



KELOWNA ANNUAL HOUSING REPORT

PREPARED BY POLICY & PLANNING DEPARTMENT - MARCH 2021



City of
Kelowna

EXECUTIVE SUMMARY

Several sectors of Kelowna's economy and housing system faced challenges due to the pandemic in 2020, but by the end of the year there were signs of recovery. The regional labour market saw total employment at the end of 2020 up from 2019 and mid-year population estimates suggest Kelowna experienced robust population growth throughout the pandemic. Overall, Kelowna's economic resilience during the pandemic combined with strong population growth, fueled greater than expected demand for housing in 2020.

It is still too early to know how the short-term shifts in the housing market associated with the pandemic might impact housing trends over the next 5-10 years. But, at the end of 2020 there were 4,700 units under construction with 84 per cent in the form of multi-family housing which indicates that focus on single-detached housing may be more of an anomaly. There will be periodic shifts in housing demand, but the long-term trend for housing is likely to reflect a gradual shift to more ground-oriented multi-family and apartment housing over the next 20 years.

KEY TAKEAWAYS

- Demand for ground-oriented housing drove sales and price increases in the resale market with people spending more time at home during the pandemic and the rise of remote work.
- Demand for housing remained strong in the City's downtown, illustrating that condo living will continue to be a major part of Kelowna's future.
- Purpose-built rental demand continues to outpace supply even after record construction in 2019, highlighting the need for on-going investment in rental housing.
- Strong demand for rental housing is driving rental rates out of reach for many, reinforcing the need for additional subsidized rental housing.
- Emergency shelter housing and supportive housing saw several developments in 2020, yielding results and progress, but there is more work to be done to tackle the immense challenge of housing Kelowna's most vulnerable citizens.
- Key data such as increasing median housing prices and low rental vacancy rates (Table 1) suggest that it is getting harder for people to move between different segments of the Wheelhouse (page 5) to meet their housing needs.



Table 1: Median Home Price and Vacancy Rate

| Type | 2019 Median Price | 2020 Median Price | % Increase |
|-----------------|-------------------|-------------------|------------|
| Apartment | \$355,700 | \$364,300 | 2.4% |
| Townhouse | \$466,110 | \$501,100 | 7.5% |
| Single Detached | \$681,766 | \$735,000 | 7.8% |

Overall rental vacancy rate decreased from 2.7% in 2019 to 2.1% in 2020

Source: BC Assessment Authority and CMHC.

INTRODUCTION

Each year, the *Annual Housing Report* gives a detailed overview of the local housing market, sharing vital data and key insights into Kelowna's housing system. This year's *Annual Housing Report* provides a strong reporting link to the City's *Healthy Housing Strategy*¹. The first section of this report focuses on the housing Wheelhouse that was developed through the City's *Housing Needs Assessment*². For each segment of the Wheelhouse, we provide a review of recent data and commentary on City actions and the relationship to other segments of the Wheelhouse. The last section of the report, *Housing Insights*, analyzes some of the larger trends affecting housing in 2020, and explores impacts of the COVID-19 pandemic on the housing market as well as implications for housing policy moving forward.

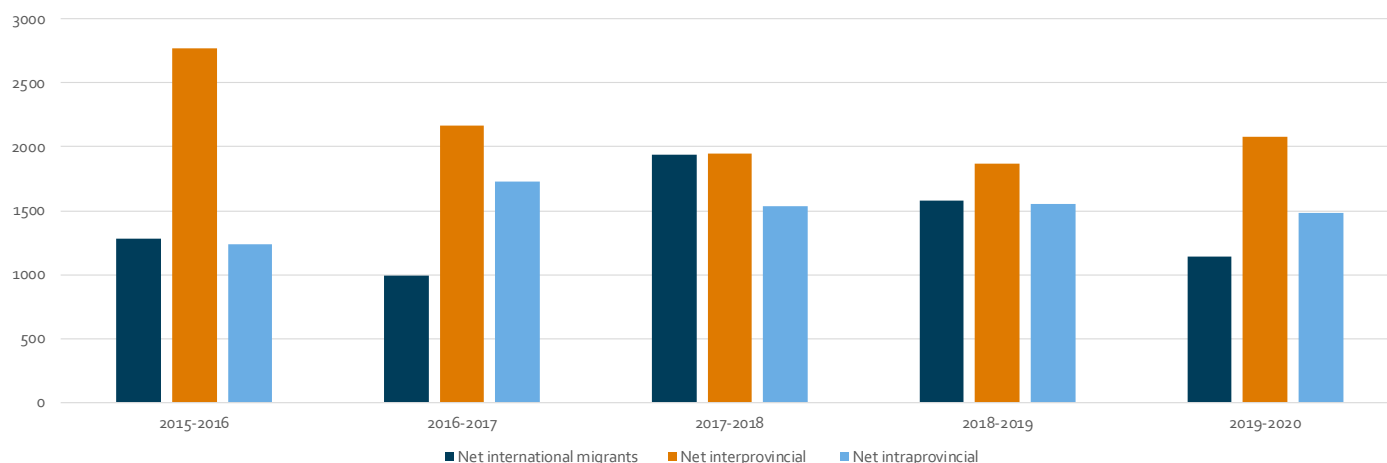
2020 KELOWNA CONTEXT

The strength of the local economy offers valuable context, as it typically influences demand in the local housing market. If a region is experiencing job and population growth, robust housing demand typically follows suit. The opposite is also true in times of slow or negative job and population growth.

POPULATION

Since 2016, Kelowna has added about 3,000 people annually, bringing strong demand for housing. Historically, population growth in the region is the result of people moving to Kelowna from other provinces and since 2017, national and international migration to Kelowna has increased. This shift in migration patterns (Figure 1), highlights Kelowna's evolution from a retirement destination to an economic centre that retains students and attracts talent.

Figure 1: Components of Migration

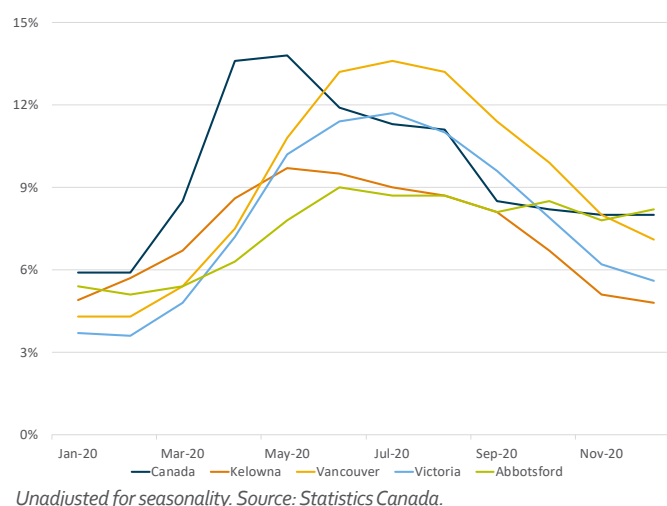


Population estimates from Statistics Canada show that the Kelowna region was one of the fastest growing areas in Canada for the first half of 2020. Kelowna saw an overall reduction in international migration, but this was offset by migration from other areas of BC and Canada³. Anecdotal evidence suggests the rise of remote work during the pandemic has allowed more people from larger centres to move to Kelowna to access lower housing prices and quality of life factors.

STATE OF THE ECONOMY

Kelowna's economy has performed better than some other regions during the pandemic (Figure 2), but there are several sectors that continue to struggle. Two of Kelowna's most prominent economic generators, the airport and the tourism

Figure 2: Monthly Unemployment Rates



industry, were both significantly impacted in 2020, both financially and operationally. Jobs in accommodation and food services as well as culture and recreation were hit the hardest, with 30-50 per cent decreases in spring and summer employment compared to 2019 (Figure 3).

Overall employment in the region made a strong recovery at the end of 2020. Knowledge-based sectors such as real estate, finance and professional and technical services showed stable or modest employment growth for much of 2020. Early data suggests the economic impacts were most pronounced in lower-wage service sectors typically associated with people who are more likely to be long-term renters.

Housing construction slowed with 1,096 building permits issued, which is a large drop from the 10-year average (Figure 4). This decrease in new projects being permitted likely reflects the significant economic uncertainty triggered by the pandemic. Towards the end of 2020, market confidence appears to have returned with high overall housing sales numbers including strong pre-sales for the Bertram mixed-use tower in September 2020. As of January 2021, there are roughly 5,000 units in-stream to obtain a development permit, indicating 2021 should be a strong year for building permits and construction.

Figure 3: Monthly Employment

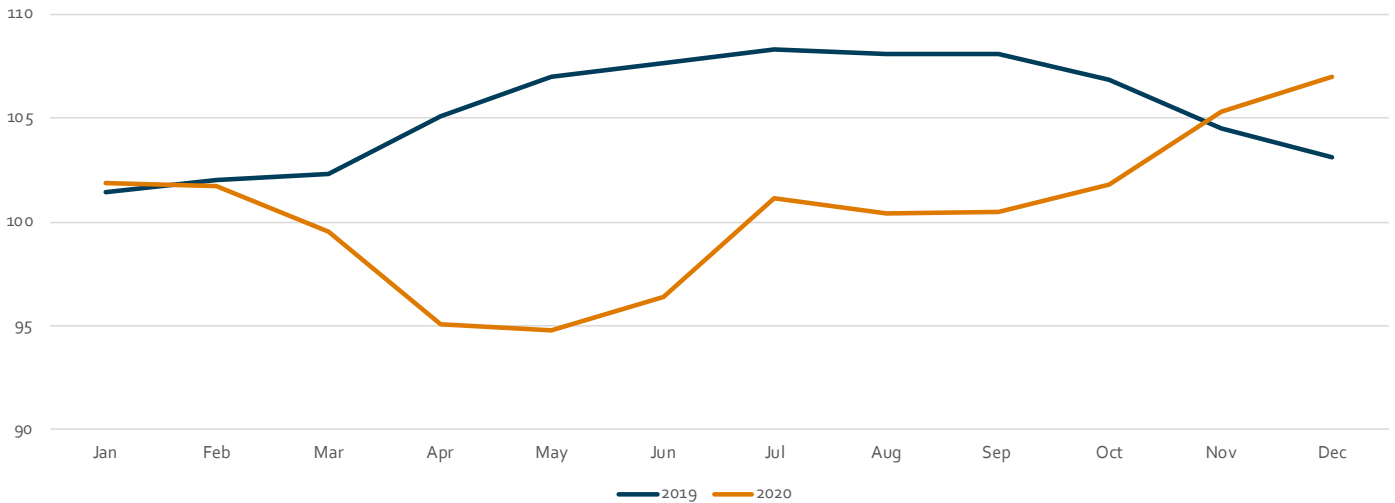
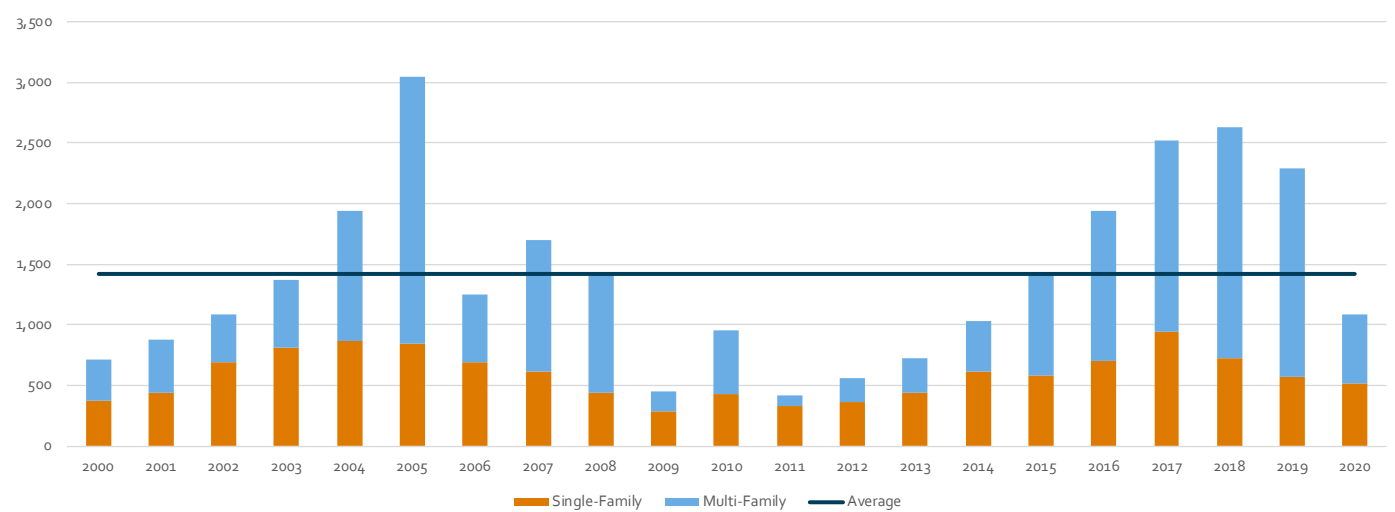


Figure 4: Annual Residential Building Permit Issuances



HOUSING WHEELHOUSE REPORTING

The City of Kelowna completed a *Housing Needs Assessment* in 2017, and established the Housing Wheelhouse (Figure 5) to analyze housing in Kelowna. The Wheelhouse shows the variety of housing needed for a healthy community housing system. Additionally, the Wheelhouse promotes equity and inclusion by recognizing that people may move from segment to segment of the Wheelhouse throughout their lives. This year, the *Annual Housing Report* uses the Wheelhouse as a guide to assess and report on housing.

Figure 5: The Housing Wheelhouse



Source: City of Kelowna Housing Needs Assessment, 2017.

In 2017, the City and partner organizations indicated a strong distinction between short-term supportive housing and long-term supportive housing. Over the last three years, housing needs and the way that housing is provided has changed, and we are seeing more overlap between short-term and long-term supportive housing. For the purposes of the 2020 *Annual Housing Report*, we are reporting on short-term and long-term supportive housing together. Future updates to the housing Wheelhouse may be necessary to reflect our current housing system.

SAFETY NET & HOUSING WITH SUPPORTS

Safety Net housing refers to housing and services offered by non-profit organizations to those experiencing a lack of housing or inappropriate housing. This model provides a variety of supports based on residents' needs such as specific services or financial

support. There is currently overlap between these areas of the housing Wheelhouse, particularly for supportive housing.

EMERGENCY SHELTER

Emergency shelter housing provides temporary shelter as well as food and other supportive services.

What's the data telling us?

A point-in-time count on the number of people experiencing homelessness in Kelowna was completed by the Central Okanagan Foundation on March 10, 2020ⁱ. At least 297 people were found to be experiencing homelessness, a 4 per cent increase from 2018. The point-in-time count found that emergency shelters had capacity for approximately 240 peopleⁱ.

While emergency shelters were not full on the day of the count, they would not have had the capacity to provide accommodation for all people experiencing homelessness. Overall, the growth rate for people experiencing homelessness appears to mirror Kelowna's overall population growth and indicates a steady increase in the demand for emergency shelter housing.

PROJECT SPOTLIGHT

The Central Okanagan Journey Home Society, supported by the City of Kelowna, worked with BC Housing and other partners to provide multiple temporary emergency shelter spaces in 2020 for protection from winter weather and the COVID-19 pandemic. The Welcome Inn on Ellis Street, operated by Metro Community, provided 39 beds and 24/7 winter shelter services. Metro Central on St. Paul Street continued to operate as a drop-in centre. Furthermore, UBC Okanagan and Mission Group collaborated to make their property at 550 Doyle Avenue available for emergency winter sheltering, providing 50 beds that are operated by the Kelowna Gospel Mission⁶. A third temporary shelter opened in early February on Richter Street that is operated by Turning Points and offers 40 shelter beds.

ⁱ It is difficult to accurately report on this segment of the Wheelhouse as the population accessing emergency shelter housing is dynamic and there is a lack of integrated data available.

What's the City doing?

The Journey Home Strategy is the Kelowna's plan to address homelessness. The strategy provides leadership in the Safety Net segments of the Wheelhouse⁵. The City continuously explores opportunities to partner with organizations, such as BC Housing, and private landowners to support the provision of Safety Net housing in alignment with the Journey Home Strategy. The City is also working to develop an Emergency Shelter Plan, considerations for shelter locations, and an advocacy paper on the topic of housing people with complex needs.

The big picture...

Unaffordable housing and low incomes contribute to the need for emergency shelters. The high cost of housing affects people in all segments of the Wheelhouse, but for those without access to social and financial supports, unaffordable housing may result in homelessness. Providing adequate, affordable housing with the right supports for all residents, including people with complex needs, is critical to reducing the demand for emergency shelter services in our community.



PROJECT SPOTLIGHT

In 2020, BC Housing, the City of Kelowna, the Canadian Mental Health Association (CMHA), and Interior Health collaborated on a housing project at 1055-1063 Ellis Street. This City-owned property is being leased to BC Housing for 10 years and provides 38 modular units of housing that are operated by CMHA. The housing is available to people over the age of 19 currently living in the community who have a history or are at risk of homelessness and who need additional support services to maintain housing⁷. Through a partnership with Interior Health, this project also delivers integrated health care as a pilot project highlighting the importance of wrap-around supports for this segment of the Wheelhouse.

HOUSING WITH SUPPORTS

When the Wheelhouse was created, short-term and long-term supportive housing were thought of as two separate forms. Short-term supportive housing was described as providing a step between shelters and long-term housing, with stays typically being two to three years. In comparison, long-term supportive housing was described as permanent housing that provides ongoing supports that align with residents' needs. Over the last three years, there have been shifts in how these forms of housing are being delivered and operated, with less of a distinction between short-term and long-term supportive housing. Due to this shift, we are reporting on all types of housing with supports in this section of the *Annual Housing Report*.

What's the data telling us?

The Central Okanagan Foundation's point-in-time count assessed housing with supports on March 10, 2020 and found that there were 335 individuals living in "temporary system-supported housing", which includes a range of housing with supports as well as institutional care and treatment centres. This is a 5 per cent increase over 2018. Specifically, there were 253 people living in interim housing and 82 people in institutional care. The total number of interim housing units is 259ⁱⁱ, meaning this type of housing was close to capacity.

Housing with supports in Kelowna serves many populations including youth, seniors, and individuals with disabilities. Seniors-specific housing ranges widely in terms of affordability and level of support, and housing seniors with complex needs is a challenge in our community. Overall, information on the demand for housing with supports is limited; however, BC Housing's supportive housing registryⁱⁱⁱ waitlist has approximately 550 people on it at the time of reporting.

Since 2017, 318 units of housing with supports have opened in Kelowna to serve those experiencing homelessness or those at risk of experiencing homelessness. In 2020, there were approximately 200 units spread across housing with supports projects that are in the development approval process. These projects will provide much needed housing for youth and young adults, women and children, and seniors.

What's the City doing?

The City, guided by the Journey Home Strategy, works with our provincial partners to look for opportunities for housing with supports. We expect that current research on complex needs will also inform how to best structure investments to promote housing with supports that meets the needs of our community. Additionally, City staff are working to improve tracking of these projects and continue to offer financial incentives, such as rental housing grants and tax exemptions.

ii Only facilities that have a maximum stay of three years were included. The count excluded facilities that provide supported care but have no official limitation on how long people can reside there.

iii This includes short-term and long-term supportive housing.

The big picture...

Housing with supports plays a critical role in offering permanent housing to community members with complex and ongoing needs, as well as providing transitional housing as people move from emergency shelter housing to more stable housing forms. A lack of housing with supports could put pressure on other segments of the Wheelhouse. For example, if residents are unable to find long-term housing that offers the supports that they need, there may be increased demand for emergency shelter housing to fill that gap.

SUBSIDIZED RENTAL HOUSING

Subsidized or affordable rental housing is generally operated by non-profit housing providers. In this segment of the Wheelhouse, rent is subsidized through monthly subsidies or capital grants. Subsidized rental units cost approximately 65-80 per cent of market rates⁸.

What's the data telling us?

There are about 1,450 subsidized rental units in Kelowna. According to local non-profit organizations, waitlists for subsidized rental housing range from 400-500 people, and the demand for this type of housing is expected to continue for the foreseeable future. In 2020, approximately 150 subsidized rental units were developed. Of these units, 20 per cent were three or more bedrooms, which is much higher than Kelowna's market rental segment where only around 3 per cent of units have more than three bedrooms (Figure 6). This shows that subsidized rental housing may be helping to meet the need for larger, family-oriented rental units. Overall, it is positive to see the development of subsidized rental housing in Kelowna; however, the current supply does not appear to meet our community's demand.

What's the City doing?

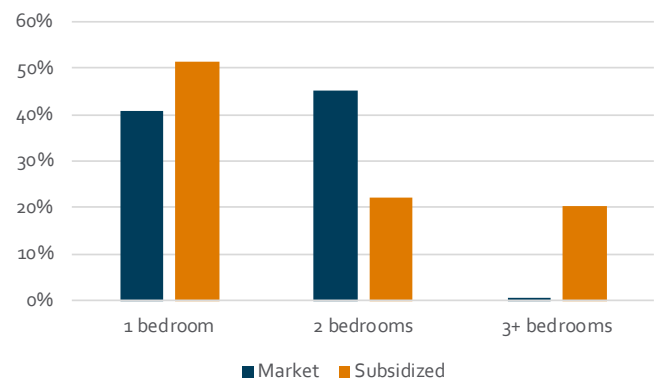
Staff are seeking to increase and optimize land acquisition for affordable housing through the development of an Affordable Housing Land Acquisition Strategy. More recently, The City started tracking new rental housing projects through the *Rental Housing Inventory*⁹. The City also supported local partners in the creation of a rent bank that provides interest free loans to people who are struggling to pay rent¹⁰. Additionally, we provide ongoing incentives for subsidized rental housing through rental housing grants and tax exemptions¹¹.

The big picture...

Approximately 47 per cent of renters in Kelowna spend over 30 per cent of their income on housing, which means their housing is considered to be unaffordable. Renters are particularly vulnerable to rising housing costs. Without a healthy supply of subsidized rental units, those earning low to moderate incomes will struggle to find housing they can afford, especially if they are forced to move due to unforeseen circumstances. The subsidized rental housing segment of the Wheelhouse acts as a bridge between Safety Net housing and market housing and helps to ensure that people who can't afford market housing have an option other than Safety Net housing to rely on.



Figure 6: Rental Housing Unit Distribution



Source: City of Kelowna.

MARKET HOUSING

Most of the housing in Kelowna falls under the category of market housing. This is privately owned housing and does not include any form of support, financial or otherwise. Market housing relates to two segments of the Wheelhouse: rental housing and ownership housing.

RENTAL HOUSING

Rental housing refers to both primary and secondary rental market housing. Primary rental housing generally consists of five or more units that are constructed as purpose-built rental housing. The secondary rental market includes many forms of private rental housing such as secondary suites, carriage homes, and single-detached housing.

What's the data telling us?

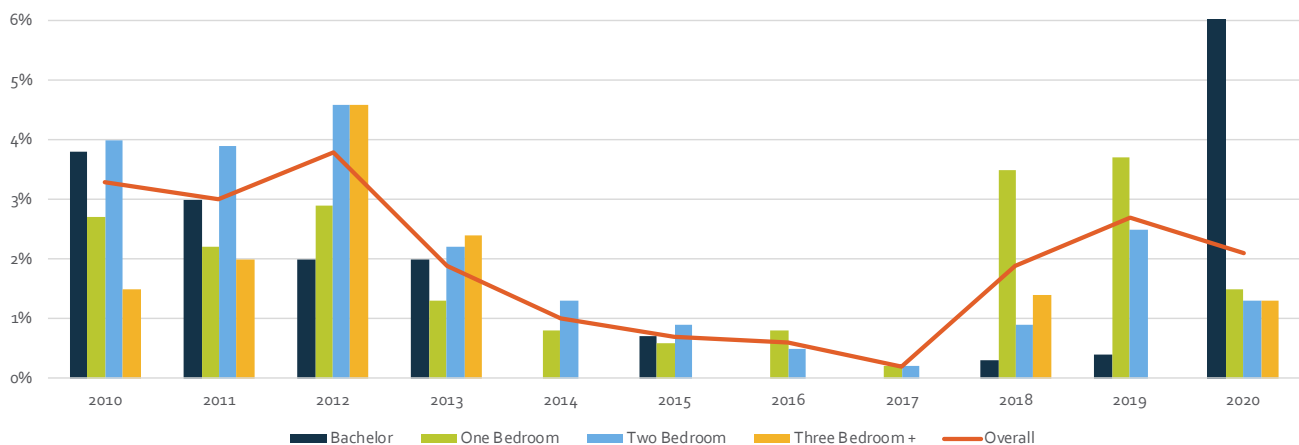
There were about 625 units of primary rental housing that gained occupancy in 2020, which is above the 10-year average of 379. Of units that were occupied in 2020, approximately 41 per cent were 1-bedroom units, 45 per cent were 2-bedroom units, around 13 per cent were micro and bachelor units, and less than 1 per cent were larger than 2-bedrooms. The development of primary rental housing continues to be aided by low interest rates and support from senior government programs.

Although 2019 saw a record number of new rental units built in Kelowna, the vacancy rate for the primary rental market decreased from 2.7 per cent in 2019 to 2.1 per cent in 2020 (Figure 7)¹². The low vacancy rate reflects ongoing population growth in Kelowna. Recent estimates found that the Kelowna region was the fourth fastest growing area in Canada from 2019 to 2020. As our population grows and a higher proportion of people are renting, the demand for rental housing continues to increase. Of note, there was a significant rise in the vacancy rate of bachelor suites over 2020, likely due to COVID-19 reducing the need for student housing.

Overall rental rates remained high in 2020 (Figure 8). Average overall rent rose 2.7 per cent to \$1,255 per month. As new purpose-built rental housing has higher rents than existing rental housing, it is likely that the introduction of a large volume of new rental units is pushing up the overall rental rate (Figure 9). That said, while rental rates did increase in Kelowna from 2019 to 2020, it was a slower rate of growth than Kelowna has seen in the last five years (2.7 per cent vs. 7.1 per cent). Additionally, the turnover of rental properties decreased for all unit types except for bachelor suites compared to 2019, which indicates that people were less likely to move during 2020, potentially due to persistent high prices and economic uncertainty caused by the COVID-19 pandemic.

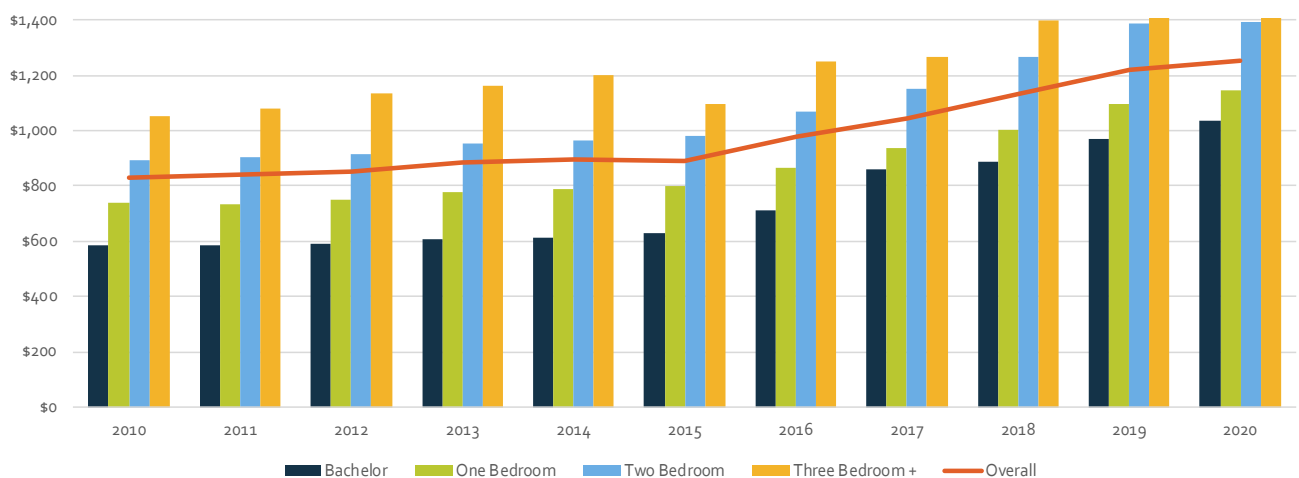
In terms of the secondary rental market, 2020 showed increased interest in larger units such as single-detached housing and townhouses. This trend correlates to the timing of the COVID-19 pandemic and is discussed in the Housing Insights section of this report. As overall demand for rental housing increases in Kelowna, we anticipate that the cost of secondary rental market housing will also continue to rise.

Figure 7: Vacancy Rate by Unit Type



Source: CMHC 2020 Kelowna Rental Survey.

Figure 8: Average Rent by Unit Type



Source: CMHC 2020 Kelowna Rental Survey.



What's the City doing?

Overall, a low vacancy rate and high rental rate reinforces the importance of on-going investments in purpose-built rental housing. The City encourages purpose-built rentals through incentives such as rental housing tax exemptions for projects located in parts of the city that are less car dependent. The Zoning bylaw also has rental incentives in the form of parking reductions for developers who commit to rental only zoning.

The big picture...

As breaking into the home ownership market becomes more expensive, demand for rental housing is expected to increase. Additionally, as rents rise, it becomes more difficult for renters to save up for a down payment to enter the ownership market. With rents rising faster than incomes, more people may need to access subsidized rental housing (Table 2). Furthermore, if the gap between market rental rates and subsidized rental rates becomes too large, it may become increasingly difficult for people to move from subsidized rental housing into market rental housing or home ownership. Overall, an adequate supply of market rental housing that aligns with local incomes is critical to providing relief from expensive home ownership and to reduce pressure on subsidized rental housing.

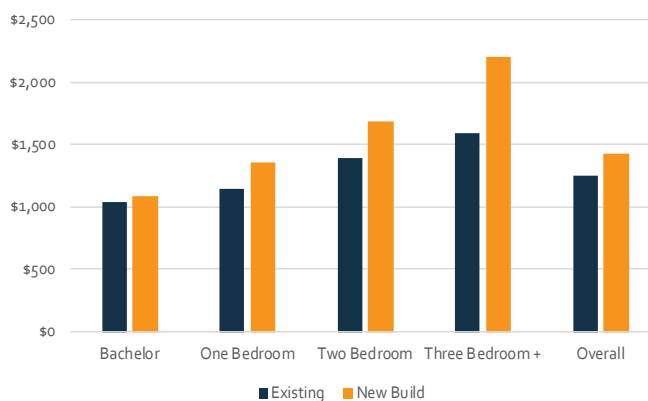
OWNERSHIP HOUSING

Ownership housing refers to privately owned housing units. Ownership housing comes in different forms, ranging from apartment housing to single-detached housing.

What's the data telling us?

Despite the COVID-19 pandemic, Kelowna saw 3,635 homes sold in 2020, which is well above the 10-year average of 3,246. There were fewer new listings in 2020 than in 2019 (10,229 vs. 10,779) with a significant drop in April and May³³. Additionally, there were about 30 per cent fewer active listings in December 2020 than in December 2019. Overall, 2020 was more of a "sellers' market" than 2019. Sales activity was strongest from August to November.

Figure 9: Average Rent Existing vs. New Housing Stock



Rental rate of new purpose-built rental units (July 2018-June 2020) compared to average overall 2020 rents. Source: CMHC 2020 Kelowna Rental Survey.

Table 2: Household Income Needed to Afford Average Rents

| Type | Average Annual Rent | Income Needed* |
|-----------------|---------------------|----------------|
| Bachelor | \$12,456 | \$41,520 |
| One Bedroom | \$13,740 | \$45,800 |
| Two Bedroom | \$16,692 | \$55,640 |
| Three Bedroom + | \$19,152 | \$63,840 |

*To ensure that rent costs do not account for more than 30% of household income. Source: CMHC.

The overall median home price rose significantly in Kelowna in 2020, which appears to be driven by demand for ground-oriented housing forms. The median single-detached house price increased 7.8 per cent from \$681,767 in 2019 to \$735,000 in 2020 and the median townhouse price increased 7.5 per cent from \$466,110 to \$501,000. The median apartment price increased proportionately less – 2.4 per cent from \$355,700 to \$364,300. Additionally, ground-oriented housing made up a greater proportion of 2020 home sales when compared to the last two years (Figure 11).

Although the relative popularity of single-detached housing appeared to rise in 2020, it remains the least affordable housing form. As per Figure 10, it would take the average Kelowna resident about twice as long to save up for a down payment for a median priced single-detached house compared to a median priced apartment.

In terms of newly constructed housing that was absorbed into the market in 2020, 41 per cent of sales were in the form of single-detached housing and 59 per cent were in the form of multiple-dwelling housing. This indicates that while there was a shift towards larger homes in 2020, people are still interested in purchasing smaller, more affordable housing units as they are constructed. Of note, the median price of new single-detached homes in Kelowna was close to \$1 million in 2020, which is out of reach for most Kelowna residents.

As per Figure 12, we saw proportionally more building permits issued for single-detached housing in 2020 than in the last few years, as well as a drop-off in building permits issued for

apartment housing. That being said, while row housing units still make up a relatively small proportion of total building permits issued, this form of missing middle housing trended upward in 2020.

What's the City doing?

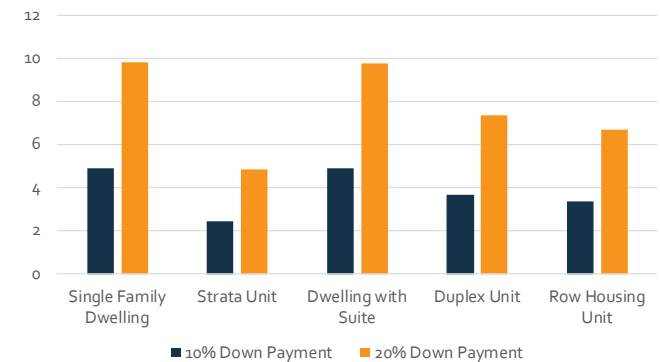
The City recognizes the growing unaffordability of single-detached housing and supports increased diversity in home ownership forms in key policy documents. For example, the draft 2040 Official Community Plan promotes ground-oriented housing options. Additionally, City policies promote building infill and missing middle housing through initiatives such as RU7 zoning and the next phase of the Infill Challenge. The City also provides incentives for development within urban centres, with the goal of increasing the amount of housing that is affordable to more Kelowna residents.

The big picture...

Overall, home ownership that is affordable for most Kelowna residents is unlikely to be in the form of new single-detached housing. Building the right mix of housing, including a focus

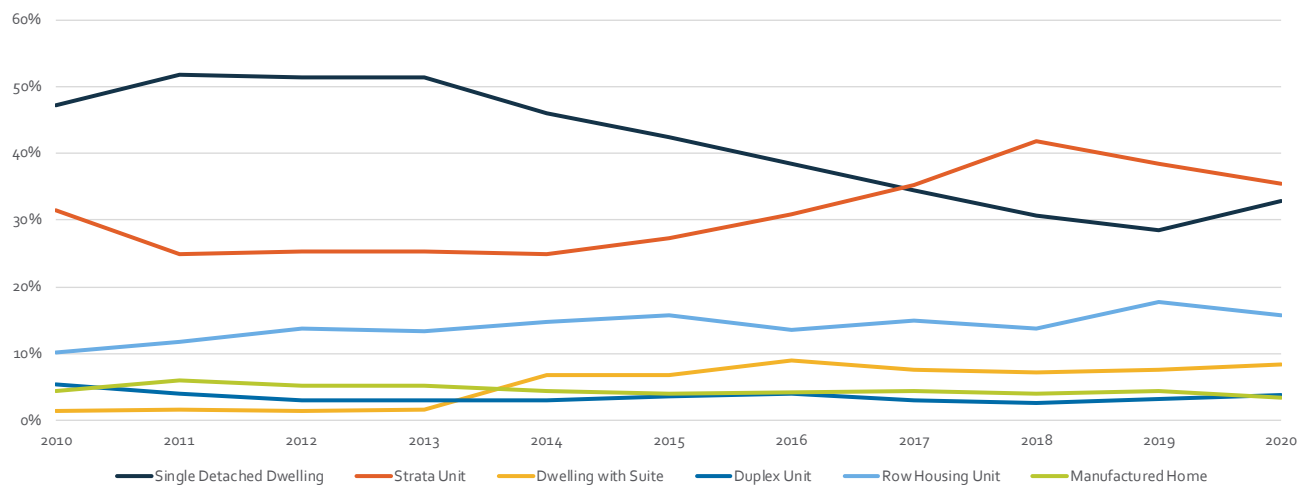
on apartments and missing middle housing like townhomes, is a way to help ensure that there are options for Kelowna residents making a median income or who are looking to break into the home ownership market. If home prices continue to rise and fewer people are able to purchase homes, it is likely that other segments of the Wheelhouse will see more demand, particularly market rental housing.

Figure 10: Years to Save for a Down Payment



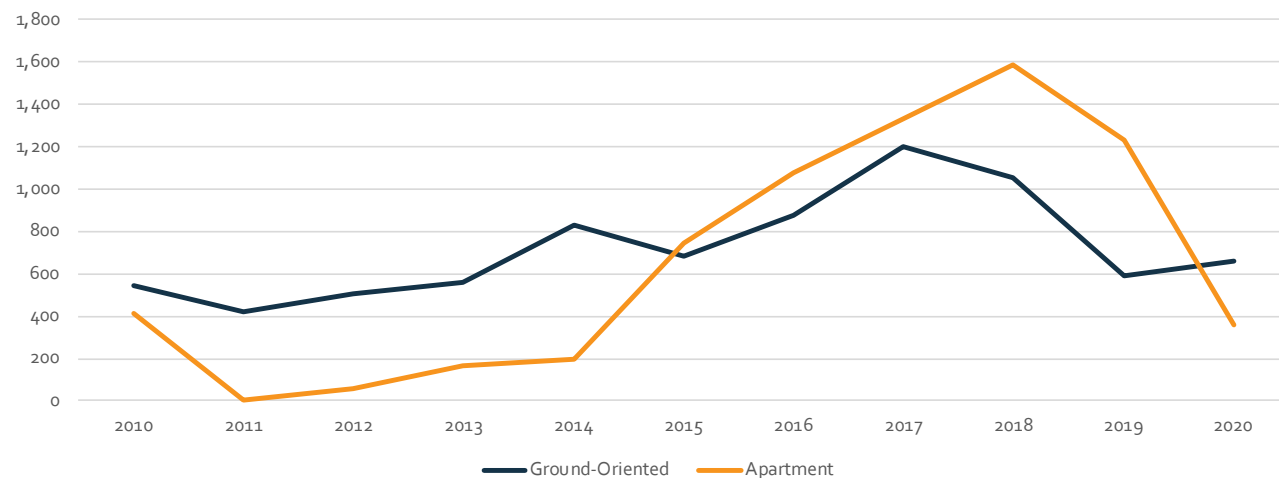
In years, based on median sale price and median income saved at 20% per year.

Figure 11: Percentage of Home Sales by Type



Source: BC Assessment Authority.

Figure 12: Percentage of Building Permits Issued by Building Type



Ground-oriented includes single-dwelling homes, semi-detached housing, row housing, carriage houses, and secondary suites. Source: City of Kelowna.

THE HOUSING WHEELHOUSE: CONCLUDING REMARKS

In 2020, Kelowna's economy showed considerable resilience, translating into strong demand for housing even in the middle of the pandemic. Housing demand was driven by robust population growth and the recovery of the employment market in the last quarter of 2020.

The impacts of the pandemic on various segments of the Wheelhouse in 2020 were challenging to predict. Even now, it is too soon to know if short-term shifts in housing preferences associated with the pandemic will translate into long-term trends. With people spending more time at home during the pandemic and the shift to remote work, Kelowna saw strong demand for ground-oriented housing options. The strengthened demand resulted in a significant rise in sales and median prices in the resale market for single-detached units and townhouses. Meanwhile, demand for condo housing was more in line with 2019, illustrating the strong appeal of downtown living in Kelowna.

Although a record amount of rental housing was completed in 2019, the rental housing market continues to face supply challenges as population growth drives demand for rental units. Accordingly, the vacancy rate in 2020 dropped to 2.1 per cent with the cost of rental housing becoming unaffordable for many people in Kelowna. The challenges in the long-term rental market highlight the need for additional subsidized rental housing, and that all segments of the Wheelhouse are interconnected. Actions taken in one segment can have widespread impacts on housing choice.

In 2020, the Journey Home was able to provide more emergency housing and housing with supports, but we continue to see the demand for these forms of housing increase with more work to be done to house Kelowna's most vulnerable citizens. Overall, the 2020 data suggests that it is getting harder for people in Kelowna to move between different segments of the Wheelhouse to meet their housing needs.

LOOKING AHEAD: NEAR-TERM HOUSING SUPPLY

We expect to see the strong demand for housing in Kelowna carry over into 2021 and 2022, but it is too early to determine if there will be long-term changes to the housing market based on a volatile 2020. We anticipate that continued demand for

housing will be supported by the region's strong recovery from the pandemic as well as the return of post-secondary students and international immigration.

As per Table 3, 41 per cent of new sales in 2020 were in the form of single-detached housing. That said, we expect that the shift towards single-detached homes in 2020 appears to be temporary, as evidenced by in-stream development data.

Despite a lower-than-average number of building permits issued in 2020, there is a considerable amount of housing in the approval process. At the end of 2020 there were approximately 4,700 units under construction with roughly 84 per cent in the form of multi-family housing (Figure 13). We expect these units to be completed over the next 1 to 3 years, addressing near-term housing demand. Longer term, there are another 4,500 units of housing in the development permit process which are expected to be completed in three to four years (Figure 14). Of those, 86 per cent are in the form of multi-family housing. In conclusion, preliminary analysis shows that the development community is already responding to the unexpected strong demand for housing that Kelowna experienced in 2020 with significant investments in multi-family housing.

Figure 13: Units Under Construction

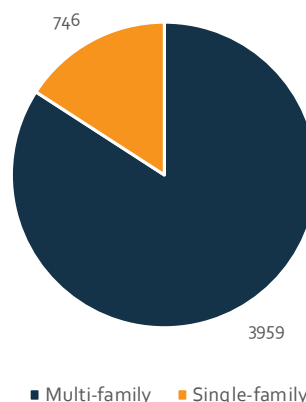
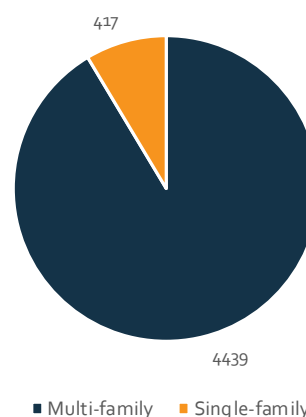


Figure 14: Units in Development Permit Process



Source: City of Kelowna.

Table 3: Median Price of Newly Constructed Units

| Type | % Sales by Type | Median Price |
|-------------------------|-----------------|--------------|
| Duplex | 6% | \$719,900 |
| Townhouse | 19% | \$514,900 |
| Apartment | 34% | \$392,400 |
| Single Detached Housing | 41% | \$999,000 |

Units sold Q4 2019 – Q3 2020. Source: BC Assessment Authority.

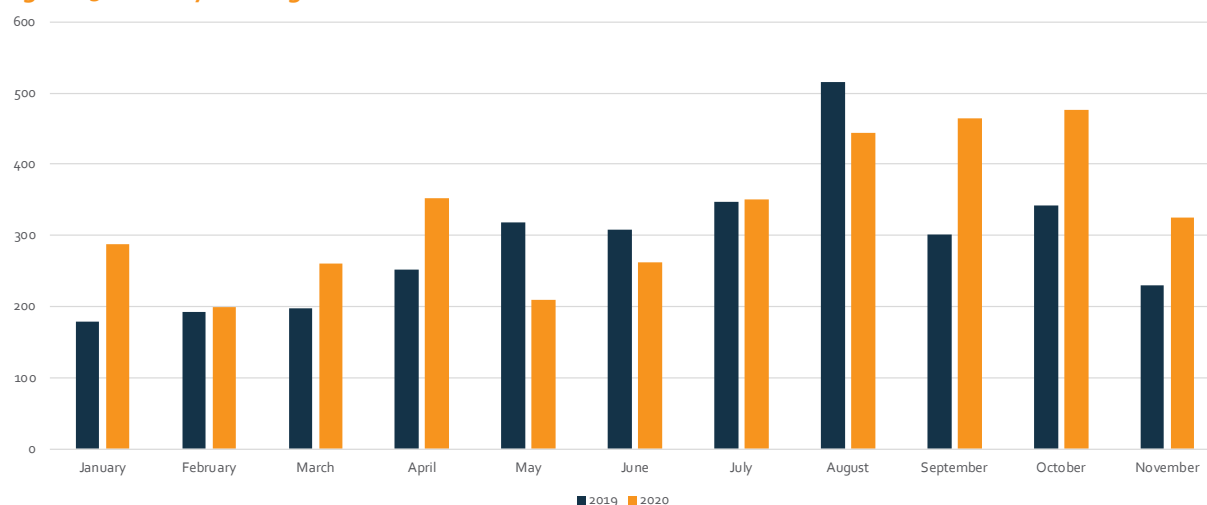
HOUSING INSIGHTS

In addition to reviewing specific parts of the Wheelhouse, it is important to look at the broader forces influencing the housing market in 2020. The *Housing Insights* examine the economic and demographic trends shaping the local housing market. Both *Housing Insights* acknowledge the impact of the pandemic on

the local economy and the housing market. The first *Insight* explores key factors increasing the demand for single-detached housing during the pandemic. The second *Insight* investigates the uneven impact of the pandemic on different income groups and implications for the housing market.

WHAT'S DRIVING DEMAND IN KELOWNA?

Figure 15: Monthly Housing Sales



Number of total monthly home sales (all unit types), 2019 vs. 2020. Source: BC Assessment Authority.

WHAT ARE WE SEEING?

In the spring of 2020, many housing forecasts predicted the pandemic would trigger a correction in housing prices¹⁴. But, contrary to expectations, Kelowna is experiencing a real estate boom. The first wave of the pandemic in the spring resulted in a short real estate slowdown, but the market recovered over the summer and the year finished with record sales numbers during the second wave of the pandemic (Figure 15). In summary, total sales were up 14 per cent from 2019, despite the low unemployment, solid job growth, robust international migration and low mortgage rates observed in 2019.

Not all segments of the housing market were thriving during the pandemic in 2020. The greatest demand was for more costly ground-oriented housing. Sales for single-detached homes were

up 27 per cent and the median sales price increased by 7 per cent from 2019. As a result, the number of sales over \$700,000 were up 30 per cent and the sales over \$1 million more than doubled from 2019 (126 to 292). In contrast, we saw less demand for smaller strata apartments with ostensibly flat year over year sales (1,224 to 1,292) and a small increase in prices (2 per cent) from 2019¹⁵. Overall, the demand for more spacious ground-oriented housing drove much of the market gains in 2020.

WHO IS DRIVING DEMAND?

The high price of single-detached homes in 2020 raises questions around who is driving demand. The price of a single-detached home is out of reach for most local households (Figure 16). A

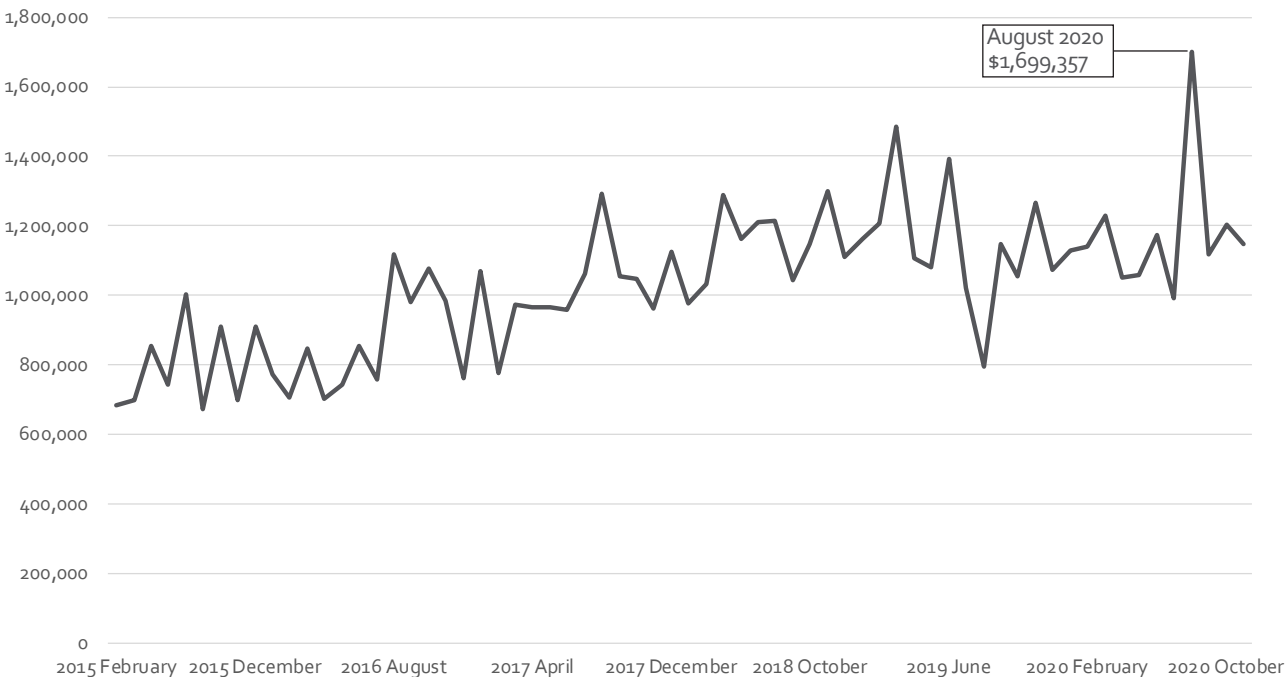
down payment for a typical single-detached home in 2020 would require upwards of \$110k, while median annual household incomes lag at \$74,851¹⁶. Based on conservative assumptions, a typical household would require close to 10 years to save for a down payment. The gap between local incomes and single-detached home prices highlights the need for more attainable home ownership options and suggests that demand in 2020 was in part driven by buyers from outside Kelowna.

Kelowna has always attracted buyers from other parts of Canada, but the pandemic may have amplified this trend (Figure 17). The OMREB Buyers Survey shows buyers from the Lower Mainland and Vancouver Island increased in 2020, accounting for close to 20 per cent of sales from May to October¹⁷. Buyers from these more expensive markets would have significant equity that could be fueling demand for high-cost housing. Pre-sales for the Bertram condo project in downtown Kelowna showed this trend even more strongly with 90 of the 150 units sold to buyers from the Lower Mainland. Also, anecdotal evidence suggests that snowbirds and retirees may be driving demand for secondary properties and recreational housing as travel to the United States became more difficult in 2020. Overall, strong housing demand observed in 2020 appears to be partially driven by buyers from outside the Kelowna region.

Efforts by the federal government to stabilize the housing market may also help to explain the strong housing demand. Bank of Canada policy has resulted in historically low mortgage rates. The low rates have increased purchasing power for all, and especially those who have built up equity in the housing market over the last 5-10 years.

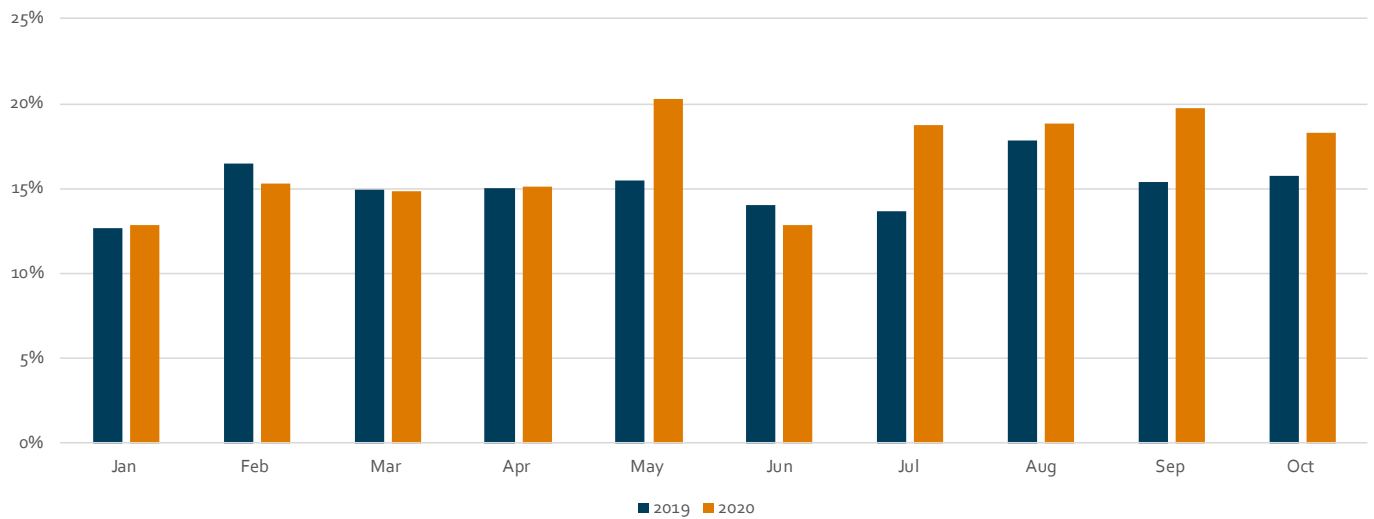


Figure 16: Average Monthly Sales Price of Absorbed New Single Detached Housing



Source: CMHC, Housing Market Information Portal.

Figure 17: Buyers from Metro Vancouver & Vancouver Island



Percentage of total buyers, 2019 vs. 2020. Source: OMREB Buyers Survey.

CONCLUSION

The strong demand for more costly single-detached housing in 2020 was partially related to an up-tick in buyers from outside the Okanagan. Additionally, low interest rates and shifting housing preferences are also contributing to the unexpected rise in housing sales. The pandemic has temporarily shifted housing preferences toward options with more space, potentially due to increased remote work and greater time spent at home.

However, the unaffordability of single-detached housing highlights the need for more housing that meets local needs. The Official Community Plan vision of encouraging missing middle housing could address some of the need for ground-oriented housing in the years to come.



COVID-19 INEQUITIES INFLUENCING THE HOUSING MARKET

Early data shows that the economic impacts of the pandemic were quite different depending on factors such as socioeconomic status, housing tenure, and employment type. People with more education and who work in knowledge-based jobs were more likely to be able to work remotely and stay employed during the pandemic. In contrast, people working in lower-wage service jobs and renters were more likely to experience loss of wages or layoffs due to the pandemic and associated public health orders. The unequal impacts of the pandemic on these two groups has implications for the housing market in 2020 and beyond.

KNOWLEDGE-BASED WORKERS / HOMEOWNERS

Most people working in the knowledge-based service sector (e.g., professional services, finance, and public administration) in Kelowna are in the top third of median incomes and are also more likely to be homeowners. These characteristics allowed knowledge-based workers to enjoy a high level of economic security prior to the pandemic.

Throughout the pandemic, people working in these knowledge-based sectors could more easily pivot to remote work and maintain earnings and employment (Figure 18). Also, knowledge-based workers who were homeowners prior to the pandemic saw the value of their home rise significantly in 2020. Knowledge-based workers may have had the additional opportunity to increase savings based on reduced travel, lower childcare costs, and other reductions in discretionary spending associated with the pandemic. As a result, this group was well positioned to take advantage of the historically low mortgage rates to re-finance or leverage home equity and move up in the market.

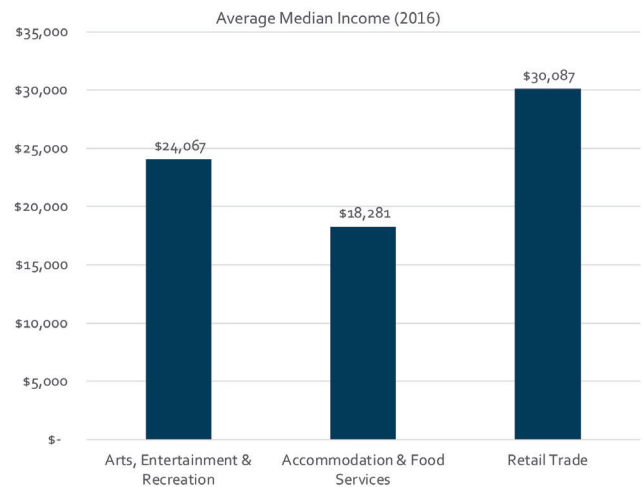
The shift to remote work also allowed knowledge-based workers the ability to move from big cities like Vancouver or Toronto to less expensive markets such as Kelowna, while maintaining their jobs. The rise of remote work means knowledge-based workers have greater housing options without the burden of a long commute or extra travel. Based on the rise in buyers from Vancouver, there may be some people moving to Kelowna for ground-oriented housing options while maintaining their jobs elsewhere. Generally, knowledge-based workers were insulated from the economic impacts of the pandemic, allowing for a unique opportunity to improve their housing and economic position.

SERVICE-BASED WORKERS

are more likely to be:



- Front line workers
- In the bottom third of wage earners
- Renters in core housing need
- In an unstable financial position
- Living in a single-person household



KNOWLEDGE-BASED WORKERS

are more likely to be:



- Able to work remotely
- In the top third of wage earners
- Homeowners
- In a stable financial position
- Living in a two-person household

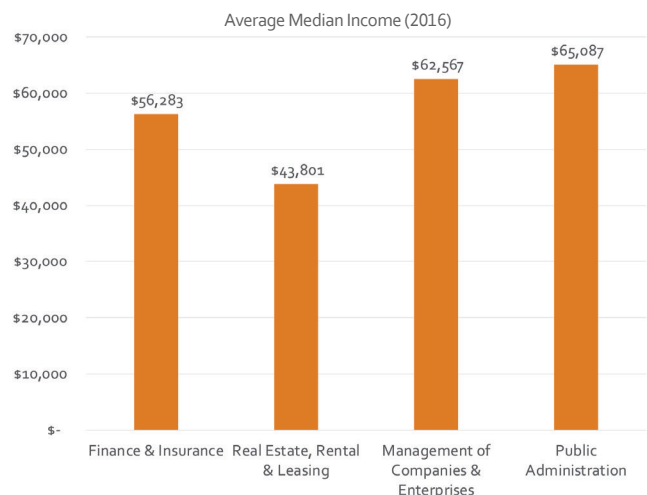
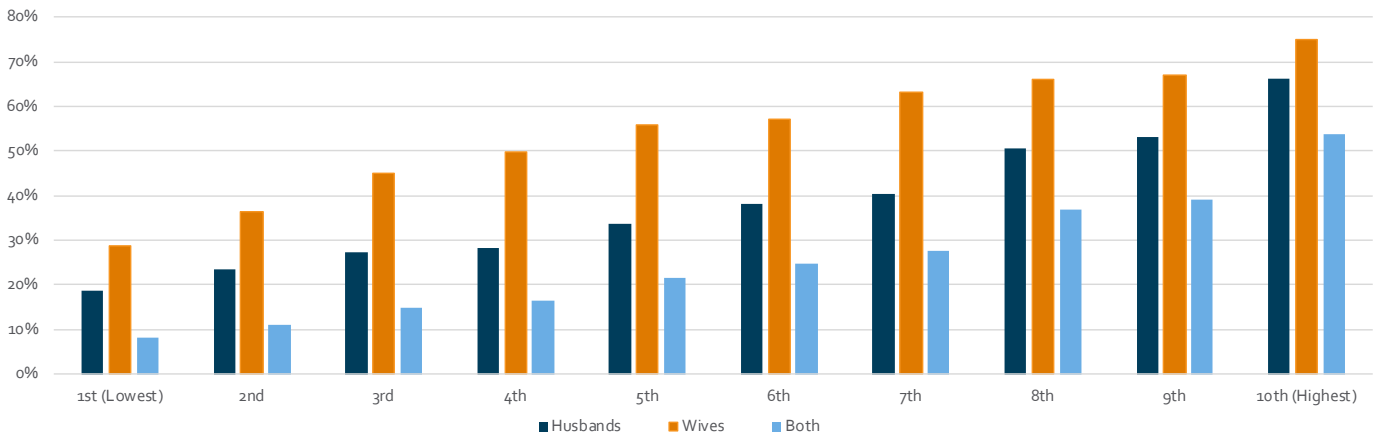


Figure 18: Percentage of Adults in Jobs Where Work From Home is Possible



In Canada, by Family Earnings Decile, Dual-earner Families, 2019. Source: Statistics Canada.

SERVICE WORKER / RENTERS

In Kelowna, renter households tend to have lower incomes and renters are more likely to work in lower-wage service sector jobs (Figure 19). In fact, the median annual income in 2018 for a renter was \$25,000 lower than for a homeowner. Over the last several years, renters have also been facing rising rental rates and low vacancy rates. As of 2016, 47 per cent of renters were spending more than 30 per cent of household income on rent, highlighting the precarious economic position of lower-wage renters even before the pandemic.

Emerging reports show that renters and lower-wage earners were disproportionately impacted by the pandemic. A recent survey by the Canadian Centre for Policy Alternative (CCPA) found that 54 per cent of renters in BC reported a loss of income in their household in 2020¹⁸. In spring 2020, Kelowna’s unemployment rate spiked with roughly 6,000 fewer people working in lower-wage service sectors of retail, tourism and hospitality compared to 2019. This surge in unemployment translated into a decrease in earnings for many lower-wage workers. The greater economic hardship experienced by people of lower socioeconomic status, highlights the intersectional impacts of the pandemic.

Generally, people working in service sector jobs in Kelowna are in the bottom third of wage earners. Also, 65 per cent of renters are in single-person households compared to 22 per cent of owners, meaning renter households are more vulnerable to economic shocks such as job losses or wage reductions (Figure 20)¹⁹. For example, the CCPA survey found that one third of renters in BC had less than one month’s savings to survive on as of May 2020. Given the share of renters in core housing need, any reduction in wages due to the pandemic could severely limit the ability of renters to cover shelter costs.

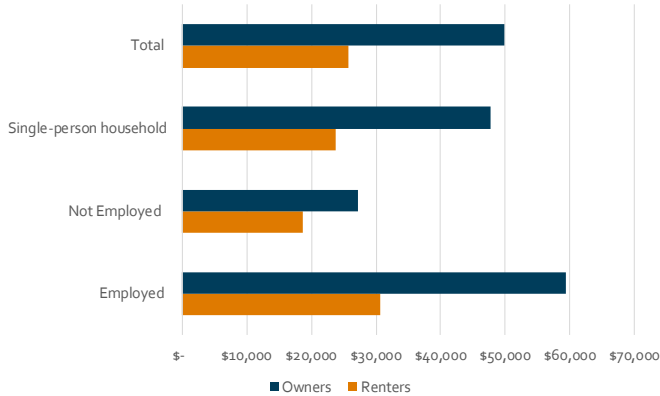


Federal and provincial financial programs (CERB, renter subsidy, Wage Subsidy) were critical in supporting many renter and lower-wage service workers during the pandemic. But as these programs wind down in 2021, the need to create new affordable rental housing to serve lower income workers in our community becomes more critical. Without access to affordable rental housing, people earning lower incomes are at an elevated risk of needing to access Safety Net housing if any future shocks to the economy occur.

CONCLUSION

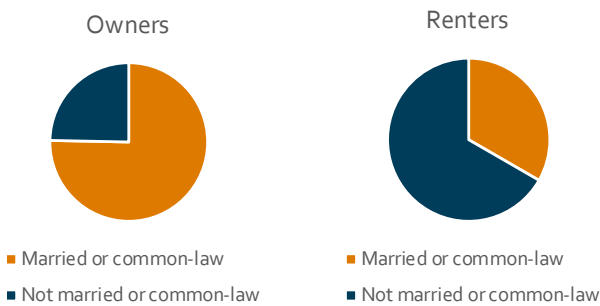
Lower-wage service workers and higher-wage knowledge-based workers entered the pandemic in very different positions. Subsequently, knowledge-based workers were more likely to have strengthened their economic position further during the pandemic, due to job stability and benefits of low interest rates. In contrast, lower-wage workers, who are more likely to be renters, were more likely to have seen their economic position decline over the course of the pandemic. The diverging impact of the pandemic on these two groups highlights the value of incorporating an equity lens in future City planning to better understand how diverse Kelowna residents experience our City. Additionally, the pandemic has emphasized the on-going importance of affordable rental options for lower-income households.

Figure 19: Median Income Owners vs. Renters



Source: Statistics Canada, Canadian Housing Statistics Program 2018.

Figure 20: Marital Status of Owners vs. Renters



Source: Statistics Canada, Canadian Housing Statistics Program 2018.



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