



Economic Overview & New Housing Market Analysis

Q3 | 2019



Economic Overview & New Housing Market Analysis



New Home Sales

 **290 Units**

Value of Building Permits

 **\$90 Million**

Housing Starts

 **454 Units**

Unabsorbed Inventory

 **425 units**

Under Construction

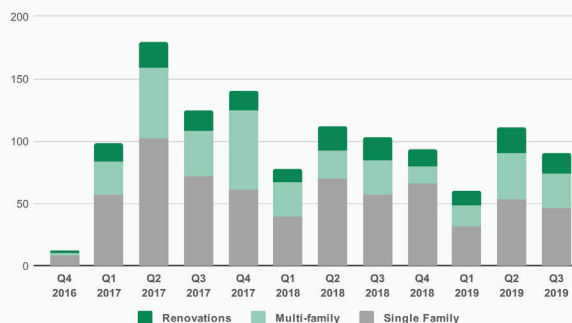
 **1415 Units**

*Arrows indicate change from Q3 2018.

2019 is shaping up to be one of the toughest years in recent memory for Saskatoon and Region home builders. Total housing starts are expected to be at a 15-year low with an estimated 700 single family homes and 470 multi-dwelling units beginning construction throughout the year. While housing construction is likely to see a slight uptick in 2020, housing starts are anticipated to be below the 20-year average.

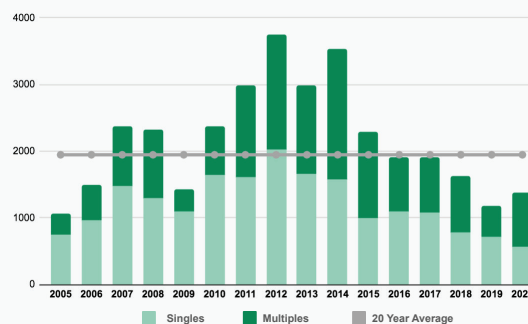
The recent drop in interest rates sustained a short-lived rebound in new home sales in Q2 2019. However, demand fundamentals continue to be weak and transactions trended down in Q3 2019. Political uncertainty both at home and abroad combined with challenging global outlooks in key commodities drag economic growth in the region. The slow economic momentum dampens further housing demand. Additionally, public policies implemented in recent years such as the mortgage "stress test" and the changes to PST on construction negatively impact affordability and the overall housing market in Saskatoon.

Figure 1: Value of Saskatoon building permits



Source: Saskatoon & Region Home Builders Association

Figure 2: Saskatoon housing starts



Source: CMHC Housing Information Portal and The Conference Board of Canada

Economic Overview & New Housing Market Analysis



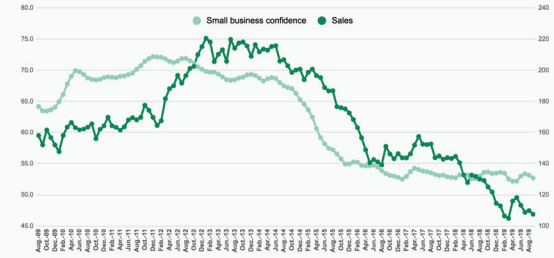
Saskatoon's economy continues to be under pressure. Business confidence is near decade lows. The latest figures from the Conference Board of Canada estimate a mild recession as GDP is expected to contract 0.15% in 2019. The recent political tensions between China and Canada, led to several restrictions on agricultural commodities directly impacting Saskatchewan's economy. A recent report from RBC places Saskatchewan as the province with the highest exposure to international trade.

The outlook for mineral exports continues to be a mixed bag. Demand for potash remains positive as global population is on the rise. Recently, BHP announced US\$345 million investment for the potential construction of the Jensen mine east of Saskatoon. The project comes with a price tag of as much as US\$17 billion. Global demand for uranium on the other hand is still subdued, following the nuclear disasters in Japan.

Prospects for the oil and gas industry are unclear as the lack of pipeline capacity constrains further growth. The recent federal election that led to a Liberal minority government left more questions than answers on the future of an industry that has historically been one of Canada's engines of growth.

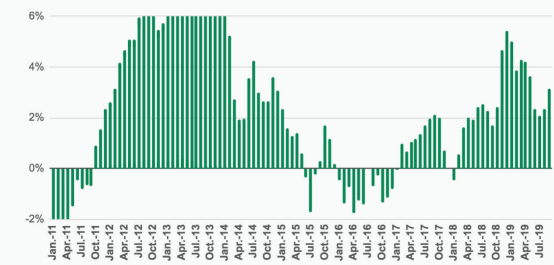
Saskatoon's labour market has been a bright spot with strong employment growth over the past 3 years. The region has created 15,200 jobs between January 2017 and September 2019. However, low productivity sectors such as hospitality, food service, culture and recreation account for 60% of those positions. Industries with traditionally high wages such as mining and oil and gas as well as construction continue to shed jobs with 1,400 positions lost during the same period.

Figure 3: Saskatoon monthly new housing absorption and business confidence - 12 month moving average



Source: Canada Mortgage and Housing Corporation & Canadian Federation of Independent Business

Figure 4: Saskatoon CMA job growth year-over-year



Source: Statistics Canada

Figure 5: Saskatoon economic indicators

	2017	2018	2019F
Real GDP Growth	2.59%	1.06%	-0.15%
Population growth	2.69%	2.21%	1.84%
Unemployment Rate	7.90%	6.63%	5.97%
Income Per Capita (\$)	\$49,991	\$50,689	\$51,794
Retail Sales (\$ Millions)	\$7,567	\$7,694	\$7,848
Inflation (%)	1.35	1.38	1.41
Housing Completions	2,053	1,568	1,665

Source: The Conference Board of Canada



The 2019 numbers are showing one of the toughest years in recent memory for home builders. The numbers only illustrate what local residential construction professionals have been saying since the beginning of the year. While the recently elected minority government has led to political uncertainty about the near future, the small forecasted uptick in residential construction in 2020 is welcomed but fragile.

CHRIS GUÉRETTE

CEO, Saskatoon & Region Home Builders' Association

Economic Overview & New Housing Market Analysis

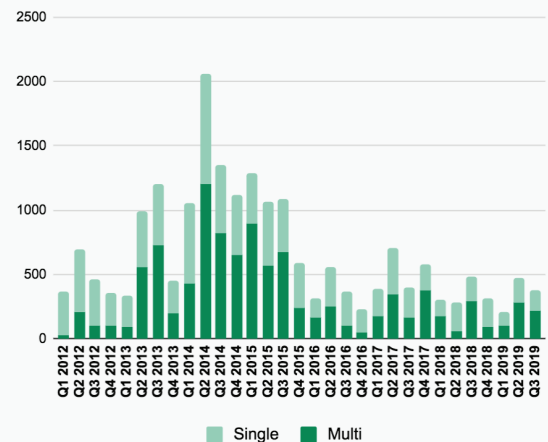


Since 2014, net domestic migration to the Saskatoon metro area has been negligible as the high paying jobs from the resource economy have come to a halt. While international migration is a success story in the city, this segment of the population traditionally rents.

Slow population growth, combined with a shift in demographics, is reshaping new home sales. Transactions in Q3 2019 topped only 290 units. This represents a 19.2% decrease compared to the same period last year as demand fails to generate enough momentum. Purchases of single-family homes decreased 33.8% in the same period with only 174 units sold in Q3 2019. Demand for apartments on the other hand, saw a 102% increase in sales during the same period to 69 units.

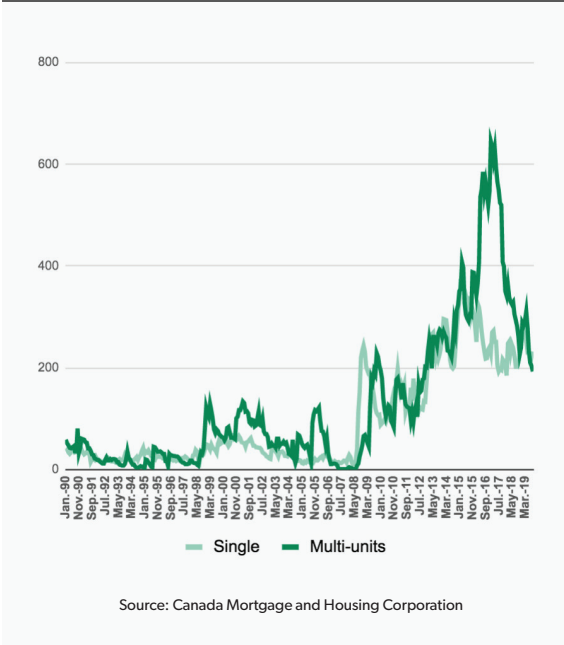
Home builders continue to react to the stagnant demand. Investment in new home construction decreased 30% in August of 2019 compared to the same period last year. The number of building permits in the City of Saskatoon topped 372 units in Q3 2019. This represents a decrease of 23.1% compared to the same period last year. Single family homes saw the largest decrease with 28%, while permits for multi-dwelling units decreased by 16.3%.

Figure 6: Number of building permits - City of Saskatoon



Source: Saskatoon & Region Home Builders Association

Figure 7: Unabsorbed inventory – Saskatoon CMA



Source: Canada Mortgage and Housing Corporation

The stock of new but unsold homes decreased as units under construction and building permits dwindle. However, the stock of available homes is still above the 10-year average. The unabsorbed inventory is a tale of two stories. The inventories multi-unit dwellings are rapidly declining with a 34.4% decrease year over year in September 2019. There are only 193 units currently in the market. The stock of single-family homes on the other hand is now 232 units. This represents an increase of 14.8% between September 2018 and 2019.

While some political uncertainty will remain in the near future, the recently re-elected Liberal government has restated its commitment to build the Trans Mountain expansion pipeline, which will provide relief to the oil and gas industry in Saskatoon.

The balance of 2019 will continue to see a steady market that moves at a measured pace. The glut of unabsorbed housing is expected to diminish as new construction slows down. The redevelopment of the core spearheaded by River Landing is expected to continue. Parcel Y is considered for a new downtown arena, which will further enhance the vibrancy of downtown.