

INVESTMENT OPPORTUNITIES IN THE LAKE OSOYOOS LOCALITY

INTRODUCTION

My hometown of Oroville, located in Okanogan County in North Central Washington, is just another sleepy farming town. For decades the supporting industry has been the apple orchards that surround the town. Acres of fruit trees kept the valley lush and green. Mining and cattle operations filled the remaining economic gaps and the citizens were content to sustain themselves. The mountainous scenery and the large nearby lake provided excellent reasons for people to call the Okanogan Valley home.

At the same time, the community leaders across the border in Osoyoos, Canada began looking for ways to promote their town. Osoyoos resembled Oroville on many fronts; both were supported by agriculture, both were small and both were located in the same picturesque mountain valley. Each was also situated on the warm international waters of Lake Osoyoos, which provided excellent recreation for the locals and drew people from up and down the valley. Boasting some of the highest average temperatures in the country of Canada, citizens of Osoyoos realized that their town had the potential to be a destination that Canadians would travel hundreds of miles to visit. Small hotels and campgrounds popped up around the lake in Osoyoos and as hoped, the tourists came. Campgrounds became motels, then became moderate sized hotels, and eventually turned into high-rise condominiums and lavish lakeside resorts. The rusting pickups of local farmers were replaced on the highways by the BMW and Mercedes convertibles of jet set couples visiting for the weekend from Vancouver.

For many years this trend continued with large growth and expansion of the tourism in Osoyoos and the surrounding area. It seemed everyone was catering to the tourists and Osoyoos was flourishing. South of the border, back in my hometown of

Oroville, the picture was much different. Farming continued to be the headline and the headlines were anything but positive. Hard financial times in the last decade of the 20th century left Oroville and Okanogan County looking for a new economic savior.

At the same time houses began popping up around the lake in Oroville that were being built by wealthy Canadians. Tax laws in Canada at this time penalized citizens for owning land in foreign countries. Those who could afford it however were able to enjoy the peace and serenity found in Oroville. Compared to the hustle and bustle and the drone of all the boats on the Canadian side, the American end of the lake was a well kept secret for tourists. By the early years of the 21st century, many Canadians were calling Oroville their summer home. Land was still drawing agricultural prices rather than the exorbitant prices developers received in Osoyoos, so for those looking for a truly peaceful vacation a house in Oroville was the ticket.

Investors soon caught on to the opportunity at hand. A change in Canadian tax code that taxed American property the same as domestic property came about the same time that the Canadian dollar strengthened. Mass building in Oroville, once a proposition those Canadian developers could only dream about, was now possible. The first resort, Veranda Beach, broke ground in early 2003. Declaring a planned 220 units, the resort would sit on a small point extending into Lake Osoyoos; a small point that had sat dormant for years because it was deemed unfit for orchards. A year later plans were announced for a 180 unit development on the south end of the lake in an abandoned hay field. Today there are three additional resorts in the planning stages. At the same time individual investors purchased bare lots around the lake and began construction on single family homes. Existing homes on the lake saw their values skyrocket. Investors from both sides

of the border rushed to the area sensing a great opportunity. On any given weekend in July the number of visitors in Oroville far outnumbered the farmers.

RESEARCH QUESTION

Many Canadian and American investors have already gambled that a purchase in Oroville can be profitable venture. What is an investor interested in the Lake Osoyoos market looking for in a property, and what type of property would be best suited as an investment?

METHODOLOGY

The first step in my thesis will be to determine the demographic of people who are currently purchasing investment properties in the Oroville/Lake Osoyoos area. From local realtors and the Okanogan County Assessor's Office, I will be able to determine where recent investors reside. It will be important to determine whether American or Canadian investors are the primary players in the market, and I'll discuss the economic factors that influence investors from each country.

The second step will be to separate the properties available in the area into different categories to facilitate analysis. My initial estimate is that there will be three categories; resort type properties, finished homes, and lots for construction. Resorts will include the various developments that are located around the lake where numerous residences are being built in a small area. The second category is finished homes; many investors will simply be looking for a property with a house already in place where they can do minor work to the property and wait for the real estate to appreciate. The final category is a bare lot with development potential. For the purposes of my thesis, I will limit this category to

lots suitable for single home development. Large lots appropriate for subdivision or resort development will not be included.

Since it is nearly impossible to predict sales prices for an individual piece of property, my thesis will use the sales comparison approach when estimating valuation and cost. In the sales comparison approach, market value is estimated by comparing properties similar to the subject properties that have recently been sold, are listed for sale, or are under contract (Appraisal of Real Estate 1996, 397). The Okanogan County Assessor's Office provides sales data and assessor's valuations for each tax parcel in Okanogan County, an invaluable asset during my research.

Cost will be a major factor in determining the demand for a property and will be the starting point of my research. Each type of property will have a different cost associated with the investment and I will provide this estimate in my thesis. I will further break down what is included in each of these final costs. For example, a bare lot will include the cost of the land, the cost of the labor to build the home, the cost of the materials for the home, as well as extraneous costs such as the permits and surveying (Appraisal of Real Estate 1996, 346). A finished home and a condominium will each also have unique costs.

The natural succession will be to next determine the value one could expect in the coming years. Nationwide the housing market is facing a steep downturn, although my initial research indicates North Central Washington is lagging behind the rest of the economy. As such, housing prices have remained strong and continue to rise. For each property, I will estimate how much one might be able to sell the property for in the future. This will be done using the similar sales comparison approach as well as looking at how much properties of each type have appreciated recently.

There will be many factors that will indirectly affect the marketability. In fact, the list is so long that it would be impossible for one thesis to sufficiently cover all that influences a market value. However, my thesis will look at the most obvious and important factors. When a property is ready for occupancy is a significant factor in the market value. A completed home will be available as soon as the deal is closed, as would a finished condominium. A condominium in progress would involve a wait, as would a home being built on a bare lot. An additional factor is the features available on the properties. This extends from additions like a dock, garage, and other improvements on the property to amenities available in the condominium market such as restaurants or a golf course. My thesis will look at what features sets each property apart.

EXPECTED RESULTS

I expect to find that a finished lakefront home has the most attributes an investor is seeking and will possess the highest value at the end of the investment horizon. It is expected condominiums will have similar demand, however will be valued less due to their close proximity to a significant number of other residences. Bare ground will be valued less than other categories because of the lack of improvements and the required time for completion of a new home. In addition, bare ground will be a less desirable investment due to the relatively high price compared to the other two categories. In the end, it is expected that I will find investors are looking for properties ready for purchase and ready for occupancy in order to facilitate a property that is both an investment and a second or third residence. Not only will this have great impact on understanding the current housing market in the Lake Osoyoos market, it will also be useful in predicting what might happen

in the future. The fact that the majority of purchases in Oroville are of an investment nature will likely mean the market is headed for a volatile period.

WORKS CITED

Collier, Nathan S., Courtland A. Collier, and Don A. Halperin. Construction Funding. Third ed. New York: John Wiley & Sons, 2002.

Collier, Collier, and Halperin offer a great overview of the real estate development process. For those investors considering purchasing bare ground and building a home for investment purposes, the required steps are numerous and complex. To prepare an accurate evaluation of the tasks and costs involved and estimate a cost basis value for the property, I'll make extensive use of this source.

Fanning, Stephen F., Terry V. Grissom, and Thomas D. Pearson. Market Analysis for Valuation Appraisals. Chicago, Illinois: Appraisal Institute, 1994.

As the title of the book suggests, Fanning, Grissom, and Pearson discuss the market analysis phase when completing a valuation appraisal. Market analysis is completed before an analysis of the individual property can be started. It is at this stage of the appraisal where the overall market characteristics are studied, and where one must evaluate broad trends. In this case, the source will be used to assist me in the analysis of the Oroville market, in estimating the real estate demand, and in estimating the competitive supply for my sample properties.

The Appraisal of Real Estate. Chicago, Illinois: Appraisal Institute, 1996.

While the conclusions of my thesis will be regarding the marketability and expected return on investment properties, the vast majority of my work will actually be in the appraisal of both the example properties and of the local market in general. This work from the Appraisal Institute will be crucial in the completion of my thesis. Especially important sections will be the discussion of valuation of vacant land and the use of comparable sales to appraise real estate properties.

Peiser, Richard B. Professional Real Estate Development. Chicago, Illinois: Dearborn Financial, 1992.

When selecting a home or resort unit for investment, having a tangible asset to see and analyze makes the task less complicated than when dealing with a bare lot. Bare lots require a decision of what structures and improvements are possible and how they might increase the return on investment for an investor. Peiser's text, especially the third chapter on site selection, will be relied on extensively in the section of my thesis where I discuss development of an unimproved lot.

Swesnik, Richard H. Acquiring and Developing Income-Producing Real Estate. Reston, Virginia: Reston Company, Inc.

Much of my thesis will be an evaluation of the market conditions in the local Oroville area. This will include discussion of the competing developments currently being constructed. Swesnik's text will aid me in analyzing the feasibility of competing projects and in ultimately determining how many units will be entering the market in the near future. Over supply is one of the greatest causes of concern for developers and investors, and determining whether or not to purchase must be decided before an investment option can be selected.

Okanogon County Assessor's Office. 2008. 14 February 2008
<<http://okanogancounty.org/Assessor/>>.

I will make extensive use of The Okanogon County Assessor's web site for my thesis. Public information regarding the appraisal, assessment, and sales transactions for every taxable property in the county is available. This data will be fundamental for completing my appraisal of the example properties, and will also provide me demographic information on recent purchasers of local property. In addition, their list of recent sales in the county will give me data to compute sales price trends and overall market analysis.

Bond, Michael T., Vicky L. Seiler, and Michael J. Seiler. "Residential Real Estate Prices: a Room with a View." The Journal of Real Estate Research 23.1/2 (2002): 129-137.

In their article in The Journal of Real Estate Research, Bond, Seiler, and Seiler discuss the increase in value that resulted from a waterfront view of Lake Erie. This article will be a great resource as I complete my thesis because my thesis will also focus on lake front properties. It is likely the main characteristic buyers are searching for in an investment property in the Lake Osoyoos region is in fact lake frontage. They are also assuming this lake frontage will bring them a higher cash flow at the end of the investment horizon. This article discusses how much that premium might be.

Benson, Earl D., Julia L. Hansen, Arthur L. Schwartz, and Greg T. Smersh. "Pricing Residential Amenities: the Value of a View." Journal of Real Estate Finance and Economics 16.1 (1998): 55-73.

"The Value of a View" is similar to the article from Bond, Seiler, and Seiler in that it discusses the price premium for investment properties located near water. However, it differs in several important ways. First, the article discusses those properties that aren't on the water but still have a water view. Several options available to investors that I will discuss have no direct lake frontage but still boast a lake view. Second, the article distinguishes different qualities of views, which is important for my research. It cannot be

assumed all properties have the same quality of view, and segregating by quality makes it easier to discuss price premiums.

Krainer, John. "Real Estate Liquidity." Economic Review - Federal Reserve Bank of San Francisco (1999): 14-26.

Krainer's article discusses how the liquidity of real estate is tied to the value of the housing transactions flow, which in turn is tied to the overall state of the economy. With this research in mind, it will be crucial for me to broaden the discussion. In my thesis, not only will I need to address how the local market and conditions will affect the future prices for properties in the Lake Osoyoos area, but also what the state of the national economy is and how that may affect the prices investors will face.