



Q3 2022

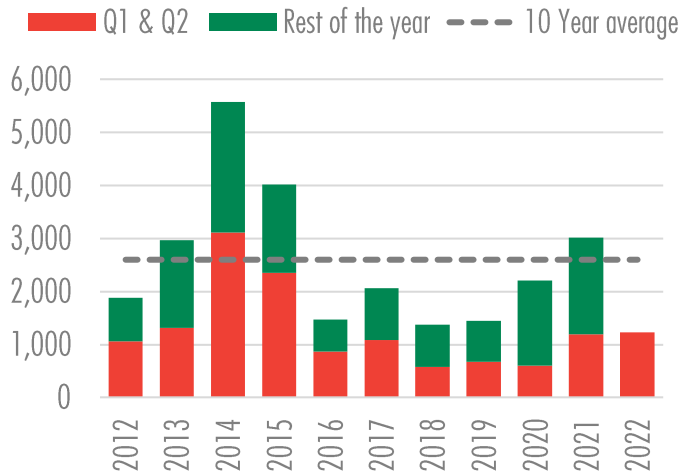
SASKATOON NEW HOUSING MARKET OVERVIEW

AUGUST 2022





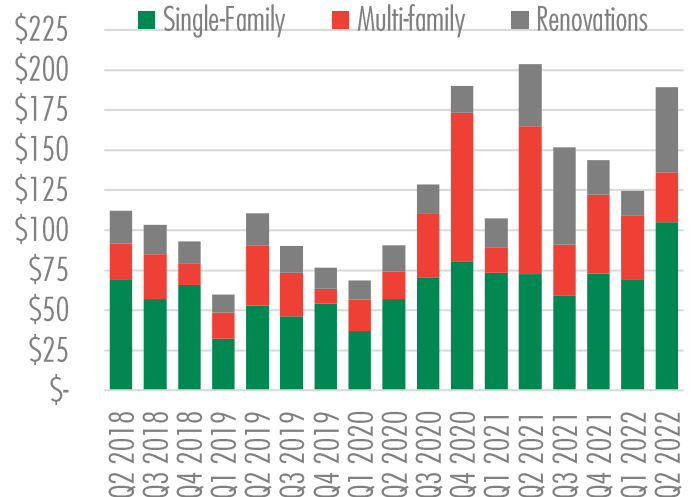
FIGURE 1: NUMBER OF BUILDING PERMITS – Excludes Renovations



Source: Saskatoon & Region Home Builders Association

Homebuilders in Saskatoon are experiencing a significant shift in the market, with a notable downturn in activity in the summer months. The region recorded 378 new homes absorbed in Q2 2022. This represents a 11.50% increase compared to the same period in 2021. However, many of the transactions recorded in Q2 of 2022 were negotiated and sold a few months prior. The industry saw a year's worth of sales in the first 5 months of the year and now, new home sales have almost halted altogether. Touring activity is described as slow to non-existent, despite a very strong start to the year. The decline in activity is in direct response to the recent rise in interest rates from the Bank of Canada, which impacts the cost of borrowing. In response, mortgage rates quickly reversed course from a historical low to a decade high in a matter of months.

FIGURE 2: VALUE OF BUILDING PERMITS \$ Millions



Source: Saskatoon & Region Home Builders Association

FIGURE 3: QUARTERLY NEW HOMES QUICK STATS



378 Residential sales in Q2 2022
11.50% increase vs Q2 2021



733 Building permits in Q2 2022
16.9% increase vs Q2 2021



2,489 Units under construction in July 2022
9.5% increase vs July 2021



184 Completed and unabsorbed units as of July 2022
17.2% increase vs July 2021

Source: Saskatoon & Region Home Builders Association & Canada Mortgage and Housing Corporation



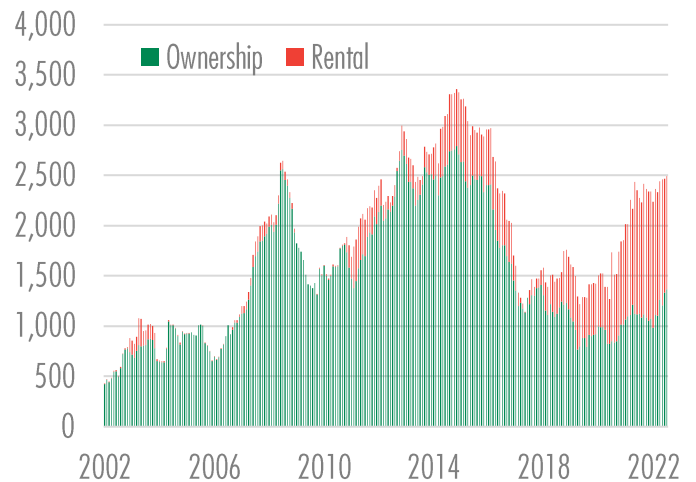


The Central Bank has increased rates 4 times since March to reign in runaway inflation, currently sitting at a 30-year high. Moreover, on July 13, the Bank of Canada hiked its benchmark rate by 1%, representing the largest increase since 1998. The bank does not expect the official inflation rate to reduce to 3% until next year and will not return to its 2% target until 2024, meaning more rate hikes are likely to come. Economists at CIBC expect an additional 0.75% increase by the Central Bank in September and predict that rates will stabilize thereafter.

Construction activity remains strong, as homebuilders are still busy finishing homes that were sold earlier in the year and this work should carry through until the fall. As of July 2022, there were 2,489 units under construction. This represents a 9.5% increase compared to the same period last year. It is important to note that 45.1% of the product currently under development is slated for the rental market. Purpose built rental construction has soared since the beginning of the pandemic. Yet, many of these projects commenced planning and construction multiple years ago. The number of dwellings under construction intended for ownership increased by 21.5% in July 2022 compared to the same period last year. However, activity remains 17.4% below the 10-year average.

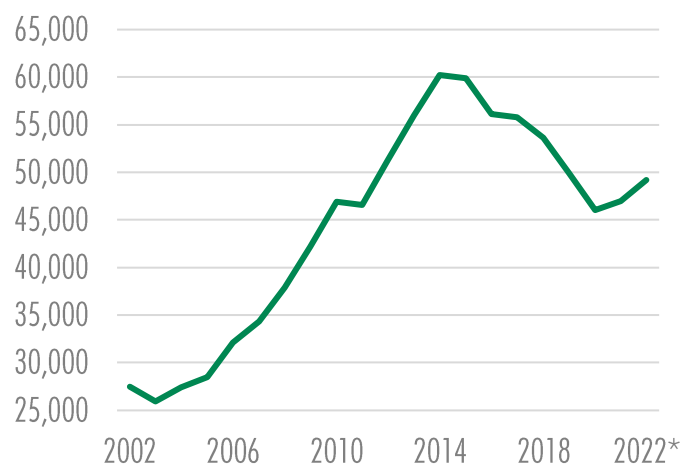
Earlier in the pandemic building delays and rising costs were attributed to the lack of materials and surging prices, whereas labour shortage is now the main issue. Saskatchewan's construction sector has seen a steady decline in its labour force, which has fallen 23.1% between its peak of June 2015 and July 2022. This is a result of retirements, migration of workers to other provinces, and a diminished interest in the trades from younger generations. Moreover, despite rising wages and strong job offers, homebuilders continue to lose skilled labourers to non-residential construction. There are currently many multi-billion-dollar resource projects currently under construction in Saskatchewan. Mining, oil & gas, and commercial companies have much more stronger balance sheets and are offering near to double current wages for labourers and those in the trades, even for inexperienced candidates.

FIGURE 4: UNDER CONSTRUCTION INVENTORY BY INTENDED MARKET



Source: Canada Mortgage and Housing Corporation

FIGURE 5: CONSTRUCTION LABOUR FORCE IN SASKATCHEWAN



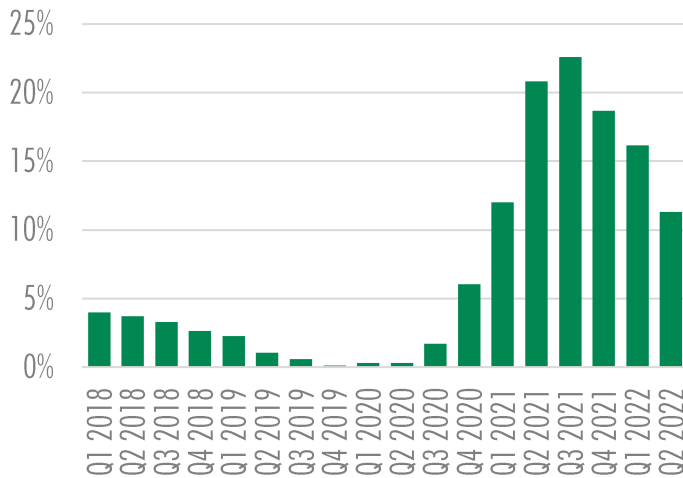
* July 2022

Source: Statistics Canada





FIGURE 6: RESIDENTIAL CONSTRUCTION INFLATION

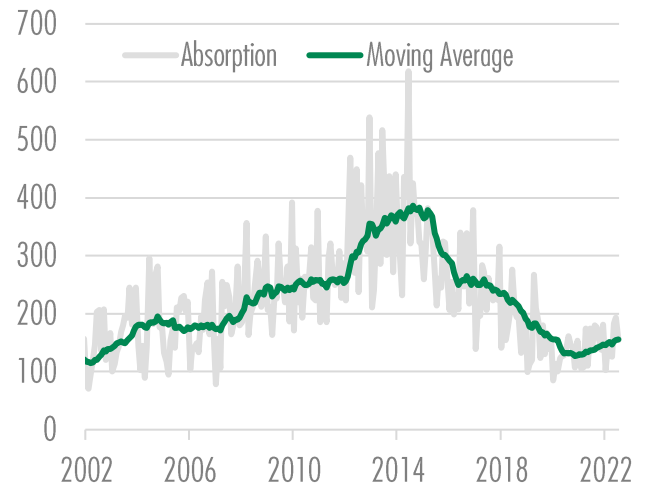


Source: Statistics Canada

Pressure on builders to get buyers into homes in a timely fashion is exacerbated by the aforementioned labour shortages. The current crunch to complete homes bought earlier this year is due to buyers with rate holds set to expire at the end of September. While Q2 2022 experienced the lowest level of residential construction inflation since 2021, inflation continues to be elevated at 11.3% in Q2 2022. Despite this, builders are now seeing downward pressure on costs as building materials that were once unavailable are now in stock. Material shortages and lead times have stabilized for many products. Overall posted prices continue to be elevated; however, some suppliers are starting to offer incentives. Additionally, home builders are now enjoying 25-35% price disparity between retailers for a few materials like lumber.

Going forward the market is likely to continue to experience turbulence over the short term from rising interest rates, inflation, and financial turmoil. Overall buyer sentiment in the region is slowly changing and

FIGURE 7: ABSORBED HOMEOWNER AND CONDOMINIUM UNITS



Source: Canada Mortgage and Housing Corporation

has been exacerbated by the media. Buyers are more cautious as they watch mortgage rates rise, more than doubling in just a few months. Sales are likely to resume in Q3 but activity is not expected to be more than moderate and remain relatively slow for a few months. Consumers who were serious about purchasing a home did so during the buying boom around the mid point of the pandemic in 2021. Many potential homebuyers are likely willing to wait out the market until factors like supply and interest rates stabilize. Additionally, renting remains an affordable option in the province. Despite this, in the medium-term the housing markets in the region are expected to return to normal conditions, driven by a strong local economy. A recent report by The Conference Board of Canada projects that Saskatchewan will likely be the top economic performer in 2022, even as the Bank of Canada's inflation-fighting measures wipe out the country's economic growth. Saskatchewan's economy is expected to grow by 7.6% between 2022 and 2024 driven by strong demand for the province's resources.



The Saskatoon & Region Home Builders' Association is invested in bringing insight to public policy decision makers on matters that effect the residential construction industry, while connecting our members with opportunities.

CONTACT

Chief Executive Officer

Ph: (306)955-5188

ceo@saskatoonhomebuilders.com

<https://saskatoonhomebuilders.com/>

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