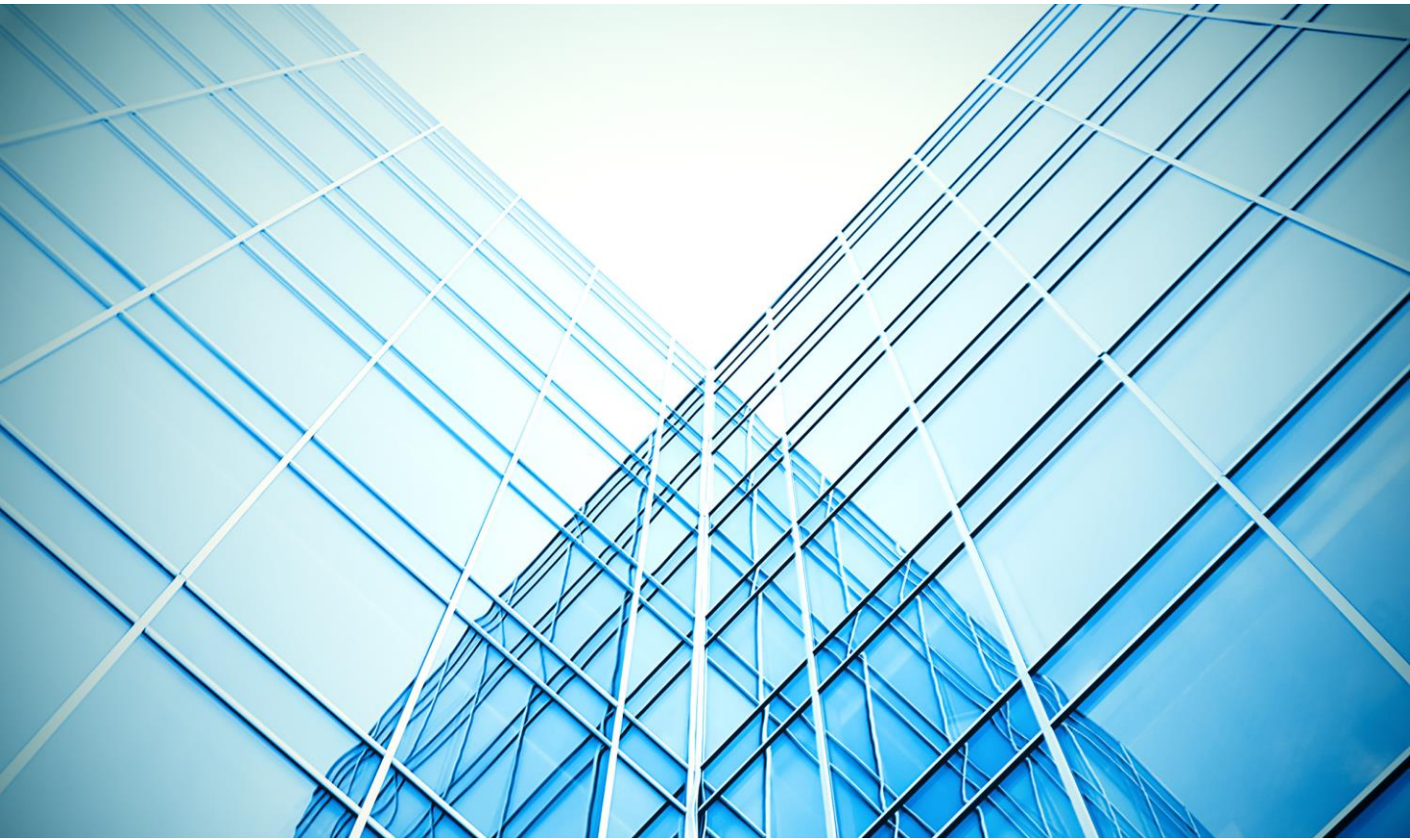




ASSOCIATION OF  
**INTERIOR  
REALTORS®**



**2023**

**OKANAGAN REGION  
COMMERCIAL MARKET OVERVIEW**

**JANUARY 2024**

## 2023 OKANAGAN COMMERCIAL MARKET OVERVIEW

**FIGURE 1: COMMERCIAL SALES VOLUME OKANAGAN REGION\***

	2023	2022	YoY-Growth
<b>Commercial</b>			
Sales Volume	\$170,102,031	\$228,755,661	-25.6%
No. of Transactions	362	348	4.0%
<b>Multifamily</b>			
Sales Volume	\$25,122,500	\$33,427,900	-24.8%
No. of Transactions	12	19	-36.8%
<b>Land</b>			
Sales Volume	\$19,473,001	\$41,520,490	-53.1%
No. of Transactions	14	18	-22.2%
<b>Grand Total</b>			
Sales Volume	\$214,697,532	\$303,704,051	-29.3%
No. of Transactions	388	385	0.8%

\* Excludes Business Opportunities

Source: Association of Interior REALTORS®, H2 2023

2023 was a transitional year for commercial real estate in the Okanagan. Despite robust local market fundamentals, characterized by strong population growth driving demand and a low vacancy rate across most asset classes, rising interest rates and increasing cap rates led to a slowdown in commercial real estate investment activity. In 2023, members of the Association of Interior REALTORS® completed 388 commercial transactions in the Okanagan, amounting to \$214.7 million in value. While the number of sales saw a marginal 0.8% increase, the value of transactions experienced a significant 29.3% decline compared to the previous year.

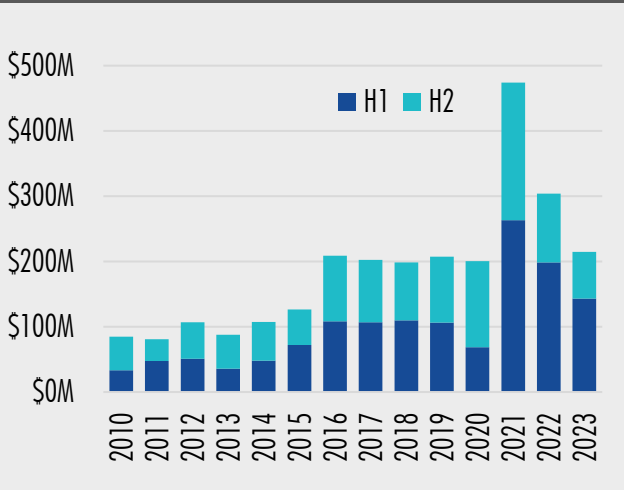
Throughout the year, real estate investment activity remained subdued; however, transaction volumes found support through robust participation from private capital groups. Notably, five transactions, led by the \$23 million acquisition of the 1704

Government Street property in Penticton, accounted for 32% of the overall transaction volume. The envisioned development aims to provide 1,500 homes, along with retail spaces, hotel facilities, and medical offices, shaping a comprehensive and transformative urban space.

In 2023, the development industry grappled with higher construction prices and debt costs. These challenges were compounded by cap rate decompression, further elevating hurdle rates to meet the criteria for acceptable proformas among investors. However, sale and lease prices have not kept pace with the escalating costs, resulting in a slowdown of land sales and overall development activity across the region. This has led multiple developers to postpone their project for the foreseeable future.



**FIGURE 2: COMMERCIAL SALES VOLUME OKANAGAN REGION**

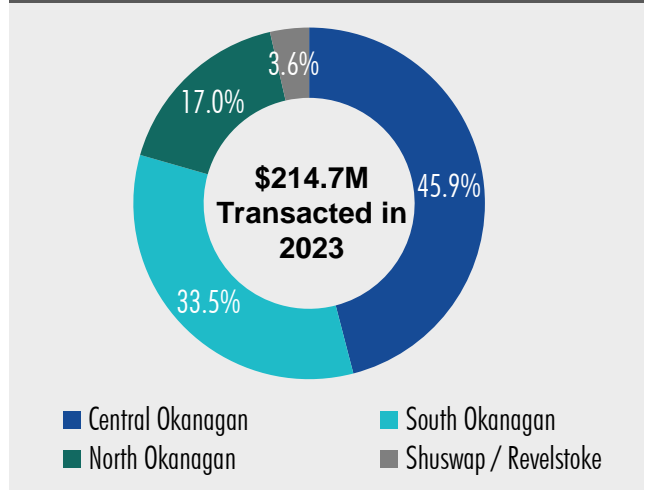


Source: Association of Interior REALTORS®, H2 2023

Similar to the rest of the country, the Okanagan has experienced a surge in population growth accompanied by a decline in affordability. This has led to an increase in the construction of multifamily developments. Many projects incorporated designs to meet the demand from buyers seeking properties with the potential for short-term rental income. However, the upcoming B.C. government rules, set to regulate short-term rentals by May 2024, will be a blow to the development industry in the region. In response to the regulations, several developers have put their projects on indefinite hold, while others already in advanced stages of construction may reassess future investments in the region.

As expected, the Bank of Canada held its overnight rate at 5.0% at its January 2024 meeting, marking the fourth consecutive rate pause. Stalling economic growth, softening consumption, and an easing labour market have the Bank

**FIGURE 3: 2023 COMMERCIAL SALES VOLUME BY SUB-MARKET**



Source: Association of Interior REALTORS®, H2 2023

focusing on how long rates should stay high rather than raising them further. Inflation, which was over 8% last year, has eased to 3.4% in December 2023. Although this is slightly higher than the month before, the increase was anticipated and expected to be temporary. Yet, addressing inflation is still a priority, as it is above the 2% policy target.

Stable interest rates and the expectation of rate cuts in 2024 have bolstered sentiment in the commercial real estate market. While increased confidence is expected to result in higher activity in 2024, much of this optimism relies on the performance of the economy. Efforts to control inflation continue, but there's still work to be done. However, on the local front, fundamentals remain robust, characterized by limited vacancy and sustained demand, albeit at a more moderate pace.



# CONTACT

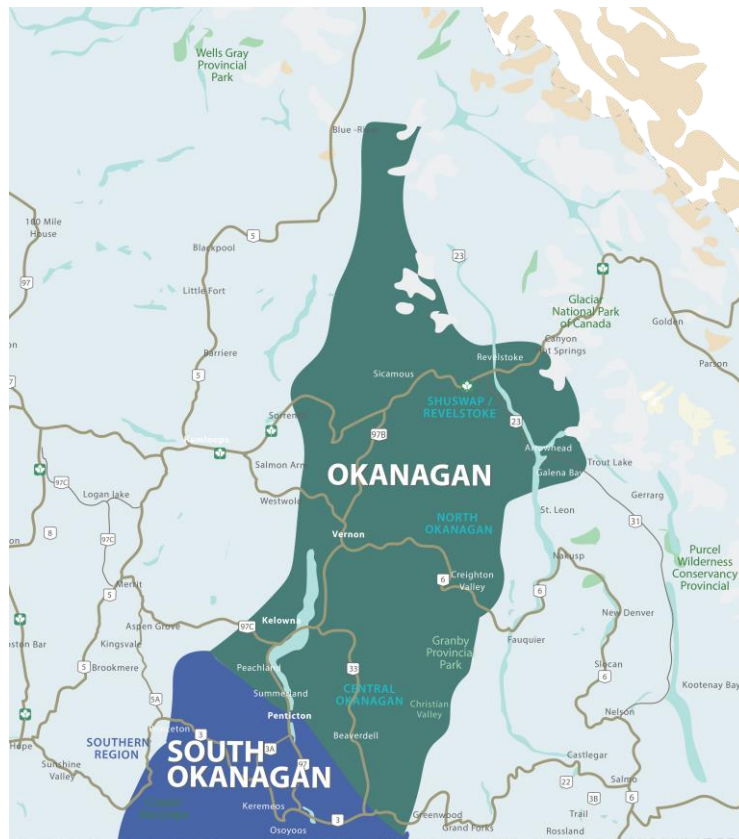
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This map is for informational purposes. It does not represent an on-the-ground survey and represents only the approximate relative location of property boundaries.

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