

H

OUSING MARKET

Kelowna - Spring 2004

OUTLOOK

Canada Mortgage and Housing Corporation

RESALE MARKET

SALES REMAIN STRONG IN 2004

The Kelowna area resale market will see another strong performance in 2004, sales reaching record levels for the third straight year. Expect sales to begin flattening out later this year in response to sharply rising prices and reduced supply of listings. The resale market will also face stronger competition from the new home market. Kelowna's resale market will remain a seller's market in 2004.

The demand outlook for both new and resale housing remains positive. The BC economy is poised to see stronger, more broadly based growth in 2004 and 2005. Employment is up - a growing economy will mean more jobs.

Inter-provincial migration has begun to turn around, recovering in tandem with an expanding BC economy. Consumers are upbeat, solid employment growth and income

Resale market sees another strong performance in 2004.

gains boosting consumer confidence. Closer to home, the Kelowna area economy and population continue to grow. An aging population and growing profile among Vancouver and out-of-province buyers points to rising demand for retiree, resort and other lifestyle-oriented housing. Low interest rates will remain a key driver in 2004.

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HOUSING MARKET OUTLOOK is CMHC's bi-annual forecast for new and re-sale home markets. Issues are released in the spring and fall each year.

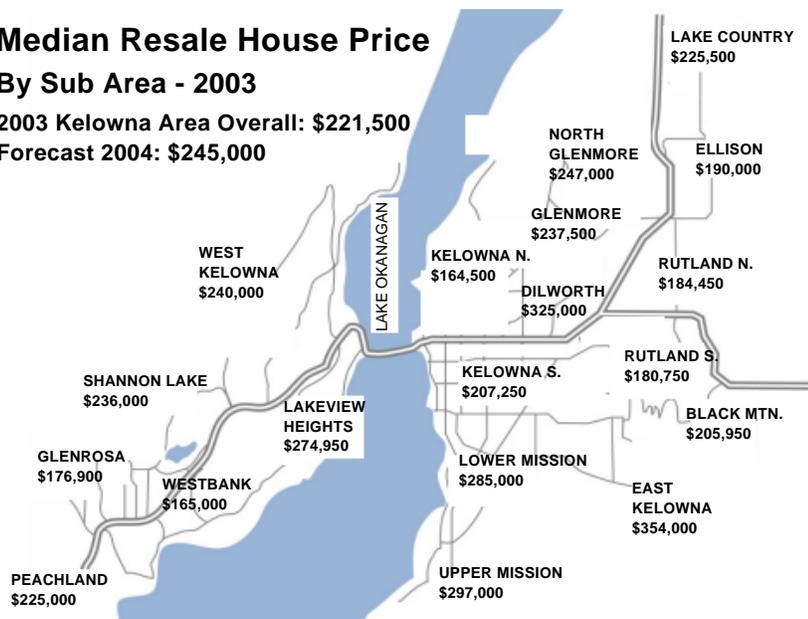
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Median Resale House Price

By Sub Area - 2003

2003 Kelowna Area Overall: \$221,500

Forecast 2004: \$245,000



HOME TO CANADIANS
Canada

Singles sales will maintain a blistering pace in 2004. Move-up and move-down buyer markets will remain the focus of resale singles demand. Soaring prices in combination with substantially reduced supply

Singles sales maintain blistering pace in 2004.

point to fewer first-time buyers this year.

Expectations of big price gains are drawing more sellers into the marketplace. The supply of singles listings, though trending up, remains at the lowest April level since the late 1980s. Neighbourhoods offering lower to mid priced detached units - Kelowna North, Rutland and Glenrosa - have seen the biggest drop in supply. Resale homes priced at \$200,000 or less now account for only 6% of total listings, down from almost 50% just three years ago. The higher price ranges are better supplied, due, in part, to stronger price competition from the new home market. Supply will remain tight through 2004.

The sale price to list price ratio has steadily increased over the past year and properties are selling faster.

Sale prices have shot up in response to strong demand and sharply reduced supply. The median resale house price jumped 17% to \$221,500 in 2003 - the biggest year-over-year gain since the early 1990s. The resale singles market will continue to see stiff upward pressure on price levels. The median resale house price will

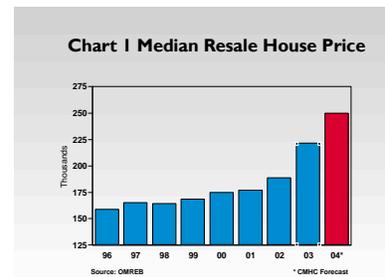
reach \$245,000-\$250,000 by year-end 2004.

Glenmore, North Glenmore, Lake Country, Shannon Lake, Peachland, Lakeview Heights and West Kelowna are, at \$225,000-\$275,000, the focus of buyers seeking mid priced resale homes. The Mission, Dilworth Mountain, Southeast Kelowna and sections of Lakeview Heights and West Kelowna command the highest prices.

Sales of apartment condos have surged ahead, rocketing up 59% and 27% in 2002 and 2003, respectively. Affordability has been the key driver. More

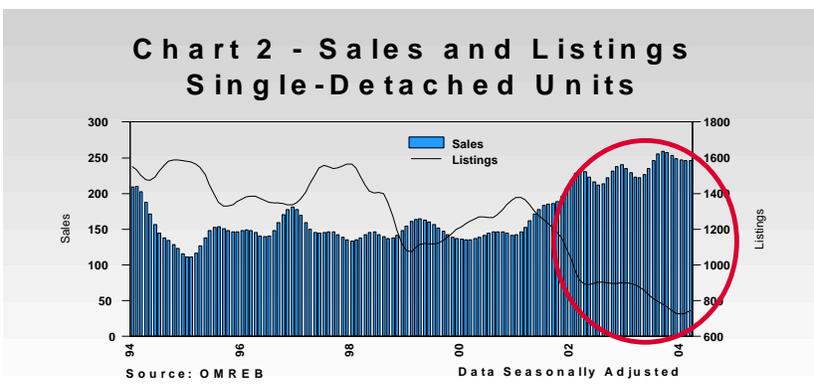
More first-time buyers turn to higher density housing ... affordability key driver.

first-time buyers have turned to higher density housing in the wake of sharply rising singles prices and declining supply of lower to mid-priced listings. Also, rising rents, tight rental market conditions and low cost of financing have triggered more interest from investors. Townhouse sales have remained



Prices up sharply again.

stable at a high level, held in check by growing supply constraints. The supply of apartment condo and especially townhouse listings, have plunged to record lows. Unlike apartment condos, the stock of townhouses has seen few additions since the early 1990s. Sales will level out, dropping back *slightly* in 2004, due mainly to depleted supply. The multi-family side will also face more competition from the new home market this year, the draw down in supply triggering proposals for affordably priced multifamily housing. The median resale condo price was up 19% last year. Townhouse prices recorded more modest gains. Expect prices to continue trending up through 2004.



Expect sales to reach record highs, leveling out later this year in response to rising prices and fewer listings.

NEW HOME MARKET

STARTS UP AGAIN - SMALLER GAINS IN 2004

Demand for new homes will remain strong, last year's momentum carrying over into 2004. Housing starts will see smaller gains this year, rising singles starts offsetting a small drop in multi-family construction. Expect Kelowna area housing starts to reach 2,175 units in 2004. Housing starts totaled 2,138 units in 2003, a ten year high.

Absorption has held up, keeping inventories of complete and unsold units near record lows. Also, with resale prices on the rise and supply of listings down sharply, more buyers are turning to the new home market. Rising lot prices, an ongoing shortage of skilled trades and more recently, the skyrocketing cost of some building materials remain big challenges for the new home industry. The time required to build a new home has steadily increased over the past year.

The singles sector will record another strong performance, boosted in part by rebuilds of homes destroyed in the Okanagan Mountain Park wildfire. More than half the homes destroyed by last year's fire have now been rebuilt or are currently under construction.

The move-up buyer market, retirees and others seeking lifestyle oriented housing will,

once again, remain the focus of new home demand. Homes priced at \$400,000 plus accounted for 20% of all singles absorbed at completion last year, up from only 4% in 2001. Lake and valley view properties

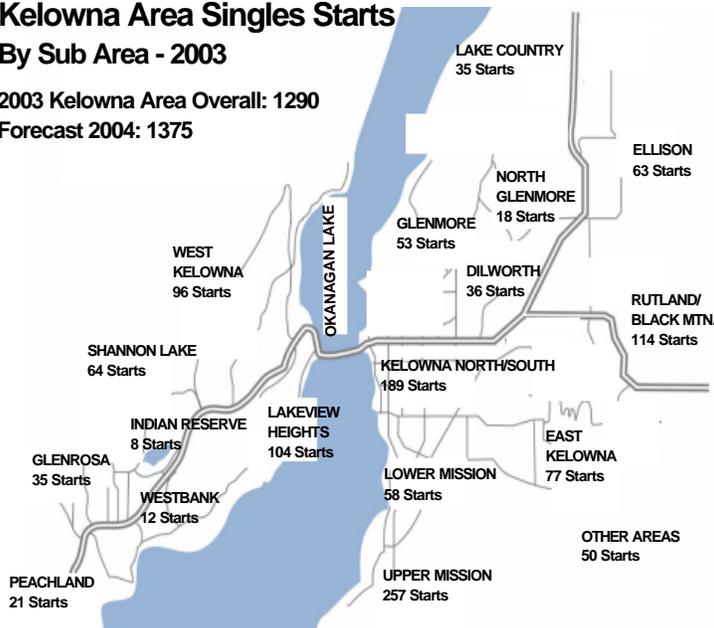
Demand for new homes remains strong ... last year's momentum carries over into 2004.

remain the strongest performers. Strong demand for more upscale housing, rising lot prices and other costs will keep new home prices high. The median new home price will jump to \$295,000 - \$300,000 in 2004 from \$279,250 last year. New singles prices have jumped more than a third in just five years.

Few builders are currently targeting "entry-level" first-time buyers. High land development costs remain the biggest obstacle facing builders trying to penetrate this segment of the market. Though several subdivisions comprised of more moderately priced building lots have come on stream this year, conventional detached housing remains out of reach for many first-time buyers. Attitudes are slowly changing, higher density housing becoming more widely accepted among first-time buyers. Expect builders to bring forward projects offering a range of more affordably priced housing in 2004, including "small lot/small house" combinations, modular homes and higher density types of housing .

Kelowna Area Singles Starts By Sub Area - 2003

2003 Kelowna Area Overall: 1290
Forecast 2004: 1375



Lot prices have continue to trend up sharply in response to strong demand and reduced supply. Most newer developments have, until recently, targeted the mid to upper price ranges. Much of the available inventory is, at present, concentrated in the Upper

Median lot sale price breaks \$100,000 mark in 2004.

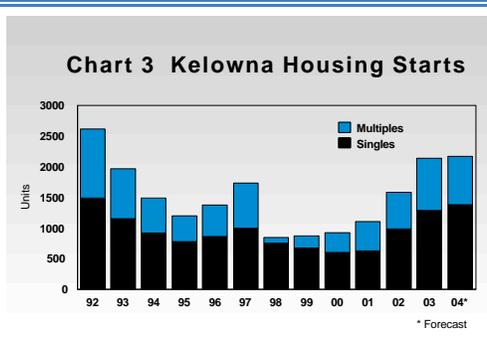
Mission area, Lakeview Heights and Dilworth Mountain. Several big developments - Dilworth Mountain, Gallaghers Canyon and Quail Ridge - long standing sources of higher end building lots, will see their final phases of detached housing come on stream within the next year or two. Look for new multiphase subdivisions in Lake Country, North Glenmore and the Black Mountain and Westbank areas.

The median lot price shot up to \$95,900 last year from \$82,000 in 2002. The \$85,000-\$95,000 price range now represents the low end in most new subdivisions. Premium lake, city and valley view lots are commanding prices in the \$125,000-\$200,000 plus range. The median lot price will break the \$100,000 mark this year,

rising to \$105,000-\$110,000 by year-end 2004.

The condo sector will see fewer starts following last year's surge in construction, but remains a strong performer. The decline is due more to supply, rather than demand constraints. Retirees and buyers seeking lifestyle and resort-oriented housing will remain key markets. Many are second residences or purchased in anticipation of retirement. Absorption has been brisk, keeping inventories low. Pre-sales are also holding up - 85% of units under construction have already been sold.

Expect to see several, more modestly priced multifamily housing projects come forward this year. With the price of both new and resale detached units up sharply and the supply of lower priced condo and townhouse listings largely depleted, more first-time buyers are turning to this segment of the new home market. This market remains largely untapped. Also, recent reductions in Development Cost Charges for higher density



Singles starts reach 12 year high in 2004.

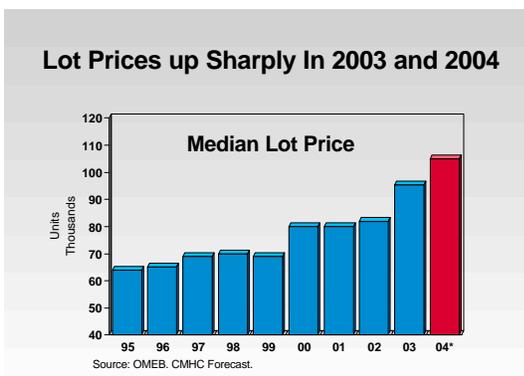
housing may trigger more interest among builders. Townhousing will regain popularity lost through the mid

Townhomes make a comeback ... look for projects in North Glenmore, Mission and Rutland.

and late 1990s. Look for projects in Rutland, North Glenmore and the Mission.

Demand for gated community housing, especially in core area locations, remains strong. Look for more low density housing projects targeting retiree and move-down markets in 2004.

The congregate housing market has seen vacancy rates drop for the third straight year. Expect to see new projects in both city and west side locations.



Kelowna area lot prices have increased sharply, pushing up the cost of new housing. Expect to see double-digit price hikes again in 2004. Higher land and land development costs, "leap-frogging" past lands in the Agricultural Land Reserve, Development Cost Charges and more costly hillside development, have all contributed to higher lot prices. Supply has *just barely* kept pace with demand - "just in time delivery" - leaving developers scrambling to bring more lots on stream. For some builders, access to supply has become an issue. Some developments require buyers to use the developer's own or a selected group of builders. Though premium lake and valley view lots remain the biggest sellers, fueled by strong move-up and move-down buyer markets, robust employment growth has lead to rising demand for more modest, medium priced detached units. New subdivisions in Black Mountain, Westbank and Lake Country will boost the supply of lots in the \$85,000-\$110,000 price range.

RENTAL MARKET

VACANCY RATE REMAINS LOW IN 2004

The Kelowna area rental market will remain tight. The vacancy rate edged down to 1.6% last year from 1.8% in 2002. Steady employment and population growth have meant strong demand for rental

Kelowna market rental remains tight in 2004

accommodation, keeping vacancy rates low. Also, the movement of renters to the home ownership market has slowed in response to soaring prices and sharply reduced supply of lower priced listings. Expect vacancy rates to remain low at 1.5%-1.75% in 2004.

Sustained low vacancy rates will continue to exert upward pressure on rents. Average rents will increase another

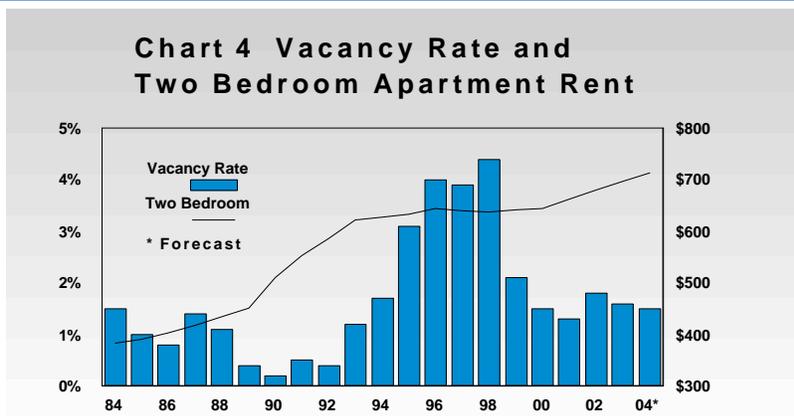
2%-3% in 2004, one and two bedroom apartment rents climbing to \$585-\$590 and \$710-\$715 per month, respectively, by year-end.

Supply has lagged behind demand contributing to low vacancy rates. Rental housing starts have declined for three straight years. High land and land development costs and scarcity of sites remain big challenges for developers. Also, with demand for condominiums on the upswing, many builders are now focusing on the home ownership market.

Most rental projects built since 1997 have targeted renters seeking upscale apartment units in prime core area locations - until recently - an untapped market. Strong employment

growth this year and last, has led to rising demand for more modest, medium priced rental accommodation. Okanagan University College's planned expansion to a full service university will also boost demand for this type of product. Lower density rental housing remains a marginal proposition given land costs and competing residential development alternatives.

Rental housing starts will double to 120 units - mainly apartment housing - this year. Look for development opportunities in areas experiencing stronger employment growth, including Westbank, Rutland, Orchard Park and Springfield Road and Highway 97 corridors.



Vacancy rate remains low at 1.50%-1.75% in 2004. Sustained low vacancy rates continue to push up rents.

RENTAL MARKET INFORMATION

The Kelowna Rental Market Survey Report

gives you the latest trends in vacancy rates and average rents for all apartment and townhouse structures of three or more units. To get ahead of your competition subscribe to **FASTFAX** and receive survey results the day they are released.

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ECONOMIC OVERVIEW

ECONOMY AND POPULATION GROW IN 2004

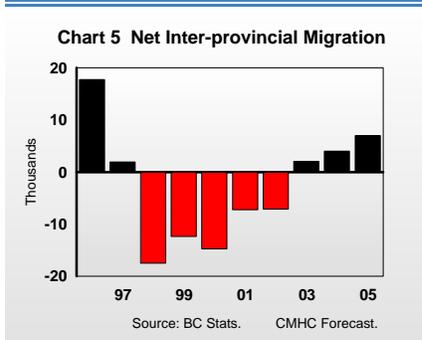
The Kelowna area economy, driven by strong population growth, will continue to expand in 2004. The Okanagan region lead BC in employment growth last year. Residential construction and related manufacturing, high tech, retail and business and personal services sectors are the biggest sources of employment growth. Tourism also remains a key growth sector. The Okanagan continues to experience a huge

Full service university and new bridge means more jobs.

surge in resort construction activity. High profile resort markets have, in turn, boosted interest in conventional housing. Resort oriented and conventional housing markets are seeing more and more overlap. The 2010 Winter Olympics should have some positive spin-offs for Okanagan resorts. Plans to expand Okanagan University College to a full service university - UBC Okanagan will generate significant employment growth. Enrollment is expected to double by 2010. The long term impact on the Kelowna area economy - profile, jobs, capital expenditure and research dollars and increased demand for housing - will be enormous. The province's announcement to proceed with a new bridge across Lake Okanagan will also mean more jobs. Small business

and self-employment have become among the leading sources of Kelowna area job growth. Diversification is the Kelowna area economy's key strength.

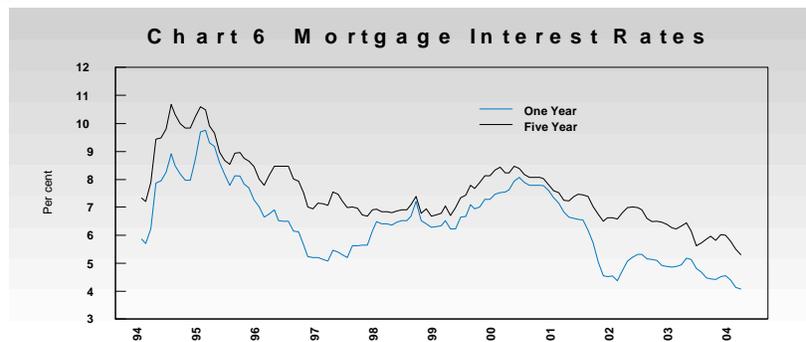
People are coming back to BC. BC saw a net inflow of migrants from other provinces last year, the first since 1997. Historically, inter-provincial migration has been a big source of Kelowna area housing demand. Kelowna remains among the fastest growing larger centres in BC. A strong Vancouver real estate market has lead to more migrants from the lower mainland. Also, Kelowna will continue to benefit from a province-wide trend towards urbanization. Many rural areas are see an outflow of people to larger urban centres, spurred in part, by shrinking employment opportunities among resource dependent communities. Intra-provincial migration - people moving to Kelowna from with-



Coming Back to BC.

in BC has, in recent years, accounted for the lion's share of Kelowna area population growth. The search for lifestyle has become a huge draw, fueling population growth and housing demand. The Kelowna area population will grow by 1.5%-2.0% in 2004.

Mortgage interest rates will remain flat through most of 2004. Expect interest rates to begin edging up later this year as the Canadian economy gains momentum. Many lenders continue to offer discounts ranging from 0.25% - 1.25%.



Mortgage interest rates remain low through 2004.

HOUSING MARKET OVERVIEW

Resale Market Remains Strong in 2004

- The Kelowna resale market will record another strong performance in 2004, singles sales reaching record highs for the third straight year. Sales will begin flattening out later this year in response to sharply rising prices. The move-up and move-down buyer market will remain the strongest performer. Soaring prices and reduced supply of lower to mid priced singles listings point to fewer first-time buyers this year. Increasingly, first-time buyers are turning to higher density, more affordable types of housing, both resale and new. The supply of listings will remain tight through 2004. The resale market will continue to see stiff upward pressure on price levels, the median resale house price reaching \$245,000-\$250,000 by year-end 2004.

New Home Market Buoyant in 2004

- Housing starts will see smaller gains this year. Singles construction will maintain a blistering pace, sustained, in part, by rebuilds of homes destroyed in the Okanagan Mountain Park wildfire. Housing starts will reach 2,175 units in 2004, rising singles starts offsetting a drop in multi-family construction. The median new home price will jump to \$295,000-\$300,000 from \$279,250 in 2003.
- The move-up, retiree and move-down markets - mid to higher priced homes - will remain the focus of demand in 2004. Strong employment growth has led to rising demand for more modest, medium priced singles. New subdivisions in the Black Mountain area, Westbank and elsewhere will boost supply of moderately priced building lots.
- Lot prices will continue to trend up in the face of strong demand, tight supply and higher land and land development costs.
- The apartment condo sector will see fewer starts in 2004, but remain a strong performer. The decline is due to supply, rather than demand constraints. Once again, retirees and buyers seeking resort and lifestyle-oriented units will remain key markets. Expect to see more proposals for first-time buyer oriented multi-family housing - a largely untapped market - come forward this year.
- Low mortgage rates and strong population growth will remain key drivers in 2004.
- The Kelowna area economy and population will continue to grow in 2004. Residential construction and related manufacturing, high tech, retail sales and business and personal services remain the biggest sources of job creation. The creation of UBC Okanagan, a full service university and major infrastructure projects, including a new bridge across Lake Okanagan will help fuel employment.

Rental Market Remains Tight in 2004

The Kelowna area vacancy rate will remain in the 1.5%-1.75% range this year. Rents will continue to rise in response to sustained low vacancy rates. Low vacancy rates will trigger more rental construction, starts doubling in 2004.

LOCAL CMHC REPORTS - INFO YOU NEED FOR TODAY'S HOUSING MARKETS

HOUSING NOW

A monthly housing report focusing on your local market. It combines the latest data with expert analysis to answer all your critical information needs. Every issue contains local statistics on starts, absorptions, inventory, price trends and the economic factors that affect your market most. Clear, concise and easy to read. **Housing Now** is the ideal resource to stay on top of local trends and the state of the industry.

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FORECAST SUMMARY

Kelowna Area Spring 2004

RESALE MARKET	2001	2002	2003	2004*	% CHG.
MLS Active Listings (Apr.) **	1,871	1,263	1,328	1,030	(22.4%)
MLS Sales					
Total	2,882	3,586	3,863	4,000	3.5%
Single-Family	2,212	2,750	2,902	3,100	6.8%
Apartment	374	497	631	600	(4.9%)
Townhouse	296	339	330	300	(9.1%)
MLS Median Price					
Single-Family	\$177,000	\$189,000	\$221,500	\$245,000	10.6%
Apartment	\$95,000	\$105,000	\$124,900	\$145,000	16.1%
Townhouse	\$132,500	\$148,000	\$158,000	\$175,000	10.8%

NEW HOME MARKET

Complete and Unoccupied (Sept.)	152	67	123	70	(43%)
Single-Family	68	44	54	42	(22%)
Multi-Family	84	23	69	28	(59%)
Starts					
Total	1,111	1,590	2,138	2,175	1.7%
Single-Family	625	987	1,290	1,375	6.6%
Multi-Family	486	603	848	800	(5.7%)
Median New House Price	\$260,000	\$265,400	\$279,250	\$300,000	7.4%

Rental Market

Vacancy Rate	1.3%	1.8%	1.6%	1.5%-2.0%
Rental Rate - % Chg. two bedroom	2.8%	2.6%	2.5%	2.5%-3.0%
Rental Housing Starts****	213	64	54	120

ECONOMIC OVERVIEW

Mortgage Rate (3 year term)	6.88%	6.28%	5.82%	5.25-5.75%
Mortgage Rate (5 year term)	7.40%	7.02%	6.39%	6.00-6.50%
Net Migration	2,000	2,250	3,000	4,000

* Forecast. ** Single-detached, apartment and townhouse. *** Privately and publicly initiated units. Source: CMHC, Okanagan Mainline Real Estate Board.

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