

H

OUSING MARKET

Kelowna - SPRING 2003

OUTLOOK

RESALE MARKET

SALES FLATTEN OUT IN 2003

The Kelowna area resale market will slow following last year's surge in sales activity. Expect sales to flatten out, dropping back *slightly* in response to rising prices, higher mortgage rates and sharply reduced supply and selection of listings. Singles sales jumped 24%, reaching near record highs last year. Apartment and townhouse condominium sales also posted big gains in 2002.

The demand outlook for both new and resale housing remains positive. The BC economy is poised to see stronger employment growth this year and next. Kelowna's diversified economy will continue to expand in 2003. Kelowna remains among the

fastest growing larger centres in BC. An aging population and growing profile among out-of-province buyers points to steadily rising demand for retiree and lifestyle-oriented housing. Closer to home, a buoyant Vancouver real estate market will mean more buyers from the lower

Look for another strong performance overall in 2003.

mainland. Low mortgage rates will remain a key driver. Look for another strong performance overall in 2003. Though good news, some downside risk remains. Heightened tensions abroad, a sluggish US economy and struggling BC forest products industry may dampen

IN THIS ISSUE

Resale Market 1
Sales drop back slightly in response to rising prices, higher interest rates and reduced supply of listings. Look for another strong performance overall.

New Home Market 3
Housing starts see smaller gains in 2003. Lots in short supply - prices on the rise. Move-up buyer, retiree and resort/lifestyle markets strongest performers.

Rental Market 5
Vacancy rate edges down. Rents up.

Economic Overview 6
Economy and population continue to grow. Mortgage rates trend up in 2003.

Housing Market Overview ... 7

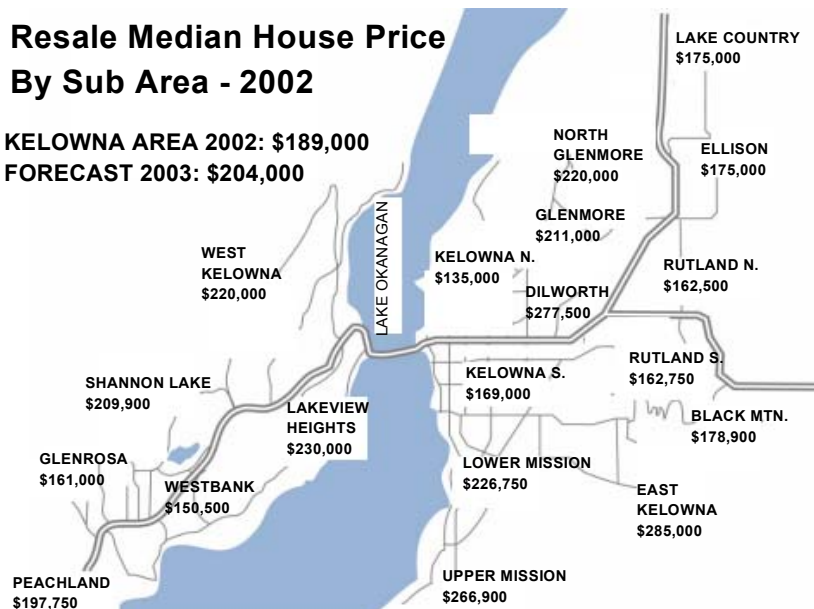
Forecast Summary8

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

To become a subscriber for only \$40 annually or for more information about CMHC's wide range of housing related information, please call: (604) 737-4088.

Resale Median House Price By Sub Area - 2002

KELOWNA AREA 2002: \$189,000
FORECAST 2003: \$204,000



HOME TO CANADIANS
Canada

short-term prospects for growth. Mortgage rates, though remaining near historical lows are expected to trend back up through 2003.

The move-up buyer market will remain the strongest performer in 2003. Consistent with strong move-up buyer markets, homes in the \$200,000 plus price ranges captured 44% of all singles sales

The median resale house price breaks \$200,000 mark by year-end.

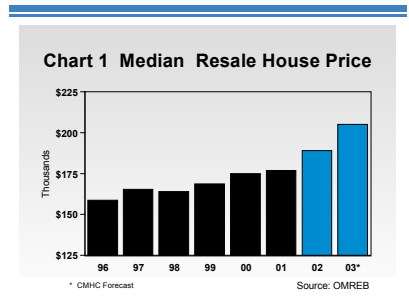
in 2002, up from 34% the previous year. Sales of singles priced at \$300,000 plus nearly doubled to 346 units. The resale singles market will see fewer first-time buyers this year. The supply of listings priced at less than \$180,000 has dropped by more than half since last spring. Also, higher mortgage rates and rising prices will take a bigger bite out of affordability in 2003.

The supply of singles listings is down sharply, the decline extending across all price ranges and locations. Neighbourhoods with lower to mid priced housing have seen the biggest drop in supply. List prices have shot up, the median resale singles list price soaring to \$279,900 from \$239,900 last February. Supply will trend back up this spring, rising prices drawing a few more sellers into the market place. Despite *some* improvement, the supply of listings will remain well below levels seen in the late 1990s. The core area, Rutland, Glenrosa and Westbank remain the most affordable locations.

Southeast Kelowna, Dilworth and sections of Lakeview Heights and West Kelowna command the highest prices.

Strong demand and sharply reduced supply has meant stiff upward pressure on price levels, some locations recording double-digit increases. The median resale house price jumped almost seven per cent last year to \$189,000 from \$177,000 in 2001. Look for bigger gains this year. The median resale house price will break the \$200,000 mark, climbing to \$204,000 by year-end 2003. With prices on the rise, resale housing - especially the \$225,000-\$300,000 price range - is beginning to see more competition from the new home market.

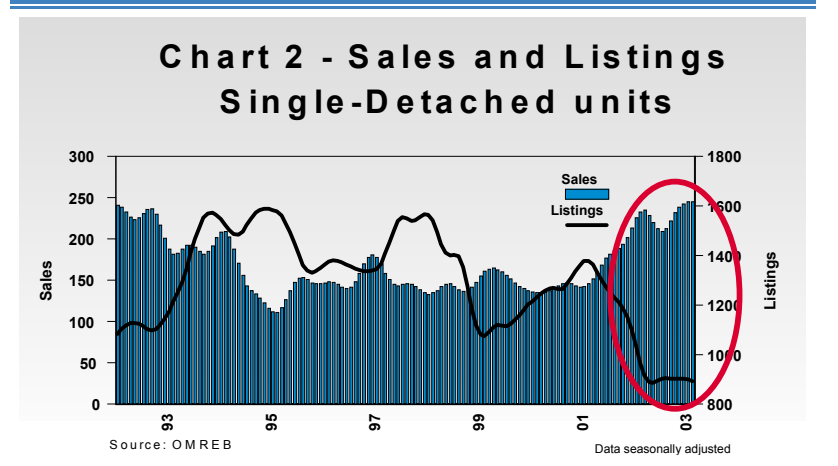
Apartment and townhouse sales were up 34% and 15%, respectively in 2002. More first-time buyers are turning to the condominium market as the supply of lower and mid priced singles listings is drawn down.



Prices up again in 2003.

Also, rising rents, tight rental market conditions and low cost of financing have triggered more interest from investors. The supply of both apartment and townhouse (resale) listings has tumbled to historic lows. A third of all condominium listings are now new units. Prices rebounded 10%-12% in 2002, the first increases since the mid 1990s. Expect condominium prices to continue rising through 2003. Core area gated community housing remain strong performers.

The Kelowna area resale market will remain a seller's market in 2003.



Expect singles sales to flatten out this year, dropping back slightly in response to rising prices and fewer listings.

NEW HOME MARKET

STARTS UP AGAIN - SMALLER GAINS IN 2003

The Kelowna area new home market will continue to expand, last year's big upswing carrying over into 2003. Housing starts will total 1,800 units, the apartment condo sector accounting for most of the increase. Starts shot up 43% to 1590 units in 2002 - a five year high. Kelowna's new home market began the year on a strong note, singles starts

New home market will continue to expand ... look for smaller gains in 2003.

reaching the highest first quarter level since 1992.

With resale house prices on the rise and supply of listings down sharply, more buyers will turn to the new home market in 2003. Inventories - all unit types, are low, absorption keeping pace with completions.

The singles sector will record another strong performance this year. Look for smaller gains in 2003. The move-up and move-down markets - buyers seeking lifestyle and retiree-oriented housing will remain the focus of new home demand. The \$300,000 plus price ranges captured 32% of the new home market last year. Strong demand for more upscale housing and rising lot prices will keep the cost of new homes high.

The median new home price will edge up to \$275,000 from \$265,400 last year.

Look for a few more first-time **new** home buyers in 2003. High land development and other costs remain big challenges for builders trying to penetrate this segment of the market. Houses priced at less than \$200,000 accounted for only 20% of all singles absorbed at completion last year, down from 55% in 1997. Builders have achieved some success targeting the "upper end" first-time buyer market, building units in the \$200,000-\$240,000 price range. Demand for entry level new homes - more modest, less costly "small house/small lot" combinations or higher density types of housing will see

stronger growth this year and next.

Buyers are looking for "people friendly", aesthetically appealing developments - regardless of price range, offering both attractive lifestyle and comfortable

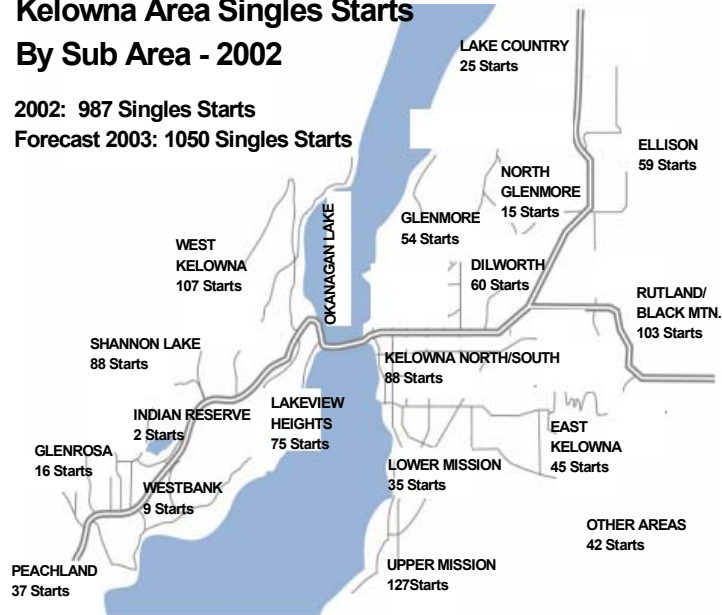
Move-up buyer, retiree and "lifestyler" markets focus of new home demand.

neighbourhood feel. Lake and valley view properties remain strong performers.

The supply of building lots has been drawn down, leaving developers scrambling to bring more on stream. Though new developments and additional phases to existing subdivisions are currently under

Kelowna Area Singles Starts By Sub Area - 2002

2002: 987 Singles Starts
Forecast 2003: 1050 Singles Starts



construction, most are targeting the mid to upper price ranges. The shortage is wide-spread, now extending to the West side, long the biggest source of lower priced building lots.

Lot prices are on the rise, trending up sharply in response to strong demand and reduced supply. Higher land development costs, leap-frogging past lands in the Agricultural Land Reserve, Development Cost Charges and more costly

Supply of building lots down ... prices on the rise.

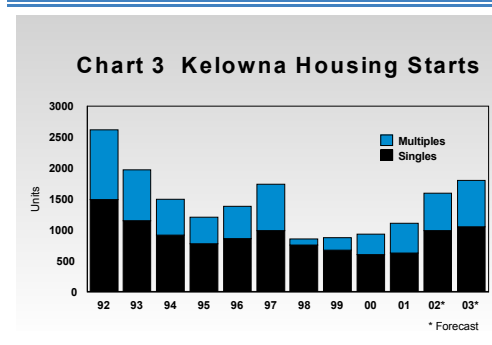
hillside development have all contributed to higher lot prices. The supply of building lots priced at less than \$70,000 - mostly inventory dating from the late 1990s, has been largely depleted. The \$75,000-\$85,000 price range now represents the low end in most new subdivisions. Premium lake, city and valley view lots are commanding prices in the \$125,000-\$200,000 plus range. Expect rising lot prices to push up the cost of new housing.

The apartment condo sector will continue to expand in 2003. Starts rebounded sharply last year, shooting up in response to

pent-up demand, low inventories and shrinking supply of resale listings. Retirees and buyers seeking lifestyle and resort-oriented housing will remain key markets in 2003. Many are second residences or purchased in anticipation of retirement. Most new projects are targeting the mid to upper price ranges. To date, absorption has been strong, keeping inventories low. Lakefront condos are the biggest sellers, Kelowna's growing profile among Vancouver, Calgary and international buyers boosting sales.

Look for new projects in a wider range of locations this year including, the Mission, South Kelowna, Orchard Park area and Westbank. With more projects coming on stream, expect the apartment condominium market to become **increasingly** competitive in 2003.

Demand for gated community housing, especially in core area locations, remains strong. Both the City and West sides will see more low density housing projects targeting retiree and move-down markets in 2003.



Housing starts post smaller gains in 2003.

More first-time buyers will turn to new condos as prices of

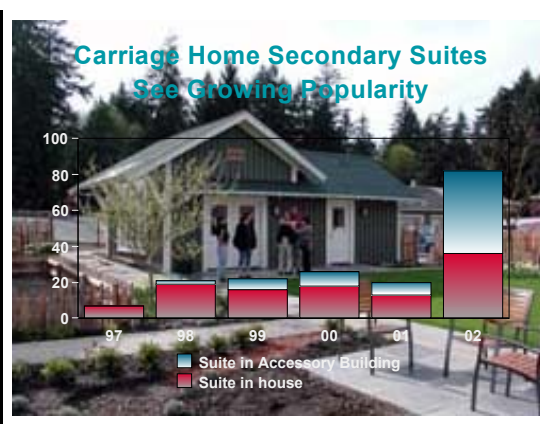
Apartment condo market increasingly competitive ...

resale singles and condos rise and the supply of listings decline. This segment of the first-time buyer market remains largely untapped and may offer some development potential.

Declining vacancy rates will trigger more rental construction this year. Look for more carriage home secondary suites - single unit rentals, in 2003.

The congregate housing market remains adequately supplied and intensely competitive. Changes in provincial health care policy may create some development opportunities for congregate style housing in 2003/2004.

"Carriage home" secondary suites have become increasingly popular in Kelowna with starts more than doubling to 46 units last year. Carriage homes are detached accessory buildings consisting of a secondary suite and attached parking. The accessory building shares the same lot with the primary residence. For homeowners, carriage home secondary suites can provide aging parents an attractive, and often lower cost alternative to multi-family or institutional housing or simply help pay for the mortgage. Also, carriage homes are an efficient way of increasing the supply of new detached rental housing within built-up areas of the City. This type of housing makes no additional demands on the land base, nor requires the demolition of existing structures. For more information about carriage home secondary suites - zoning, height, setback and other requirements contact the City of Kelowna at: www.city.kelowna.bc.ca



RENTAL MARKET

VACANCY RATE EDGES BACK DOWN IN 2003

The Kelowna area rental market will remain tight, the vacancy rate edging down to 1.5% by year-end 2003. The vacancy rate rose to 1.8% last year from 1.3% in 2001. Steady employment and population growth point to increased

Vacancy rate edges back down in 2003 ... rental market remains tight.

demand for rental accommodation. Also, the outflow of renters to the home ownership market seen last year will slow in response higher mortgage rates, sharply rising prices and reduced supply of lower priced listings.

Sustained low vacancy rates will mean higher rents. Expect average rents to increase

another 2%-3% in 2003. Average one and two bedroom apartment rents rose to \$559 and \$680 per month, respectively in 2002, up 2.5%-3% for the second straight year.

Declining vacancy rates will trigger more rental construction in 2003. 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. Rental housing starts totaled only 60 units in 2002. Most new projects have targeted renters seeking more upscale accommodation - until recently, a largely untapped market. Expect demand for this type of product to flatten out as more new supply comes on stream.

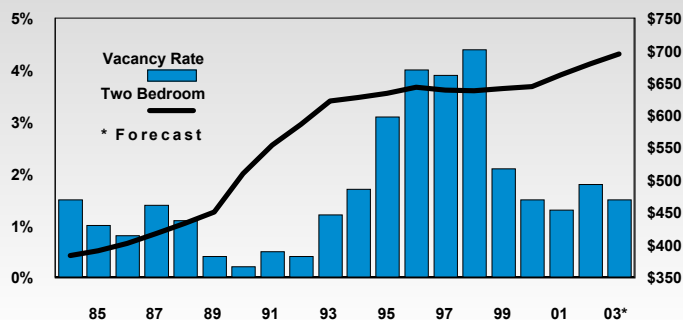
Demand for new rentals will shift to more modest, medium priced apartment accommoda-

Sustained low vacancy rates mean higher rents ...

tion in 2003. Lower density rental housing remains a marginal proposition given land costs and competing residential development alternatives. Expect to see more carriage home secondary suites in 2003.

Rental housing starts will double to 120 units in this year. Look for development opportunities in areas experiencing stronger employment growth, including Rutland, the Orchard Park area, Highway 97 corridor and Westbank.

Chart 4 Vacancy Rate and Two Bedroom Apartment Rent



Vacancy rate edges down in 2003 - Rental market remains tight. Low vacancy rates point to higher rents this year.

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.

To subscribe to The Rental Market Survey and FASTFAX Reports

Telephone: (604) 737-4088

Fax: (604) 737-4021

E-mail: lpreston@cmhc-schl.gc.ca

ECONOMIC OVERVIEW

ECONOMY AND POPULATION GROW IN 2003

Kelowna's diversified economy will continue to expand in 2003. The residential construction and related manufacturing, high tech, retail and personal/business service sectors remain the biggest sources of employment growth. Okanagan ski, golf and other resort destinations are

Kelowna's diversified economy continues to expand.

attracting more US and international visitors and buyers. Here at home, more Canadians are looking at domestic resort markets - affordable alternatives to the southern United States and elsewhere. Tourism, though down in the wake of 9-11, has begun to show some signs of improvement. Events in Iraq may lead to a more prolonged recovery. Despite recent setbacks, tourism remains a key growth sector, the Thompson Okanagan industry among the provinces strongest performers. Valley ski resorts are proceeding with significant expansions to both infrastructure and housing. Rising uncertainty abroad will encourage more Canadians to vacation at home this year. The low Canadian dollar remains a big draw for American travelers. More cross border "rubber tire" traffic will help offset reduced air travel. BC's bid for the 2010 Winter Olympics, if successful, should have some positive spin-offs for Okanagan resorts.

Last year's surge in residential construction activity has led to an ongoing shortage of skilled trades, with some multi-family projects experiencing lengthy construction delays. Look for more commercial construction activity in 2003.

Small business and self-employment have now become among biggest sources of Kelowna area job creation.

Inter-provincial migration - a key source of Kelowna area population growth and housing demand, has slowly begun to turn around. BC is expected to see a net inflow by 2005. A resurgent Vancouver real estate market has led to more migrants from the Lower Mainland. Also, Kelowna will continue to benefit from a province-wide trend towards urbanization. Many rural areas are seeing an outflow of people

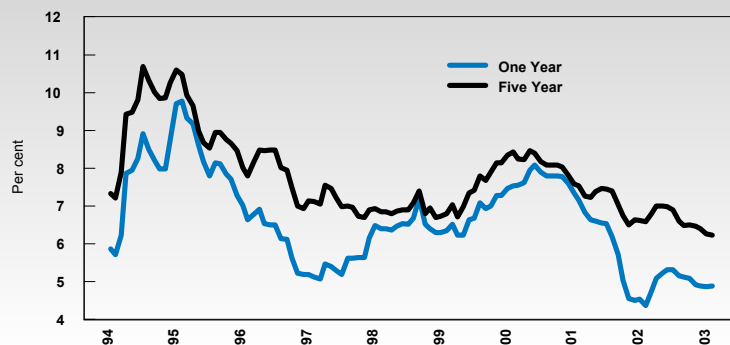
to larger urban centres, spurred in part by shrinking employment opportunities among resource industries and an aging population. BC remains the preferred destination among retirees in Ontario and the Prairie provinces. The Kelowna

Mortgage rates begin to rise ... will remain low by historical standards.

area population will grow by 1.5%-2.0% in 2003.

Mortgage rates will begin to rise in 2003, but remain low by historical standards. Expect short-term mortgage rates to move up in tandem with the prime rate. Longer term rates will vary in response to the cost of raising funds in the bond market. The one, three and five year closed mortgage rates will increase to the 5.00-6.00, 6.00-7.25 and 6.50-7.75 per cent range, respectively.

Chart 5 Mortgage Interest Rates



Mortgage interest rates begin to trend up 2003.

HOUSING MARKET OVERVIEW

Resale Market Remains Strong in 2003

- The Kelowna resale market will record another strong performance in 2003. Sales will drop back slightly, edging down in response to higher interest rates, rising prices and reduced supply of listings. Sales reached near record highs in 2002. The move-up buyer market will remain the strongest performer. Supply of listings will edge back up this spring, but remain low overall. Strong demand will keep supply down, pushing up prices again in 2003. The median resale house price will break the \$200,000 mark this year.

New Home Market Expands ... Smaller Gains in 2003

- The new home market will continue to expand, last year's upswing carrying over into 2003. Look for smaller gains this year. Inventories of new, complete and unsold units - all types, remain low. With resale house prices trending up and supply down sharply, more buyers will turn to the new home market. Housing starts will total 1,800 units, the apartment condo sector accounting for most of the increase. Starts jumped 43% to 1,590 units in 2002 - a five year high.
- The supply of building lots - all locations and price ranges, has been drawn down. Lot prices are on the rise, trending up sharply in the face of strong demand, reduced supply and higher land and land development costs.
- The move-up, retiree and move-down markets - mid to higher end priced homes, will remain the focus of demand in 2003. Look for a few more first-time new home buyers this year.
- Apartment condo starts will increase for the third straight year, boosted, once again, by strong retiree and resort/lifestyle markets. Look for new projects in a wider range of locations. With more projects slated to come on stream, the apartment condo market will become increasingly competitive this year. Expect to see more lower density projects targeting retirees and move-down buyers in 2003.
- Low mortgage rates will remain a key driver in 2003. An aging population and growing profile among out-of-province buyers points to steadily rising demand from retiree and resort/lifestyle oriented housing.
- The Kelowna area economy and population will continue to grow in 2003. Residential construction and relating manufacturing, high tech, retail sales and business and personal services remain the biggest sources of job creation.

Rental Market Remains Tight in 2003

The Kelowna area rental market will remain tight, the vacancy rate edging down to 1.5% in 2003. Rents will continue to rise in response to sustained low vacancy rates. Declining vacancy rates will trigger more rental construction, starts doubling in 2003.

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.

SENIORS' HOUSING MARKET SURVEY

Find out more about the Okanagan's big and growing seniors' rental housing market - current inventories, price trends and preferences. The **Okanagan Seniors' Report** is an annual publication. Available by Year-end.

To subscribe call:

Lisa Preston - Administrator,
Products and Services

Phone: (604) 737-4088

Fax: (604) 737-4021

e-mail: lpreston@cmhc-schl.gc.ca

For more information about local CMHC reports contact:

Paul Fabri, Market Analyst

CMHC - Kelowna

Telephone: (250) 712-4334

Fax: (250) 712-4322

e-mail: pfabri@cmhc-schl.gc.ca

FORECAST SUMMARY

Kelowna Area Spring 2003

| RESALE MARKET | 2000 | 2001 | 2002 | 2003* | % CHG. |
|--------------------------------------|-----------|-----------|-----------|-----------|--------|
| MLS Active Listings (Mar.) ** | 1,745 | 1,857 | 1,220 | 1,193 | (2)% |
| MLS Sales | | | | | |
| Total | 2,421 | 2,882 | 3,586 | 3,405 | (5)% |
| Single-Family | 1,865 | 2,212 | 2,750 | 2,610 | (5)% |
| Apartment | 318 | 374 | 497 | 475 | (4)% |
| Townhouse | 238 | 296 | 339 | 320 | (6)% |
| MLS Median Price | | | | | |
| Single-Family | \$175,000 | \$177,000 | \$189,000 | \$204,000 | 7.9% |
| Apartment | \$99,000 | \$95,000 | \$105,000 | \$115,000 | 9.5% |
| Townhouse | \$139,900 | \$132,500 | \$148,000 | \$155,000 | 4.7% |

NEW HOME MARKET

| | | | | | |
|---------------------------------------|-----------|-----------|-----------|-----------|------|
| Complete and Unoccupied (Mar.) | 165 | 152 | 67 | 88 | 31% |
| Single-Family | 55 | 68 | 44 | 54 | 23% |
| Multi-Family | 110 | 84 | 23 | 34 | 48% |
| Starts | | | | | |
| Total | 928 | 1,111 | 1,590 | 1,800 | 13% |
| Single-Family | 603 | 625 | 987 | 1,050 | 6% |
| Multi-Family | 325 | 486 | 603 | 750 | 24% |
| Median New House Price | \$229,000 | \$260,000 | \$265,400 | \$275,000 | 3.6% |

Rental Market

| | | | | |
|----------------------------------|------|------|------|------------|
| Vacancy Rate | 1.5% | 1.3% | 1.8% | 1.25%-1.5% |
| Rental Rate - % Chg. two bedroom | 0.5% | 2.8% | 2.6% | 2.5%-3.0% |
| Rental Housing Starts*** | 194 | 213 | 64 | 120 |

ECONOMIC OVERVIEW

| | | | | |
|-----------------------------|-------|-------|-------|------------|
| Mortgage Rate (3 year term) | 8.17% | 6.88% | 6.28% | 6.00-7.25% |
| Mortgage Rate (5 year term) | 8.35% | 7.41% | 7.02% | 6.50-7.75% |
| Net Migration | 2,350 | 2,500 | 2,750 | 3,000 |

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

© 2003 Canada Mortgage and Housing Corporation. All rights reserved. No portion of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, mechanical, electronic, photocopying, recording or otherwise without the prior written permission of Canada

Mortgage and Housing Corporation. Without limiting the generality of the foregoing, no portion of this publication may be translated from English into any other language without the prior written permission of Canada Mortgage and Housing Corporation. The information, analyses and opinions contained in this

publication are based on various sources believed reliable, but their accuracy cannot be guaranteed. The information, analyses and opinions shall not be taken as representations for which Canada Mortgage and Housing Corporation or any of its employees shall incur responsibilities.

