

H

OUSING MARKET

OUTLOOK

Kelowna - Spring 2005

RESALE MARKET

Canada Mortgage and Housing Corporation

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SALES REMAIN STRONG IN 2005

The Kelowna area resale market will record another strong performance in 2005. Expect singles sales to drop back *slightly* in response to sustained upward pressure on prices and reduced supply of listings. Rising townhouse and condo sales will offset fewer sales of detached housing. Prices, though continuing to trend up, will see smaller increases this year. Kelowna's resale market will remain a sellers' market in 2005.

The demand outlook for both new and resale housing is positive. Market fundamentals remain solid. BC continues to record robust employment growth. Consumers are upbeat, the BC Index of

Consumer Confidence soaring to an 18 year high earlier in 2005. Closer to home, the Kelowna area economy is firing on all cylinders. Strong employment growth has spurred in-migration, fueling demand for new and resale housing. Retirees and

**Market fundamentals solid ...
Kelowna remains sellers' market in 2005.**

more recently, an influx of others seeking lifestyle-oriented housing have also contributed to sharply increased demand. Population growth and low interest rates will remain key drivers in 2005.

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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.

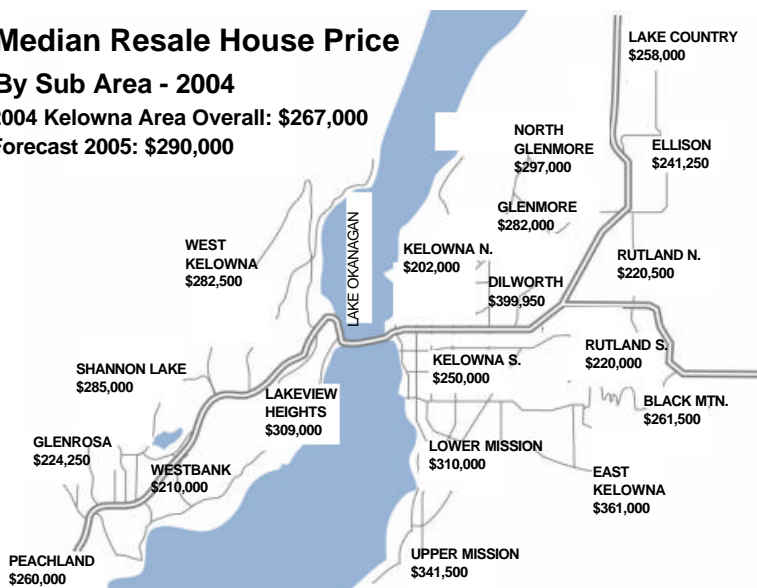
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Median Resale House Price

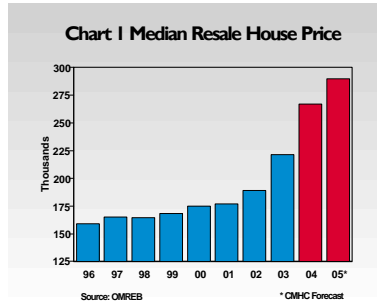
By Sub Area - 2004

2004 Kelowna Area Overall: \$267,000

Forecast 2005: \$290,000



The resale market has begun the year on a strong note, singles sales reaching the highest first quarter level in over a decade. Sales began to slow last summer and fall, but have since picked up in response to skyrocketing new home prices and increased supply of listings. Singles listings have now begun to trend back



down. Expect singles sales to flatten out as the supply of listings declines and prices continue to rise. Also, lower to mid priced singles will face stronger competition from the new and resale multifamily sectors this year. Last spring's big draw down in the supply of singles listings and soaring prices have triggered the construction of more moderately priced condo and townhouse units.

The market has seen a dramatic shift in the price distribution of listings. Detached units priced at less than \$200,000 currently account for only 2½% of singles listings, down from almost 26% two years ago. The upper price ranges are somewhat better supplied due to stronger price competition from the new home market. Overall, supply will remain tight in 2005.

Strong demand in combination with tight supply will continue to

drive up prices in 2005. Big gains in both 2003 and 2004 - 17% and 21%, respectively - and stronger competition from the new condo and townhouse markets point to smaller increases this year. The median resale house price will reach \$290,000 this year, up 9% from \$267,000 in 2004. Rising prices will extend across all sub-market locations.

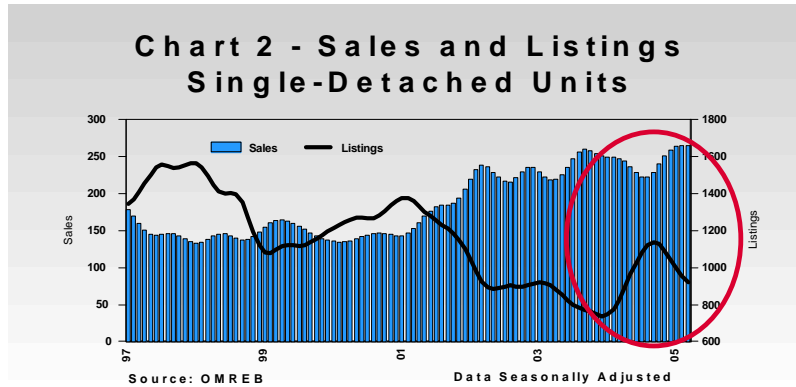
The core area, Rutland, Glenrosa and Westbank remain the most modestly priced locations. Southeast Kelowna, Dilworth and sections of N. Glenmore, Lakeview Hgts. and W. Kelowna command the highest prices.

The resale condominium market has surged ahead, sales recording big year-over-year gains since 2002. Affordability and lifestyle have been key drivers. With few singles priced at less than \$200,000, more first-time buyers are now turning to higher density housing. Retirees, move-down buyers and lifestyle remain big sources of demand. Also, tight rental market conditions, rising

Area	2003	2004
Black Mtn.	\$205,950	\$261,500
Dilworth	\$325,000	\$399,950
Glenrosa	\$176,900	\$224,250
Glenmore	\$237,500	\$282,000
Kelowna N.	\$164,500	\$202,200
Lakeview H.	\$274,950	\$309,000
L. Mission	\$285,000	\$310,000
N. Glenmore	\$247,000	\$297,000
Peachland	\$225,000	\$260,000
Rutland N.	\$184,450	\$220,500
Rutland S.	\$180,750	\$220,000
Shannon Lke.	\$236,000	\$285,000
Up. Mission	\$297,000	\$341,500

rents and low cost of financing have lead to more interest by investors. The supply of listings has shot back up, high levels of condo and townhouse completions boosting supply. Expect sales to continue trending up through 2005.

Strong demand will mean double-digit price increases for the third straight year. The median resale condo and townhouse price will jump 13% and 14% to \$180,000 and \$210,000, respectively, in 2005.



Expect singles sales to slow after reaching record highs this year and last, but maintain a high level overall in 2005.

NEW HOME MARKET

CONDO STARTS JUMP TO RECORD HIGH IN 2005

Kelowna area housing starts will increase to near record highs in 2005. Housing starts will total 2,425 units, breaking the 2,000 mark for the third straight year. For the first time ever, multi-family starts - combined semi-detached, townhouse and apartment units - will surpass singles starts. Housing starts, lead by the single family sector, reached 2,228 units in 2004 - the highest level since 1992.

Singles starts will drop back this year, slowing in response to sharply rising new home prices. Also, rebuilds of homes destroyed in the Okanagan Mountain Park wildfire contributed to higher levels of singles construction in 2004. Rebuilds accounted for 10% of singles starts last year. The singles sector will remain buoyant despite fewer starts. The inventory of complete and unoccupied units has stabilized after trending up last fall. Supply has adjusted to reduced demand.

The move-up, move-down and retiree markets will remain the focus of new home demand. Lifestyle oriented housing - adult-oriented communities, housing on golf courses and subdivisions which bring together the right combination of housing form, setting and amenities - will stay front and centre. Lake and valley view properties remain the strongest performers.

More builders are beginning to target first-time move-up buyers and others seeking mid-priced detached housing, until recently, a largely untapped market. This segment of the market will see stronger growth this year, pent-

For the first time ever, multi-family starts will surpass singles starts.

up demand and greater availability of moderately priced building lots leading to more opportunity for expansion.

Strong demand for more upscale housing, rising lot prices and other costs will keep new home prices high. New singles prices have shot up, increasing by more than a third in just five years. The median new home price will approach the \$400,000

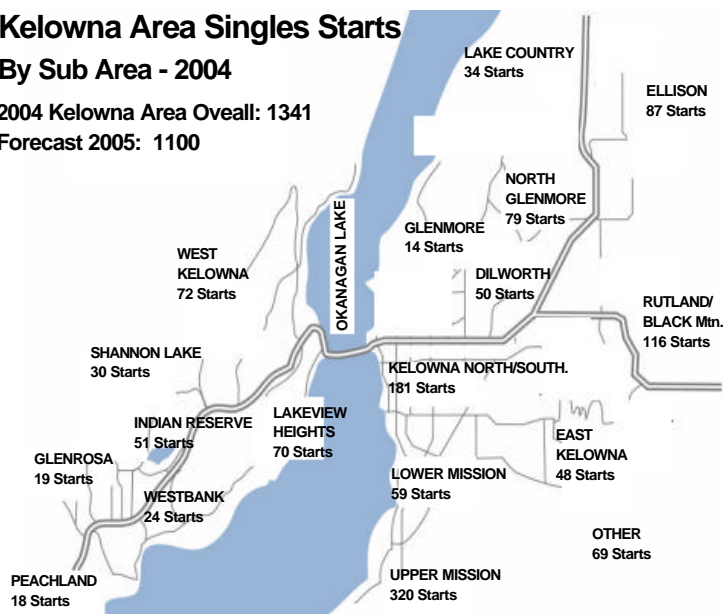
mark this year. Rising lot prices, an ongoing shortage of skilled trades and more recently, the skyrocketing cost of some building materials remain big challenges for the new home industry.

Lot prices continue to trend up sharply in response to strong demand and tight supply. Higher land and land development costs, leap frogging services past lands in the Agricultural Land Reserve, Development Cost Charges and more costly hillside development have all contributed to rising lot prices. Lot supply has just barely kept pace with demand, leaving developers scrambling to bring more on stream.

The distribution of building lots
Continued on the next page.

Kelowna Area Singles Starts By Sub Area - 2004

2004 Kelowna Area Overall: 1341
Forecast 2005: 1100



is shifting outward as municipalities extend infrastructure into new areas. Dilworth Mountain, Gallaghers Canyon and Quail Ridge - long standing sources of higher end building lots - are moving ahead with their final phases this year. Look for new subdivisions in Lake Country, North Glenmore, Black Mountain, Kirschner Mountain, West Kelowna, Shannon Lake and Peachland. Several are now targeting *mid* rather than higher end buyers, offering lots in the \$100,000-\$120,000 price range.

The median lot price will climb to \$125,000 in 2005. The \$90,000-\$100,000 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 jumped to \$115,000 last year, up 21% from \$95,900 in 2003. Rising lot prices will continue to push up the cost of new housing.

Condo starts will rebound sharply in 2005, fueled by strong demand for resort and other types of lifestyle-oriented housing. An aging population, profile and accessibility have all

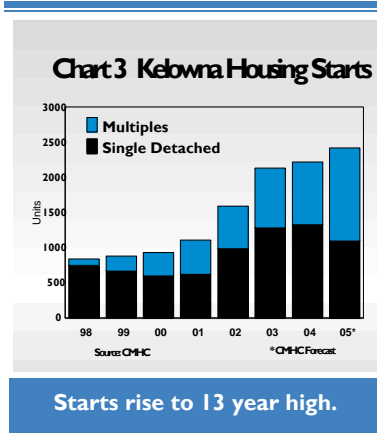
contributed to increased demand. The range of resort housing options has, in itself, become a huge draw. The resort/lifestyle market has evolved quickly, segmentation by product type - tenure, location, building type and range of amenities - the key to expansion. Many are second residences, investor-owned units or purchased in anticipation of retirement. Retiree and move-down buyers remain big sources of demand. Resort and conventional housing markets are seeing more and more overlap.

Prices have trended up sharply, each project pushing the price

Condo starts rebound sharply, reaching record highs in 2005.

envelope to new highs. The up-tick reflects both soaring construction costs and strong demand for upscale product. Absorption has been brisk, keeping inventories low. Pre sales are holding up - almost 80% of units under construction have already been sold.

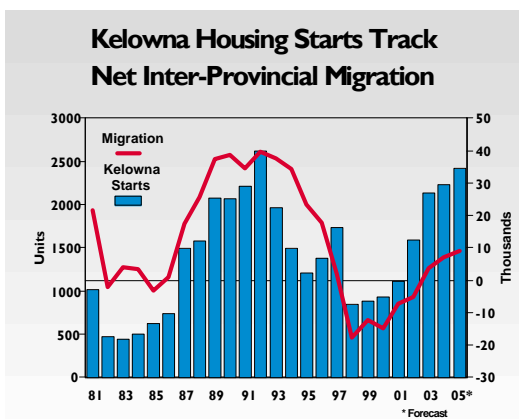
The condo market is moving in new directions. Kelowna saw its



first loft units in 2004. More loft style units and high rise towers are on the way. Multi-family housing is becoming more widespread. Look for more low and medium density projects in Rutland, Peachland and the west side in 2005.

With the price of both new and resale detached units up sharply, more first-time buyers are turning to the new condo market. Attitudes among first-time buyers are changing, higher density housing becoming more widely accepted. Few projects have, until now, targeted this segment of the market. Pent-up demand and recent reductions in Development Cost Charges have triggered more interest among builders.

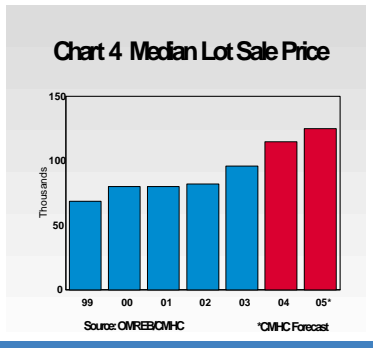
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Inter-provincial migration - people moving to BC from other provinces remains among the biggest sources of Kelowna area housing demand. Kelowna sees few international migrants. The BC economy rebounded sharply, churning out jobs in 2003 and 2004. Strong employment growth has, in turn, triggered an inflow of job seekers, especially from Alberta and Ontario. Other migrants, including retirees and more recently, “lifestylers” have also contributed sharply increased demand for both new and resale housing. Inter-provincial migration doubled in 2004. With the BC economy expected to see strong growth through 2006, inter-provincial migration will continue to trend up this year and next.

RENTAL MARKET

RENTAL MARKET REMAINS TIGHT



Take-up has been strong. Expect to see more first-time buyer oriented projects come on stream this year.

The Kelowna area condo market will become **increasingly competitive** in 2005. The market has begun to see more speculative buying, buyers purchasing one or more units with the intention of reselling, often before the building is complete. Strong demand and sharply rising prices are fueling expectations of quick turnover and big gains.

Townhouses have made a comeback this year, regaining popularity lost through the mid 1990s. Look for more projects in Rutland, North Glenmore and the Mission in 2005. Once again, price and lifestyle remain key drivers.

The congregate housing market saw vacancy rates drop for the fourth straight year in 2004. Declining vacancy rates and rising demand have triggered construction in both city and west side locations. Three congregate housing projects totaling almost 400 units and a funded 40 unit assisted living residence are currently under construction.

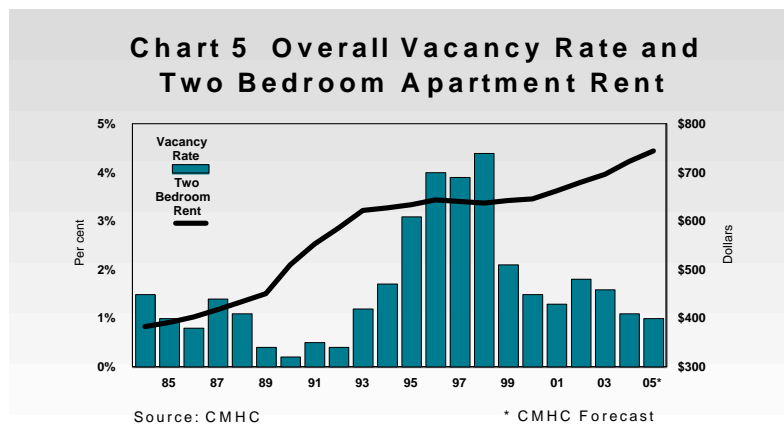
The Kelowna area rental market has remained tight. The vacancy rate fell to only 1.1 last year from 1.6% in 2003. Steady employment and population growth have meant strong demand for rental accommodation, keeping vacancy rates low. Rental housing starts continue to lag behind growth in demand, contributing to low vacancy rates. Looking forward, plans to double enrollment at UBC Okanagan will boost demand over the next several years. Expect vacancy rates to edge down again, dipping to 1% in 2005.

Apartment rents have increased for the fifth straight year, trending up in response to sustained low vacancy rates. Average one and two apartment rents jumped 2.4% and 3.7% to \$589 and \$723, respectively, in

2004. Look for a similar increase this year.

Despite low vacancy rates, rental housing starts will total only 50 units in 2005. With demand for condominiums on the upswing, builders are, for now, focusing on the ownership market. Recent reductions in Development Cost Charges may help trigger more interest among builders. Also, the City is currently exploring ways to develop affordable rental and ownership housing on lands owned by the municipality.

Other types of housing have helped pick up the slack. Attached “carriage homes”, and in-unit secondary suites - “mortgage helpers” have become increasingly popular. The investor condo market is also a growing source of rental accommodation.



Vacancy rate will remain low this year and next. Once again, sustained low vacancy rates will continue to push up rents.

ECONOMIC OVERVIEW

ECONOMY AND POPULATION GROW IN 2005

The Kelowna area economy, will continue to expand in 2005. Residential construction, manufacturing and health care and personal services sectors are the biggest sources of employment growth. Tourism has begun to recover from the post 9/11 downturn. Small business has become the engine of growth. Kelowna has also seen a growing trend towards

Strong population growth and diversification key to economic expansion.

self-employment. By year-end 2004, Kelowna's unemployment rate had dropped to the lowest level in over a decade.

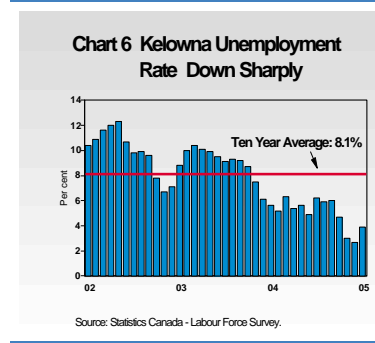
Strong population growth and diversification have been key to sustained economic expansion. In-migration of "lifestylers" and retirees have lead to sharply rising demand for services and housing. This trend will become even more pronounced as the boomers move through their retirement years.

Plans to expand Okanagan University College to a full service university - UBC Okanagan - have become a reality. Enrollment is expected to double by 2010. UBC Okanagan will become an increasingly significant contributor to economic growth - profile, industry partnerships, capital expenditure, research dollars and demand for housing. The

recently announced bridge replacement project will also mean more jobs.

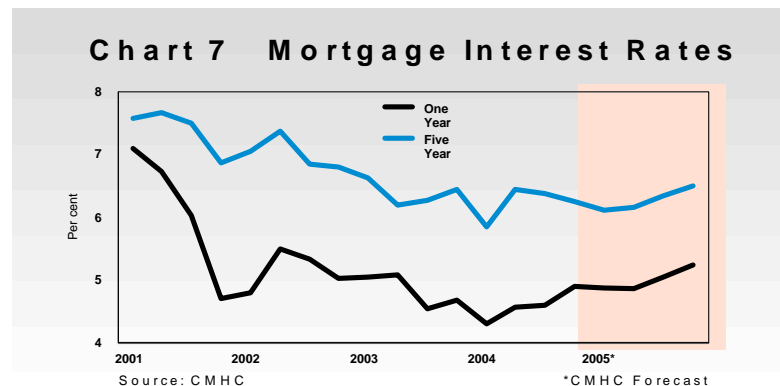
The BC economy recorded solid growth in 2004, outperforming Canada overall. Stronger employment growth has, in turn, attracted migrants from other provinces. Net inter-provincial migration almost doubled in 2004 and is forecast to increase through 2006. People are coming back to BC. Historically, people moving to BC from other provinces - especially - Alberta and Ontario - have been a major source of Kelowna area housing demand. Kelowna continues to benefit from a province-wide trend towards urbanization. Also, a strong Vancouver real estate market has lead to more migrants from the lower mainland.

Kelowna remains among the fastest growing larger centres in BC. The Central Okanagan is now seeing more broadly based



in-migration - retirees, lifestylers and job seekers. The Kelowna area population will grow by 2.0-2.5% in 2005.

Low mortgage rates will continue to support high levels of sales and residential construction activity. Mortgage rates are expected to begin edging back up, rising by less than 50 basis points annually this year and next. One, three and five year mortgage rates are forecast to be in the 4.50-5.50, 5.50-6.50 and 5.75-6.75 per cent range, respectively, in 2005. Many lenders are continuing to offer discounted rates.



Mortgage interest rates will remain low in 2005 and 2006.

HOUSING MARKET OVERVIEW

Resale Market Remains Strong in 2005

- Singles sales will drop back *slightly* in response to sharply rising prices and stronger competition from the new and resale multi-family sectors. Also, the supply of singles listings has now begun to drop back down. Expect prices to continue trending up in 2005. Prices will see smaller gains this year, the median resale house price increasing by 9% to \$290,000 from \$267,000 in 2004. The Kelowna area resale singles market will remain firmly in sellers' market territory through the balance of 2005. Condo and townhouse sales will increase again, affordability and lifestyle the key drivers.

Condo Construction Boosts Housing Starts in 2005

- Kelowna area housing starts will increase to near record highs in 2005, new home construction breaking the 2,000 unit mark for the third straight year. Housing starts will total 2,425 units this year, skyrocketing multi-family construction offsetting fewer singles starts. For the first time ever, multi-family starts will exceed singles construction. Housing starts, lead by the singles sector, totaled 2,228 units in 2004.
- Singles starts will decline in the face of soaring new home prices. The median new house price will jump to \$385,000 in 2005, increasing by more than a third in just five years. Also, fewer rebuilds of homes destroyed by last year's wildfires contributed to higher levels of construction activity in 2004. Though move-up, retiree and move-down markets will remain the focus of demand in 2005, builders are beginning to target buyers seeking more modest, mid-priced detached units - until recently, a largely untapped market. This segment of the market will see stronger growth this year, pent-up demand and greater availability of moderately priced building lots leading to more opportunity for expansion.
- Lot prices will continue to trend up in the face of strong demand and tight supply. New subdivisions in Black Mountain, Westbank and Lake Country will boost the supply of mid-priced building lots.
- Apartment condo starts will surge ahead in 2005. Retirees and buyers seeking resort and other lifestyle-oriented housing will remain key markets. More first-time buyers are now turning to the multi-family sector. Expect to see more proposals for first-time buyer oriented multi-family housing - both condo and townhouse - come forward this year.
- Mortgage rates will remain low, edging up this year and next.
- The Kelowna area economy and population will continue to grow in 2005. Construction, manufacturing and health care and personal services sectors remain the biggest sources of job creation. UBC Okanagan will become an increasingly significant contributor to economic growth. Kelowna is now seeing more broadly based population growth - retirees, lifestylers *and* job seekers.

Rental Market Remains Tight in 2005

- The Kelowna area vacancy rate will dip to only one percent in 2005. Rents will continue to rise in response to sustained low vacancy rates.

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FORECAST SUMMARY

Kelowna Area Spring 2005

RESALE MARKET	2002	2003	2004	2005*	% CHG.
MLS Active Listings (April.) **	1,263	1,328	1,137	1,423	25.2%
MLS Sales					
Total	3,586	3,863	3,978	4,025	1.2%
Single-Family	2,750	2,902	2,887	2,800	(3.0%)
Apartment	497	631	755	850	12.6%
Townhouse	339	330	336	375	11.6%
MLS Median Price					
Single-Family	\$189,000	\$221,500	\$267,000	\$290,000	8.6%
Apartment	\$105,000	\$124,900	\$159,900	\$180,000	12.6%
Townhouse	\$148,000	\$158,000	\$183,500	\$210,000	14.4%

NEW HOME MARKET

Complete and Unoccupied (Mar.)	67	88	59	132	124%
Single-Family	44	54	42	74	76%
Multi-Family (excludes rental units.)	23	34	17	58	241%
Starts					
Total	1,590	2,138	2,228	2,425	8.8%
Single-Family	987	1,290	1,341	1,100	(18.0%)
Multi-Family	603	848	887	1,325	49.4%
Median New House Price	\$265,400	\$279,250	\$349,900	\$385,000	10.0%

Rental Market

Vacancy Rate	1.8%	1.6%	1.1%	1.0%
Rental Rate - % Chg. two bedroom	2.6%	2.5%	3.7%	3.5%
Rental Housing Starts***	64	54	107	50

ECONOMIC OVERVIEW

Mortgage Rate (3 year term)	6.28%	5.82%	5.65%	5.50-6.50%
Mortgage Rate (5 year term)	7.02%	6.39%	6.23%	5.75-6.75%
Net Migration	2,250	2,750	4,000	4,000

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