions in 2011 compared to only 23 per cent in 2010. Fewer buyers of resort-oriented homes and second residences contributed to less demand for higher priced homes. Lower construction costs coupled with recent changes to provincial sales tax policies may lead to an increase in demand for higher-priced homes this year and next.

The Upper Mission, Lake Country, Black Mountain, Shannon Lake and Glenmore areas and Westbank First Nations lands recorded the highest levels of detached home construction in 2011. New home buyers have benefited from an ample supply of building lots during the past year, a change from the shortages prior to 2008.

Kelowna's multi-family sector will record fewer starts in 2012, but include more owner ship than rental units compared to last year. Rental apartment construction boosted multi-family starts in 2010 and 2011. With few exceptions, builders have focused on smaller, home owner-oriented attached housing projects during the past eighteen months rather than large apartment condominiums. This type of project is more easily released to the market in phases. New projects are targeting mainly local buyers rather than out-of-region investors and those seeking resort homes and second residences. As in the detached home sector, demand has been strongest for moderately-priced homes.

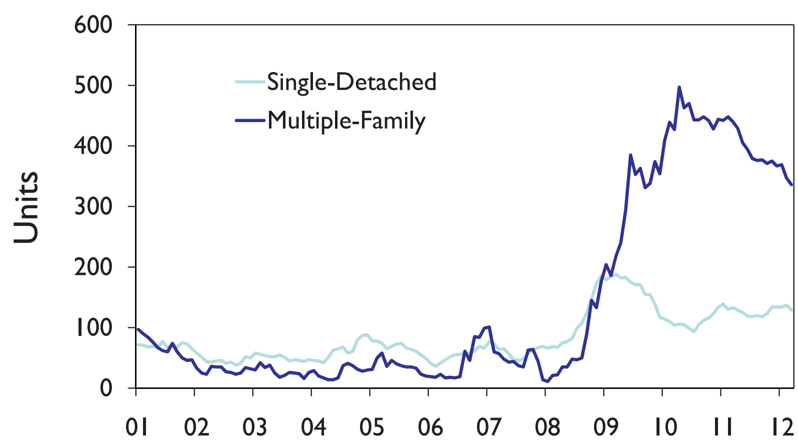
Apartment condominium starts have been slower to rebound than detached home starts. Reduced demand for second residences, resort homes and other types of investor-oriented condominiums in combination with elevated inventories have led to lower levels of condominium starts during the past several years. Condominium absorption has remained below levels recorded in the mid 2000s, despite price reductions and other builder incentives to attract more buyers.

The inventory of new, completed and unabsorbed condominiums peaked at 420 units in early 2010 and since that time slowly declined to 230 units in March 2012. The absorption of unsold inventory is expected to accelerate in 2012. Similarly, the supply of condominiums under construction has come down, decreasing to 311 units in March 2012 from almost 3,000 units four years ago. While lower inventories together with fewer projects under construction better position Kelowna's condominium sector for expansion, strong competition

Figure 3

Inventories Move Lower

Inventory of New, Completed and Unoccupied Units



Source: CMHC.

from a well-supplied resale market will dampen condominium starts in 2012. Condominium construction is forecast to increase next year as demand improves and the supply of resale homes listed for sale and the inventory of new completed and unoccupied condominiums moderate.

Vacancy Rate Remains at Higher Level in 2012

Kelowna's apartment vacancy rate was 3.0 per cent in October 2011 compared to 3.5 per cent in October in 2010. While employment growth and rising post-secondary enrolment will likely support growth in demand for rental housing this year, other factors are expected to push vacancy rates slightly higher in 2012. Additions to the stock of purpose-built rental accommodation and other types of rental housing including secondary suites, competition from investor-owned condominiums and some outflow of renters to the home ownership market will keep the apartment vacancy rate in the 3.0-3.5 per cent range this year. Also, fire damaged buildings currently undergoing repairs will come back on stream this year, drawing some displaced residents from other rental accommodation.

Including rental projects currently under construction, additions to the stock of privately (both new build and condominiums completed as rentals) and publicly-initiated apartment rental housing have totalled 550 units during the past three years – the highest levels of rental construction since the early 2000s. Developers of private rental housing are building in anticipation of lower vacancy rates through the longer term. With construction costs coming down, rental construction has become a more viable development opportunity than in recent years. Also, reduced demand for condominiums freed up some building sites. Many detached homes are now being built with secondary rental suites, adding to the supply of rental housing. Current market conditions suggest no apartment rental starts are expected in 2012.

Rents have levelled out in response to higher vacancy rates and forecast to edge up only slightly in 2012 and 2013.

Kelowna Economy and Employment Support Demand for Housing

The employment outlook for Kelowna calls for conservative gains by year-end 2013. The commercial construction industry, manufacturing and the service sector, including professional, scientific and technical industries will remain sources of employment growth in 2012 and 2013. Total employment moderated slightly during the first quarter of 2012, but included higher levels of full-time jobs compared to 2011. Employment is expected to trend higher later this year and in 2013 as the British Columbia and regional economies record stronger growth.

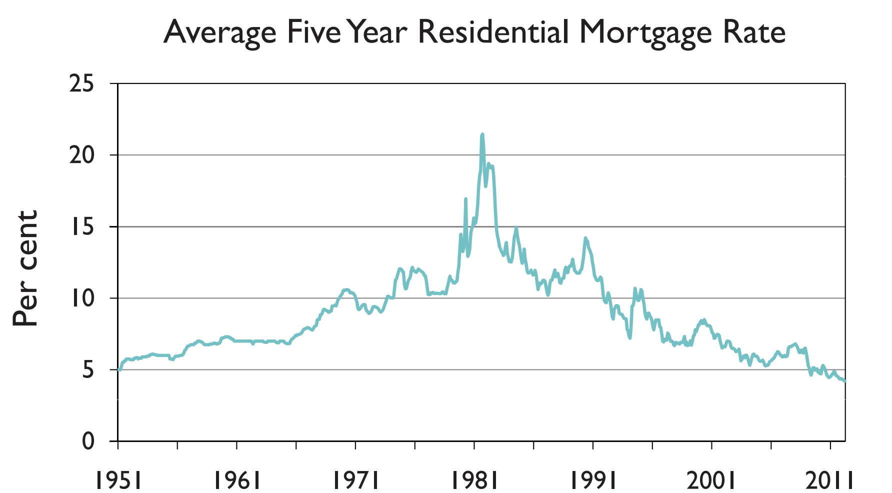
The Kelowna International airport and the University of British Columbia – Okanagan Campus (UBC Okanagan) have emerged as regional employment centres.

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 has more doubled in just six years, increasing to almost 8,000 students by 2011.

The Kelowna International Airport and associated the business cluster have become one of the region's largest private sector employers. Further expansion to the terminal facilities will be ongoing through 2016. The Kelowna International Airport is now ranked Canada's tenth busiest airport with passenger volumes remaining at near record levels in 2011. Looking forward, improved accessibility to the Okanagan will

Figure 4

Low Mortgage Rates Support Housing Demand



Source: Bank of Canada.

enhance the area's appeal to tourists, business and potential home buyers.

Other projects of significance to the local economy include the on-going expansion of Kelowna General Hospital to broaden health care services currently available only in the Metro Vancouver area of British Columbia. This is an important consideration for those seeking to relocate to this region such as seniors. Residential and non residential construction on Westbank First Nations lands will continue to generate additional economic activity and employment growth.

Census results indicate the Kelowna CMA population increased by 10.8 per cent between 2006 and 2011, among British Columbia's fastest growing jurisdictions. People coming from other provinces and within British Columbia were key sources of population growth and housing demand. While moderating from levels recorded during the mid 2000s, BC Stats projects population growth and household formation to remain steady through 2025[3].

Mortgage Rates

CMHC uses publically available information and the consensus among major Canadian forecasters as a basis for its interest rate forecast. Although there is significant uncertainty, consensus forecasts suggest that interest rates are not expected to rise until at least later in 2012, but will remain low by historical standards, thus supporting the Canadian housing market.

According to CMHC's base case scenario, posted mortgage rates will increase near the end of 2012. For 2012, the one-year posted mortgage rate is expected to be in the 3.1 to 3.6 per cent range, while the five-year posted mortgage rate is forecast to be within 5.0 to 5.4 per cent. For 2013, the one-year posted mortgage rate is expected to rise with interest rates and be in the 3.5 to 4.1 per cent range, while the five-year posted mortgage rate is forecast to be within 5.1 to 5.6 per cent.

[3] *BC Stats P.E.O.P.L.E. 36 population projection model results.*

Forecast Summary
Kelowna CMA
Spring 2012

	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales (1)	3,660	3,289	3,330	3,600	8.1	4,100	13.9
MLS® New Listings (1)	9,515	9,987	9,202	9,900	7.6	10,500	6.1
MLS® Average Price ($) (2)	489,453	525,491	507,392	512,000	0.9	522,000	2.0
New Home Market							
Starts:							
Single-Detached	404	595	539	600	11.3	700	16.7
Multiples	253	362	395	250	-36.7	450	80.0
Semi-Detached	62	68	83	85	2.4	110	29.4
Row/Townhouse	55	70	96	85	-11.5	115	35.3
Apartments	136	224	216	80	-63.0	200	150.0
Starts - Total	657	957	934	850	-9.0	1,150	35.3
Average Price ($):							
Single-Detached	751,103	769,670	734,110	730,000	-0.6	740,000	1.4
Median Price ($):							
Single-Detached	582,645	610,000	574,900	590,000	2.6	610,000	3.4
New Housing Price Index (% chg) (B.C.)	-6.5	2.6	-0.4	-0.5	-	0.4	-
Rental Market							
October Vacancy Rate (%)	3.0	3.5	3.0	3.3	0.3	2.9	-0.4
Two-bedroom Average Rent (October) ($)	897	898	922	925	-	934	-
One-bedroom Average Rent (October) ($)	737	740	736	745	-	755	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	87,500	94,600	94,400	94,000	-0.42	95,400	1.49
Employment Growth (%)	0.3	8.1	-0.2		-		-
Unemployment rate (%)	8.8	7.7	7.9	8.0	-	7.5	-
Net Migration (B.C.)	59,978	42,027	33,962	47,100	38.7	52,500	**

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).
(1) The 2009 migration data is a forecast
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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