



Regina & Region
Home Builders'
Association



Saskatoon & Region
Home Builders'
Association



LEVERAGING PST TO DEFEND SASKATCHEWAN HOUSING AFFORDABILITY

EXECUTIVE SUMMARY

The upcoming removal of the PST rebate for new housing construction will exacerbate Saskatchewan's housing affordability. After the removal of the PST rebate, Saskatchewan households will face the largest ever tax burden when purchasing a new home. Historically, the province has been one of the most cost-effective places to live in Canada thanks to the combination of low home prices and high incomes. However, housing affordability, which has been a key competitive advantage in the province, is quickly eroding. Rising interest rates and increasing construction costs are the main reason for the decline in affordability. However, the removal of the PST rebate directly impacts homeowners, particularly lower income, immigrants, and first-time homeowners. All of these have limited equity to purchase a home.

Access to a mortgage is an additional barrier to home ownership. In 2023, families in Saskatchewan will experience a 30.5% reduction in the maximum mortgage loan amount compared to 2016. In 2022, 72.5% of households in Saskatchewan will not be able to qualify for a mortgage to buy an affordable single-family home in the bottom 20% of prices without an additional down payment or previous equity. Mortgage payments on a newly constructed home relative to personal income are not yet at historical high but are on the rise. Given the aggressive increases in interest rates by the Bank of Canada, it is likely that the ratio will reach all-time highs by the end of the year. As a larger portion of household income services mortgage debt, this reduces any discretionary spending in the broader economy. This results in a lower provincial GDP.

The housing market in Saskatchewan has an option for everyone. However, some families will have to lower their expectation about what they can afford, shifting from the dream of owning a single-family home to either a half-duplex or a condo. Other families will put the house hunting on hold until they have saved more for the down payment. A larger portion of the population will be forced to be part of the rental market. The development of new rentals is a positive sign for the economy, but homeownership creates a sense of community and roots households for longer.

Saskatchewan continues to attract people at record levels. According to the latest census data, population increased 3.1% between 2016 and 2021. Moreover 25,400 new households are expected by 2026. To accommodate this growth the province needs an additional 30,455 dwellings to maintain a sustainable housing to household ratio. To achieve this, housing construction activity must rise back to 2016/2017 levels. Current developments in Saskatchewan will not come close to accommodate the influx of people that will be looking for places to live and work in the region.

Residential construction gained momentum following the introduction of the PST rebate on April 1, 2020. However, the policy was announced one month after the pandemic was declared. This affected the rebate's ability to fully impact the market as intended. Despite a booming resale real estate market, the short effective timeline for the PST rebate failed to provide confidence to builders to invest in the housing sector and increase housing supply which ultimately translates into improved housing affordability.

The solid economic fundamentals in Saskatchewan's economy are not without risk going forward. Strong household consumption, funded by government transfers throughout the pandemic and low borrowing costs fueled Canada's economic growth in 2021. However, many economists are now expecting a period of economic decline in the second half of 2022 and into 2023. The slow down in global economic growth is likely to spill over into Saskatchewan. Multiple indicators are signaling Canada's economy is headed for a recession driven by rising interest rates and high inflation.

Saskatchewan's residential construction sector provides a strong hedge which could cushion the province's economy in the face of external economic shocks. Residential housing construction represents millions of dollars worth of investment in Saskatchewan. New housing construction has one of the best economic and fiscal multipliers while providing strong and tangible benefits to Saskatchewan families. In 2021, new housing investment saw its first strong gain after 9 years of declines or marginal growth. Housing construction is a proven and viable way to kick-start economic growth.

01

SASKATCHEWAN OVERVIEW

ECONOMY

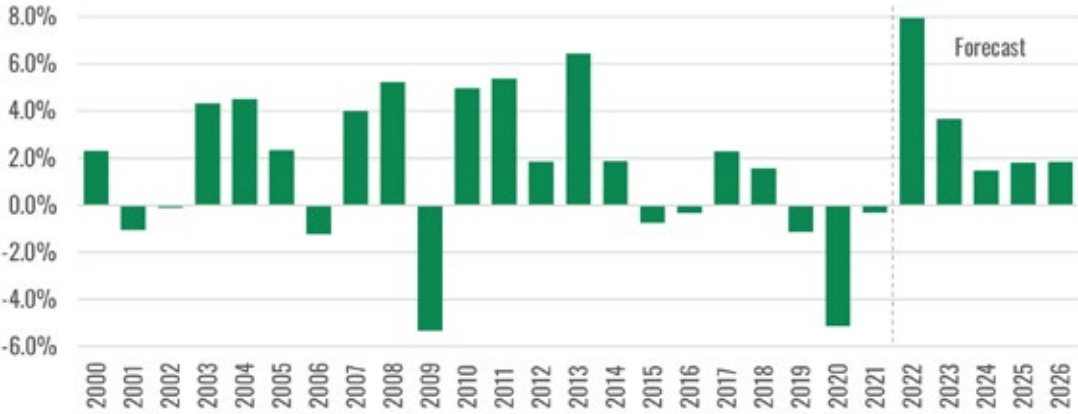
After years of unprecedented growth in the early 2010’s, Saskatchewan struggled to sustain economic activity since 2015. The province’s economy has dwindled for 3 consecutive years since 2019.

The provincial economy is driven by resource sectors which are poised to outperform once more. The region is expected to lead the country in economic growth in 2022 with real GDP expanding by 7.9% during the same period. The province is forecasted to have the second fastest growing economy in 2023 with GDP expanding by 3.5%, just behind Alberta.

In 2022, Saskatchewan will have recovered the employment losses suffered during the pandemic. By the end of the year, the Conference Board of Canada expects the region to create an additional 13,600 jobs.

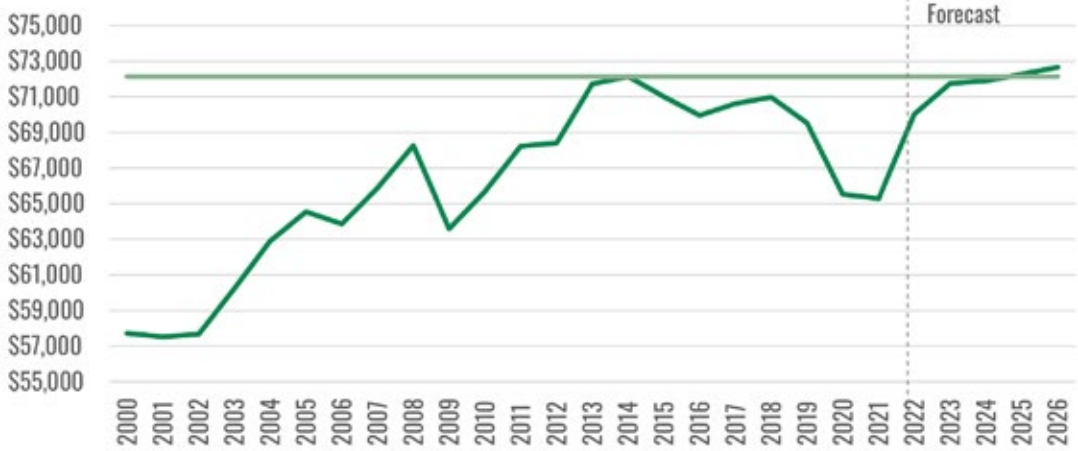
Despite strong growth, many fail to see this as a recovery. In 2021, Saskatchewan’s GDP per capita, which is a proxy for prosperity, reached its lowest point since 2010. This is well below 2014 highs which are not expected to recover until at least 2026.

FIGURE 1. SASKATCHEWAN GDP GROWTH




Source: Statistics Canada & Conference Board of Canada


FIGURE 2. SASKATCHEWAN GDP PER CAPITA




Source: Statistics Canada & Conference Board of Canada

FOOD, FUEL AND FERTILIZERS, SASKATCHEWAN HAS WHAT THE WORLD NEEDS

 World markets for many key resources in the province such as oil and gas, uranium, potash, wheat, and plant products have been impacted in some form or another by Russia’s invasion of Ukraine.

 Mining investment and production are expected to ramp up. Nutrien announced production increases of 1 million metric tonnes in the province. With a construction price tag of \$5.7 billion, BHP is looking to accelerate the construction of the Jansen Potash mine. Cameco has restarted operations at its McArthur River uranium mine and increased production at its Cigar Lake mine.

 The region has been successful in attracting billions of dollars to the value-added agricultural sector with \$1.7 billion in investment intentions recently disclosed to date. Federated Co-op and AGT Foods recently announced a joint venture to build a \$2 billion renewable diesel plant and a canola-crushing complex. Cargill has also released plans for its \$350-million canola crush plant to be built in the Global Transportation Hub (GTH).


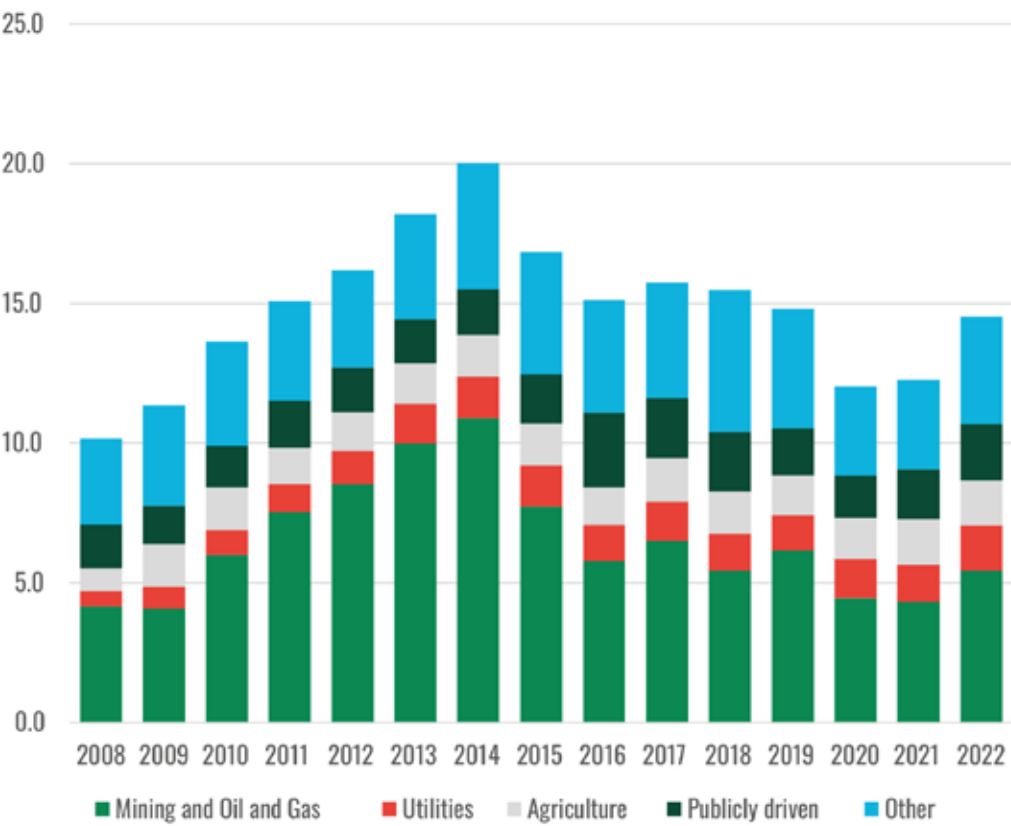
 Oil prices, a major economic driver in Saskatchewan, have risen substantially in 2022. At the time of publishing, WTI crude prices are hovering around \$95-\$100 USD per barrel, up from \$60 USD per barrel in 2021. Despite this, as of June 2022, oil production remains below pre-pandemic levels.

FIGURE 3. NON-RESIDENTIAL CAPITAL EXPENDITURES - \$ BILLIONS



Source: Statistics Canada

DEMOGRAPHICS

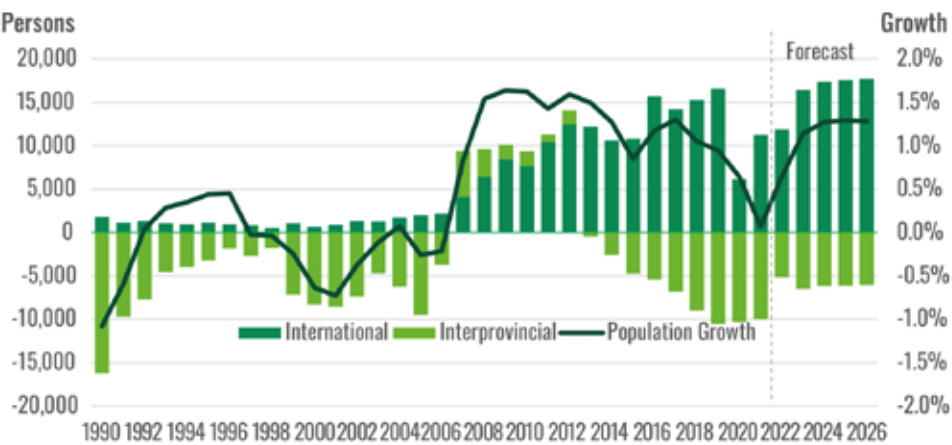
The landscape of Saskatchewan’s population has changed dramatically in the last decade and is more generationally, culturally, and ethnically diverse than ever before. This shift in generational and cultural preferences will continue to reshape Saskatchewan’s housing preferences and needs.

According to recent census data, over half of the province’s population is under 40 years old with Saskatoon having one of the largest relative shares of millennials in the country. Anecdotally, the age for first time home buyers in Saskatchewan has increased, as delayed parenthood and smaller families become the norm. A new “baby boomlet” period is still expected to happen as millennials age and begin to have children. Additionally, the wave of baby boomers retiring is set to grow in the next few years and will be accompanied by a downsize in real estate. However, this housing reduction is smaller than originally thought and is taking longer than expected to be seen.

Saskatchewan’s strong economic opportunities will continue to draw people from across Canada and around the world over the foreseeable future. The economic prosperity in the province relies heavily upon being able to attract and retain residents. Saskatchewan has been a net beneficiary of international migration driven by the province’s economic stability and open attitude to newcomers. However, the province needs to continue to improve its efforts to retain its population, particularly those in their labour productive years.

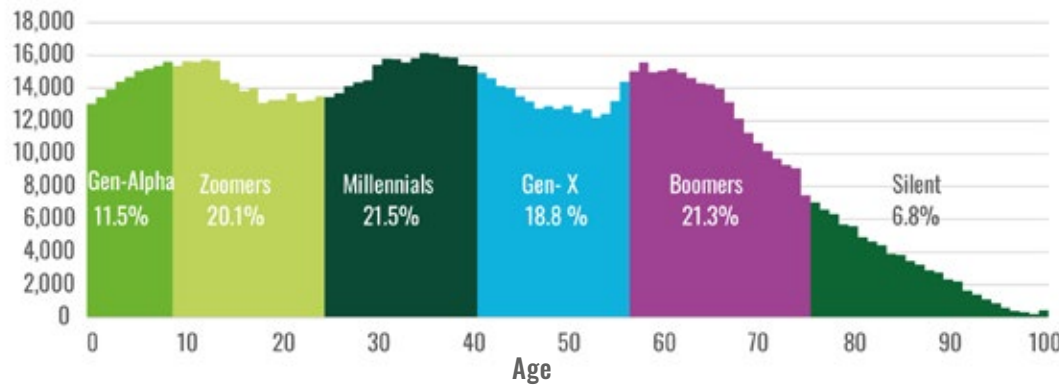
A healthy housing sector is paramount for Saskatchewan to accommodate growth. According to the Conference Board of Canada, between 2021 and 2026 the province could see up to 68,800 new international migrants relocating to the province. However, almost 30,000 residents are expected to leave to other provinces in search of better opportunities.

FIGURE 4. SASKATCHEWAN POPULATION GROWTH



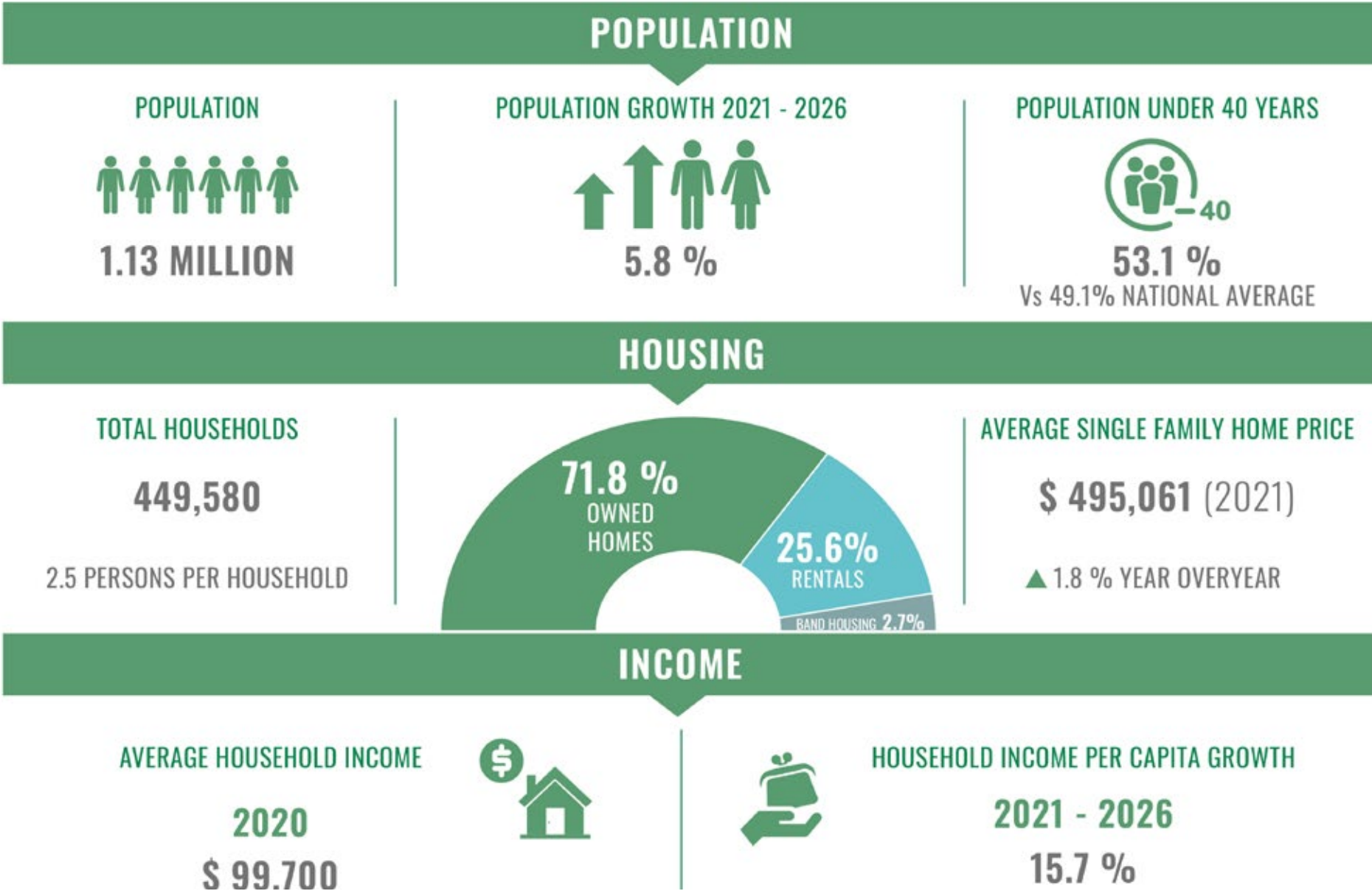
Source: Statistics Canada & The Conference Board of Canada

FIGURE 5. SASKATCHEWAN POPULATION BY AGE



Source: Statistics Canada

FIGURE 6. SASKATCHEWAN DEMOGRAPHIC PROFILE



LABOUR MARKET

Residential construction employment rebounded in 2021 surpassing pre-pandemic levels. Builders have slowly increased housing supply but there is limited additional construction capacity to respond to long-term housing needs.

Construction companies are having trouble filling job vacancies. The construction industry in Saskatchewan has seen a 27.2% decline in its labour force between 2014 and 2021. Many construction workers have opted to work in the non-residential sector as there are currently many long-term multi-million-dollar projects which offer competitive pay and stable salaries. This includes new potash mining investments alongside with Saskatchewan's provincial capital investment plan, which earmarks billions of dollars for hospitals and schools. Additionally, Saskatchewan has lost skilled workers to other provinces after years of declining construction activity.

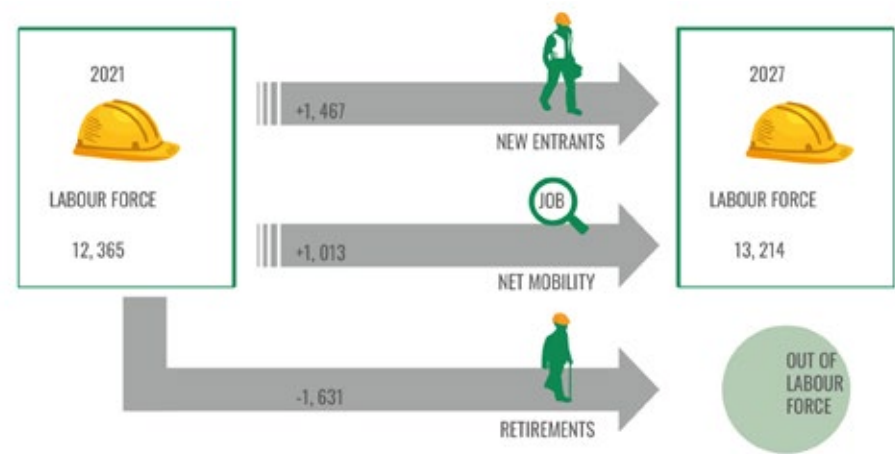
Saskatchewan had one of the most productive residential labour force in the country. However, the loss of skilled labour has translated into a staggering 36.5% decline in productivity for homebuilders in the province in the last 20 years, with productivity lagging behind the national average for the first time in 2020.

According to a recent report by BuildForce, employment in the residential construction sector is expected to increase by close to 4.0% in 2022 before moderating slightly in 2025, as rising interest rates could slow down construction. Renovation activity remains on a steady but moderate upward trend throughout the forecasted period, in line with growing household incomes.

Despite benefiting from a younger demographic, the residential construction industry in Saskatchewan must contend with the anticipated retirement of over 1,600 workers (representing 13.2% of the labour force) in 2021. Labour availability is a growing concern which would require proactive planning and investment strategies to recruit and train youth while also retaining existing workers.



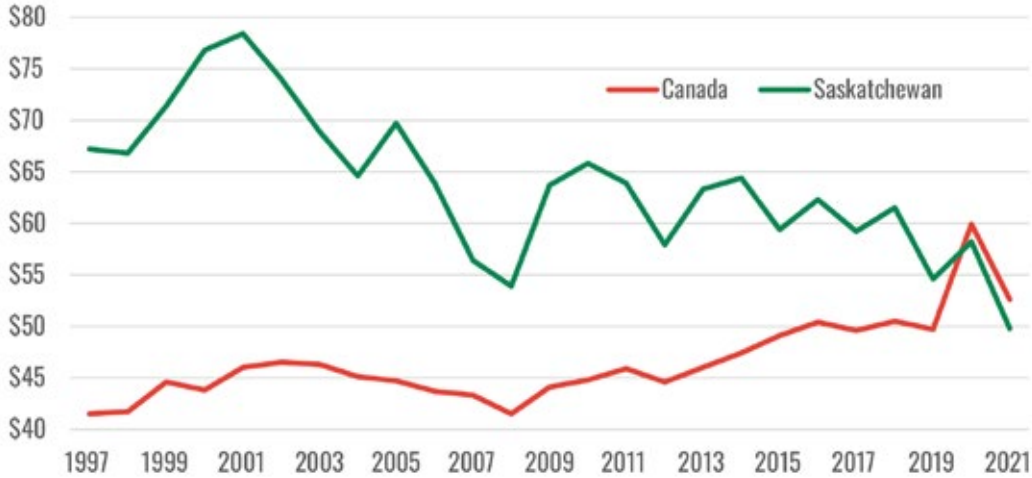
FIGURE 7. RESIDENTIAL CONSTRUCTION LABOUR FORCE



Source: BuildForce Canada

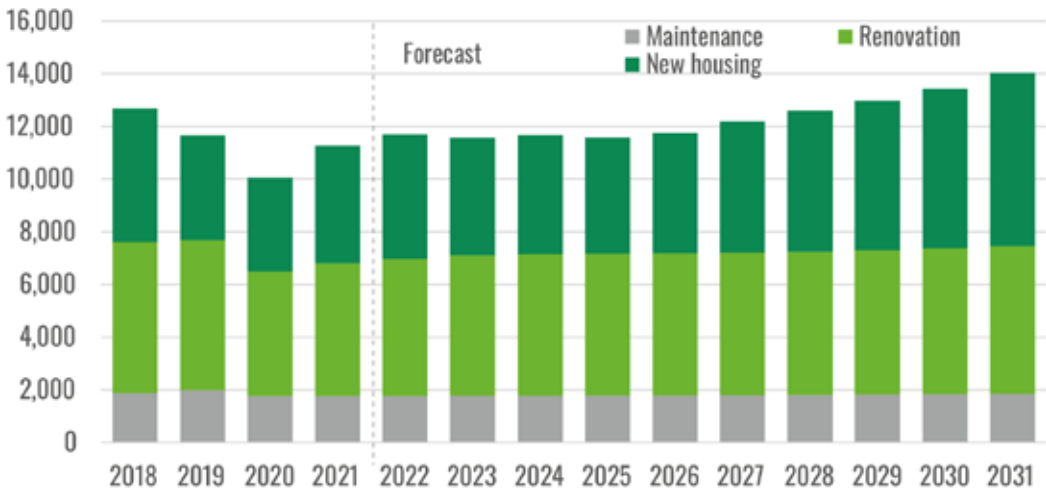
FIGURE 8. RESIDENTIAL LABOUR PRODUCTIVITY

Chained Dollars (2012) Per Hour



Source: Statistics Canada

FIGURE 9. RESIDENTIAL CONSTRUCTION EMPLOYMENT



Source: BuildForce Canada

02

NEW HOUSING MARKET

FUNDAMENTALS

Since 2014, demand for new housing in Saskatchewan has been sluggish at best. New home sales experienced year-over-year declines for 6 consecutive years between 2014 to 2020. The market bottomed out in 2020 with 1,531 sales; the lowest number in 20 years.

Even during 2021, a period where the resale market experienced unprecedented housing demand, the new home market failed to gain strong momentum. In 2021, there were 1,768 new home sales in Saskatchewan. This represents a 15.4% increase compared to 2020. Despite strong year-over-year growth, sales remain 17.8% below the 30-year average at levels comparable to 1995-2002. This is a period of slow economic growth in the province.

Developers in Saskatchewan were anticipating that the strong growth experienced between 2010 and 2014 would continue. This led a historic high in housing supply of 7,540 units in 2014. The collapse of energy prices in 2014 halted demand for new housing as the provincial unemployment rate increased from a record low of 3.3% in July of 2014 to a 25 year high of 7.0% in October of 2016.

The number of unabsorbed inventories has declined and is now below the 30-year average. In May 2022, there were only 256 newly built homes on the market. This represents an 80% drop from historic highs and a 48.2% decline compared to the 30-year average. Slow housing demand translated into limited housing supply. Builders have been building below demand as there is reluctance to ramp up construction following the excess inventories from 2014.



FIGURE 10. TOTAL HOUSING SUPPLY (OWNERSHIP AND RENTAL)

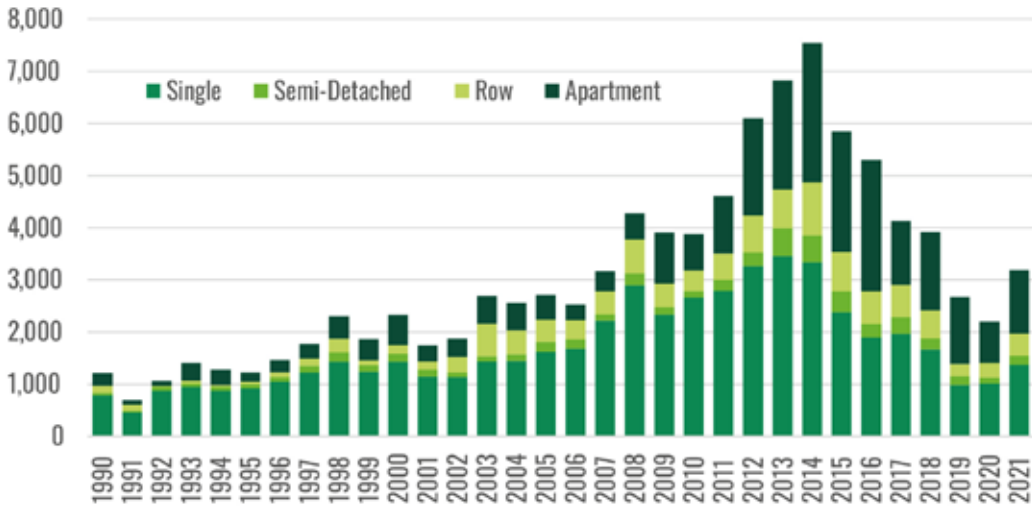


FIGURE 11. SUPPLY VS DEMAND FOR OWNERSHIP MARKET ONLY

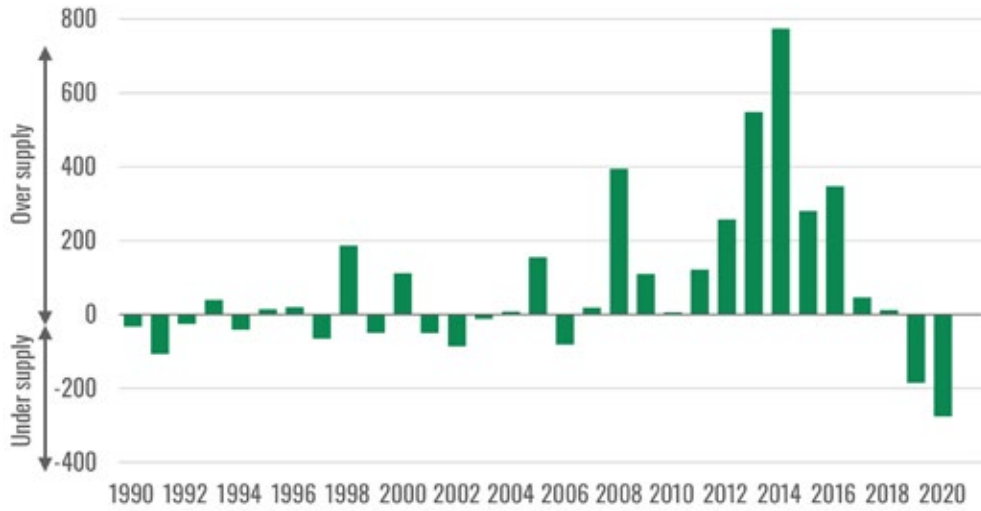


FIGURE 12. HISTORICAL ABSORBED UNITS BY DWELLING TYPE

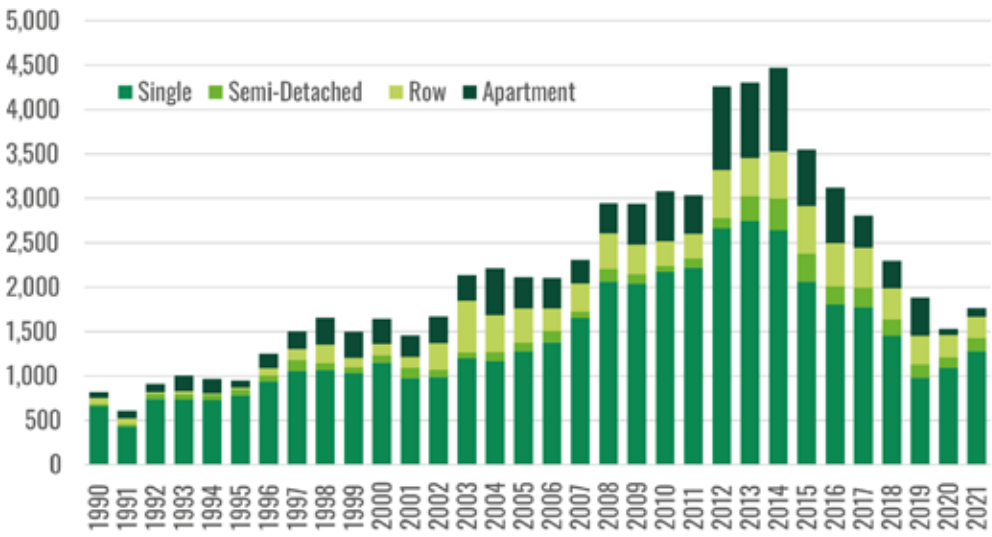


FIGURE 13. UNABSORBED INVENTORY



Source: CMHC Housing Information Portal

BUILDER CHALLENGES



The local economy is firing on all cylinders, yet the recent increase in interest rates has chilled the region’s real estate market. Despite this, Saskatchewan’s new housing market continues to experience many supply side challenges.



Builders slowly increased supply in 2022 but construction capacity has not been able to rise as quickly as demand. Local builders, who make the largest share of construction companies in Saskatchewan, have been focused on pre-sale work. Many of the large national builders, who contributed to the quick rise in supply in 2015-2017, are somewhat absent in the market. While some builders are slowly talking about spec development, most are focused on shovel ready plans instead. Companies continue to be averse to the added risk to build on spec.



Builders’ biggest challenge is the compression of profit margins as construction costs have dramatically escalated. It has become increasingly difficult to properly price a home thanks to increasing construction costs. Many builders chose to withhold inventory under construction until the later stages of construction which may provide more cost certainty. However, this struggle has resulted in some liquidity issues for construction companies.

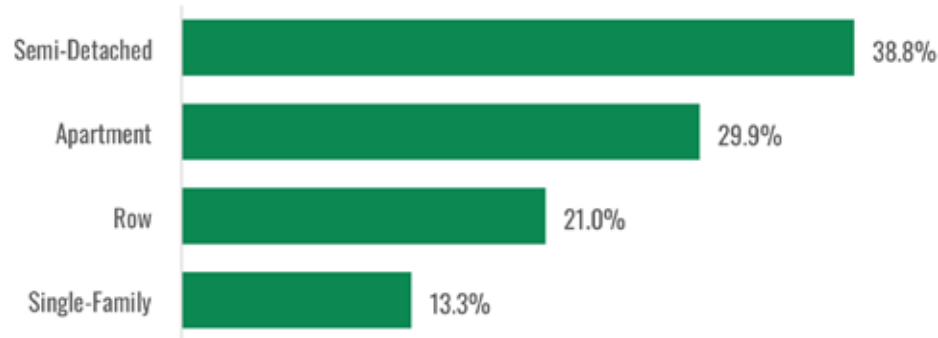


Scarcity in materials is an ongoing concern that forces builders to pre-purchase product and place orders months before construction begins. Builders have also mitigated shortages by substituting products for what is available now, instead of waiting months for the original requirement.



Ongoing red tape has also slowed down the delivery of housing supply. The pandemic sent many government employees home, which has bottlenecked permit processing times. This compounds with more stringent requirements to include concept plan approvals, zoning applications, development permits, architectural approvals and energy efficiency reviews. In Q2 2022, the average number of months to build a in Saskatchewan was up to 16.7 months, a 27.5% increase compared to Q2 2021.

FIGURE 14. INCREASE IN TIME TO BUILD BETWEEN Q2 2022 AND Q2 2021



Source: CMHC Housing Information Portal

RENTAL MARKET

The rental market is an important component of the Saskatchewan housing system. Strong economic growth throughout the early 2010s led to an increase share of homeownership in Saskatchewan. However, 25.6% of the population in Saskatchewan remain renters. This includes youth and most migrants who tend to be renters before purchasing a house.

Saskatchewan's rental market has grown strongly with 5,191 purpose-built rental units added between 2017 and 2021. The provincial rental universe has expanded to reach 39,608 units in 2021. However, the level of inventories is well below those in 1990's. Apartment buildings comprise 92.8% of the city's rental inventory. Additionally, an ample rental sector provides a cushion for population growth spikes driven by the boom-bust resource economy.

According to CMHC, 80.1% of Saskatchewan's rental inventory was built before 2000 with almost 62.3% been built between 1960 and 1979.

As mortgage rates begin to rise renting will remain a viable option for many households including those that cannot purchase a home and those wishing to save for a larger down payment.

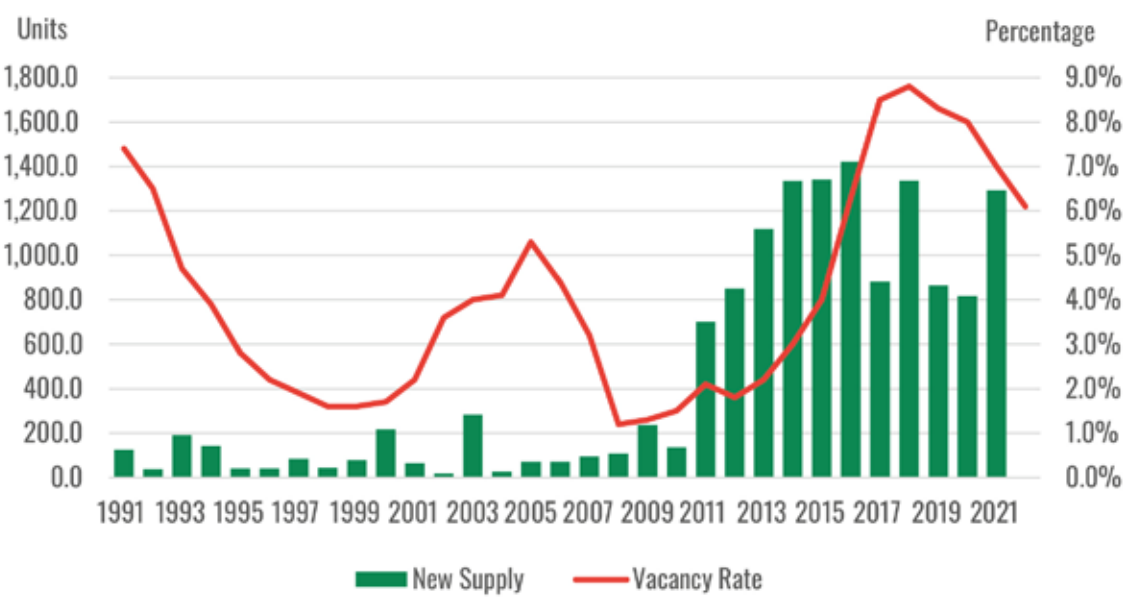
For the first time on record, the number of purpose-built rentals units under construction surpassed the number of those intended for ownership in December of 2021. New rental projects have experienced a much more favorable access to capital and financing over the past few years. The wave of purpose-built rental continues to go strong with 1,552 units currently under construction.

Newer generation apartments have seen a strong performance with vacancy rates for buildings built after 2000 reaching 2.8% in 2021, down from 9.3% in 2016. Overall rental vacancy rate in Saskatchewan declined to 6.1% in 2021 compared to 7.0% in 2020.

The development of new rentals is a positive sign for the economy, but homeownership creates a sense of community and roots households for longer. Renters are more quickly able to leave the province compared to homeowners. The impact of decreasing homeownership rates is how it supports chronic interprovincial migration out of the province. Saskatchewan has great success in attracting newcomers from around the world, but there is a tendency to leave to other provinces before they have established strong enough roots in the province to stay. Homeownership is an important tool to anchor newcomers into our communities.



FIGURE 15. SASKATCHEWAN RENTAL MARKET FUNDAMENTALS



Source: CMHC Housing Information Portal

FIGURE 16. INVENTORY UNDER CONSTRUCTION BY INTENDED USE



Source: CMHC Housing Information Portal

03

RISING COSTS

INFLATION

Canadian price inflation continues to run hot with consumer prices rising 8.1% in June 2022. The rising costs have far outpaced expectations. Inflation in Canada sits now at a 40-year high. Saskatchewan’s inflation has traditionally trailed the national average but in June 2022 the rate converged with the national level.

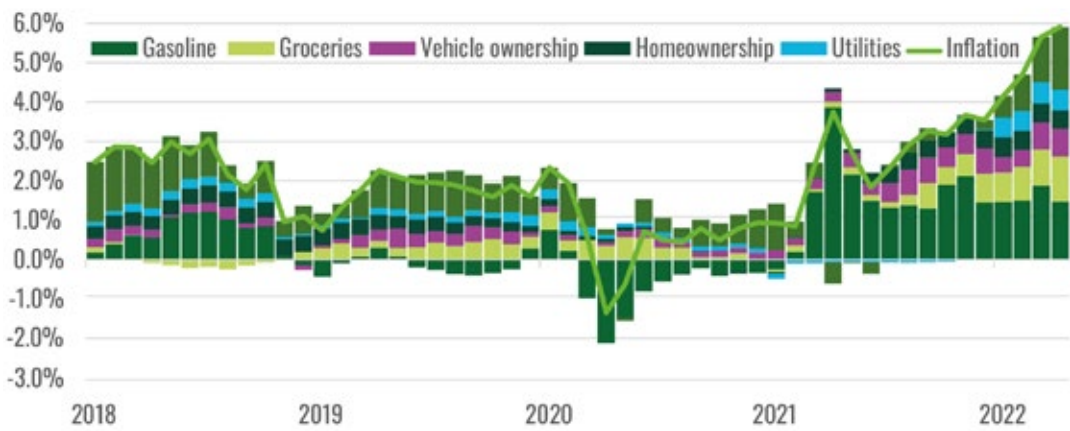
While consumer inflation has reached record highs, the rise in consumer prices has paled in comparison with rising construction costs for residential home builders. Between Q1 2020 and Q1 2022, residential construction prices increased by 29.9% in Saskatoon.

Throughout the pandemic, Central Banks and governments across the globe put forward an unprecedented level of stimulus to support the global economy. While the support aided a quick recovery, it provided excess liquidity to the markets and historically low borrowing costs.

Increased demand combined with supply challenges put upward pressure on prices. First came the global pandemic, which shutdown factories to contain the spread of COVID-19. Next came a massive increase in demand for goods which skyrocketed prices of construction inputs, such as lumber. This was followed by a shortage of shipping containers and transportation fleets. This pushed the cost of shipping from Asia to the prairie provinces from under \$2,000 to close to \$18,000 per container. The recent atmospheric river then effectively cut-off the port of Vancouver port from the rest of the continent for a few weeks. Following that, the Russia-Ukraine conflict created havoc, which affected energy and food production globally.

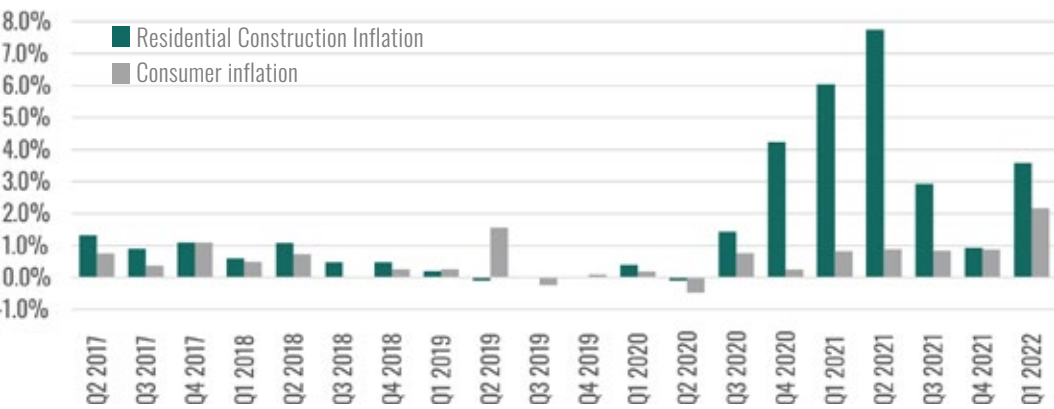
Raw commodities, particularly energy, have been the main sources of inflation, and they are unaffected by Canadian policy making. Many economists believe that inflation will continue for the short term until commodity prices pullback and supply issues stemming from the war ease.

FIGURE 17. INFLATION DECOMPOSITION IN SASKATCHEWAN



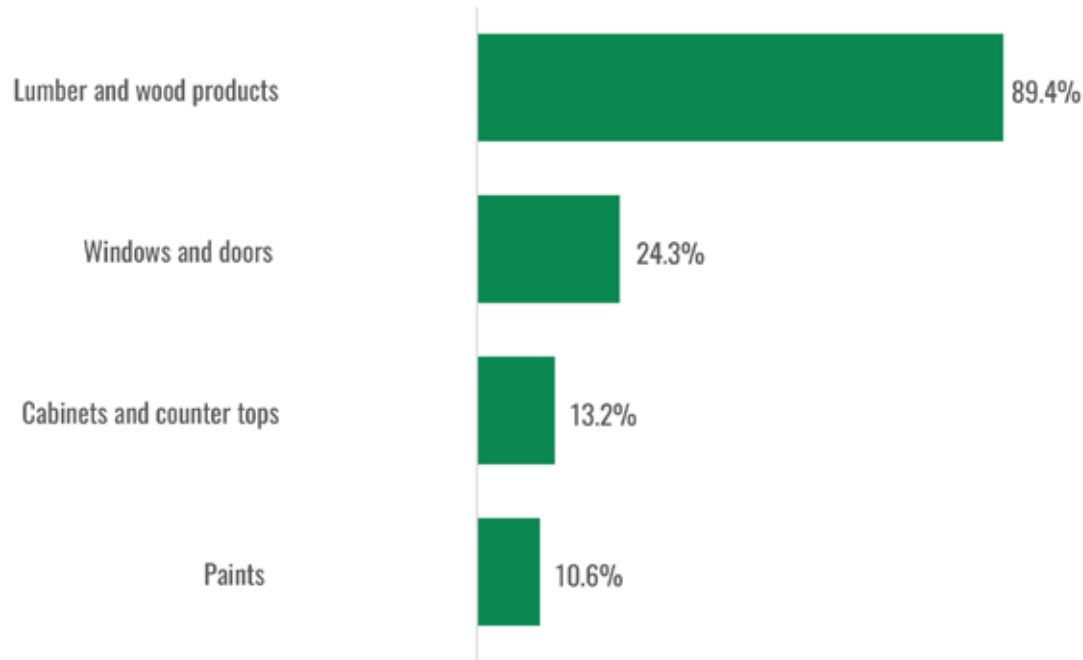
Source: Statistics Canada

FIGURE 18. QUARTER OVER QUARTER CONSUMER VS RESIDENTIAL CONSTRUCTION INFLATION IN SASKATOON



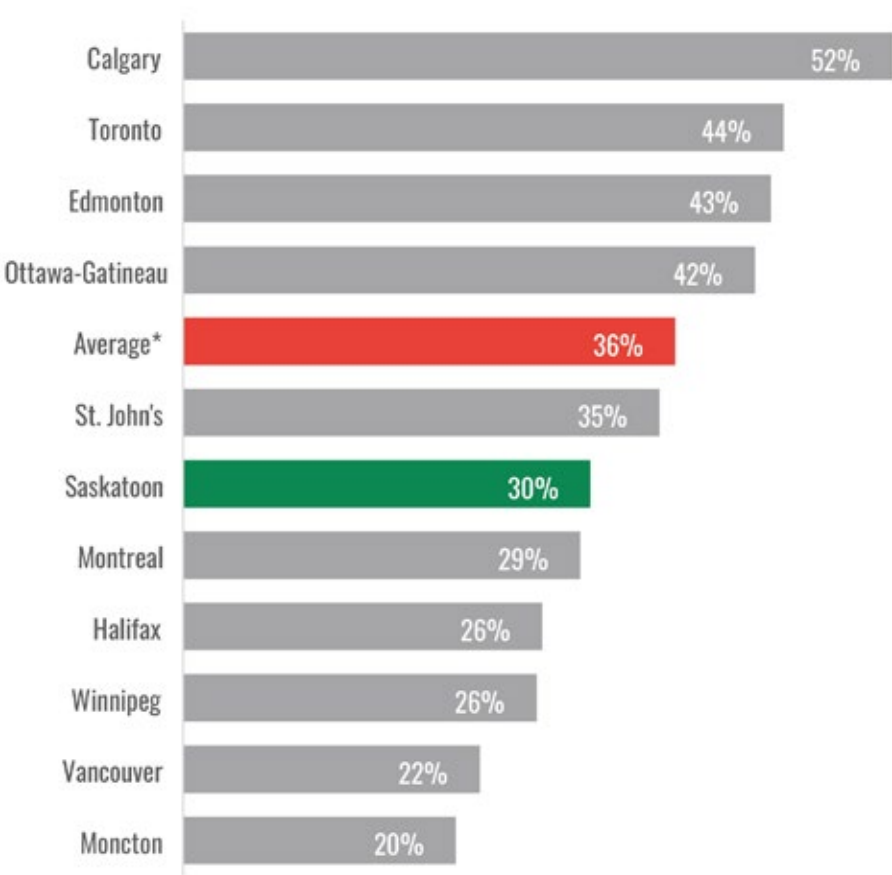
Source: Statistics Canada

FIGURE 19. CANADIAN CONSTRUCTION MATERIAL INFLATION 2019 VS 2022



Source: Statistics Canada

FIGURE 20. RESIDENTIAL CONSTRUCTION INFLATION Q1 2020 VS Q1 2022



Source: Statistics Canada

INTEREST RATES

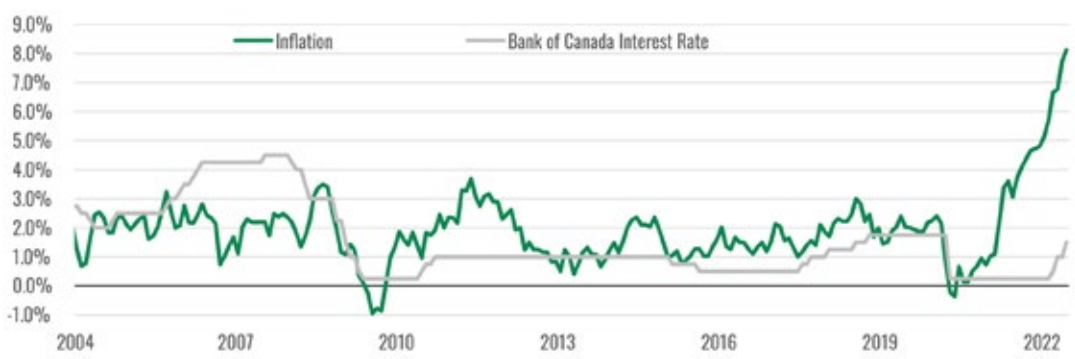
The overnight rate, set by the Bank of Canada, is the interest rate used to determine borrowing costs between lending institutions, primarily banks. The higher the rate, the more expensive it is for consumers to borrow money, as lenders pass on the cost to consumers through the financial markets.

Throughout the pandemic, Central Banks across the world, including the Bank of Canada, decreased their overnight rate to record lows to stimulate the economy. However, the Bank of Canada has raised its benchmark interest rate 4 times since March 2022 to rein in runaway inflation, which sits at a 30-year high. Rising interest rates are used to slowdown demand for goods and services by increasing the cost of capital and thus easing inflation.

On July 13, 2022, the bank increased its target rate by 100 bps to 2.50%. This represents the most significant increase in interest rates since 1998, showing that the Bank is serious about taming record-high inflation. Inflation is a self-fulfilling prophecy: if people believe inflation is here to stay, inflation will automatically happen as people adjust their prices. The Bank does not expect the official inflation rate to come down to 3% until next year and will not get back to its 2% target until 2024.

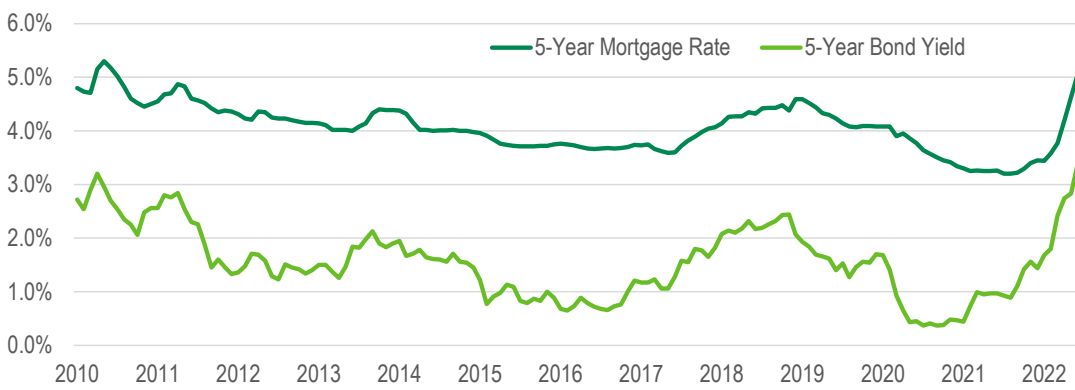
Mortgage rates quickly reversed course from a historic low to a decade high in a matter of months in response to the rising interest rates. Despite this, mortgage rates are ultimately driven by the bond market, particularly the 5-year bond which has recently declined in response to the Bank of Canada’s strategy to combat inflation. Prime rates have now risen to 4.70% at the time of publication.

FIGURE 21. BANK OF CANADA INTEREST RATE AND CANADIAN INFLATION



Source: Bank of Canada

FIGURE 22. MORTGAGE AND BOND RATES

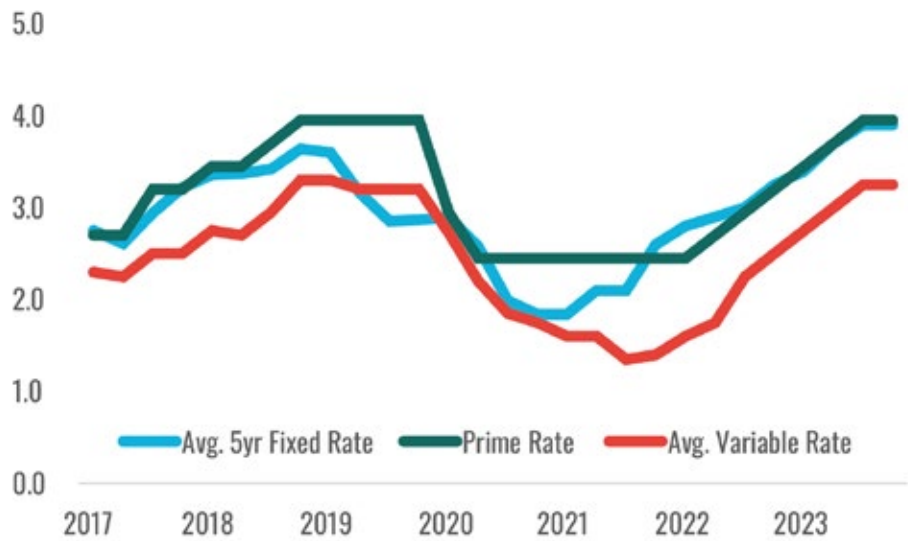


Source: Bank of Canada



The past decade saw borrowing costs at record low as the economy recovered from the 2008-2009 financial crisis and the global pandemic. In the long-term, interest rates are expected to be at the neutral rate. This is the policy rate that prevails when the economy is in long-term equilibrium. Interest rates above the neutral rate are set to cool the economy. Rates below the neutral rate are set to stimulate economic growth. Going forward, economists are expecting an additional 0.75% increase by the Central Bank in September, which will likely put upward pressure on mortgage rates. Rates are expected to stabilize thereafter. However, mortgage rates have risen much faster than many expected and will likely continue to rise.

FIGURE 23. BANK OF CANADA INTEREST RATE AND CANADIAN INFLATION

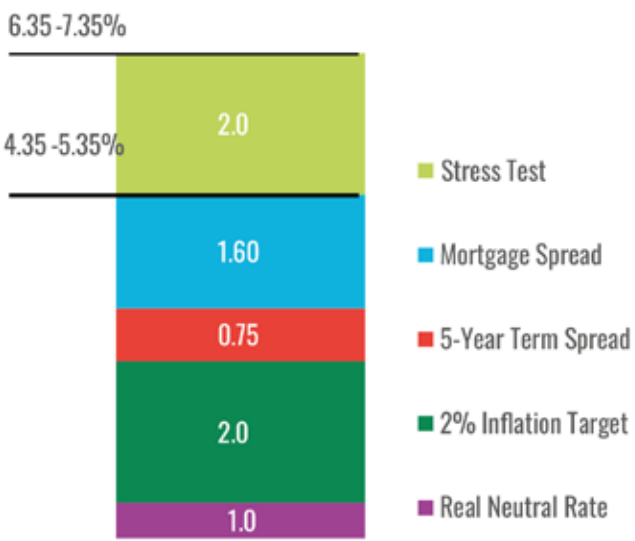


Source: BCREA Economics



In April 2021, the Office of the Superintendent of Financial Institutions (OSFI) announced its intentions to apply additional requirements to ensure that borrowers only take on mortgages they can afford. The OSFI rules require buyers to undertake a mortgage “stress test”. The new proposal for the qualifying rate for uninsured mortgages is the higher of the mortgage contract rate plus 2% or 5.25% as a minimum floor. Based on recent neutral rates, the qualifying rate for a 5-year mortgage could be somewhere between 6.35% and 7.35%.

FIGURE 24. COMPOSITION OF ESTIMATED EQUILIBRIUM 5-YEAR MORTGAGE RATE (%)



Source: BCREA Economics

04

PROVINCIAL SALES TAX (PST)

PST ON NEW HOUSING IN SASKATCHEWAN

In the 2017-2018 provincial budget, the Government of Saskatchewan introduced an increase to the Provincial Sales Tax (PST) rate from 5% to 6%.

Additionally, effective April 1, 2017, the provincial government introduced changes to the construction contracts. Prior to 2017, home builders paid PST on the cost of equipment and materials consumed in building projects. Builders quoted their services as “PST included” but did not collect tax from the homeowners.

Under the new rules builders can purchase materials exempt of PST but are required to collect PST on the “retail selling price” of the premises to the buyer, excluding the value of the land.

Previous Tax = PST (Materials & Services)

New Tax = PST (Retail Sale – Fair value Land)

Increase = PST (Retail Sale – Land – Materials & Services without taxes)

	Before PST increase	After PST increase
Total Cost	100.0%	100.0%
Land	30.0%	30.0%
Dwelling	70.0%	70.0%
Dwelling Cost	70.0%	70.0%
Materials (40%)	28.0%	26.4%
Labour (60%)	42.0%	43.6%
PST	$100\% \times 70\% \times 40\% / 1.05 \times 5\%$	$100\% \times 70\% \times 6\%$
PST collected	1.33%	4.20%
Net increase		2.87%



TOTAL PST INCREASE 2.87%

TEMPORARY PST REBATE

Effective April 1, 2020

Purchaser must take possession of the home between March 31, 2020, and April 1, 2023

The home must be a primary place of residence.

Rebate of up to 42% of the PST paid on the purchase of a newly-constructed home with a total price of less than \$450,000 before taxes excluding the value of the land and the price of any furniture, furnishings and appliances

The amount of the rebate is reduced for homes with a total price between \$350,000 and \$450,000.

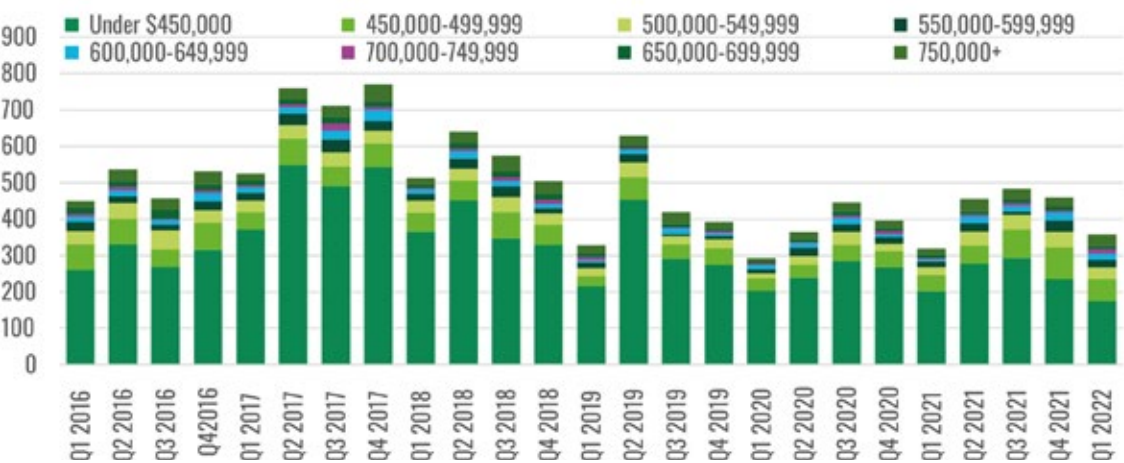




**90.0% of the sales
between April 1, 2020
and March 31, 2021 were
eligible for a rebate***

*This analysis is based on CMHC absorption data CMHC provide details about absorbed new housing units, duration of supply, and pricing in centres of 50 000 population or more

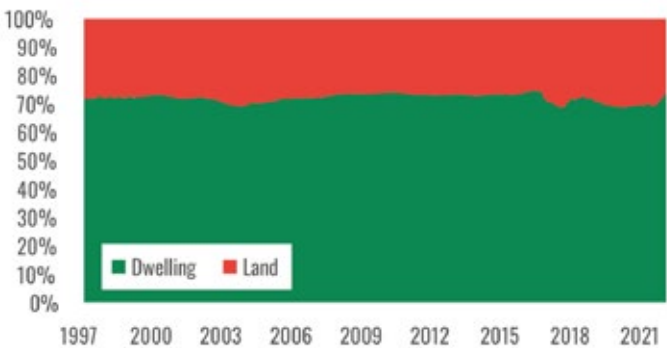
FIGURE 25. NEW HOME SALES BY PRICE RANGE



Source: CMHC Housing Information Portal

FIGURE 26. HOME PRICE DECOMPOSITION

12 Month Moving Average



The value of serviced land has represented approximately 30% of the new home price between 1997 and 2021.

Source: Statistics Canada

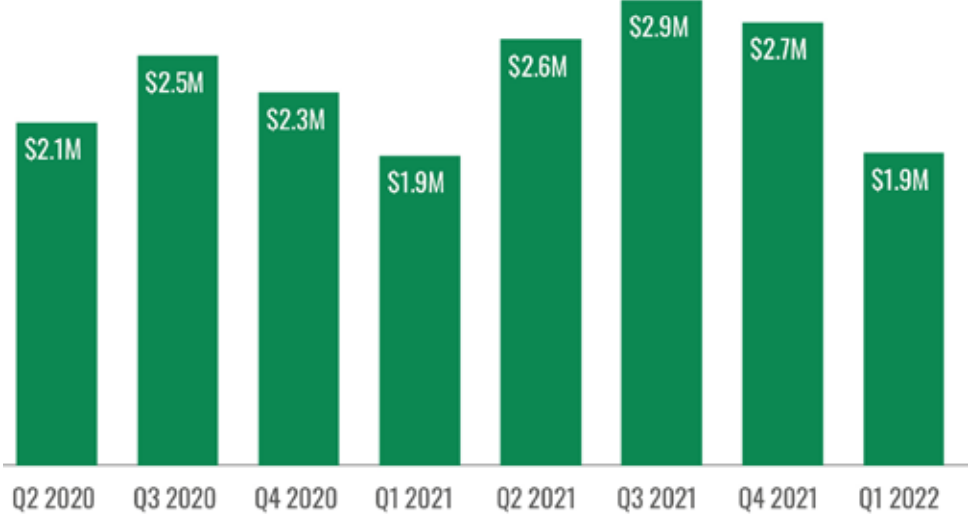
\$6,490.92
Estimated average
rebate amount between
Q2 2020 and Q1 2022

FIGURE 27. ESTIMATED REBATE AMOUNT PER HOME



\$18.9 Million
Estimated total rebate
amount between
Q2 2020 and Q1 2022

FIGURE 28. ESTIMATED TOTAL REBATE AMOUNT - \$ Millions



05 AFFORDABILITY

The housing market in Saskatchewan has an option for everyone. However, there will be a reality check that might be painful for many. Some families will have to lower their expectations about what they can afford, shifting from their dream of owning a single-family home to either a half-duplex or a condo. Other families will put the house hunting on hold until they have saved more for the down payment. A larger portion of the population will be forced to be part of the rental market.

The issue of affordability in Saskatchewan is a growing concern. Incomes are rising but so are housing costs.

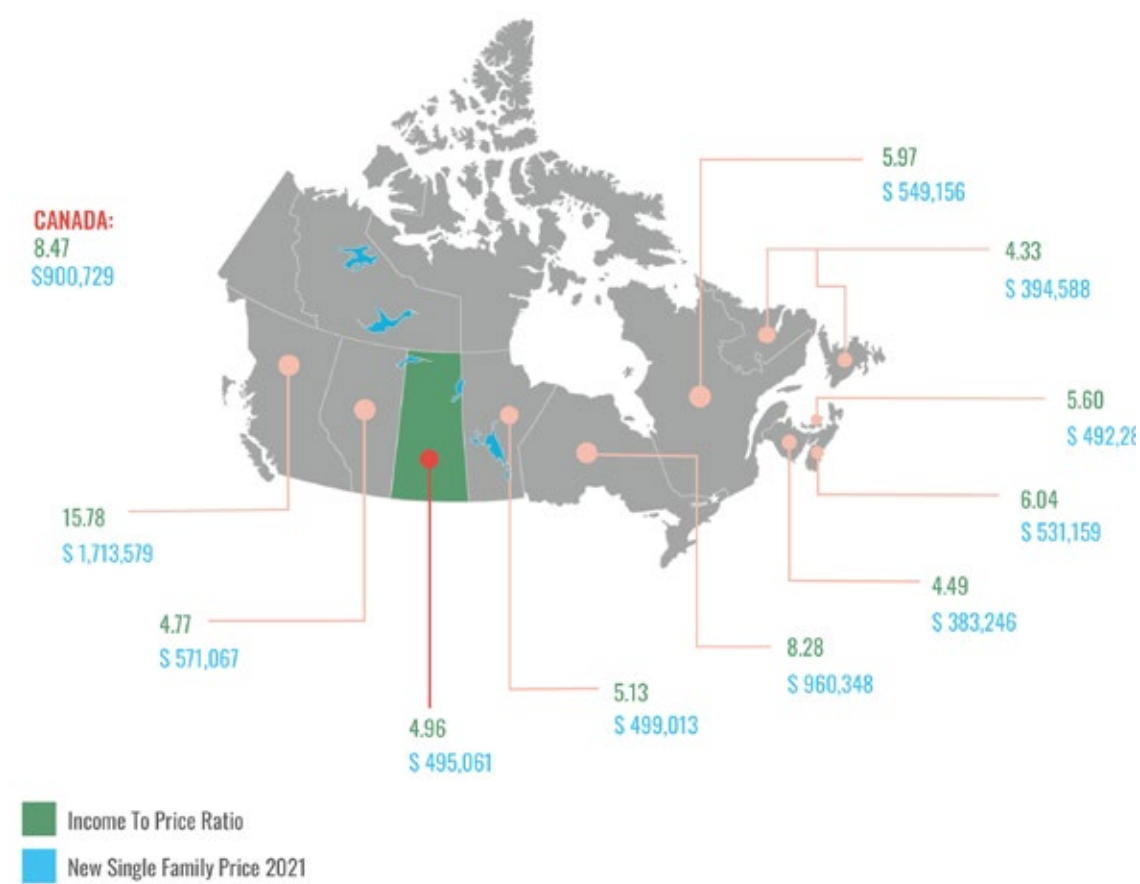
Saskatchewan is one of the most affordable provinces in Canada thanks to the combination of low home prices and high incomes.

Home prices in Saskatchewan have remained relatively flat with minimal to no gains. Between 2014 and 2021, the average sale price for single family homes increased only by 4.3%.

The recent increase in material costs is putting upward pressure on prices. Single family home prices increased 18.8% from May 2021 to May 2022.

Historically Saskatchewan has experienced strong wage growth and affordable housing as is the Saskatchewan Advantage. In recent years wage growth has not been as strong as other provinces and this has placed the Saskatchewan Advantage under pressure. It is very important the Government find tools to maintain this advantage.

FIGURE 29. SINGLE FAMILY HOME PRICES TO INCOME RATIO



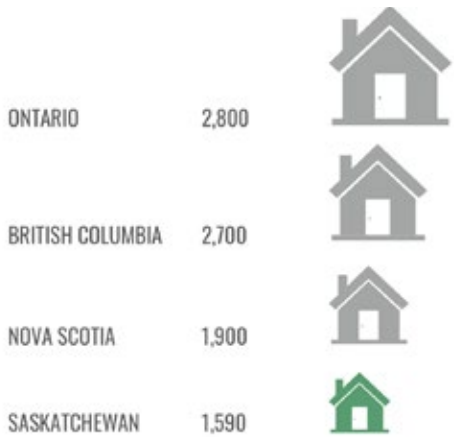
2021

Average prices for new housing construction remained relatively stable.

Single family home prices increased 1.8% between 2020 and 2021. Builders had multiple ways to absorb additional costs.

- Lower builder margins
- Decrease in the average size of a new home
- New housing built in newer subdivisions where builders could generate some economies of scale and have overall lower site prep costs.

FIGURE 30. AVERAGE SIZE OF A SINGLE FAMILY HOME



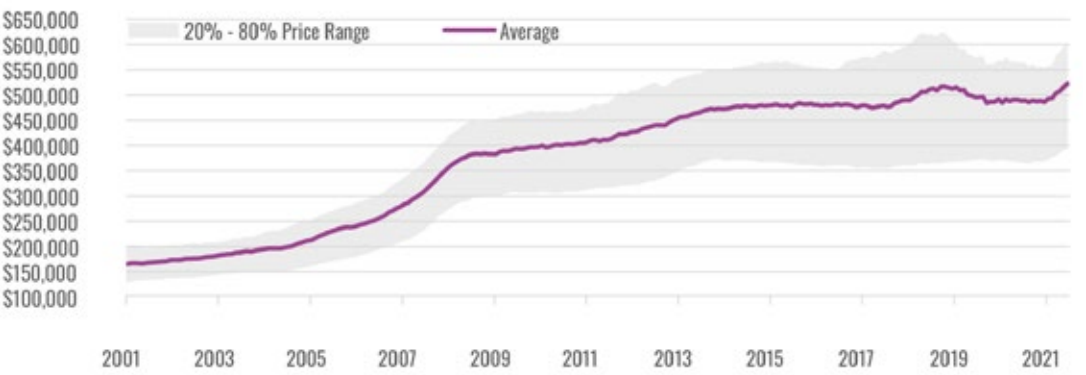
2022

Rising costs rather than increased demand is the main driver for price increases in the new housing market.

Single family home prices increased 18.8% between May 2022 and May 2021. Builders have limited ways to absorb additional costs.

- Profit margins declined substantially during the pandemic.
- Saskatchewan is building some of the smallest homes across Canadian markets. Additionally, smaller construction limits economies of scales for builders.
- There is a limited inventory of shovel ready land in Saskatchewan major metro areas.

FIGURE 31. SINGLE FAMILY HOME PRICES - 12 Month Moving Average



Source: CMHC Housing Information Portal

FIGURE 32. AVERAGE SINGLE FAMILY SIZE PER SF



Source: CMHC Housing Information Portal

Rising interest rates are eroding Saskatchewan’s housing affordability.

Interest payments in the first year for the purchase of a new single family home with a mortgage reached a record high in 2022.

Mortgage payments on a newly purchased home relative to personal income is not yet at historic highs but it is on the rise. This reduces discretionary spending in the broader economy, which results in a lower economic activity.

FIGURE 33. INTEREST COST – YEAR 1 TO PAYOFF A NEW SINGLE-FAMILY HOME



*Assumes a 10% down payment and a 25-year mortgage at the average posted 5-year mortgage rate for each month.

Source: Authors own calculation with data from Statistics Canada and CMHC

FIGURE 34. NEW SINGLE FAMILY HOME MORTGAGE PAYMENT – YEAR 1 VS AVERAGE ANNUAL EARNINGS



*Assumes a 10% down payment and a 25-year mortgage at the average posted 5-year mortgage rate for each month.

Source: Authors own calculation with data from Statistics Canada and CMHC

PUBLIC POLICY ROLE

Demand, not public policy, is the key driver of supply and it pushes developers to provide different types of products at price points where demand is greatest. Government planning strategies alone cannot deliver affordable housing as an outcome but it can help reduce risk to developers who generate supply. Public policy on the other hand could negatively impact affordability.

Regulation could cause many households to re-evaluate their housing prospects. Some individuals will have to lower their expectations about what they can afford, shifting from the dream of owning a single-family home to either a half-duplex or a condo. Other families will put the house hunting on hold until they have saved more for the down payment. A larger portion of the population will be forced into the rental market.

FIGURE 35. CONSTRUCTION COSTS BREAKDOWN FOR A NEWLY BUILT SINGLE FAMILY HOME IN A NEW SUBDIVISION IN SASKATCHEWAN



Source: Authors own calculations with data from the Regina & Region Home Builders' Association

Local policy makers could significantly impact housing affordability.

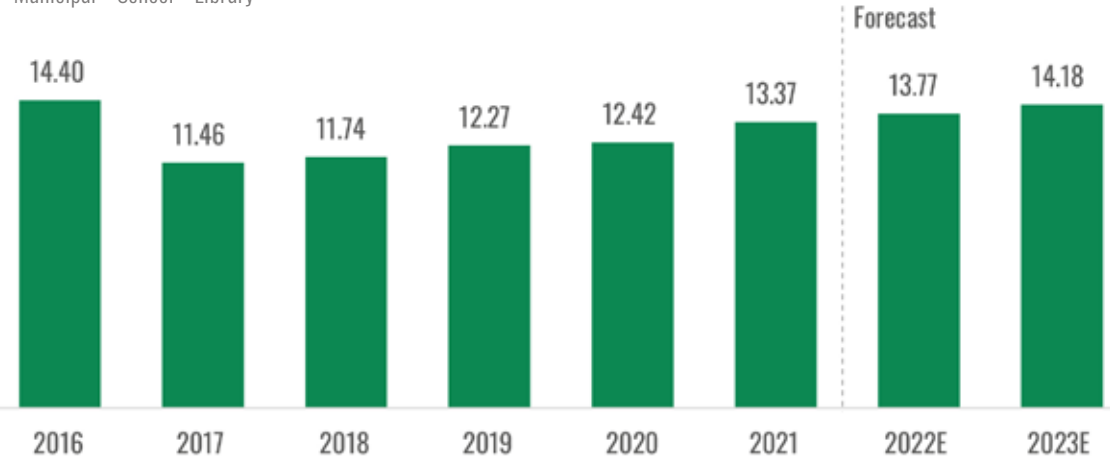
- At the provincial level provincial sales taxes directly impact affordability by rising the total value of the home.
- At the municipal level, property taxes factor in the affordability calculation for mortgage affordability. Additionally, development and permitting charges, plus other local regulation like landscaping requirements also become part of the cost of the home, driven by municipal policies along with environmental policies.

Homebuyers must have a Gross Debt Service (GDS) ratio no greater than 39 per cent and a Total Debt Service (TDS) ratio no greater than 44 per cent. GDS ratio represents the cost of homeownership including mortgage payments, taxes and heating costs, relative to the homebuyer’s income. TDS ratio is the cost of homeownership and all other debt payments relative to the homebuyer’s income.

Sale taxes burden will be at historical highs upon the removal of the PST rebate.

FIGURE 36. INTEREST COST: AVERAGE TOTAL MILL RATES SASKATCHEWAN

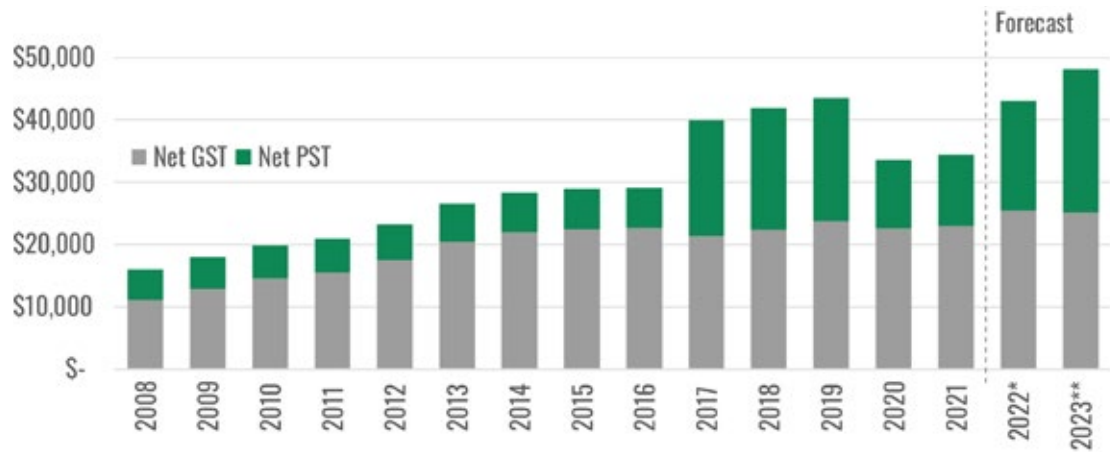
Municipal + School + Library



2022 and 2023 assumes a 3% annual increase

Source: Government of Saskatchewan.

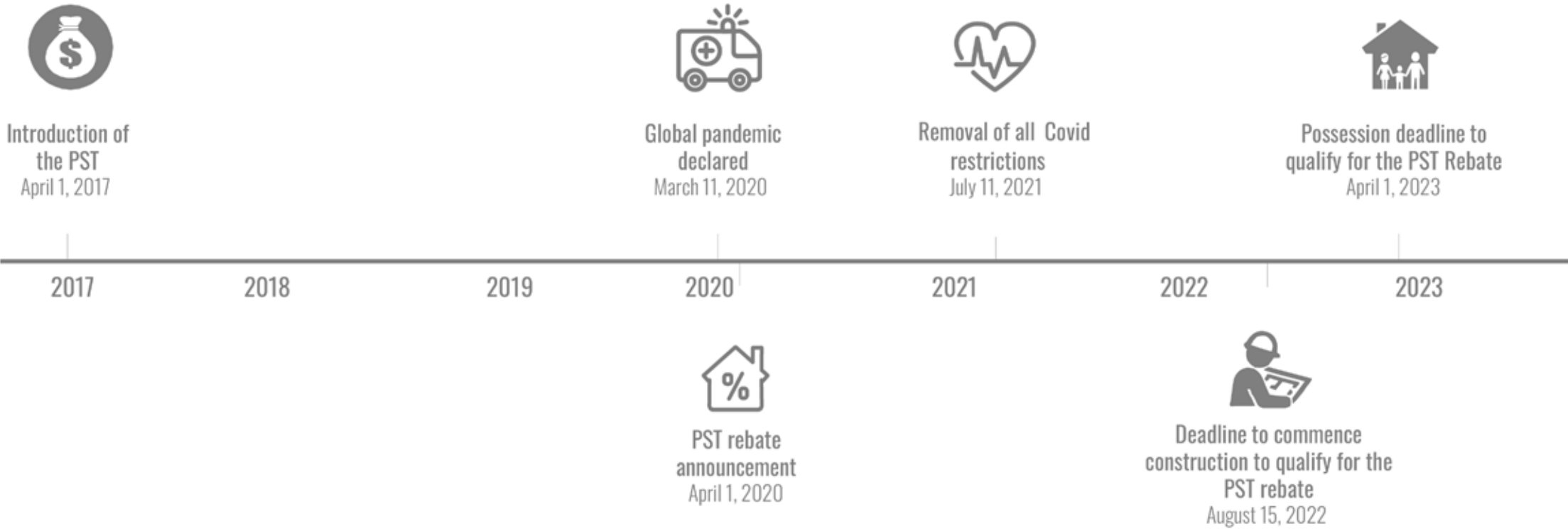
FIGURE 37. TAX BURDEN FOR AN AVERAGE PRICED NEW DETACHED HOME



** Assumes the removal of the PST rebate

Source: Authors own calculations

NEW HOUSING PST TIMELINE



The PST rebate was announced 1 month after the global pandemic was declared.

PST REBATE AVAILABILITY

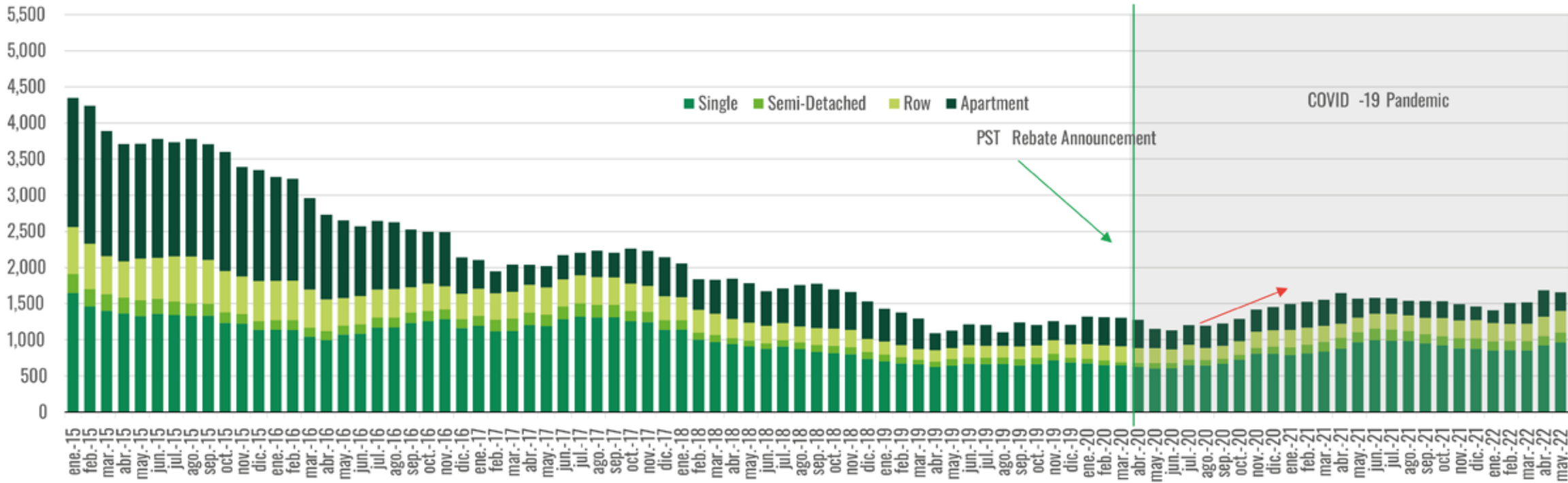


Proposed PST Rebate - 36 months

Effective PST Rebate – 13.5 months
Based on the average time to build a home

Residential construction gained momentum following the PST rebate announcement, but the pandemic impeded the PST to fully impact the market as intended.

FIGURE 38. NEW HOUSING UNDER CONSTRUCTION INTENDED FOR OWNERSHIP



Source: CMHC Housing Information Portal

Housing affordability in Saskatchewan will be severely impacted in 2023 from rising interest rates to the removal of the PST rebate.

Incomes are not rising fast enough compared to the rising cost of homes.



45.2 %

Additional income required to purchase a an average price single family home between 2016 and 2023.

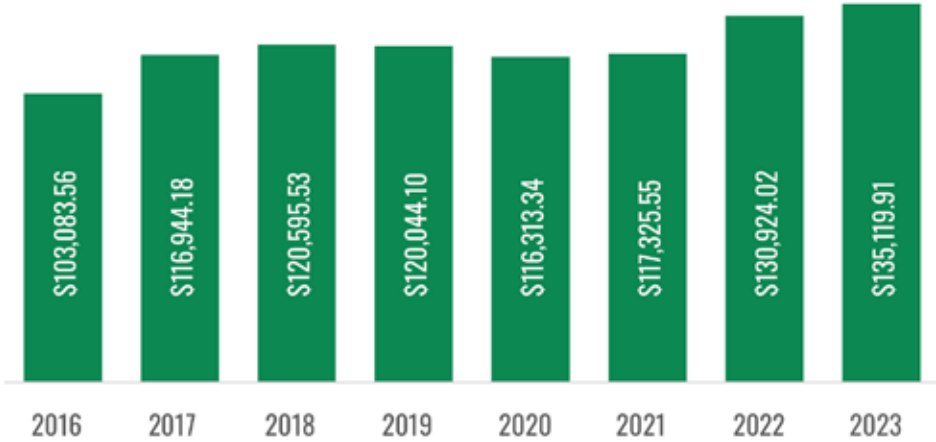


12.1 %

Growth in average weekly earning between 2016 and 2023.

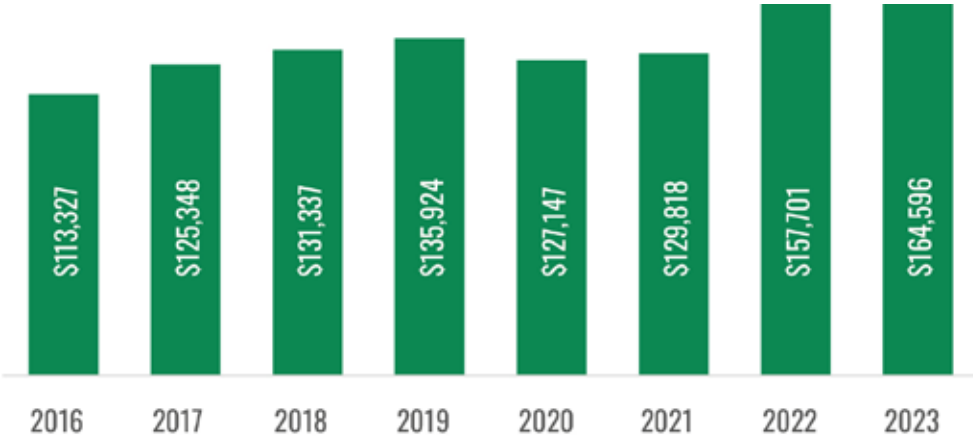
*Based on the NAHB “Priced-Out” Methodology, assuming a 10% down payment

FIGURE 39. INCOME REQUIRED TO PURCHASE A \$400,000 PRE-TAX HOME IN SASKATCHEWAN*



Assumes the removal of the PST rebate in 2023 Source: Authors own calculations

FIGURE 40. INCOME REQUIRED TO PURCHASE AN AVERAGE PRICE SINGLE FAMILY HOME IN SASKATCHEWAN*



Assumes the removal of the PST rebate in 2023 Source: Authors own calculations

MAXIMUM MORTGAGE AFFORDABILITY BY INCOME GROUP*

Income range	% of total Households	2023	2016	Decline in maximum affordability
Under \$60,000	34.6%	\$94,035.66	\$135,345.48	-\$41,309.82
\$60,000 to \$69,999	7.2%	\$139,432.18	\$200,684.68	-\$61,252.50
\$70,000 to \$79,999	6.8%	\$184,828.70	\$266,023.88	-\$81,195.18
\$80,000 to \$89,999	6.3%	\$230,225.23	\$331,363.08	-\$101,137.85
\$90,000 to \$99,999	5.8%	\$275,621.75	\$396,702.28	-\$121,080.53
\$100,000 to \$124,999	11.9%	\$389,113.06	\$560,050.27	-\$170,937.21
\$125,000 to \$149,999	8.7%	\$502,604.37	\$723,398.27	-\$220,793.90
\$150,000 to \$199,999	10.5%	\$729,586.99	\$1,050,094.26	-\$320,507.27
\$200,000+	8.20%			
Average price of a new single family home		\$553,422**	\$483,783	
Lowest 20% price of a new single family home		\$408,000**	\$360,000	

*Based on the NAHB “Priced-Out” Methodology, assuming a 10% down payment.

** Based on May 2022 prices



In addition to the challenges created by rising interest rates and home prices, access to a mortgage is an additional barrier to home ownership in Saskatchewan. In 2023, families in Saskatchewan will have experienced a 30.5% reduction in the maximum mortgage loan amount compared to 2016.



Roughly 72.5% of households in Saskatchewan will not be able to qualify for a mortgage to buy an affordable single-family home in the bottom 20% of prices without additional down payment or previous equity.



FAMILY

Rising interest rates are the main reason for this decline in affordability. However, the removal of the PST rebate directly impacts homeowners, particularly lower income, immigrants, and first-time homeowners. All of these have limited equity to purchase a home.

06

**NEW HOUSING
CONSTRUCTION
AS AN ENGINE
OF GROWTH**

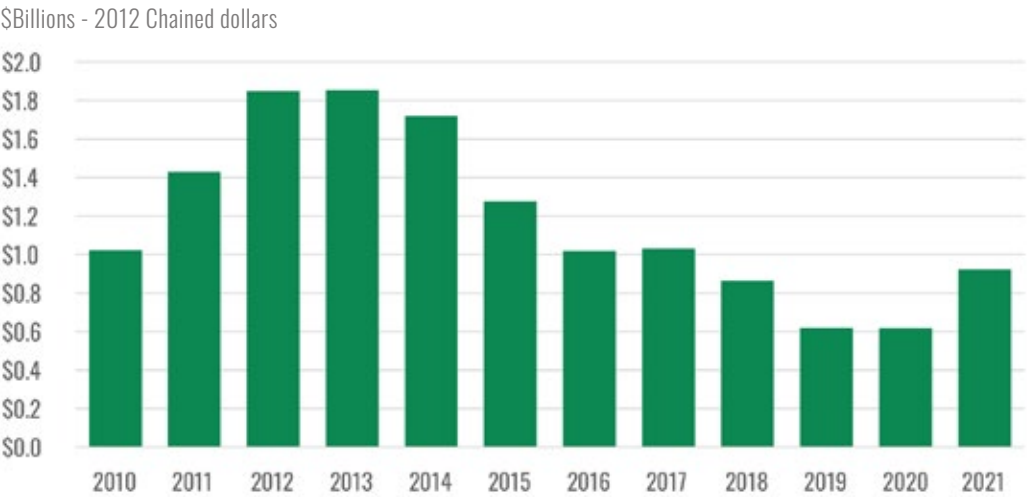
NEW HOUSING INVESTMENT

Residential housing construction represents millions of dollars worth of investment in Saskatchewan.

Despite a strong economic outlook, Saskatchewan’s economy is not without risk. Strong household consumption, funded by government transfers throughout the pandemic and low borrowing costs fueled Canada’s economic growth in 2021. However, many economists are now expecting a period of economic decline for 2022. A slowing of global economic growth is likely to spill over into Canada. Economists at the Royal Bank of Canada were among the first to suggest that Canada’s economy is headed for a recession driven by rising interest rates and high inflation.

Saskatchewan’s residential construction sector provides a strong hedge which could cushion the province’s economy in the face of external economic shocks. In 2021, new housing investment saw its first strong gain after 9 years of declines or marginal growth. This trend is expected to continue in 2022. Housing construction is a proven and viable way to kick-start economic growth. Investment per housing start in Saskatchewan has consistently ranged between \$200,000 to \$250,000. However, year to date, new housing investment in 2022 has reached an all time high of \$358,000.

FIGURE 41. RESIDENTIAL HOUSING INVESTMENT



Source: Statistics Canada

FIGURE 42. RESIDENTIAL HOUSING INVESTMENT PER HOUSING START. 2012 CHAINED DOLLARS



Source: Author’s own calculations with data from Statistics Canada

ECONOMIC IMPACT NEW HOUSING

New housing construction has one of the best economic and fiscal multipliers while providing strong and tangible benefits to Saskatchewan families. A strong residential construction sector would help the government refill its coffers, which will be needed to pay for the extraordinary fiscal measures implemented to tackle covid-19.

FIGURE 43. ECONOMIC IMPACT PER HOUSING START IN 2021

	Simple multiplier*	Total multiplier**
GDP at market prices	\$124,466.51	\$147,197.10
Taxes on products	\$3,972.34	\$7,723.99
Taxes on production	\$22,730.59	\$24,054.70
Labour income	\$62,233.26	\$69,295.19
Jobs	1.1	1.3

2021 Housing Start Investment
\$222,482.87

*Simple multiplier represents the economic impact of housing construction with industries linked to the construction industry.

**Total multiplier also includes the induced effect. This represents the impact from household spending income earned in the construction industry through the full economy.

PST REBATE FACTS Q2 2020 to Q1 2022

New housing sales that could benefit from the rebate: 2,911 (96.4% of total)
Estimated rebate cost: \$18.9 million

Economic benefits from 2,911 units constructed:

GDP: \$428.5 million
Labour income: \$201.7 million
Jobs: 3,722



**Rebate cost as
a percentage
of GDP
contributions***

**1.0% - Based on Public
account records***

4.3% - Home Builders estimates*

At the time of publication, the Government of Saskatchewan has limited the information available on the actual costs of the PST rebate. The only publicly available source of information are the figures provided in the public Accounts 2020-21 for the period of April 1, 2020 to March 31, 2021. The actual cost of the program has been much lower than estimated. However, even the estimated cost of the rebate (based on home builders estimates) represents a small expense compared to the economic contributions of new housing construction.

Official Public Account Records*

Total PST Rebate: \$1,965,847
• Paid to purchaser: \$831,959
• Assigned to the builder: \$1,133,888

311 approved transactions

Average rebate: \$6,321.05

Saskatchewan Home Builders estimates*

Estimated Rebate cost: \$8,794,257

1,385 qualifying purchases

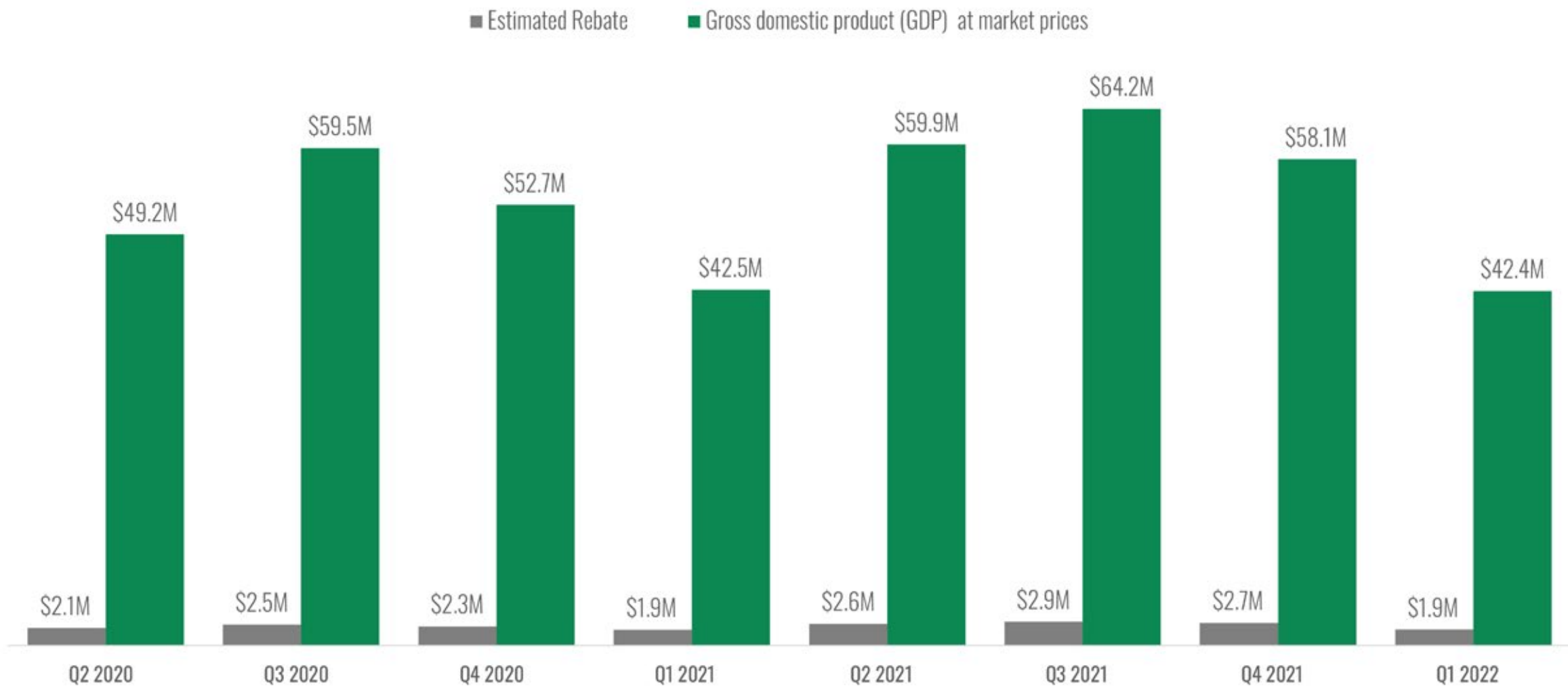
Average rebate: \$6,349.64

**Economic Impact from New Housing
Construction***

Homes Built: 1,419
GDP at Market Prices Contributions:
\$203,867,979.77
Jobs created: 1,770

* Numbers calculated for the period of April 1, 2020 to March 31, 2021

FIGURE 44. ESTIMATED PST REBATE COST VS NEW HOUSING CONSTRUCTION CONTRIBUTION TO GDP



Source: Author’s own calculations with data from Statistics Canada

Canada has the lowest number of housing units per 1,000 residents of all the G7 countries. However, Saskatchewan and Canada have much different demographics, even when compared to the rest the OECD.

HOUSEHOLD formation, not individuals,
is the driver of housing demand.

The ratio of households to total private dwellings in Saskatchewan has remained constant since 2001. Supply and demand could be out of balance in the short-term but the constant housing per household ratio reflects a balanced market.

International migration to Canada is expected to continue at a strong pace. The federal government is targeting between 430,000 to 450,000 immigrants per year between 2022 and 2024. Many of these families will settle in Saskatchewan and need housing.

A household is defined as a person or a group of persons (excluding foreign residents) who occupy a private dwelling and do not have a usual place of residence elsewhere in Canada. Household formation is the net change in the number of households.

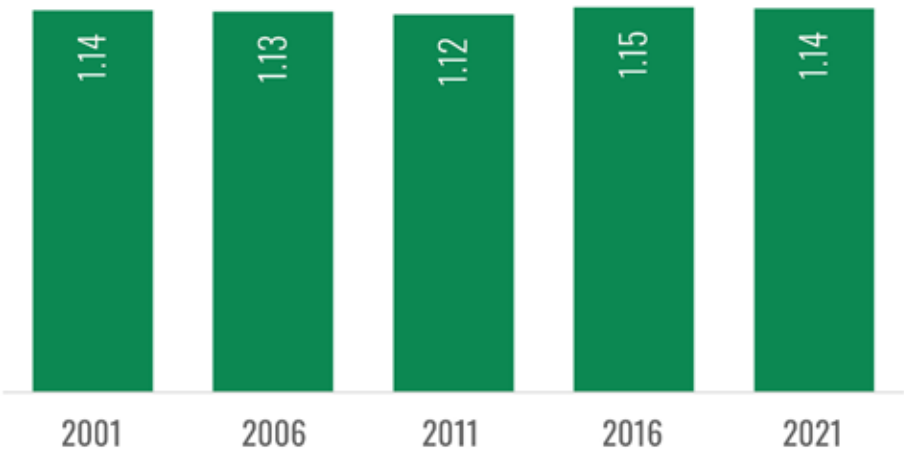
FIGURE 45. HOUSING PER CAPITA

Housing units per 1,000 people



Source: Saskatchewan Realtors Association

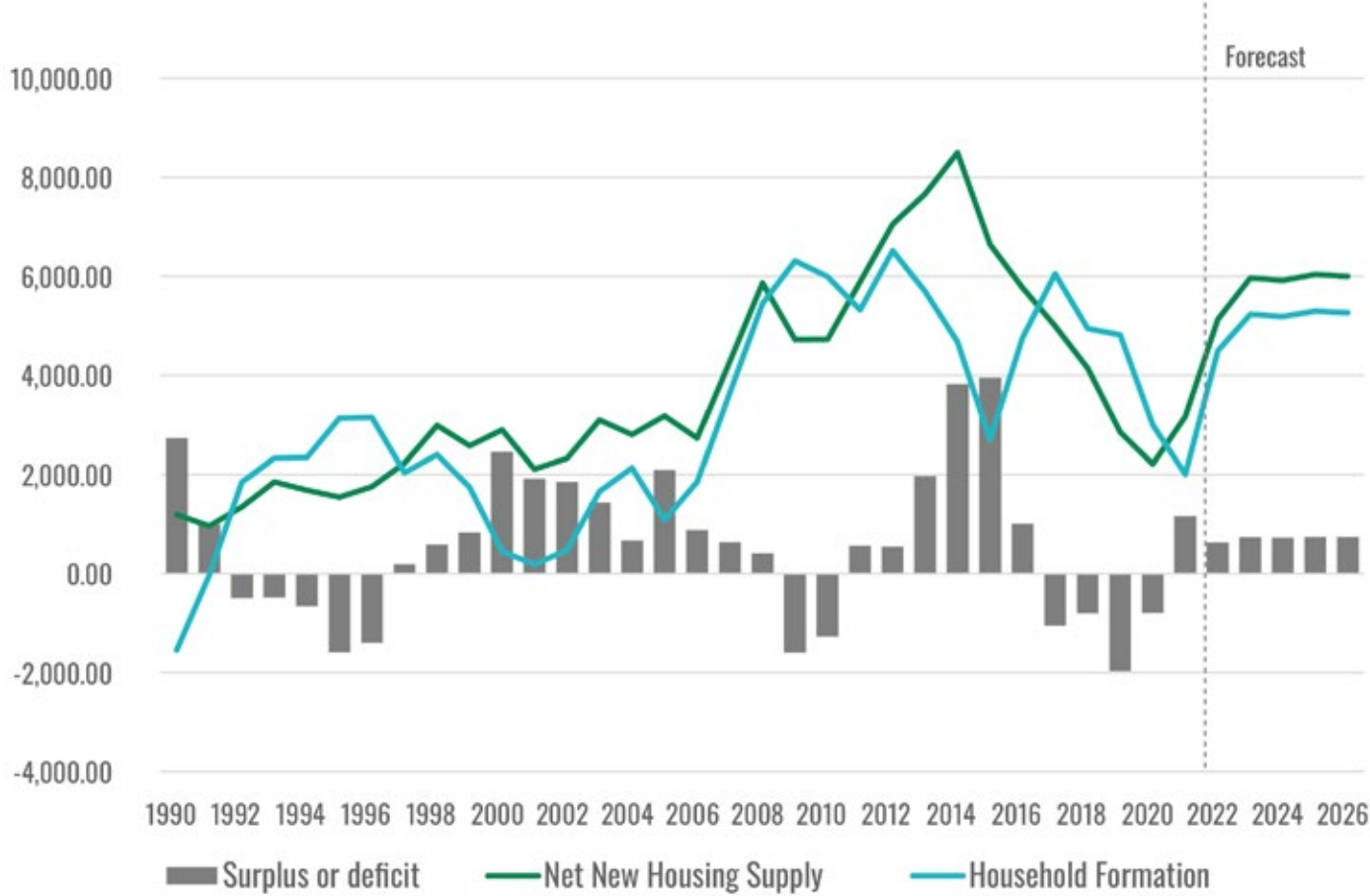
FIGURE 46. SASKATCHEWAN’S HOUSING UNITS PER HOUSEHOLD



Source: Author’s own calculations with data from Statistics Canada

Long term housing needs = Household formation + demolitions & replacements + Housing for temporary residents

FIGURE 47. LONG-RUN HOUSING SUPPLY VS HOUSING DEMAND



30 year period from 1991 to 2021

Total household formation: 98,723
New housing construction: 113,635
New housing adjusted for demolitions: 113,635

Net new housing/household formation: 1.15
(This is in line with the 1.14 historical average)

Forecast between 2022 and 2026

Total household formation: 25,483
New housing construction: 30,455
Demolition replacement required: 1,405

Net new housing/household formation: 1.14

To maintain a stable 1.14 household formation ratio Saskatchewan needs to build 30,455 homes.

This will require increasing construction activity back to 2016-2017 levels.

07 RECOMMENDATIONS

PST REBATE COST

ESTIMATES:

New housing units that could have benefited from the PST rebate: 2,911 (96.4% of total)

Estimated rebate cost: \$18.9 million

ACTUAL REBATE COST

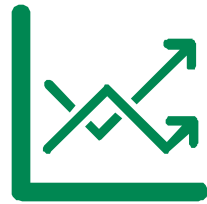
Based on the Public accounts 2020-21 (April 1, 2020 to March 31, 2021)

Paid to purchaser: \$831,959

Assigned to the builder: \$1,133,888

Only 311 approved transactions

PST REBATE STRUCTURE ANALYSIS



The residential construction industry continues to operate below efficiency due to the effects felt by the COVID-19 pandemic, a once in a generation event. This translates into suboptimal outcomes for the province, such as decreased housing affordability, limited investment and lower taxation revenue collection.



Many of the forces currently impacting housing affordability, such as rising interest rates or higher construction costs, are outside of the provincial government's control. However, this paper presents two rebate scenarios to support housing affordability.



The rebate has an upfront cost to the Government of Saskatchewan in the form of forgone revenue; it is intended to stimulate the housing market and support housing affordability. As an additional benefit, this will support companies in the residential construction sector, most of which are locally owned. This will give builders the ability to keep investing, maintain jobs and support overall economic growth throughout the province.

SCENARIO 1 – ELIMINATE PST ON NEW HOUSING CONSTRUCTION

The first scenario estimates a rebate which fully offsets the increase in PST on new housing construction. This is a reduction of 262 basis points to the PST rate and a decrease of 37.6% on the tax payable per home.

The PST collection from an additional 3,107 new home sales would fully fund the rebate cost, thus achieving revenue neutrality. This is assuming that the new sales are also eligible for the rebate and that new sales follow the same price distribution as 2021 transactions.

FIGURE 48. PST REBATE AMOUNT

	Average price	Units	Average rebate	Estimated amount
Under \$250K	\$200,000	28	\$ 5,240	\$ 146,720
\$250K-\$400K	\$325,000	695	\$ 8,515	\$ 5,917,925
\$400K-\$500K	\$450,000	552	\$ 11,790	\$ 6,508,080
\$500K-\$650K	\$575,000	283	\$ 15,065	\$ 4,263,395
\$650K-\$750K	\$700,000	59	\$ 18,340	\$ 1,082,060
\$750K+	\$750,000*	108	\$ 19,650	\$ 2,122,200
Total		1,725		\$ 20,040,380

FIGURE 49. ADDITIONAL SALES TO ACHIEVE REVENUE NEUTRALITY

	Average price	Taxes	Units	Tax Collection
Under \$250K	\$200,000	\$3,160	103	\$ 325,293
\$250K-\$400K	\$325,000	\$5,135	1,572	\$ 8,074,240
\$400K-\$500K	\$450,000	\$7,110	902	\$ 6,412,921
\$500K-\$650K	\$575,000	\$9,085	362	\$ 3,287,784
\$650K-\$750K	\$700,000	\$11,060	62	\$ 685,439
\$750K+	\$750,000*	\$11,850	106	\$ 1,254,702
Total			3,107	\$ 20,040,380

SCENARIO 2 – CONTINUE WITH THE CURRENT STRUCTURE WHILE INDEXING THE PRICE OF THE HOME.

The second scenario involves a staggered deduction with a rebate of up to 42% of the PST paid on the purchase of a newly-constructed home with a total price of less than \$450,000 before taxes, excluding the value of the land and the price of any furniture, furnishings and appliances. The total price of the home will rise annually based on Saskatchewan inflation rate.

This scenario has a lower cost to the provincial government compared with full elimination of the PST. The estimated cost of \$10.1 million is based on 2021 home sales. It also requires a lower number of additional sales, with only 758 transactions required to achieve revenue neutrality. Moreover, this is a progressive rebate as 23% of the rebate is funded out of the tax revenue from higher priced home sales, which are purchased by higher income households.

Similar to the previous option, the rebate is funded based on the distribution of 2021 sales. A PST Rebate could also be extended to include construction of new for-purpose rental units. This in an effort to attract additional investment and supply into the market, while protecting Saskatchewan most affordable rents in the nation.

FIGURE 50. PST REBATE AMOUNT

	Average price	Units	Average rebate	Estimated amount
Under \$250K	\$200,000	28	\$3,696	\$103,493
\$250K-\$400K	\$325,000	695	\$6,134	\$4,263,317
\$400K-\$500K	\$450,000	552	\$8,059	\$4,448,703
\$500K-\$650K	\$575,000	283	\$4,449	\$1,258,938
\$650K-\$750K	\$700,000	59	\$0	\$0
\$750K+	\$750,000*	108	\$0	\$0
Homes that qualify for rebate		1,558	\$6,466	\$10,074,450
Total		1,725	\$5,840	\$10,074,450

FIGURE 51. ADDITIONAL SALES TO ACHIEVE REVENUE NEUTRALITY

	Average price	Taxes	Units	Tax Collected
Under \$250K	\$200,000	\$5,104	12	\$62,791
\$250K-\$400K	\$325,000	\$8,471	305	\$2,586,622
\$400K-\$500K	\$450,000	\$11,148	243	\$2,703,646
\$500K-\$650K	\$575,000	\$19,579	124	\$2,434,403
\$650K-\$750K	\$700,000	\$29,689	26	\$769,590
\$750K+	\$750,000*	\$31,979	47	\$1,517,398
Homes that qualify for rebate			685	7,787,462
Total			758	\$10,074,450

08

CONCLUSION

CONCLUSION

Saskatchewan has experienced a decline in housing affordability for the low- and middle-income households, particularly immigrants and first-time homebuyers. This is due to a sustained shortage in new housing stock, housing price inflation and rising interest rates. After the removal of the PST rebate, Saskatchewan's households will face the largest ever tax burden when purchasing a new home. Adequate and affordable housing supply is fundamental to support a balanced labour market and to accommodate the projected growth in the province.

Many of the forces currently impacting housing affordability, such as rising interest rates or higher construction costs, are outside of the control of both the provincial government and local builders. However, the PST rebate has proven to be a cost-effective tool to support Saskatchewan residents with the rising costs of living. The rebate has an upfront cost to the Government of Saskatchewan in the form of forgone revenue. Based on this research, the average PST rebate is under \$6,500.00. This compared to the average investment per housing start in Saskatchewan which has consistently ranged between \$200,000 to \$250,000. However, year to date, new housing investment in 2022 has reached an all time high of \$358,000. The rebate has given builders the ability to keep investing, maintain jobs and support overall economic growth throughout the province. Additionally, this is a progressive tax policy where high income earners are subsidizing new housing for low and middle-class families.

Housing is all about supply and demand. Housing demand rises during periods of economic growth as rising incomes enable households in the rental market to become homebuyers. Shortages in supply provide incentives for developers to add new dwellings to the market. Current developments in Saskatchewan will not come close to accommodating the influx of people that will be looking for places to live in the region in the near future. By 2026, Saskatchewan will need an additional 30,455 dwellings to maintain a sustainable housing to household ratio.

Demand, and not public policy, is the key driver of supply and it pushes developers to provide different types of products at price points where demand is greatest. Government strategies, such as the PST rebate, alone cannot deliver affordable housing as an outcome. However, public policy can help reduce risk to developers who generate supply. Large new developments typically take multiple years from inception to completion. New projects generally receive little revenue before completion as pre-sales are rare in Saskatchewan. This combined with uncertain demand implies increased risk for developers. This limits the amount of new supply generated by the private sector and hurts affordability in homeownership. This is in part why this report recommends the elimination of PST increase on new housing construction or continue with the current rebate structure while indexing the price of the home and extend to include construction of new for-purpose rental units.

APPENDIX 1: THE CAVEAT

CAVEAT

This analysis is compiled using the most recent data easily accessible from reputable sources available in Canada.

Through our research, best commercial efforts were used to procure, at a reasonable price, the best data available for this analysis. However, this study has been constrained by data availability. While not the purpose of this study, this group challenges the Government of Saskatchewan to improve on its data availability and accessibility.

This report had very limited access to the Provincial Government data.

Quality data is critical as it supports public oversight of governments and helps prepare better policy decisions. Access to better data will positively help in solving Saskatchewan’s biggest problems.

The ideal data for this report are records for every single home transaction (i.e. – title transfer in Saskatchewan).

Proxy data sources used include:

Source	Data Type	Downside
Statistics Canada	Aggregate data	Province wide data but its not possible to drill down on specifics.
CMHC data	Aggregate data	Comprehensive Real Estate data but not all areas are captured (sometime is only CMAs or areas with at least 10,000 people)
Home builders	Individual transaction data	Voluntary data submission. Incomplete data.
Saskatchewan Realtors Association	Individual transaction data	Only transactions in the MLS Excludes direct deals

CONTACTS

Stu Niebergall MBA

President & Chief Executive Officer
Regina & Region Home Builders' Association
#100 – 1801 MacKay St
Regina, SK S4N 6E7

(306) 546-5221
s.niebergall@reginahomebuilders.com
www.reginahomebuilders.com

Regina & Region
Home Builders'
Association



Nicole Burgess

Chief Executive Officer
Saskatoon & Region Home Builders' Association
#17 – 102 Cope Crescent
Saskatoon, SK S7T 0X2

(306) 955-5188
ceo@saskatoonhomebuilders.com
www.saskatoonhomebuilders.com

Saskatoon & Region
Home Builders'
Association



PREPARED BY

