



2022

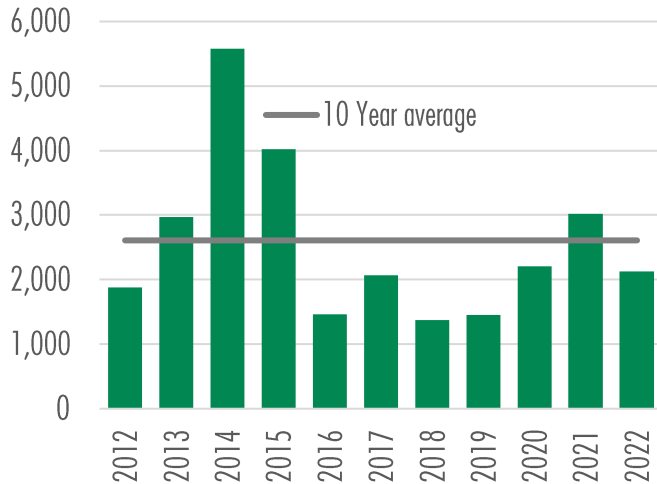
SASKATOON NEW HOUSING MARKET OVERVIEW

February 2023





FIGURE 1: NUMBER OF BUILDING PERMITS – Excludes Renovations

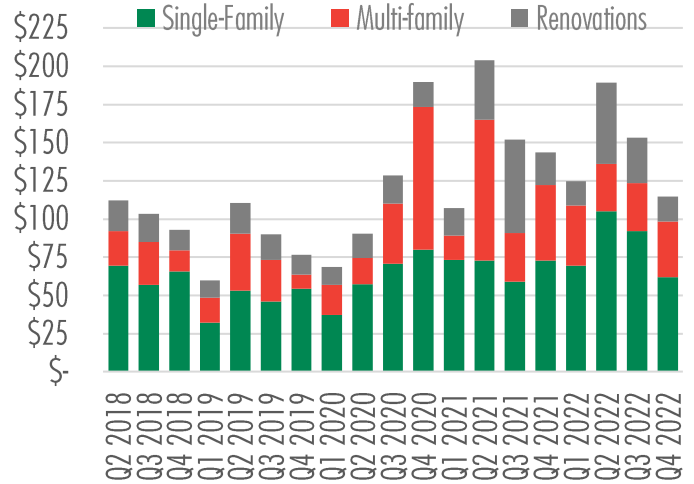


Source: Saskatoon & Region Home Builders Association

Saskatoon's new housing market has been struggling to regain its footing since a steady decline began in 2013 and 2022 was no exception. Despite some encouraging activity in late 2021 and early 2022, the market faced setbacks when buyer interest plummeted in the spring due to interest rate hikes. Throughout the second half of the year, most months recorded near or 20-year lows in terms of new home sales. In 2022, there were only 1,151 new home sales, which is 31.0% below the 20-year average and the second lowest volume in 15 years. Saskatoon CMA is estimated to have reached a population record of 348,000 in December 2022, driven by a record level of immigration with 7,167 newcomers calling the city home in 2022 alone. Unfortunately, the population growth has not translated into strong demand for the new housing market in the region.

Despite mortgage rates being low by historical standards, Saskatoon homebuyers are feeling the sting of rising interest rates. The Bank of Canada's sudden and faster than expected hikes in 2022 led to a decline in sales activity and decreased purchasing power.

FIGURE 2: VALUE OF BUILDING PERMITS \$ Millions



Source: Saskatoon & Region Home Builders Association

FIGURE 3: QUARTERLY NEW HOMES QUICK STATS



1,151 Residential sales in 2022
3.9% decrease vs 2021



2,130 Building permits in 2022
29.4% decrease vs 2021



2,803 Units under construction in December 2022
19.8% increase vs December 2021



232 Completed and unabsorbed units as of December 2022
17.2% increase vs December 2021

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



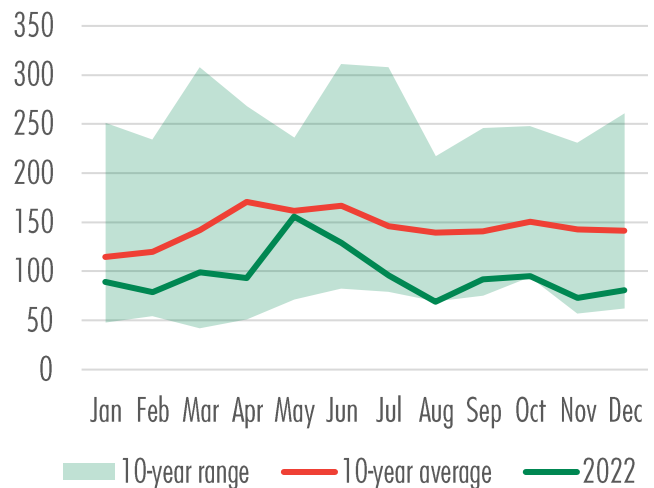


The conventional 5-year mortgage rate rose from 3.44% to 5.89% in just one year, leading to a 22.7% increase in monthly payments on a \$450,000 mortgage with a 25-year amortization. The mortgage stress test and tighter underwriting by lenders have also made it more challenging for buyers to qualify for a mortgage, forcing them to increase down payments, consider more affordable options or add secondary suites to increase their qualifying income. Recently, the change in market conditions has led to several conditional deals collapsing due to financing issues, leading to frustration for both builders and buyers.

Despite hesitation from buyers to write offers, there remains interest in new housing, including first-time homebuyers. For most, real estate decisions are driven by family needs rather than a return on investment. Buyers are bouncing from builder to builder looking for the best financial deal possible. It is possible that the market could experience an increase in activity in the early months of 2023, as buyers take advantage of the expiring provincial PST rebate program. Additionally, those who had mortgage rate holds may move to secure their purchases before their contracts expire. Homebuyers are now prioritizing securing a reasonable mortgage before searching for a home. Rising interest rates and strong desire for financial cushioning have buyers opting for more affordable options instead of their highest pre-approval limit.

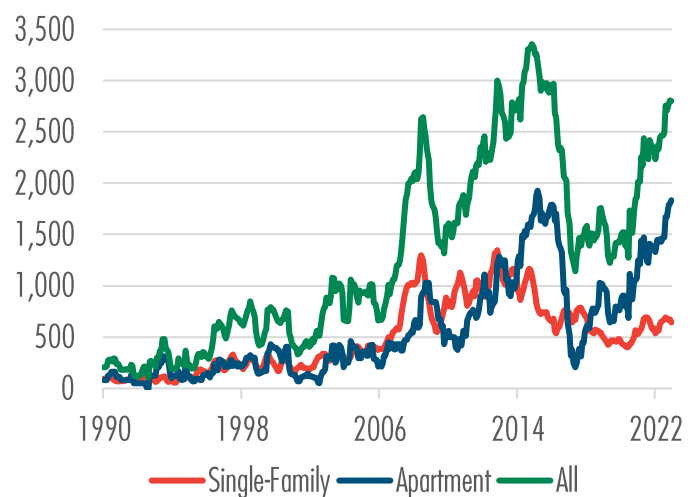
Declining sales and limited transaction activity have led builders to reduce the new inventory entering the market. In 2022, only 2,130 new construction building permits were applied for, worth \$466.8 million. This represents a decrease of 29.4% compared to the previous year. The last quarter of 2022 marked the lowest number of new single-family building permits in over a decade. Some builders are offering discounts on existing product to avoid having inventory that remains unsold. While the number of new but unsold housing is still below historical averages, it has gradually increased. In December 2022, there were 232 unsold units, a 17.2% increase compared to the same period in the previous year.

FIGURE 4: NEW HOUSING ABSORPTION BY MONTH



Source: Canada Mortgage and Housing Corporation

FIGURE 5: INVENTORY OF HOUSING UNDER CONSTRUCTION

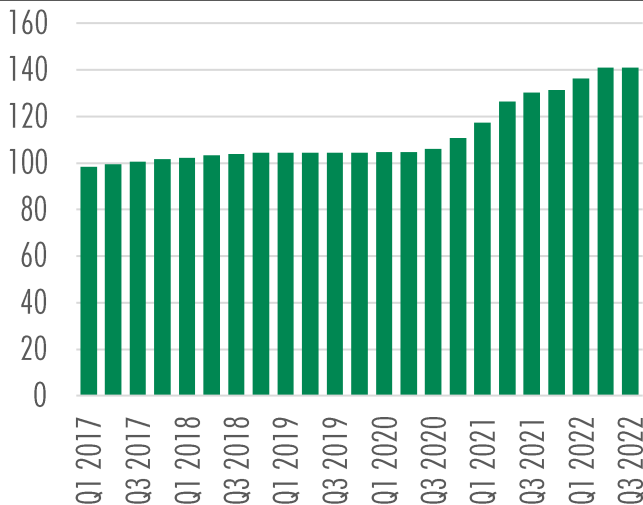


Source: Canada Mortgage and Housing Corporation





FIGURE 6: RESIDENTIAL BUILDING CONSTRUCTION PRICE INDEX (2017 = 100)

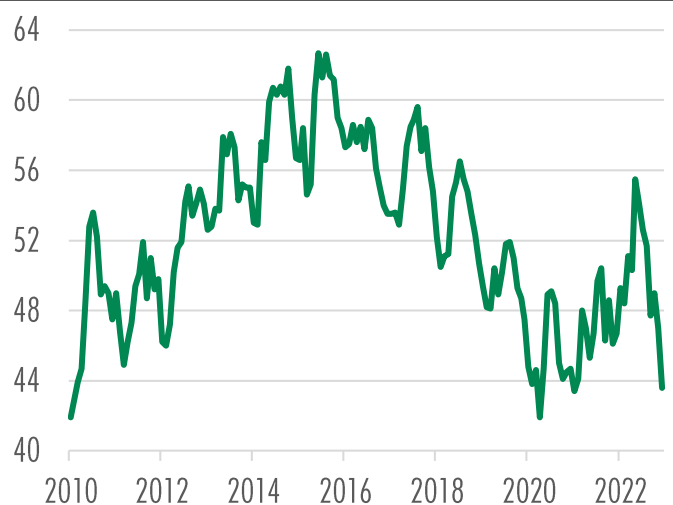


Source: Statistics Canada

Throughout the first half of the year, builders will be busy with pre-existing work rather than new sales. There were 2,803 units under construction in December 2022, a 19.8% surge from the previous year and hitting the highest level in 7 years. The robust growth in units under construction can be attributed to the rental market, which accounted for 55.2% of the total construction in December 2022, the second largest share ever. Many builders that used to build product exclusively for homeownership are slowly broadening their offerings or even shifting their focus to the steady rental market.

Home builders are facing a multitude of challenges in the current market. Although construction prices have stabilized, with some materials like lumber seeing a decrease, the overall cost of construction remains much higher than pre-pandemic levels, with residential construction costs having jumped by 35.1% from Q3 2019 to Q3 2022. Shipping costs are high, and suppliers have limited capacity which is preventing prices from decreasing further. The construction industry is also facing a severe labour shortage throughout the province, with an aging workforce and increased competition from non-residential projects putting pressure on the

FIGURE 7: SASKATCHEWAN'S CONSTRUCTION LABOUR FORCE (000s)



Source: Statistics Canada

industry to find enough workers. Saskatchewan's construction labour force has shrunk by 30.5% since 2015, with the largest number of construction job vacancies (2,350) since at least 2015. These challenges are creating even more stress for home builders, who are already grappling with limited transaction activity and declining sales.

Going forward, builders may face tough times unless there is a pickup in activity as long-term multifamily projects wrap up. Buyers have to digest the higher interest rates, which is the biggest risk ahead. The Bank of Canada raised its key policy rate to 4.50% on January 25, 2023, the highest level in over a decade and has decided to pause further interest rate hikes for now. While economists predict a mild recession in Canada, the local economy in Saskatoon is expected to continue to shine, with the Conference Board of Canada forecasting 7.2% growth in 2022 and 3.9% growth in 2023. Unemployment in the city also hit an 8-year low in December 2022 at 3.8%. Despite this, the strong local economic fundamentals have yet to translate into new 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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