



Q4 2022

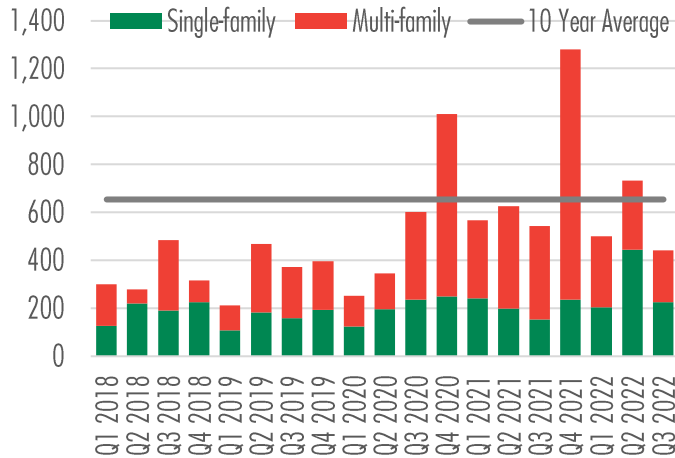
SASKATOON NEW HOUSING MARKET OVERVIEW

NOVEMBER 2022





FIGURE 1: NUMBER OF BUILDING PERMITS – Excludes Renovations

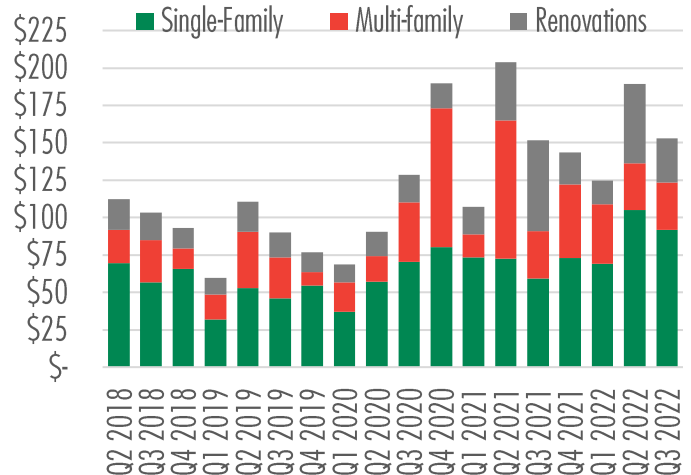


Source: Saskatoon & Region Home Builders Association

The Saskatoon region's new housing market has seen a noticeable decline in activity amid rising interest rates. There were 257 sales in the third quarter of 2022. This represents a 48.4% decline compared to the same period last year and a 63.3% decline compared to the 10-year average. While the market typically experiences a slow down in sales during the summer months, this year's decreased activity was worse than expected. Deals collapsed as multiple buyers were not able to secure financing, even those preapproved by the banks. Lenders were not anticipating interest rates to rise as fast as they did, forcing them out of honouring preapprovals and mortgage rates commitments.

Headline inflation across the country appears to have peaked at 8.1% in June 2022. Rising prices slowed down for the third month in a row, experiencing a moderate decline in September. Yet the rate continues to be red hot at 6.9%, well above the Bank of Canada's 2.0% target. The Bank of Canada increased its target rate by 50 basis points to 3.75% on October 26, 2022, which lifted policy interest rates into restrictive territory.

FIGURE 2: VALUE OF BUILDING PERMITS \$ Millions



Source: Saskatoon & Region Home Builders Association

FIGURE 3: QUARTERLY NEW HOMES QUICK STATS



257 Residential sales in Q3 2022
48.4% decrease vs Q3 2021



442 Building permits in Q3 2022
18.8% decrease vs Q3 2021



2,704 Units under construction in September 2022
11.8% increase vs September 2021



213 Completed and unabsorbed units as of September 2022
34.8% increase vs September 2021

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



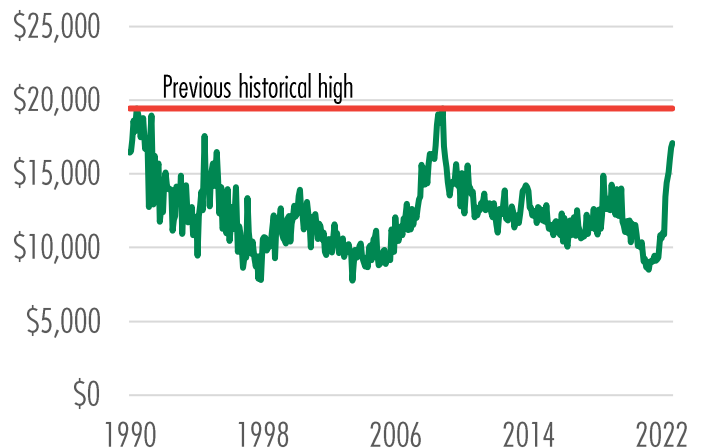


Forward guidance has been clear in confirming that policymakers will push for even higher rates over a longer period. The Bank of Canada has explicitly stated that the economy needs to slow down to control inflation. The recent job numbers show that the economy continues to be firing on all cylinders. The October 2022 numbers far exceeded expectations with a whopping 108,000 new jobs created. Most economist expect the Central Bank to push ahead with additional rate hikes bringing the target rate between 4% and 4.25% in 2023.

First year interest payments, adjusted for inflation, for a newly built single-family home in Saskatoon reached \$17,099.75 in the third quarter of 2022. This represents an 88.1% increase compared to the same period last year. The figure assumes a new 25-year mortgage with a 10% down payment on an average priced home. This is the 3rd highest number on record, just behind those in 1990–91 (a period of high inflation which led to a severe Canadian recession) and 2007 (the global financial crisis which was the most serious global crisis since the Great Depression). Interest costs are likely to reach a record high if the expected rate hikes continue into 2023. Furthermore, the estimated ratio of mortgage payment to average family income has essentially tied the previous all time high at 35.3 % in September of 2022.

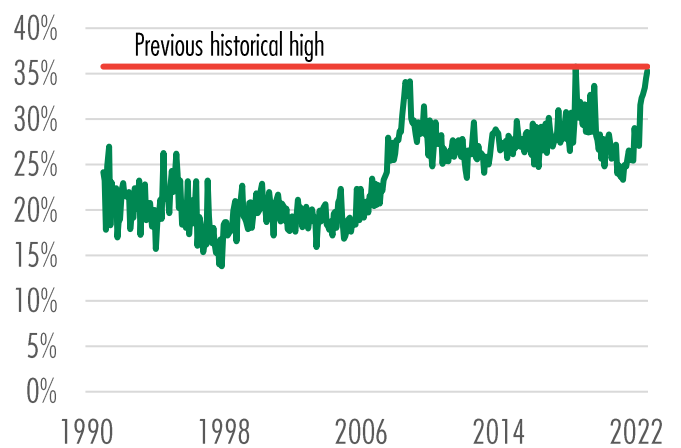
The demand for new construction homes has hit rock bottom, with limited touring activity for many projects. This has pushed builders to shelve new developments until the economy improves. Saskatoon and region home builders applied for 442 new construction building permits in Q3 2022. This represents a 18.8% decline compared to the same period last year and a 32.5% decline compared to the 5-year average. Despite this decline, the value of new construction permits increased 35.5% in Q3 2022 to \$123.4 million. This reflects higher construction costs, which remain sticky and unlikely to come down in the near future.

FIGURE 4: MORTGAGE INTEREST ON YEAR 1 FOR A NEWLY BUILT SINGLE-FAMILY HOME



Source: Saskatoon & Region Home Builders Association

FIGURE 5: RATIO OF MORTGAGE TO AVERAGE FAMILY INCOME FOR A NEWLY BUILT SINGLE-FAMILY HOME

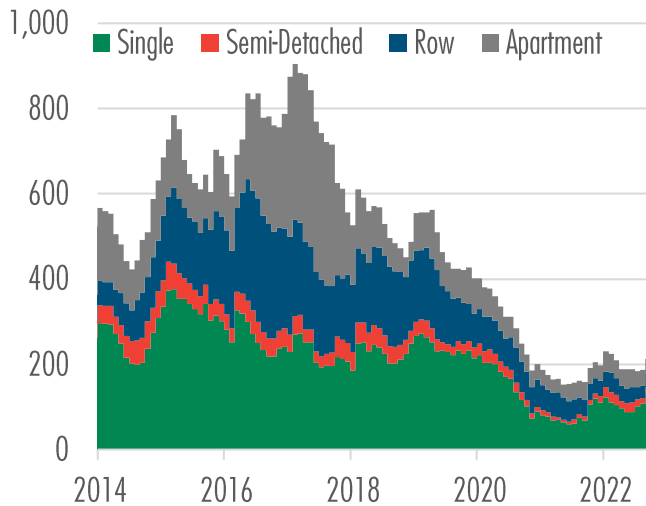


Source: Saskatoon & Region Home Builders Association





FIGURE 6: INVENTORY OF COMPLETED AND UNABSORBED UNITS

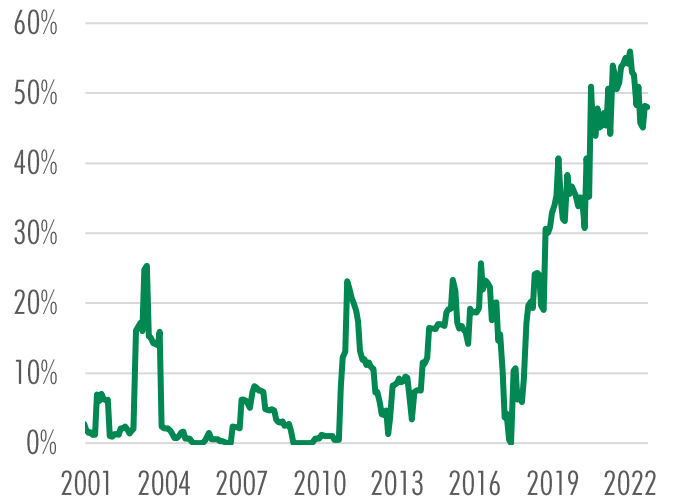


Source: Canada Mortgage and Housing Corporation

It is important for homebuyers to note Saskatoon's market resilience in comparison to other cities across Canada. Media outlets reporting massive pricing drops in markets like Vancouver and Toronto negatively effect potential homebuyers in Saskatoon and area which has not seen the same decline. Furthermore, affordability is key, and Saskatoon is affordable. The average price for a newly built single-family home in Saskatoon in Q3 2022 was \$526,166. This compares to \$1,471,483 in Toronto and \$2,309,724 in Vancouver.

Builders in the region have been careful not to overproduce which has kept inventory of unabsorbed housing relatively stable since 2021. In response to the drop in home sales, construction has quickly shifted gears to focus on purpose-built rentals. This segment of the market has seen a strong performance with rent growth, declining incentives, and limited vacancy. The recent rise in mortgage rates has either

FIGURE 7: SHARE OF RENTAL INVENTORY UNDER CONSTRUCTION



Source: Canada Mortgage and Housing Corporation

priced households out of the ownership market or has sent them to the sidelines until market conditions improve. As of September of 2022, 48.0% of the total inventory under construction is slated for rental. The ratio of rental to ownership has exploded in Saskatoon since 2017.

While the real estate outlook over the next 6 months is less than favourable, market fundamentals are strong and there is much to look forward to. The region's economy is faring well. Saskatoon has the lowest unemployment rate in Western Canada at 4.2%. The city's GDP growth is set to outperform all other major Canadian cities in 2023. Increased commodity prices and agricultural production bounce back create a strong forecast. Economic and investment indicators point to solid job and population growth that will help quick start housing demand.



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.

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