Highlights:
- Housing starts jump in August on Victoria and Kelowna gains
- International tourist inflows remain near record high level in June

Victoria and Kelowna drive housing starts higher

B.C. housing starts rose for a second straight month in August, partially arresting declining momentum seen during the first half. Including rural areas, provincial housing starts reached a seasonally-adjusted annualized rate (SAAR) of 48,300 units. This was up eight per cent from July’s 44,800 unit pace, and 28 per cent above a year ago.

Growth in urban areas multi-family starts drove August performance. Detached housing construction fell to a 9,080 unit pace from 9,330 in July. Apartment starts rose to 32,250 units from 28,500 units.

August’s increase was led by a pop in the Victoria and Kelowna Census Metropolitan Areas (CMA) activity, while Vancouver CMA starts were virtually unchanged from July. Abbotsford-Mission starts retrenched after a July spike. Victoria area starts remained robust at a pace of 7,000 SAAR units, up from 4,900 units in July. Kelowna starts more than doubled from July to 3,900 units. That said, monthly changes are not all that informative given the influence that apartment and townhome projects can have in any given month.

Looking past monthly volatility and August’s jump, the housing starts trend has eased following a 2017 surge, but remains robust. Abbotsford-Mission has experienced a sharp downtrend in new construction and is back to its pre-2015 trend. While recent trends in both Vancouver CMA and Kelowna starts have declined significantly, levels remain elevated. Victoria remains on an upswing.

Year-to-date, Victoria CMA starts rose 32 per cent through August and Vancouver starts were virtually unchanged, while Abbotsford-Mission (down 57 per cent) and Kelowna (down 29 per cent) were both substantially lower. Urban-area starts in B.C. were up four per cent during the period but led by growth among smaller urban areas.

The current housing starts cycle is supported by the strong pre-sale conditions in recent years, but levels are forecast to slide. This year’s implementation of mortgage stress tests, rising interest rates, and
announcement of a speculation tax by the provincial government on non-B.C. residents will continue to weigh on demand going forward. A record level of units under construction is also a signal for builders to slow the pace of new construction. Annual housing starts are expected to slip to 41,700 units this year from 43,800 in 2017, and trend near 38,000 units through the end of the decade.

**Tourism sector continues to boom**

The pace of growth may be slowing, but B.C.’s tourism sector activity remained strong through mid-year. The number of international tourists entering Canada through B.C. rose to 755,340 persons in June, marking a year-over-year gain of 8.5 per cent. U.S. visitors climbed 7.6 per cent with overseas entries up 10 per cent.

While the pace of growth is decelerating, seasonally-adjusted inflows continue to climb. This is driven by a competitive Canadian dollar, rising tourism demand from emerging markets, and likely some diversion of tourist dollars away from the politically charged U.S., both by Americans and overseas travelers. Seasonally-adjusted, international inflows reached 499,600 persons, up 2.7 per cent from May. The current cycle has been robust and persistent. Levels have surpassed the prior seasonally-adjusted peak observed during the 2010 Olympic Games, and rival those observed during Expo 86.

According to data from commercial real estate firm, CBRE, occupancy rates at hotels this year have averaged about 65.5 per cent, which extends an uptrend observed since 2013. The previous cyclical high was in 2006 at 64.4 per cent. In major markets, the occupancy rate was 75 per cent in Greater Vancouver and 65 per cent on Vancouver Island. This reflects elevated international inflows and high levels of domestic Canadian tourist demand. Tourism flows are also contributing to growth in the retail and food services segments of the economy.

Through the first half of the year, total international visits rose 4.9 per cent, led by a seven per cent increase in overseas visitors and 3.6 per cent increase from the U.S.

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