

SASKATOON & REGION

New Housing Market Analysis

Q4 | 2018



Saskatoon & Region
Home Builders'
Association



ECONOMIC OVERVIEW

Saskatoon's economy lost steam throughout 2018 following the economic rebound in 2017. Although the commodity bust seems behind us, a return to a boom cycle is unlikely. The city is slowly diversifying into value-add sectors (such as technology, business and professional services) yet commodity exports are still king in the region's economy. While there are some green shoots in Saskatoon's economy, **growth in the region is expected to be moderate** at best.

Business investments in the province, measured through capital expenditures, continue to be under pressure with an **expected 2.4% decline** in 2018 compared to 2017. In Saskatchewan, energy investment is expected to decline for a 4th consecutive year. Pipeline bottlenecks, heavily discounted Canadian oil prices, mandatory production cuts in Alberta, carbon taxes, and a more favorable regulatory environment in the US has pushed energy companies to reconsider investment plans in Canada.

Investment in the mining sector is expected to be subdued as well. Potash prices have remained low, driven by an oversupplied market. However, the overall outlook for potash is favorable. BHP Group is expected to reach a decision soon on the Jensen Mine, with an estimated \$20 billion price tag. Uranium on the other hand continues to under-perform, as global demand has not recovered following the Japanese nuclear disaster in 2011. **Energy and mining investment in Saskatchewan is expected to have declined 51%** between 2014 and 2018. Sectors such as healthcare (-58.2%), wholesale trade (-43.0%) and the utilities sector (-10.2%) are also expected to have reduced investment in 2018.

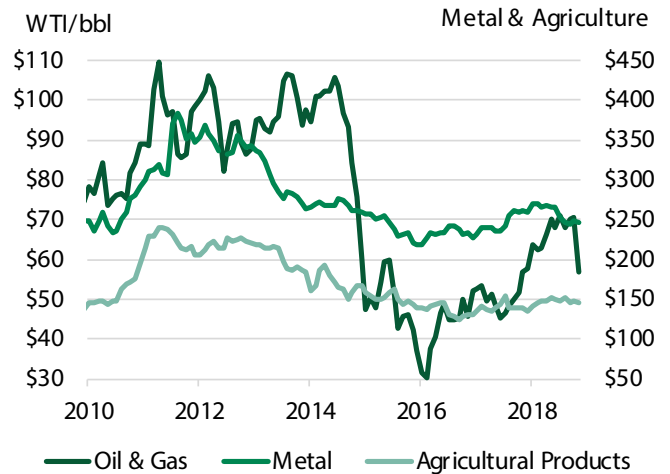
The **manufacturing sector is expected to see continued growth** after a stellar year in 2017. Provincial manufacturing sales have recovered beyond the pre-recession levels and have seen a **11.8% year-to-date increase** in 2018. Most of the activity has been driven by smaller local firms that are picking up the slack left by large international firms that decided to shift focus south of the border.

Saskatoon region economic indicators

Growth rates	2017	2018F	2019F
GDP	3.7	2	2.4
Employment	1	2.8	0.8
Unemployment	7.9	6.9	6.5
Population	2.9	2.2	1.9
Inflation	1.8	2.7	1.8

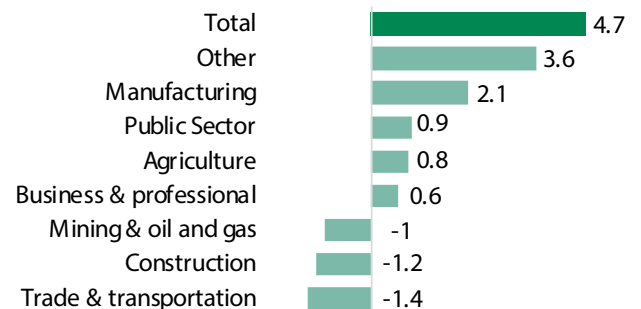
Source: Statistics Canada & Conference Board of Canada

Commodity Prices



Source: BMO Commodities

Saskatoon 2018 Job gains (000's Jobs)



Source: Statistics Canada & Conference Board of Canada

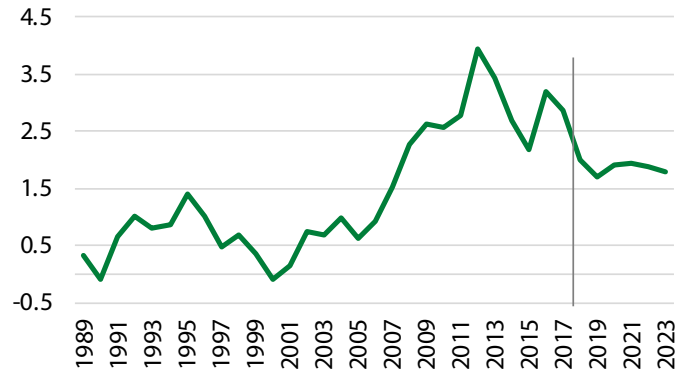
After three consecutive years of slow job growth, Saskatoon saw it finally **increase 2.8%** in 2018. Unfortunately, low productive sectors such as food service and accommodations represented 76.6% of these net employment gains. While Saskatoon's unemployment rate has decreased from 2017 highs, it is expected to continue to be above historical averages.

From a technical standpoint, Saskatoon's economy has recovered the ground lost during the oil-price recession, **expanding 4.7% between 2014 and 2018**. Additional but moderate growth is expected through the foreseeable future. However, this expansion does not feel like a recovery. The overall standard of living in Saskatoon, measured through GDP per capita, peaked in 2014 and is not expected to recover any time soon.

High paying jobs in mining, energy, construction, finance, insurance and real estate have disappeared following the energy crash. The high unemployment rate has dampened **household income growth**, which has remained **below the rate of inflation**. In other words, the purchasing power of Saskatoon's families has decreased as salary increases have not kept up with rising price for goods and services.

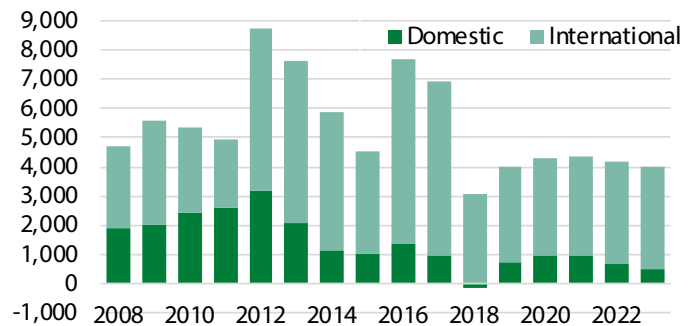
For most of the early 2010's, Saskatoon was one of the most prosperous communities in Canada. Depressed economic activity and sluggish labour markets have since slowed down population growth. However, **international immigration has been a success story** in the region despite economic woes. Strong post-secondary enrollment, the acceptance of refugees, and a successful international migrant program (SNIP) have kept and will continue to improve population growth in the area. Population growth for the next 5 years is expected to grow well above the 20-year average.

Saskatoon's population growth (%)



Source: Statistics Canada & Conference Board of Canada

Migration - Saskatoon



Source: Statistics Canada & Conference Board of Canada

"Amidst Provincial and Federal legislative measures that have eroded the opportunity for Canadians to enter the housing market, coupled with the stalling of economic growth, it is likely that a slowdown of new home construction in Saskatoon will remain. In spite of these headwinds, the city continues to grow, suggesting that the mid to long term market potential in Saskatoon may be more positive."



Paul Buitenhuis, Vice-President, Arbutus Properties

NEW HOUSING MARKET ANALYSIS

New home sales in the Saskatoon metro area dropped to levels not seen since 2006, with 1,378 homes sold in 2018. **New home sales have declined every year for the past 6 years.** New apartment sales saw the largest decline, with sales decreasing 30.4% between 2018 and 2017. Single family homes, row housing and semi-detached sales dropped 19.2%, 17.6% and 11.5% respectively during the same period.

Developers have reacted to lower sales by **reducing the amount of supply.** However, weak demand has hindered builders' financial positions, forcing a slowdown in construction and in many cases causing layoffs. Saskatoon added 2,535 new dwellings in 2018 which represents a 19.9% decline compared to 2017. **New housing construction sits at an 11 year low** with declines in both the single and multi-family units.

New mortgage qualification regulations brought forward by the federal government in 2016 and 2017 have dramatically reduced home purchasing power across the country. The new policies require buyers, despite their down payment amount, to undertake a "stress test". The stress test was intended to cool down rising prices in cities like **Toronto and Vancouver** which have **different challenges than Saskatoon.**

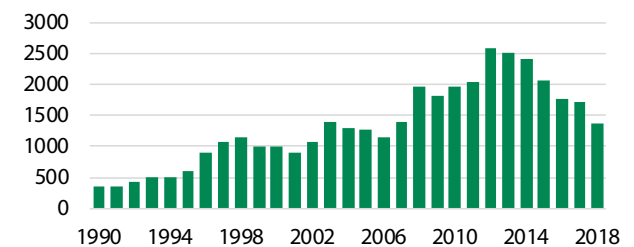
Soft economic conditions and sluggish labour markets continue to weigh heavily in consumers' minds. However, a recent report by RBC shows that the **stress test is the biggest contributor to home sales declines in Saskatchewan.**

Additionally, **the introduction of PST on new home construction by the Government of Saskatchewan is increasing the cost of new homes.** The measure was introduced in 2017 in response to falling resource royalties. While it is early to estimate the long-term impact of the PST on new home construction, the cost of the tax flows through the builders and directly into homebuyers.

Apartment sales have been somewhat of a different story. While overall demand is in decline, demand for **newer generation product in core areas** has been **particularly strong.** Following the success of No. 1 River Landing, a second major condominium development is being proposed by the same developers near the Broadway Bridge. The location of the new tower is a significant factor to its success. However, high-density projects often cater to a specific demographic segment: in this case, professionals without children who can pay premium prices.

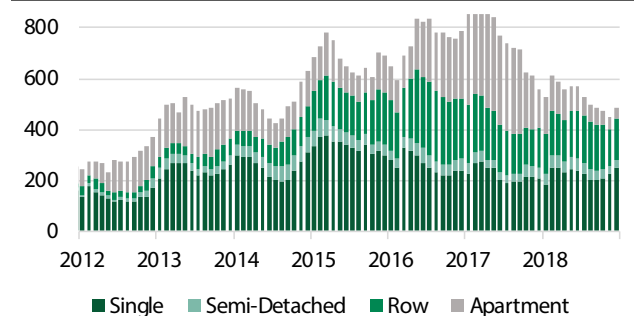
The **inventory** of completed but unsold homes has **decreased 46% from 2017** highs, dissipating concerns of overbuilding in Saskatoon. Apartment inventories saw the largest decline with an 88% decrease between December 2018 and February 2017. There were 488 new homes waiting to be purchased as of December 2018.

Saskatoon CMA new home sales



Source: CMHC Market Information Portal

Saskatoon CMA completed but unabsorbed inventory



Source: CMHC Market Information Portal



Builder permits, an indication of future construction intentions, are at a **10-year low for single family homes** and below the 10-year average for multi-family dwellings. In 2018, there were 761 single and 617 multi-family permits. Renovation permits have remained relatively flat in 2018 compared to the previous 3 years with 2,633 applications. However, they are almost 55% lower than they were in 2014.

3,988 building permits were issued in the Saskatoon region in 2018. This represents a **15.2% decline compared to 2017**. Single family and multifamily building permits decreased 24.3% and 44.7% respectively during the same period. Renovation permits saw a 0.2% marginal increase. The annual value of building permits topped \$386.4 million, a 28.8% decline compared to 2017. Every building type posted year over year declines with the value of multifamily construction posing the largest relative decrease (-49.9%).

Going forward, Saskatoon's **economy is expected to expand** but there are some dark clouds on the horizon in regards to commodity markets and global trade. The region experienced a strong boom between 2010-2014, but expectations must be reset. The Conference Board of Canada is forecasting a 2.4% growth in the city's GDP. While this is below the 20-year average, Saskatoon is still expected to be among the top fastest growing major metro areas in Canada.

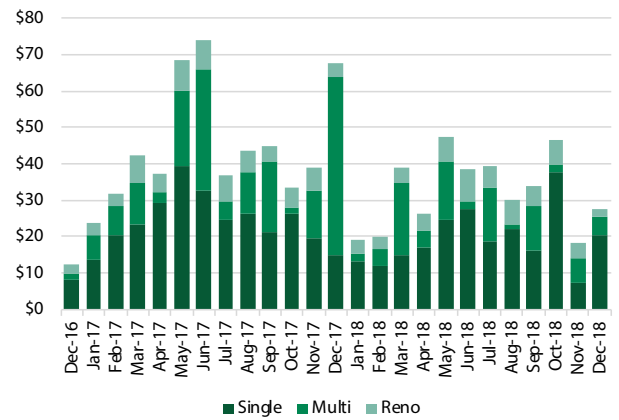
Weak income gains and high unemployment rate combined with rising interest rates and the impact from the stress test are forcing households to reevaluate housing prospects. On the bright side, this will likely translate into continued apartment momentum, particularly for purpose built rental. While new housing construction is expected to remain below the 10-year average, **supply is expected to rise from the 2018 lows**, providing some needed relief to builders and developers.



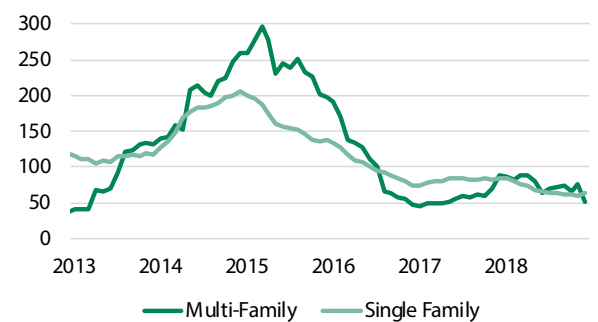
"It was a very difficult year because it was such an abrupt change. While we were having a hard time keeping up with challenges with the imposed mortgage stress test and the price of our resources being down for example, the impact from the change with PST was just too much in a short period."

Ron Olson, General Manager, Boychuck Construction Corp.

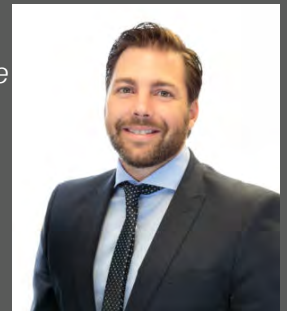
Saskatoon and region value of building permits - \$Millions



Saskatoon and region building permits - 12 month moving average



"2018 experienced many impacts to the fundamentals that drive real estate including PST on construction, mortgage stress tests, and lower commodity prices which contributed to a year over year reduction in new home starts and occupancies. That being said, the current absorption levels in the Saskatoon market are still strong when compared to our historic growth rate and opportunities exist for improvement in the future."



Brad Zurevinski, General Manager, Dream Development