

REAL ESTATE

## Kelowna: What Vancouver used to be like

With prices in line with average incomes, Okanagan Valley communities have become a magnet for Gen-Xers



The condo development One Water Street in Kelowna, B.C.

IMAGINERINGS BY NORTH AMERICAN DEVELOPMENT GROUP AND KERKHOFF

Construction has begun on a condo tower in downtown Kelowna that, when completed in 2020, not only will be the tallest building between Vancouver and Calgary, it will symbolize a remarkable change in the real estate market dynamics of British Columbia's Lower Mainland.

The building known as One Water Street will occupy a site that once was planned as a kind of retirement playground, but that fell by the wayside when the market went bust. Now, the new project is geared to younger people who want to live and work in Kelowna – attracted by prices that are significantly lower than those in Vancouver.

"In just over two months, we sold well over \$100-million of product," says Chilliwack-based developer and builder Leonard Kerkhoff, who partnered with Toronto-based North American Development Group (NADG) to build 36-storey One Water Street. Kerkhoff Construction is completing another project nearby, the 21-storey condo at 1151 Sunset Dr.

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Sales for One Water Street's second tower, which will be 29 storeys, will begin in the middle part of this year. The project will include 1.3 acres of amenity space, including two swimming pools, a fire pit and a pickleball court.



One Water Street's 36-storey tower will be the tallest building between Calgary and Vancouver.

The developers acquired city council approval to go higher than the 26 storeys allowed. They say the proposal was met with community support because, for years, the site had been called "the dirt pile," after a hotel project was abandoned over a lack of funding – a symbol of the economic downturn from a decade before, when the real estate boom went bust. As a sign of a robust market, in February, developer Westcorp will go to council to seek approval for a 33-storey hotel, condo and commercial project that would be similar in height to One Water Street.

In the previous boom, the market was geared to downsizers who wanted golf course and waterfront resorts, life-of-leisure homes appealing to retirees. The current boom is different because it's targeting people at the peak of their careers who have tired of the unaffordability in the Lower Mainland. Far from fairways, their options now mean a decent job, home ownership and a liveable city.

Sales for One Water Street began in late September, and within two months, 80 per cent of the tower sold. More remarkable than the height of Kelowna's newest condo project are the prices, which are reasonable by Vancouver standards. The 434-square-foot studios start at \$300,000; 990 square-foot two-bedrooms start at \$635,000; 1,702 square foot town homes start at \$885,000 and three bedroom units start at \$804,900 for 1,373 square feet of space. The subpenthouses, with lake views, are priced at about \$1.8 million, and, although, the penthouse doesn't yet have a price tag because the developer is selling it as a blank slate, the expectation is somewhere in the \$6-million-plus range.

"The difference between the condo market in Kelowna and the Lower Mainland is that ours is much less investor-driven and more end-user driven," says Heni

maybe a handful to Chinese investors. These are end users, or people like me, who will have it as their second home. As a condo developer, that's what you want. You don't want them buying them as investments. You want them to buy them to live in them."

Kelowna developer Randall Shier, president of Mission Group Homes, and a former Vancouverite, says Kelowna is benefitting from Vancouver's predicament, and growing in population by roughly 300 people a month. Census data show the 30- to 34-year-old cohort in Kelowna grew by 21.8 per cent between 2011 to 2016, significantly higher than the 8-per-cent growth for that age group in Canada.

"The labour force growth – and this is phenomenal to me – grew 7.2 per cent in one year," Mr. Shier says. "Can you imagine? That's a lot of jobs. We are seeing the Vancouver Millennial and the Vancouver Gen Xer are moving here. They are moving here because they can have a life.

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Residents of One Water Street will be afforded excellent views of Lake Okanagan.

NORTH AMERICAN DEVELOPMENT GROUP AND KERKHOFF

"Certainly, it's a significant portion of the real estate market, people from Vancouver moving here. To us, that's a great thing. We're benefitting from the affordability crisis in Vancouver."

Mr. Shier says his own son, who lives in Vancouver, is struggling to afford a reasonably sized condo.

"I don't know what the solution is for Vancouver. I love the city, but a correction is needed. I just don't know how – you don't want to be killing a market like Kelowna, or Victoria or Nanaimo, or other centres that are healthy," he says.

In Vancouver, there's been a disconnect between jobs and housing. In the past year or so, many shops have cut back on their hours because of a shortage of hourly labour. Minimum-wage workers simply can't afford to live in the city and commuting a long distance doesn't make sense. And even workers in higher paying jobs in white-collar industries, such as tech or engineering, are finding themselves pushed outside of the central core. In Kelowna, incomes drive the housing market, which means developers are building to answer local demand.

Raghwa Gopal is the chief executive officer of Accelerate Okanagan, a non-profit that helps tech entrepreneurs get started and take business to the next level. Mr. Gopal started his own successful tech company almost 40 years ago in Kelowna. In the past five years, he says, the industry has grown.

"About 200 people could be hired tomorrow," he says of tech jobs in the city. "The pay isn't quite the same as Vancouver – probably 90 to 95 per cent in some cases, but the median home price for a single family house here is \$700,000. And the average rent is around \$1,000."

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ago. When she and her husband Eric discovered their West Vancouver house was worth \$2.5-million, they reassessed their lives. They decided they wanted a lifestyle where they spent more time with their kids and less time in traffic.

They purchased a house in Kelowna that was double the size of their West Vancouver home, with a media room, pool and hot tub. After buying the house, they had money left in the bank. Both she and her husband lined up jobs before they left Vancouver. She now works for Mission Group Homes, and he opened a Kelowna office for a commercial insurance company.

"Everybody we meet – the electrician, the plumber – they are all from Vancouver. Ms. Lock says "Everyone in our neighbourhood that we have run into – and I mean everyone – is from Vancouver."

The boom is not confined to Kelowna. Smaller communities outside the city are seeing growth, such as Penticton, which is an hour away.

"The big story to me that is not getting told is the Gen-X, the mid-to-late-career professional is moving here," says Penticton city planner Blake Laven. "They waited in line to buy condos in Vancouver 10 years ago, got married, had maybe one kid, they want another, and find their condo or duplex has gone up a ton. They're now saying: 'Hey, we can get X dollars and go to the Okanagan and get more square footage, good schools, and each kid gets a bedroom.'

"When we post jobs in City Hall, those are the people we are getting - the 35- to 50-year-old that has a kid or two and wants more room."

Penticton realtor Karrie Grewal says she just had the best year of her 10-year career because of people from the Lower Mainland buying up properties in and around her small city of 32,000. She says realtors averaged more than \$200,000 in commissions as a result of the boom, including the junior ones.

"We just wrote an offer ... on a home in downtown Penticton that was all cash and no financing from a retired couple from the Lower Mainland," she said. "And we were in multiple offers, too."

In a healthy market, new housing that responds to demand generally translates into lower prices. That's why developers such as Mr. Shier expect prices to fall. In fact, 10 new market rate condos and purpose built rental units have come online. From January to

quarter report for 2017. Median household income increased in the Kelowna census metropolitan area by 41 per cent over a 10-year period (2005 to 2015).

Mr. Shier's own company, Mission Group Homes, will deliver about 250 rental units in the next year, which will help ease a near zero vacancy rate. In Vancouver, an increase in supply over the years has not translated into lower prices because of speculator activity, where units are purchased and left empty. Instead of providing housing, they are commodities for profit. In the condo market, presales are routinely flipped before the units complete, driving prices upward. Many experts argue that the ongoing increase of supply, without government intervention – such as stiff taxes on speculation – will do little to offset the crisis. Also aggravating the situation is the fact that luxury condos offer the greatest profit margins for a developer and there's a ready and willing offshore market that will pay the high prices.

Mr. Shier says his company does not allow a single buyer to purchase more than two units in any building in order to deter speculation. As well, the company requires large down payments in order to make flipping more difficult. "We are not seeing the pressure that Vancouver sees. It seems like a more normal market here. The demand is from people who want to live here."

But Mr. Bereznicki says it's only a matter of time before the Kelowna market also attracts foreign money looking for safe investment.

"I think it will happen, unfortunately. I think if you are living in Mainland China you are going to think Vancouver first, but if your friends and neighbours buy in Kelowna, and you hear about it, you'll go there, and you'll say, 'I get it.' I think it will happen. But the good news is that my project is, to my knowledge, 95-per-cent Canadian buyers, residents of Canada. That's good for the project."

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