



Q4 2023

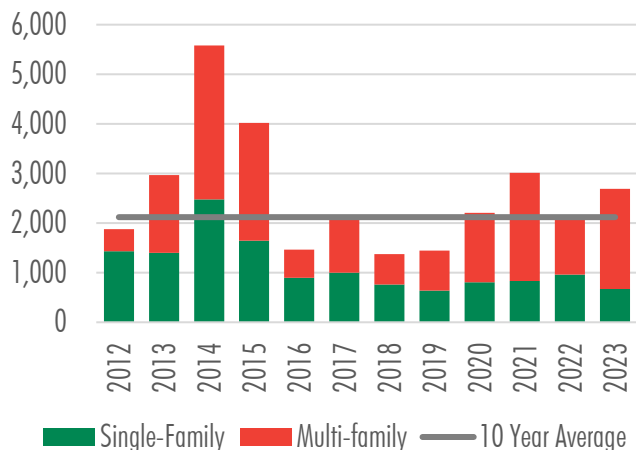
SASKATOON NEW HOUSING MARKET OUTLOOK

FEBRUARY 2024



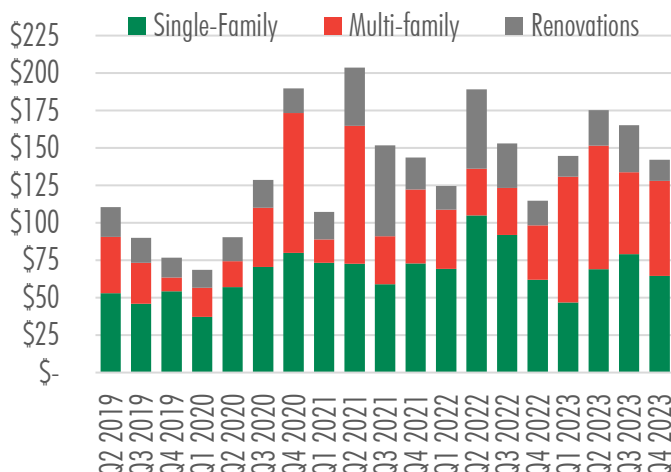


FIGURE 1: NUMBER OF BUILDING PERMITS – Excludes Renovations



Source: Saskatoon & Region Home Builders Association

FIGURE 2: VALUE OF BUILDING PERMITS
\$ Millions



Source: Saskatoon & Region Home Builders Association

In 2023, Saskatoon's economic growth continued to outpace expectations, albeit at a slightly slower rate than anticipated earlier in the year. Key commodities faced challenges, particularly potash, with prices experiencing a significant 50% decline since reaching their peak in the spring of 2022. Furthermore, according to Saskatoon city officials, the city experienced its most substantial year-over-year population change last year since the Second World War, with an estimated population growth of roughly 14,400 people from October 1, 2022, to October 1, 2023. However, once again, this growth did not translate into robust new housing sales in 2023. The Saskatoon CMA recorded a total of 1,109 new home sales, marking a 3.6% decline compared to 2022 and a significant 33.0% drop below the 20-year average. Three months posted 20-year record-low sales for the month. Interest rates continued to climb throughout 2023, contributing to a cooling effect on the market as higher rates and prices made homeownership less affordable.

Homeowners became accustomed to low interest rates, but now they face the fastest and most substantial increase in rates in over four decades. This occurs at a time when households grapple with historically high levels of debt and an elevated cost of living.

FIGURE 3: QUARTERLY NEW HOMES QUICK STATS



1,109 New Home sales in 2023
3.6% decrease vs 2022



2,693 Building permits in 2023
26.4% increase vs 2022



3,087 Units under construction in December 2023
10.1% increase vs December 2022



247 Completed and unabsorbed units as of December 2023
6.5% increase vs December 2022

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





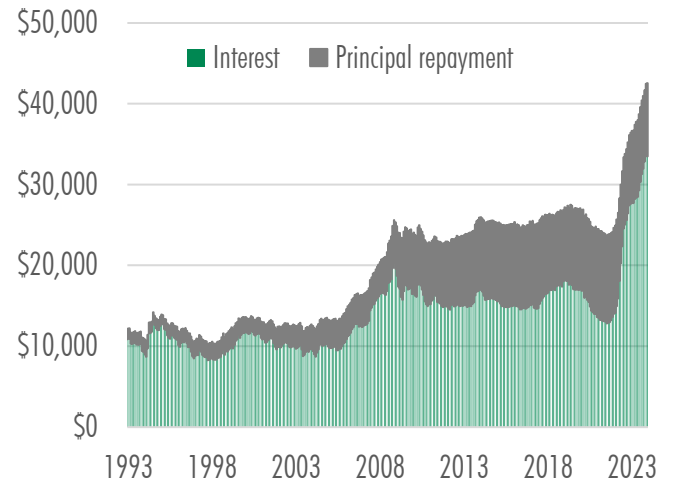
In 2023, new home buyers in Saskatoon encountered the highest average monthly payment for purchasing an averagely-priced new construction single-family home, even after adjusting for inflation. The average monthly payment in 2023 exceeded the 10-year average by over 54.7%. In the late 80s and early 90s, over 90% of monthly mortgage payments were allocated to interest, compared to 75-80% today. Despite this, the total amount of interest paid has reached an all-time high in 2023, primarily due to larger mortgage sizes.

Rising interest rates have also reduced buyers' purchasing power. The OSFI stress test is a policy tool designed to uphold the stability of the housing market in Canada amid rapidly rising home prices. However, it has disproportionately impacted markets such as Saskatoon, which initially had no price pressure. To qualify for a mortgage to purchase an averagely-priced new single-family home in 2023, with a 10% downpayment and a 25-year mortgage, buyers needed an income of \$171,034. This marks an 8.5% increase compared to 2022 and more than a 50% rise compared to 2016.

Currently, there are buyers in the market, but the gap between what buyers can afford and current prices has widened, forcing many, especially first-time home buyers or those with limited equity, to the sidelines in 2023. Builders acknowledge this gap, but they are also grappling with increased pressure from rising construction costs, higher government fees and narrower profit margins, forcing them to pass higher prices on to consumers. While construction material prices and labour shortages have stabilized, prices continue to increase, albeit in a more predictable manner. Residential construction prices rose by 3.6% between 2022 and 2023. This compares to 7.6% and 18.7% increases in 2021 and 2022, respectively.

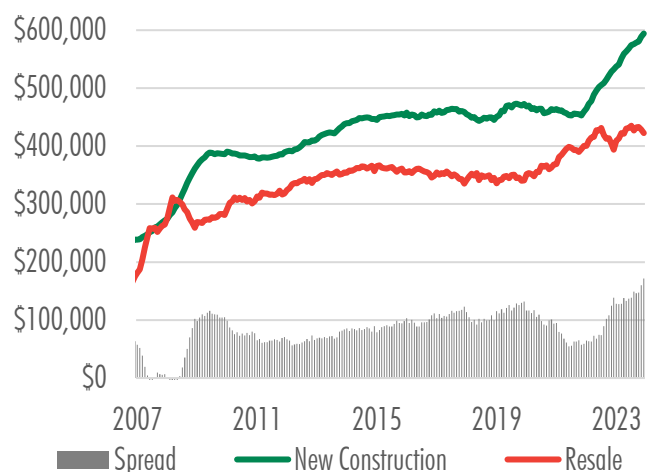
As of December 2023, the average price for a new construction single-family home in Saskatoon was \$632,430. This represents a 13% increase compared to the same period in 2022. Higher prices for new construction homes have pushed buyers who would like to buy new homes to the resale market. The price gap between new and resale single-family homes is at its widest in absolute terms. As of December 2023, new construction was 49.7% higher than a resale home.

FIGURE 4: INTEREST COSTS IN YEAR 1 FOR A NEW SINGLE-FAMILY HOME*



*Based on a 25-year mortgage and a 10% downpayment
Source: Canada Mortgage and Housing Corporation

FIGURE 5: SPREAD BETWEEN RESALE AND NEW HOUSING

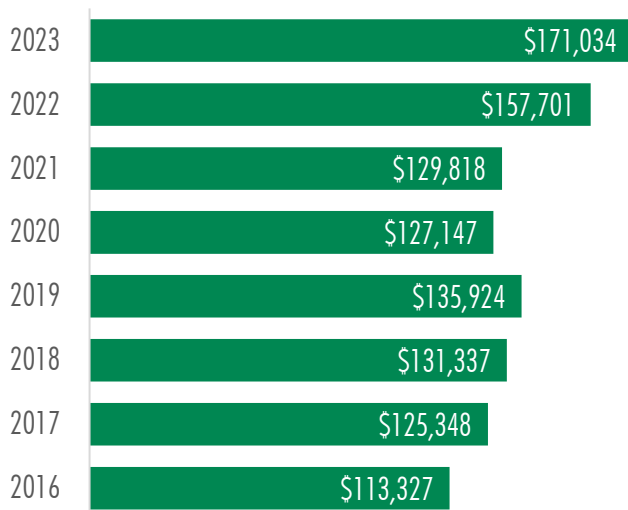


Source: Canada Mortgage and Housing Corporation & Saskatchewan Realtors Association





FIGURE 6: INCOME NEEDED TO PURCHASE AN AVERAGE PRICE NEW SINGLE-FAMILY HOME

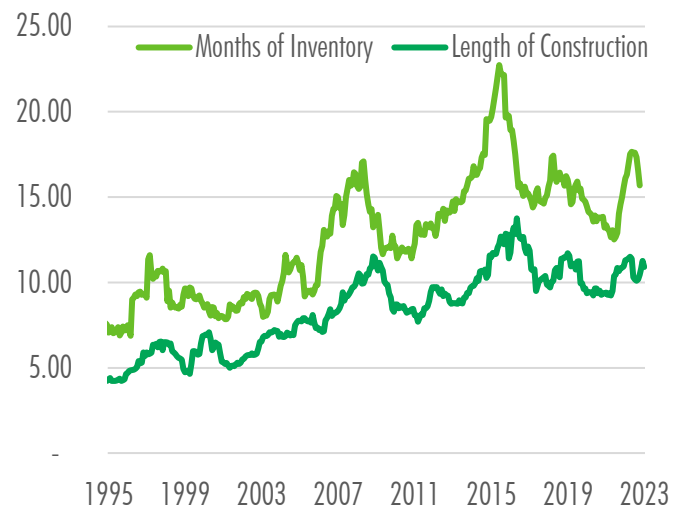


*Based on a 25-year mortgage and a 10% downpayment
Source: Saskatoon & Region Home Builders Association

The housing affordability challenge, coupled with a surge in population, has proven advantageous for Saskatoon's rental market. The rental housing vacancy rate in Saskatoon has dropped to a 13-year low, reaching 2.0% in 2023. Despite an increase in rental supply throughout the city in 2023, it fell considerably short of keeping pace with heightened demand pressures, mainly fueled by rapid population growth. Additionally, higher mortgage rates have continued to make the transition to homeownership more challenging and less attractive for renters.

In 2023, builders in Saskatoon and the surrounding region applied for 2,693 new construction building permits, reflecting a 26.4% increase compared to 2022. Multifamily construction dominated, comprising 74.8% of the permits and exhibiting a substantial 34.4% growth compared to 2022. Conversely, single-family construction faced a 21.1% decline, indicating builders' adjustments to sluggish demand for ownership construction. The deceleration in new housing construction intended for

FIGURE 7: HISTORICAL MONTHS OF INVENTORY VS LENGTH OF CONSTRUCTION



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

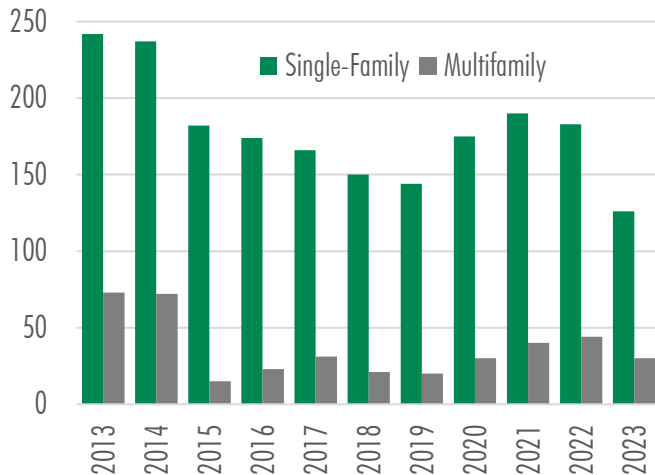
ownership has compelled numerous builders to exit the market, with primarily local builders remaining. In 2023, there were 126 single-family builders and 30 multi-family builders, indicating a substantial 47.9% and 58.9% decline, respectively, compared to the levels observed in 2013.

Despite declining demand and calls from some to increase supply, builders have effectively maintained a balanced construction of new housing. This equilibrium becomes apparent when considering the months of inventory, which includes completed and under-construction housing. Historically, builders have consistently maintained a gap of 4-5 months between the months of inventory in the supply pipeline and the time required to build a home. Although this gap widened during the summer of 2023, leading to a slight oversupply of housing, builders promptly addressed the issue. By December 2023, the months of inventory stabilized at 15.41, with a construction time gap of 4.5 months.



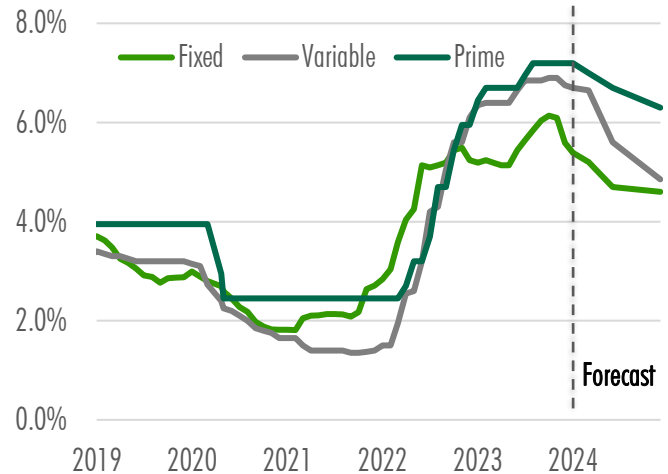


FIGURE 8: NUMBER OF BUILDERS OBTAINING BUILDING PERMITS



Source: Saskatoon & Region Home Builders Association

FIGURE 9: MORTGAGE INTEREST RATE FORECAST



Source: Statistics Canada & BCREA Economics

The Bank of Canada kept interest rates steady at 5.00% in its first meeting of 2024. The central bank is now focused on how long interest rates will remain at their current levels, as inflation measures have not declined as desired. The general expectation among economists is for interest rate cuts to commence in the summer of 2024. The Canadian bond yields, pivotal in determining mortgage rates, experienced a decline in Q4 2023. However, they have surged by over 30 basis points in the new year, now standing in the mid-3% range. This suggests that interest rates are likely to persist at current levels for at least a few more months.

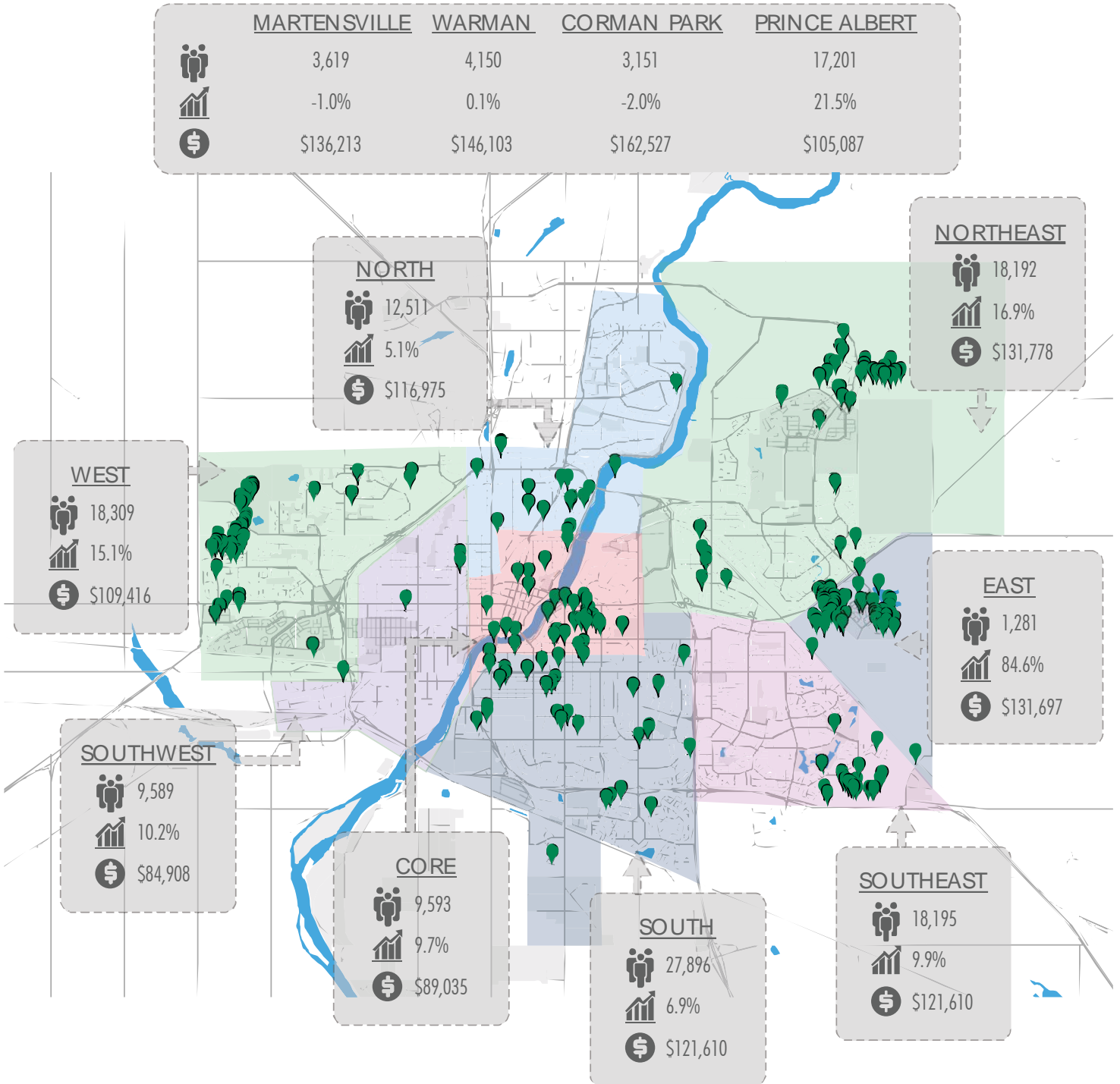
Looking ahead to 2024, the new housing market is anticipated to witness improvement. Saskatoon's economy will continue to grow, fueled by major investment projects and the continuous influx of international migrants contributing to population expansion. Consumer confidence is on the rise,

buoyed by stable mortgage rates. Potential mortgage cuts will entice buyers who were previously hesitant to enter the market. Despite these optimistic trends, builders are hesitant to significantly boost supply in 2024. Slow demand for a prolonged period makes them inclined to wait for a few quarters of robust demand before expanding supply in a meaningful way. Anticipated demand for townhomes and semi-detached homes is expected to outperform, primarily due to their more budget-friendly price points. Apartment construction is expected to remain dominant, albeit at similar levels as last year, and significant growth is unlikely. Only a few builders possess the required expertise and labour for apartment construction. Moreover, the surge in bond markets in 2023 has increased return expectations from investors. Coupled with rising costs, this makes it challenging to initiate projects even despite the uptick in rents in 2023, thus dampening prospects for substantial growth in this market segment.





2023 BUILDING PERMITS



Number of
Households



2028 Household
Growth



Average Household
Income





SASKATOON CMA DEMOGRAPHICS

POPULATION

POPULATION



366,589

POPULATION GROWTH 2023 - 2028



10.7%

POPULATION UNDER 35 YEARS



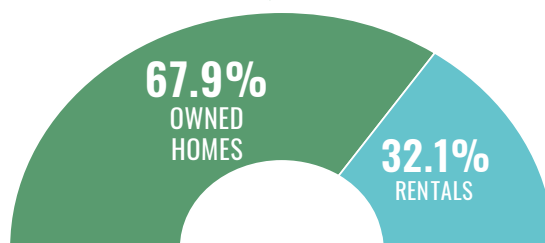
46.3%

HOUSING

TOTAL HOUSEHOLDS

133,798

2.6 PERSONS PER HOUSEHOLD



AVERAGE NEW SINGLE-FAMILY HOME PRICE

\$ 589,289

10.9 % YEAR OVERYEAR

INCOME

AVERAGE HOUSEHOLD INCOME

2023
\$ 115,906



HOUSEHOLD INCOME GROWTH

2023 - 2028
18.9%

SASKATOON ECONOMIC STATISTICS

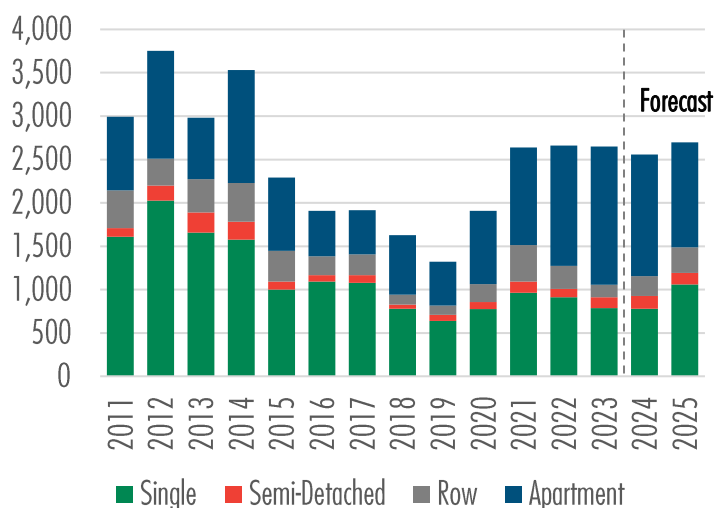
	2023E	2024F	Change	% Change
Real GDP Growth	3.8%	1.6%	-2.2%	-57.9%
GDP Per Capita	67,465.0	66,134.0	-1,331.0	-2.0%
Employment	197,145.0	199,293.0	2,148.0	1.1%
Unemployment Rate	5.0%	5.8%	0.8%	16.0%
Population Saskatoon CMA	366,589.0	379,886.0	13,297.0	3.6%

Source: Conference Board of Canada





HOUSING START FORECASTS



	2024F
Canadian Bank's Average	2,500
Saskatoon & Region Home Builders Association	
Optimistic	2,600
Realistic	2,400
Pessimistic	2,200

Source: Saskatoon & Region Home Builders Association

Source: Saskatoon & Region Home Builders Association with data from BuildForce Canada

HISTORICAL AVERAGES

	Starts	Year
5 Year	2,235	
Highest in last 5 years	2,659	2022
Lowest in last 5 years	1,323	2019

10 Year Average	2,245	
Highest in last 10 years	3,531	2014
Lowest in last 10 years	1,323	2019

25 Year Average	2,036	
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Source: CMHC Housing Market Information Portal
And SRHBA Data

BANKS FORECAST

	Saskatchewan 2024 forecast	Saskatoon*
BMO	5,100	3,000
Scotia	3,800	2,200
RBC	4,100	2,400
TD	4,300	2,500
National Bank	4,200	2,500
Laurentian Bank	3,700	2,200
Bank Average	4,200	2,500

*Based on the 10-year average housing start
distribution throughout Saskatchewan

Source: Economic Outlooks provided by respective Banks

MLS HOUSING STATISTICS

MLS	2023
Average Days on Market	43
Months of Inventory	3.48
Average Price	\$392,334

Source: Saskatchewan Realtors Association

***All data is based on CMHC reporting and not City of Saskatoon Building Permits. Different numbers can often be communicated when discussing housing starts. Canadian Mortgage and Housing Corporations (CMHC) views and data are based on their mix of observations of foundations started after they have reviewed permits issued.



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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Saskatoon & Region
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