

## B.C. Regional Economic Outlook 2018-2020

### Vancouver Island and Coast

Vancouver Island is booming. It has been one of Canada's top growth stories since its growth surge started in 2014 after stumbling through the early parts of this decade. The Vancouver Island and Coast region is anchored by the Victoria Census Metropolitan Area (CMA) at the southern tip and the Nanaimo Census Agglomeration. The region has a population of more than 800,000 persons and includes urban areas such as Parksville, Campbell River, Duncan and Courtenay. Economic growth is expected to decelerate though the Island will continue to show moderate expansion through the forecast period of 2018 to 2020.

Employment growth surged by 10 per cent from 2014 through 2017. This was highest among Canada's large economic regions and a driver of migration and increased labour force participation in the region. Vancouver Island employment increased 5.5 per cent last year following a 2.6 per cent increase in 2016. Momentum has continued with employment levels trending up nearly three per cent through October 2018. Growth sectors have included accommodations and foodservices; information and culture; and wholesale and retail trade. Public-sector employment, which contributes eight per cent of total employment and is concentrated in Victoria, has surged by a third. Manufacturing employment has retraced sharply after two years of gains.

The low unemployment rate continues to trend below five per cent in 2018 and underscores tightness in the labour market. The unemployment rate is even lower in Victoria at closer to four per cent. Significant sampling variability at regional levels means trends should be viewed with caution. Nonetheless, industry-specific employment growth trends in the regional areas align with improved economic performance.

Tourism is robust, particularly in regions outside of Victoria. This is observed through surging hotel room revenues since 2012 and the highest hotel occupancy rate since 2001 at 62.5 per cent. A low Canadian dollar and a divisive U.S. political environment have lifted demand from international and domestic tourists. Westjet and Air Canada have increased flights to Victoria, contributing to the Victoria International

gap is a draw for households across the homeownership spectrum of entry-level to retiree purchasers. A modest housing price correction in Metro Vancouver could slow this trend, but the substantial price gap and lifestyle of the Island remains a draw.

The region's supercharged housing demand cycle driven by job growth and population gains remains robust, though it is slowing. Vancouver Island home sales peaked in 2016 at 19,300 units led by growth in apartment sales and levels have since declined. Nonetheless, elevated sales and low inventory continue to lift home values. For a second straight year, the median transaction value climbed more than nine per cent to \$454,000 in 2017. This growth is understated due to a higher share of apartment sales, though all home types experienced double-digit per cent growth. The median annual home price rose by 25 per cent from 2013 to 2017.

Median price growth in Victoria has slightly underperformed the Island's other urban centres, reflecting the rotation of sales to lower-priced apartments. Price growth has surged across the Island on strong demand conditions.

While robust, the housing sales cycle has cooled sharply alongside the rest of Canada in 2018. Credit availability has curtailed with the introduction of the federal mortgage 'stress test' on households. Homes are generally less affordable to households than in 2017, particularly in larger expensive markets like Victoria and Vancouver. Home sales across the rest of the Island have declined by a lesser extent. Policy measures that disincentivize the purchase of 'recreation homes' in areas such as Victoria and Nanaimo will also be a drag to home sales. Resale transactions are forecast to drop 14 per cent this year and edge higher in 2019 and 2020.

Sales-to-listings ratios remain firmly planted in sellers' market territory. Although, there are signs that price growth is softening in Victoria as quick-sellers adjust prices lower while others wait to sell. Positive momentum into 2018 drives the median Island home value to \$455,000 this year, marking an eight per cent gain. Victoria price levels climb in line with regional trend, but medium-sized urban market exhibit stronger

Airport<sup>1</sup> expansion that is expected to be completed by spring 2020 .

Manufacturing activity has been mixed. While employment has recently retreated, Viking in Victoria hired 50 people to make conversion kits for aircraft into water-bombers.<sup>2</sup> The region continues to benefit from the National Shipbuilding Strategy at Seaspan's Victoria Shipyard.<sup>3</sup> Public-sector highway investments have ramped up and major projects have been approved—including the \$110.6 million Comox Valley Water Treatment Project to upgrade the region's drinking water system in 2019.

Growth and confidence is underpinning business formation. Led by the Capital, Cowichan Valley and Nanaimo regional districts, incorporations exceed highs observed in the mid-2000s and net business counts are tracking roughly the pace of population growth since 2014. Firming of investment in the region has been reflected in surging non-residential building permit volume, which was up 20 per cent each year in 2016 and 2017.

The latest population estimate for 2017 pegs the population at 817,200 persons. Growth reached 1.3 per cent in 2017 following a 1.5 per cent gain in 2016. Population has climbed by more than 10,000 persons annually for the last three years. Victoria, which makes up about 45 per cent of the island population, and Nanaimo have seen their population swell, although most areas on the island have grown at a modest pace over the past two years.

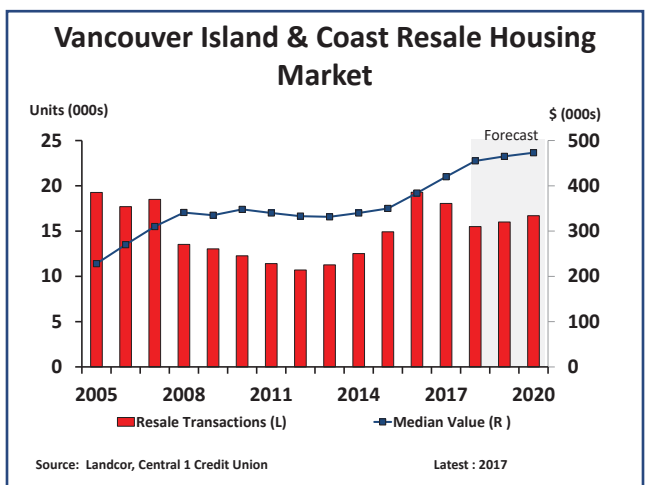
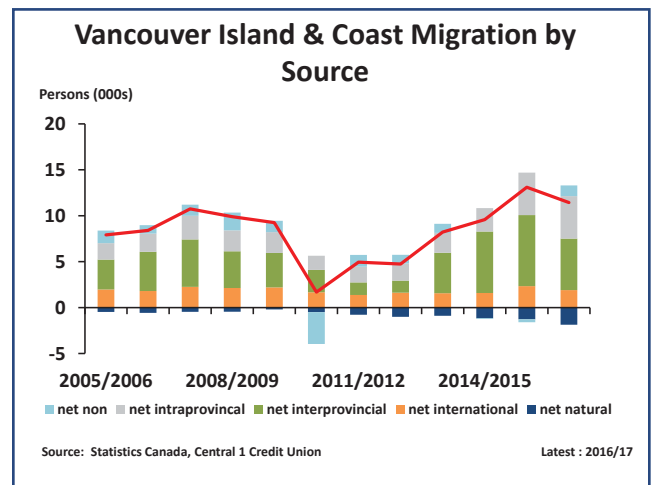
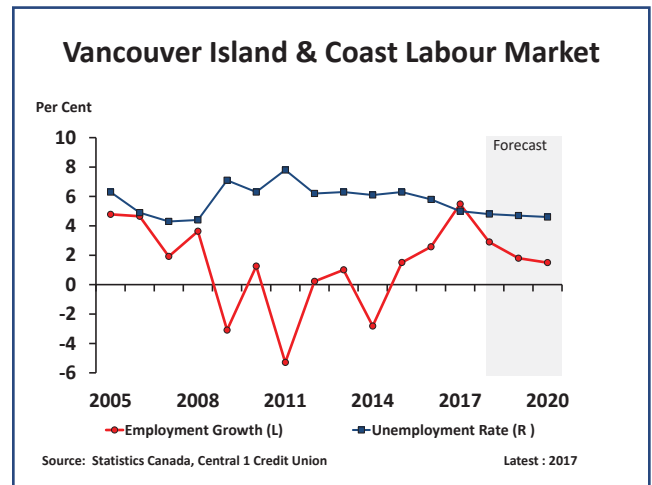
While the region has long been a draw for retirees, and the slingshot age cohort of out of province and international students attending post-secondary institutions, the flow of prime working age households is rising. B.C. Stats local area population estimates points to strong growth across the Island, led by Nanaimo, the Victoria capital region, and Duncan. North Island growth, which continues to be driven by resources, and retiree demand is slower. This growth cycle has generated a strong organic lift to household demand.

Rising inflows from the 25 to 44 age group is good to see. While improved economic opportunities are clearly a draw, this also suggests families are relocating to the region from the Lower Mainland as home prices

<sup>1</sup> The Victoria International Airport is expanding its ground-level departure lounge, doubling its seating capacity. Construction on the \$19.4M upgrade is expected to be completed by spring 2020.

<sup>2</sup> <https://www.timescolonist.com/business/fifty-to-be-hired-locally-for-work-on-waterbombers-1.23321508>

<sup>3</sup> <https://www.timescolonist.com/news/local/new-coast-guard-ship-coming-to-victoria-for-finishing-sea-trials-1.23119502>



have gotten out of reach. Young families are flocking to the Island in search of more affordable housing, while others may also be cashing out, and relocating at a lower cost. Through the first half of 2018, the median detached home price in Vancouver was \$1.27 million. In contrast, the detached home value was \$785,000 in Victoria, \$565,000 in Nanaimo, and \$510,000 in Parksville. Price levels were below \$500,000 across all other census agglomerations, with central Island and retiree markets near to upper end of price range. While lifestyles and job opportunities differ, this price

gains. The average annual median price for the Island is forecast to grow at about two per cent in 2019 and 2020 to reach \$473,000.

Population growth, undersupplied housing markets and rising prices have encouraged new housing development, further amplifying the economic growth cycle. Residential permit volume has climbed more than 20 per cent annually since 2013. While higher constructions are a factor, new housing and renovation spending has lifted activity and generated jobs in the process. Urban area starts on apartment construction rose to a 20-year high in 2017 and led by Victoria. This flow will continue to support construction employment and output through 2019.

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<b>Vancouver Island/Coast</b>	2016	2017	2018	2019	2020
Labour Force (000s)	389.0	407.0	418.0	425.0	431.0
% ch.	2.0	4.6	2.7	1.7	1.4
Total Employment (000s)	366.5	386.6	398.0	405.0	411.0
% ch.	2.6	5.5	2.9	1.8	1.5
Unemployment Rate	5.8	5.0	4.8	4.7	4.6
Participation Rate	58.8	60.8	62.0	61.5	61.0
Residential Transactions	19,290	18,107	15,500	16,000	16,700
% ch.	29.2	-6.1	-14.4	3.2	4.4
Median Price	384,000	420,000	455,000	465,000	473,000
% ch.	9.7	9.4	8.3	2.2	1.7
Residential Permits (\$ millions)	1,397.8	1,721.2	2,100.0	1,950.0	1,800.0
% ch.	29.3	23.1	22.0	-7.1	-7.7
Non-Residential Permits (\$ millions.)	443.4	533.3	462.0	447.0	450.0
% ch.	18.3	20.3	-13.4	-3.2	0.7
Private Non-Res Building Permits (\$millions)	288.1	329.7	312.0	287.0	290.0
% ch.	28.1	14.4	-5.4	-8.0	1.0
Public Non-Res Building Permits (\$millions)	155.4	203.6	150.0	160.0	160.0
% ch.	3.6	31.1	-26.3	6.7	0.0
Population (000s)	807.0	817.2	829.4	840.2	851.1
% ch.	1.5	1.3	1.5	1.3	1.3
<b>Victoria CMA</b>	2016	2017	2018	2019	2020
Labour Force (000s)	194.4	199.9	205.4	208.0	211
% ch.	2.8	2.9	2.7	1.3	1.4
Total Employment (000s)	184.3	192.3	197.0	200.0	203
% ch.	3.5	4.3	2.5	1.5	1.5
Unemployment Rate	5.2	3.9	4.1	3.8	3.8
Residential Permits (\$ millions.)	751	954	1,150	1,050	960
% ch.	26.1	27.0	20.6	-8.7	-8.6
Non-Residential Permits (\$ millions.)	273	372	270	270	275
% ch.	43.7	36.2	-27.5	0.0	1.9
Population (000s)	373	377	383	387	391
% ch.	1.6	1.2	1.3	1.2	1.0
<b>Select Resale Housing Markets</b>	2016	2017	2018	2019	2020
Victoria Residential Transactions	8,331	7,340	6,100	6,300	6,500
% ch.	32.9	-11.9	-16.9	3.3	3.2
Victoria Median Price	508,500	556,000	590,000	588,000	595,000
% ch.	7.1	9.3	6.1	-0.3	1.2
Nanaimo Residential Transactions	2,888	2,810	2,550	2,700	2,750
% ch.	23.8	-2.7	-9.3	5.9	1.9
Nanaimo Median Price	344,000	395,000	425,000	430,000	435,000
% ch.	9.0	14.8	7.6	1.2	1.2
Campbell River Residential Transactions	1,065	1,077	950	960	1,000
% ch.	37.8	1.1	-11.8	1.1	4.2
Campbell River Median Price	285,000	331,000	390,000	399,000	403,000
% ch.	6.7	16.1	17.8	2.3	1.0

Sources: Statistics Canada, CMHC, Landcor, Central 1