

City of Kelowna Home Sales Analysis 2010 Summer, 2011



Policy and Planning
1435 Water Street
Kelowna, BC V1Y 1J4
TEL 250 469-8647
FAX 250 862-3320
teichler@kelowna.ca

kelowna.ca

Ownership Housing Market:

Each year, the City compiles a list of home sales within city of Kelowna boundaries, using B.C. Assessment data, because this represents the most reliable and complete record of all individual home purchases in the city. This is done because Canada Mortgage and Housing Corporation (CMHC) data focuses on the Kelowna Census Metropolitan Area (CMA) which encompasses the West Kelowna and other areas outside city boundaries. Also, much of the other data on home sales focuses on new dwellings, whereas this analysis looks at all sales, including re-sales of older homes. The City also defines and annually updates the affordable ownership price and monitors sales activity of homes sold at this price or less. The City of Kelowna residential sales analysis is usually done annually in April, when BC Assessment sales information is complete for the previous year.

The BC Assessment sales analysis is considered very accurate information, and includes new and resale of older home activity. Dividing the data into new and re-sale information has not been attempted. Categories in this City report are based on sales of single homes to be more representative of the homeowner market, as opposed to multiple home sales that are conducted by developers or investors.

2010 Sales by Price Range and Unit Type

2010 saw a decrease in the number of sales but an increase in the price of single detached homes (with and without suites) and stratified units. In 2007 the City adopted price class categories from local Royal LePage monthly real estate newsletter and these are used to illustrate the sales distribution from 2007 forward. Sales classes used prior to 2007 by the City had become outdated due to the dramatic upward shift in housing prices. The median single detached home price of \$450,000 in 2010, an increase of nearly \$12,000 from 2009, may be indicative of a recent move towards higher priced housing taking a greater share of Kelowna's market. In fact, 56.1% (2005) of sales in 2010 were of homes sold at \$400,000 or less, while 64.6% percent of all sales consisted of homes sold in the same category during 2009. Although housing sales dropped in number; 278 fewer units were sold in 2010 than 2009, the number of sales over \$600,000 increased by 38.0%.



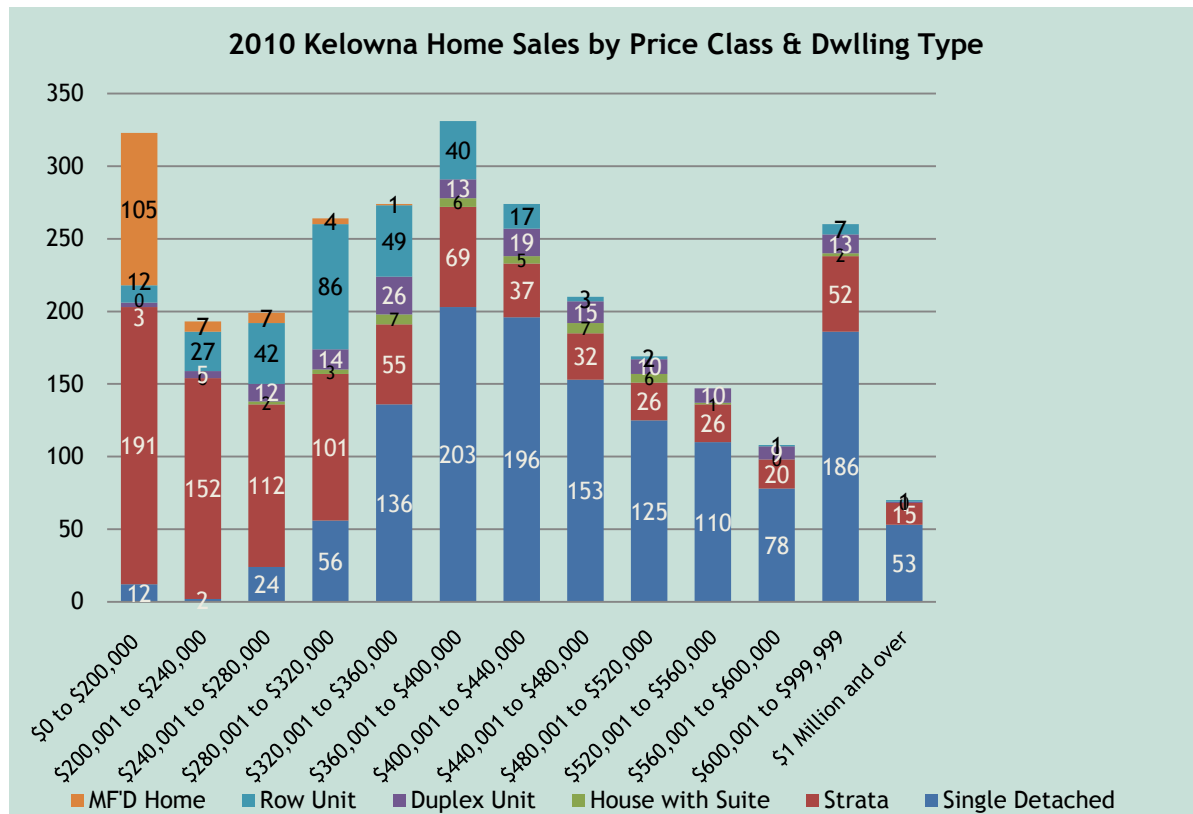
Photograph 1 – Example of a single detached home over \$600,000 in Kelowna

Table 1 - Summary of Dwelling Sales by Structure Type – City of Kelowna – 2010

	Single Detached	Strata	House with Suite	Duplex Unit	Row Unit	MF'D Home	2010 TOTALS	2009 Totals
\$0 to \$200,000	12	191	0	3	12	105	323	321
\$200,001 to \$240,000	2	152	0	5	27	7	193	281
\$240,001 to \$280,000	24	112	2	12	42	7	199	290
\$280,001 to \$320,000	56	101	3	14	86	4	264	392
\$320,001 to \$360,000	136	55	7	26	49	1	274	379
\$360,001 to \$400,000	203	69	6	13	40	0	331	342
\$400,001 to \$440,000	196	37	5	19	17	0	274	246
\$440,001 to \$480,000	153	32	7	15	3	0	210	200
\$480,001 to \$520,000	125	26	6	10	2	0	169	186
\$520,001 to \$560,000	110	26	1	10	0	0	147	122
\$560,001 to \$600,000	78	20	0	9	1	0	108	102
\$600,001 to \$999,999	186	52	2	13	7	0	260	199
\$1 Million and over	53	15	0	1	1	0	70	40
TOTALS	1334	888	39	150	287	124	2822	3100

**Photograph 2 – Example of a mixed-use condominium building on St. Paul Street in Kelowna**

Figure 1 - Graph of Home Sales by Price Class & Dwelling Type - Kelowna- 2010



Looking at the above graph, strata-titled homes continue to be the largest supply of lower priced homes. Town-homes that are not strata-titled are included in the data; however, very few are recorded in any given year. This suggests a lack of supply, but also indicates that most town-home sales have additional strata fees (therefore being included in the strata sales). When looking at sales of homes up to \$200,000 in price, the number of strata-titled home sales exceeded the manufactured home sales. It appears that the strata-titled home market is addressing the majority of the need for affordable home ownership, which is at or below starter home price, set at \$202,752 for a strata-titled home in 2010. Need for entry-level ownership homes, based on Kelowna household distribution by income levels has been estimated by the City as 200 homes a year sold at or below starter home prices¹.

In comparison to the 2009 figures, the 2010 figures show that single detached homes are becoming even less feasible for moderate income households. Sales at or below \$360,000 for single detached homes had decreased in 2010 at 230, down from 530 in 2009.

Annual Sales Activity by Dwelling Type

Single detached homes sold in greater quantity than strata homes in 2010, similar to 2009. 2008 was the one year since 1999 that strata homes out-sold single detached homes (Table 2 and Figure 2). In 2010, though, 446 more single detached homes were sold than strata homes. Lowered overall sales in 2010 may reflect the economic downturn, in combination with home

¹ Starter home sales are described beginning on page 7.

prices that remained high. CMHC notes that Kelowna has an oversupply of higher end strata condominiums in the marketplace. Comparable to 2009, CMHC has advised that the deflated strata home sales market in 2010 has created an interim source of high-end rental housing as these homes are rented until they can be sold. This has eased the rental market supply over the short-term; a trend that is expected to span over an estimated three year period. The decrease in strata titled homes sales was the most dramatic, falling to 888 in 2010, compared to 1111 in 2009. The one area of the market that has shown a significant increase is in the sales of row housing, which amounted to nil in recent years, but saw 287 units sold in various parts of the City in 2010. This may reflect a desire on the part of buyers for an alternative to single detached homes that is less expensive and a supply of newer row housing built within the last ten years that is now showing resale activity. Single detached and strata titled homes continue to comprise the largest part of the market, with other dwelling types forming the relatively small remainder.

CMHC states that as 2011 progresses there may be stabilization, and perhaps an increase, in home sales and prices. CMHC predicts that in 2011 and 2012, an estimated 130,000 people (most being international) will migrate to British Columbia. The increase in population will add to the demand for wide range of existing housing options enabling an increase in the level of new home construction. In particular, CMHC expects that positive economic factors such as; favorable mortgage interest rates, employment and overall population growth, will augment the housing outlook during the next two years².

Figure 2 - Number of Sales by Year & Dwelling Type

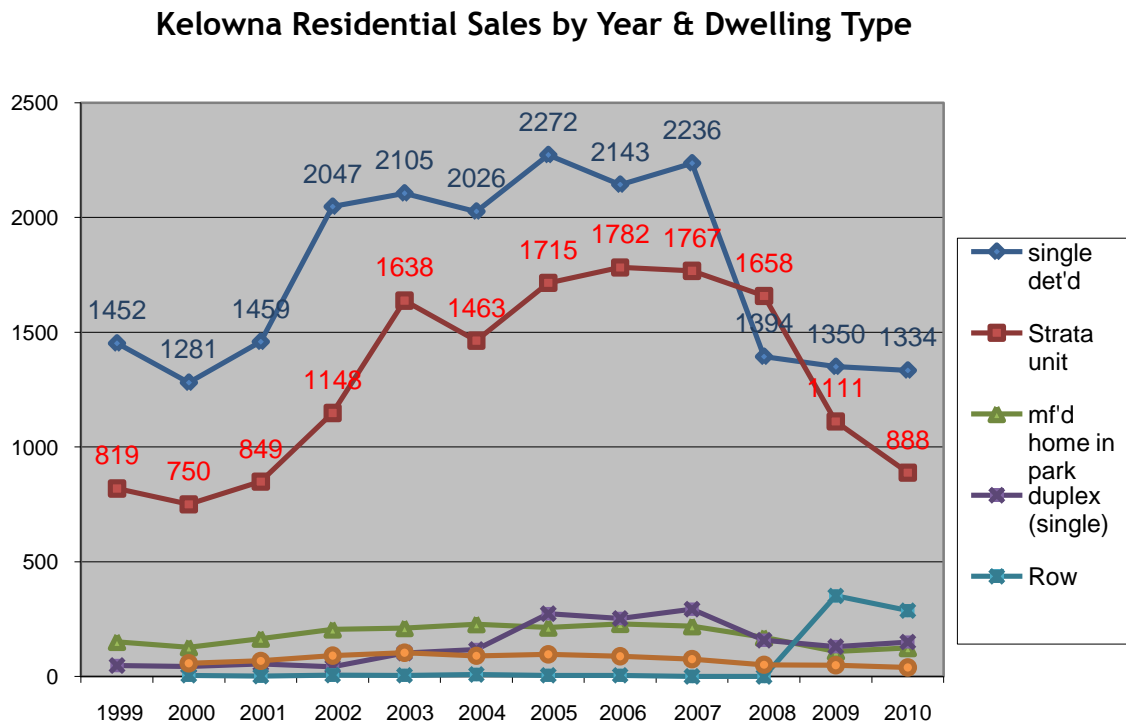


Table 2 - Sales by Year & Dwelling Type

² See CMHC Housing Market Report for BC - 1st Quarter of 2011
http://www.cmhc-schl.gc.ca/odpub/esub/61500/61500_2010_Q01.pdf

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
SINGLE DET'D	1452	1281	1459	2047	2105	2026	2272	2143	2236	1394	1350	1334
STRATA UNIT	819	750	849	1148	1638	1463	1715	1782	1767	1658	1111	888
MF'D HOME IN PARK	151	127	165	205	211	228	213	229	219	170	109	124
DUPLEX (SINGLE)	48	44	55	42	102	117	274	253	293	158	130	150
ROW		5	2	6	5	9	5	5	0	0	351	287
HOUSE & SUITE		57	68	91	103	90	96	88	76	51	49	39
TOTAL	2470	2264	2598	3539	4164	3933	4575	4500	4591	3431	3100	2822

Figure 3 - Graph of Total Annual Unit Sales by Price Class from 2000 to 2010



This graph illustrates the radical change in the prices of homes since 1999, as well as the significant sales activity since 2002. The decline in sales since 2007 still shows greater activity than in 2001. 2010 sales activity was concentrated in homes selling for \$300,000 or more, whereas in 2002 sales were primarily within the under \$200,000 price range. Not a lot of change occurred in terms of the distribution over price classes between 2009 and 2010. Homes under \$200,000 held steady as the category with the least amount of sales and although fewer homes were sold in the past year, the amount of homes sold for \$300,000 and over still came out on top in terms of overall sales. Sales in the \$300,000 and over category totaled more than double the amount of sales of homes the \$200,000-\$299,000 category and the \$200,000 or less category combined. In spite of a downturn in the economy, the ownership market has not seen a

significant decrease in sales prices. The development community advises that the costs of construction, land and development have been the reasons for continued high new home prices.

Ownership Affordability and Starter Homes:

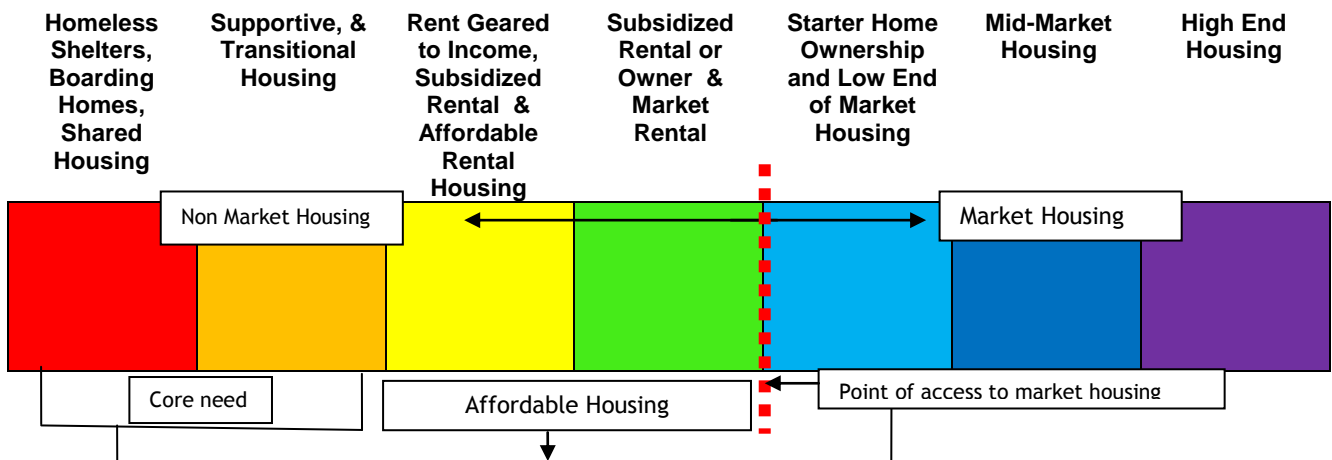
The definitions in Official Community Plan include housing affordability definitions, both for rental and ownership housing; as follows:

“Affordable Rental”: Affordable rents will be the average rents for Kelowna from the annual Canada Mortgage and Housing Corporation (CMHC) Rental Market Report.

“Affordable Ownership”: Ownership affordability is based on the income level at which a household would be capable of entering the ownership market. Statistically, owner-occupied households have far fewer households paying 30% or more for shelter and demonstrate higher income.

The housing affordability continuum below illustrates affordability challenges being focused at the lower to mid income levels and generally restricted to rental housing, with home ownership at the top end of the spectrum³. Entry level housing, or starter home prices, which the City uses to define ownership affordability, would fall immediately to the right of the red line.

HOUSING CONTINUUM⁴



³ Illustration adapted from Saskatoon 2003 Community Plan on Homelessness

⁴ In addition to homeless shelters, red color on the spectrum also includes boarding homes and shared housing.

Empirical information shows that once ownership is established, there is much less likely to be an affordability issue with shelter costs. Increases in housing prices have still taken their toll, however, based on the Census information on shelter costs. Information from the 2006 Census⁵ showed that in Kelowna, 22.4% (up from 19.5% in 2001) of owner-occupied households spent 30% or more on shelter, compared with 48.2% (up from 45.9% in 2001) of tenant households. Although updated information on shelter expenditure will not be available until the 2011 Census data is released, the 2006 proportions of households by shelter expenditure is still considered representative.

The objective, from an affordability perspective, is to ensure that there is a supply of housing priced such that households are able to enter into ownership for the first time. This is referred to as the “starter home price”. In Kelowna, the starter home price is based on the income of a two or more person household according to the Census. A starter home price is then calculated based on what such a household could afford to buy, using a 5% down-payment, current mortgage rates, insurance, utility costs and property taxes⁶. These amounts are calculated by the City, using the income data from the Census, and are updated annually in between Census years by applying the BC Average Annual Consumer Price Index to both the income and starter home price information.

Results of the 2006 Census regarding household incomes became available in May of 2008, triggering a recalculation of starter home prices, based on the most current information of all associated costs. A surprising result is that City mill rates used for taxation purposes had decreased significantly (by 48.3%) since 2002 when the full calculation was last conducted. Rather than using inflated assessment and real estate market values to determine changes in the mill rate, the City adjusts the rate so as to cover its annual budget. With the rapid increase in the value of residential properties, mill rates have actually decreased the cost of property taxes to the point where a significantly higher home price can be managed by the median income level. All other costs included in the starter price calculation increased and the increase in income from 2002 to 2007 was 15.3%. For 2008, the figures were once again adjusted using the average annual BC Consumer Price Index (CPI). Starter home price information for the last five years is provided below and also serves to illustrate that starter home prices provided by the City do not remain static, but will reflect local income levels and inflation with annual updates. Three dwelling prices are provided with strata fees and mobile home pad rental being additional costs to the sale price.

⁵ See the City of Kelowna Housing Resources Handbook for 2006 Census affordability charts

⁶ CMHC methodology.

Dwelling Type	2010 Started Home Price	2009 Starter Home Price	2008 Starter Home Price	2007 Starter Home Price	2006 Starter Home Price
Non-strata titled, single ownership dwelling	\$212,982	\$212,223	\$212,223	\$207,867	\$167,267
Strata titled dwelling with strata fees additional	\$202,752	\$200,150	\$200,150	\$196,033	\$148,458
Manufactured home with pad rental, additional	\$193,512	\$191,029	\$191,029	\$187,100	\$122,261

Median Income 2010: Kelowna economic family = **\$64,566**

Median Income 2009: Kelowna economic family = **\$63,737**

Median Income 2008: Kelowna economic family = **\$63,737**

Median Income 2007: Kelowna economic family⁷ = **\$63,426**

Median Income 2006: 2 or more person Kelowna Household = **\$59,498**

A special run of the 2006 Census was conducted to illustrate the distribution of households paying 30% or more⁸ of their income on shelter, against income ranges and tenure. The data was received in September of 2008 from Statistics Canada. It is important to note that affordability for mortgage purposes by lenders is altered significantly in order to allow more people to qualify for a mortgage. However, as 2011 progresses, tighter mortgage rules will disproportionately affect homebuyers, specifically first-time buyers, in British Columbia⁹. Consequently, as housing prices increased in 2010 and are also predicted to increase this year, 2011 may develop into a difficult year in terms of house sales.

For good comparison purposes in affordable housing research, the 30% expenditure, compared against income, is the most reliable way to measure affordability over time and within both the ownership and rental markets. Using the 2006 Census analysis, based on households paying 30% or more for shelter, and forecasted housing need, it has been determined that there should be an annual supply of about 200¹⁰ homes sold at starter price or under until 2030, the forecasting limit of the Kelowna OCP. Eight of these would represent the number needed for the increase in population annually. The Kelowna market is still addressing this need with 341 homes sold at starter home prices in 2010, as shown below in Table 3 and the pie chart.

⁷ For the 2006 Census, household income information organized by 2 or more person households was not widely published. 2 person or more households consist primarily of economic families, so the figure for economic families was used.

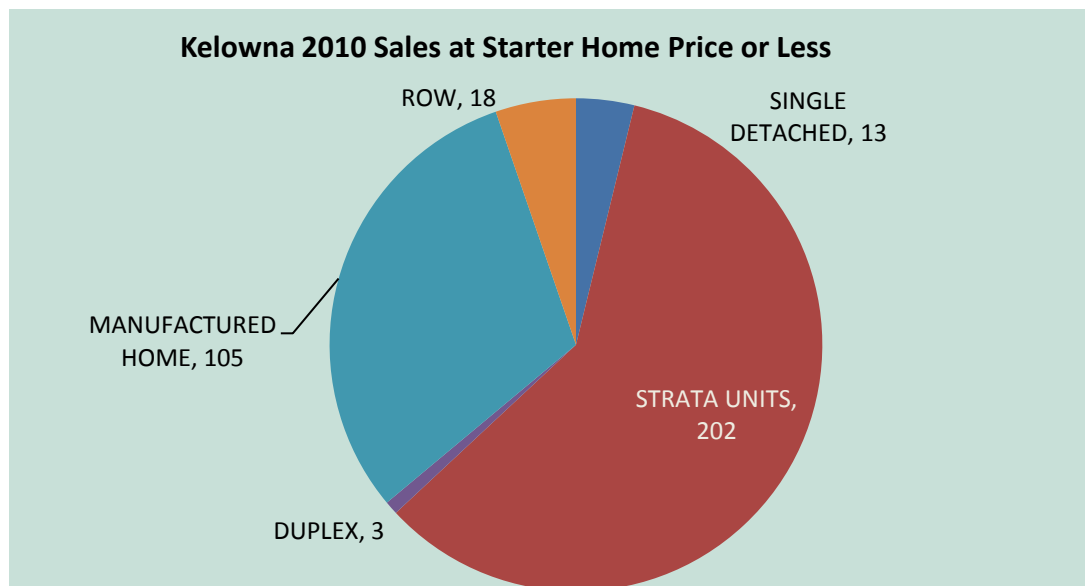
⁸ The accepted measure of housing affordability.

⁹ See Department of Finance Canada, article published on January, 17, 2011 - The Harper Government takes prudent action to support the long-term stability of Canada's housing market. <http://www.fin.gc.ca/n11/11-003-eng.asp>

¹⁰ This was presented to Council in the January 2007 housing workshop, based on information provided by the planning department and on the 2001 Census information.

Table 3 - 2010 Kelowna Home Sales Above & At or Below Starter Home Price (SHP) by Unit Type

Starter Home Sales	Total Sales		
	Starter Home Price or Less	Greater Than Starter Home Price	Total Sales
SINGLE DETACHED	13	1321	1334
STRATA UNITS	202	686	888
HOUSE WITH SUITE	0	39	39
DUPLEX	3	147	150
MANUFACTURED HOME	105	19	124
ROW	18	269	287
TOTAL	341	2481	2822

Figure 5 - Distribution of 2010 Sales at or Below Starter Home Price

Noted earlier, the key source of starter-priced home sales continues to be strata-titled homes, most of which would be in the form of apartments, although some were town-homes. The market is addressing the need for affordable ownership in terms of numbers, although choice would be limited, especially for larger households. Single detached homes are no longer available at these prices, but the desire for access to outdoor living space and the single detached home lifestyle is held by many households aspiring to ownership. Therefore, it would be encouraging to see multi-dwelling housing that is designed to maximize access to outdoor living space. In particular, this concept acknowledges the needs of families with children, who continue to find challenges in securing desirable housing within their income capabilities. In turn, provision of housing that addresses the needs of this population group would support the local economy, recognizing that these households form the largest segment of the labour force.

Manufactured homes in parks should not be regarded as long term housing supply due to their vulnerability to redevelopment. The number of sales per year of mobile or manufactured homes in the starter home price range has held fairly constant. There was actually an increase (from 78 to 105 sales) from 2009 to 2010. Mobile/ manufactured homes are aging beyond their reasonable life in most of the city's manufactured home parks and parks within central areas of Kelowna are experiencing redevelopment pressures as they increase in value. The City has a policy that requires owners of such parks to ensure that all residents have their needs for home relocation adequately addressed in the event of redevelopment. Mobile home parks have been under review as part of the work on the Housing Strategy. Also of note is the fact that manufactured/modular homes meeting acceptable standards, CSA A277, are permitted as single detached dwellings throughout the city by including them in the definition of single detached dwellings in the zoning by-law. Mobile Homes designed to CSA Z240 are not permitted as single detached dwellings, also defined in the zoning by-law.

Despite the fact that manufactured/modular homes were once seen a type of retirement home, recent development of this type of housing has started targeting younger, new home-buyers. The City of Kelowna currently has nine areas zoned RM7 for manufactured home park usage; however, there are another five MHPs located in northern Kelowna within First Nations reserve land. Within the fourteen [modular] home parks there are an estimated 2,396 properties¹¹. It can be assumed based on available socio-demographic data and real estate costs, that this type of housing is now becoming more suitable to first-time home buyers, young families and senior citizens. As seen below in Photograph 3, this modular home is one of many being built in RU5 (Bareland Strata Housing) zoned land adjacent to industrial zoned land in Kelowna. Conversely, it is important to note that the longevity of manufactured home parks vary in different parts of the city. Those parks located in more desirable locations, for example near the lake or in a central location, are proving to be attractive areas for redevelopment. In addition, as the population of the city is predicted to increase, developers have begun to propose multi-use residential developments in these sought-after locations.



Photograph 3 – Example of a new manufactured home in Kelowna

Starter Home Sales by Year and Dwelling Type:

A comparison of starter home sales over the last ten years in Table 4 and Figure 6 shows that the numbers of sales that qualify has decreased significantly and that the supply is much more focused in terms of dwelling types. Older single detached homes which were a significant source

¹¹ City of Kelowna Manufactured Home Parks - July, 2010

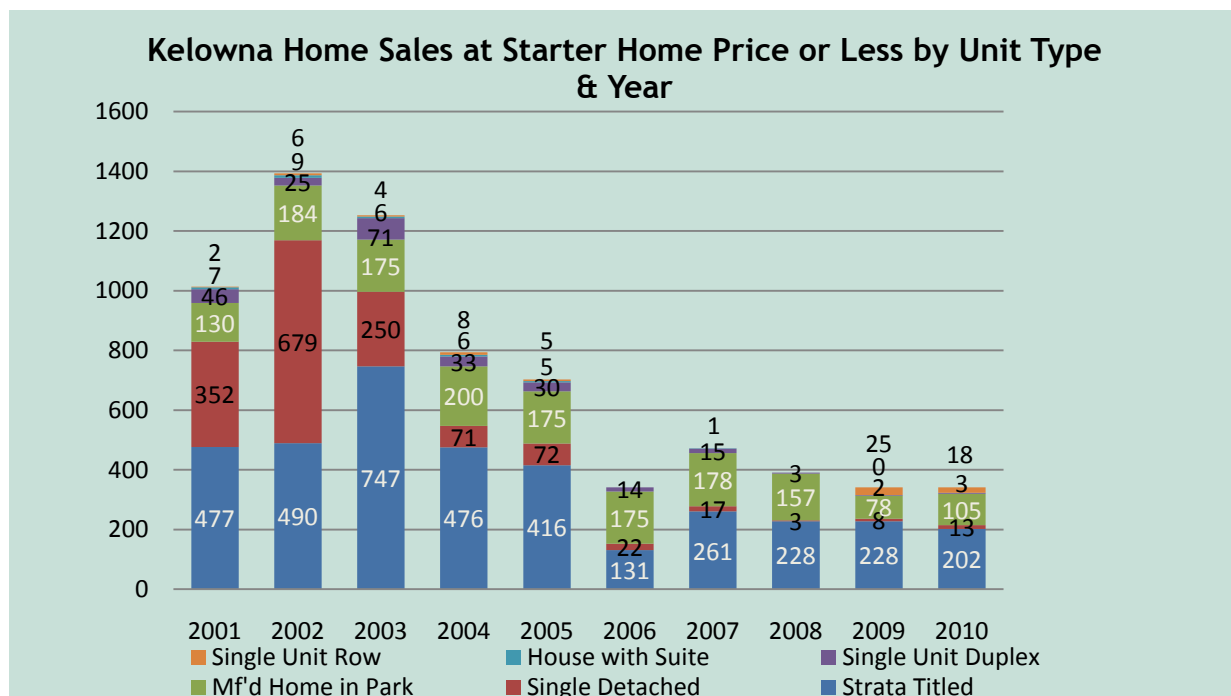
http://www.kelowna.ca/CityPage/Docs/PDFs//Community%20Planning/Housing%20Strategy/ManufacturedHomeParks_JMcEwan.pdf

of starter-priced homes are essentially no longer available, likely because they have either been replaced or shown a significant increase in value.

Table 4 - Annual Sales at or Below Starter Price by Dwelling Type

Dwelling Type	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Strata Titled	477	490	747	476	416	131	261	228	228	202
Single Detached	352	679	250	71	72	22	17	3	8	13
Mf'd Home in Park	130	184	175	200	175	175	178	157	78	105
Single Unit Duplex	46	25	71	33	30	14	15	3	2	3
House with Suite	7	9	6	6	5	0	1	0	0	0
Single Unit Row	2	6	4	8	5	0	0	0	25	18
	1014	1393	1253	794	703	342	472	391	341	341

Figure 6 - Annual Sales at or Below Starter Price by Dwelling Type



Median Home Prices:

Median home sale prices of single detached homes, (see table 4 & figure 7), increased from \$438,000 (2009) to \$450,000 in 2010. Until 2004, strata-titled median home prices fell at or very close to the starter home price, but have since increased to significantly higher levels. The following year may show stabilization or a return to growth in median house prices. 2009 reflected that the rapid escalation in home prices up to 2008 was not sustainable. Once more,

the median home price in 2010 exemplifies how home prices continue even though household income levels have not increased accordingly.

Townhouses without strata fees have remained as a measurable portion of home sales in 2010. This is in the face of rapidly increasing prices for this type of home, from a median of \$105,000 in 2000 to \$310,000 in 2010, a growth of nearly 300% in a decade. So while prices have increased drastically for fee simple townhouses, they remain the third least expensive form of housing in Kelowna's market. In fact, townhouses are the only dwelling type that remained invariable in terms of median home price in 2010. This relative affordability may play a role in the increase in sales during 2011.

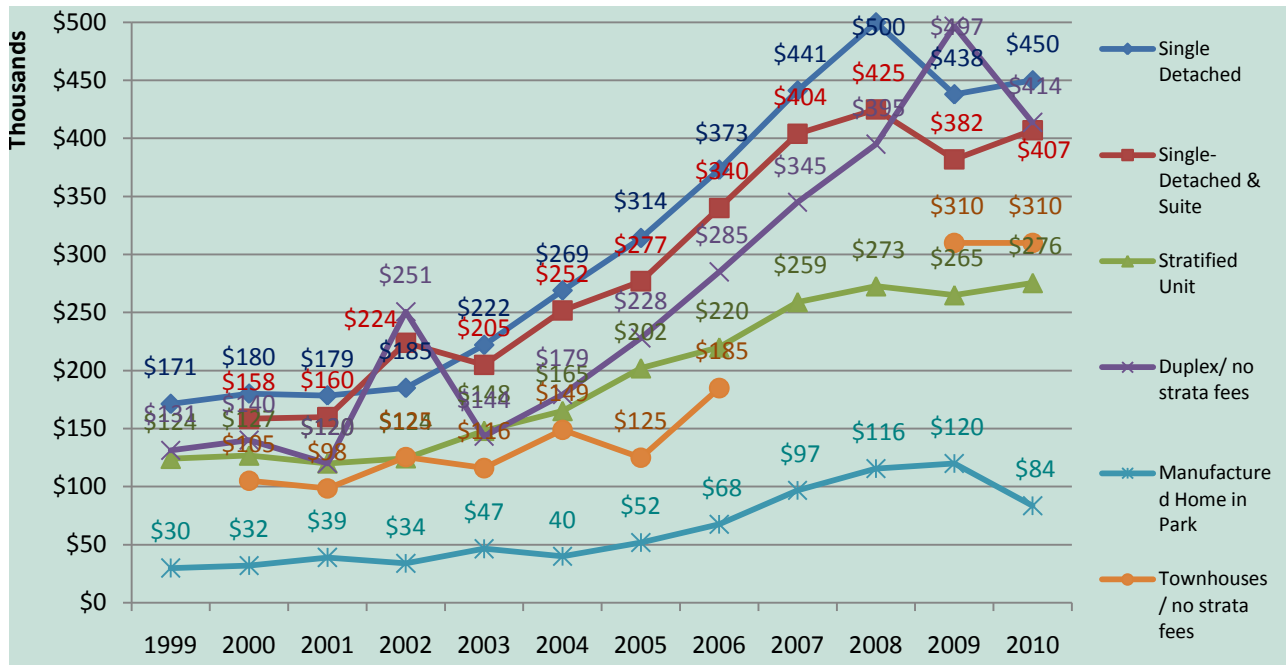


Photograph 4 – Example of a new row housing development in Kelowna

Table 4 - Median Home Price by Year and Dwelling Type

	Single Detached	Single-Detached & Suite	Stratified Unit	Duplex/ no strata fees	Manufactured Home in Park	Townhouses / no strata fees
1999	\$171,224		\$124,000	\$131,200	\$29,900	
2000	\$180,000	\$158,450	\$126,801	\$140,000	\$32,000	\$105,000
2001	\$178,500	\$159,950	\$120,000	\$119,890	\$39,000	\$98,450
2002	\$185,000	\$224,000	\$124,463	\$250,699	\$34,000	\$125,450
2003	\$222,000	\$204,900	\$148,129	\$143,500	\$46,500	\$116,000
2004	\$269,000	\$251,850	\$165,212	\$179,200	\$40,000	\$149,000
2005	\$314,146	\$277,000	\$202,000	\$228,000	\$51,900	\$125,000
2006	\$373,000	\$339,950	\$220,000	\$285,000	\$67,500	\$184,900
2007	\$441,250	\$404,000	\$259,000	\$345,000	\$96,794	
2008	\$499,950	\$425,000	\$272,700	\$395,000	\$115,500	
2009	\$438,000	\$382,000	\$265,000	\$469,582	\$120,000	\$310,000
2010	\$450,000	\$407,000	\$275,500	\$413,750	\$83,500	\$310,000

Figure 7 - Median Home Price by Year and Unit Type



As the majority of median home prices for all types of dwellings rose in 2010 and are estimated to continue to rise in 2011, those looking to buy may soon be seeking an alternative option; renting. This seems to be especially true for new home buyers who are now facing more restrictions in terms of obtaining a mortgage. In October 2010 the Kelowna area apartment vacancy rate increased to 3.5 per cent from 3.0 per cent. Strong competition from investor owned rental housing combined with the home ownership market has contributed to the increased rental supply. Even though some of the investor owned rentals did sell in 2010, those that did not are still temporarily being used as rentals, ultimately increasing the City’s rental vacancy rate. Moving into 2011, the apartment vacancy rate in British Columbia has already increased from 3.1 per cent in 2010 to 3.7 per cent (April 2011)¹². Moreover, Kelowna has had the largest increase in the vacancy rate, jumping from 3.7 per cent in April 2010 to 6.6 percent in April 2011 for the Kelowna CMA. CMHC states that this increase in vacancy rate is primarily due to: new rental supply, including new purpose built rental stock; competition from secondary rental in the form of investor-owned condominiums; and an increase in student housing. Furthermore, the Kelowna unemployment rate has increased relative to a year ago, dampening rental demand.

¹² Rental Market Report - British Columbia Highlights - Date Released - Spring 2011