

HOUSING MARKET OUTLOOK

Saskatoon CMA



CANADA MORTGAGE AND HOUSING CORPORATION

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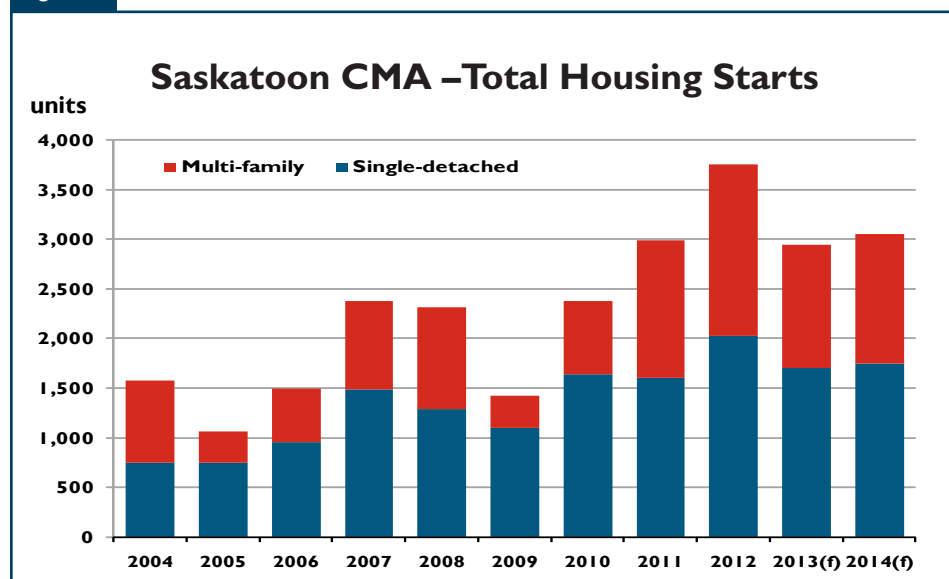
NEW HOME MARKET

Housing starts lower in 2013, increasing modestly in 2014

Following a 25 per cent increase to 3,753 in 2012, total housing starts in the Saskatoon Census Metropolitan Area (CMA) are expected to

moderate in 2013. Continued employment growth and heightened net migration will support housing demand over the next two years. However, gains in both fundamentals will moderate from the pace that helped achieve a 33-year high in new home construction last year. At the same time, a heightened supply of units under construction and the risk of rising inventories will slow the initiation of new units, especially in

Figure 1



Source: CMHC, CMHC Forecast (f)

¹The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents forecast ranges and risks where appropriate. The forecasts and historical data included in this document reflect information available as of April 26, 2013.

²Multiple Listing Service® (MLS®) is a registered trademark owned by the Canadian Real Estate Association.

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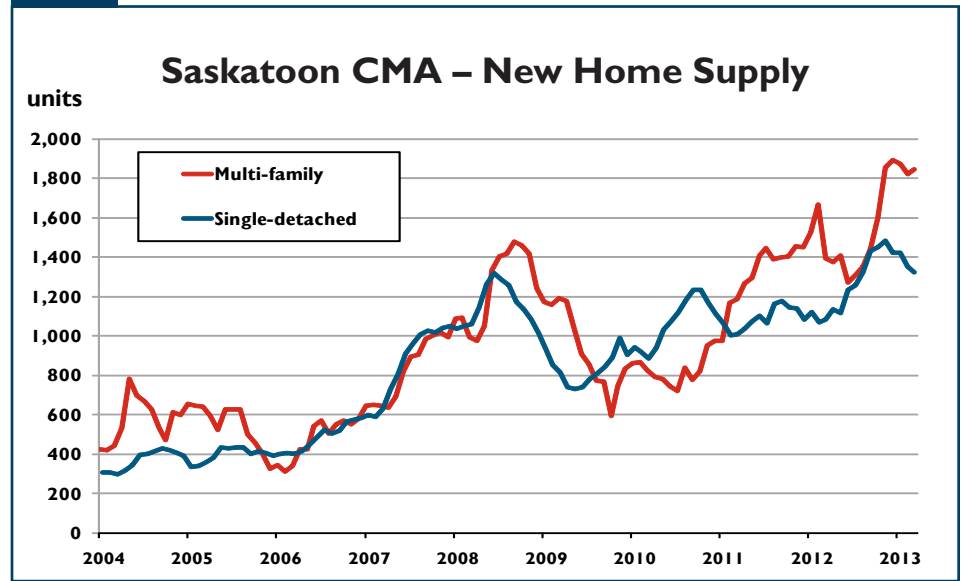
the multi-family market where supply levels are most elevated. With higher active listings in the competing resale market expected this year, some buyers will turn to an existing home to meet their housing needs.

In 2013, total housing starts in the Saskatoon CMA are on pace to moderate 21.4 per cent to 2,950 units. To the end of March, housing starts totalled 465 units, 26 per cent lower than in the same period of 2012. The reduction was most pronounced in the multi-family sector, where starts after three months were down 31 per cent from corresponding levels in 2012. Notwithstanding, the extent of the year-over-year reduction thus far should dissipate as we move forward, as supply levels are drawn lower and economic fundamentals gain momentum. Barring any inventory build up, local builders will initiate 3,050 units next year. While annual production in both 2013 and 2014 will represent a reduction from last year's performance, it will still rank among the highest in the last 30 years.

Single-detached starts set to moderate in 2013

Rebounding job growth, strong levels of net migration, and low mortgage rates supported a 26 per cent gain in single-detached starts to 2,025 units in 2012, the highest level on record. Thus far in 2013, Saskatoon's builders have broken ground on fewer single-detached units compared to last year. To the end of March, a total of 284 single-detached units were initiated, down 22.6 per cent from the 367 units started in the corresponding period of 2012. During the same period, the number of units under construction and those in inventory reached 1,322 units, 22 per cent higher than the previous year.

Figure 2



Source: CMHC

Over the forecast period, a modest reduction in the pace of job growth and net migration to the region will result in a moderation in demand. On the supply side, an elevated number of listings in the resale market, combined with rising new home inventories, will prompt local home builders in the Saskatoon CMA to scale back production to 1,700 units this year before slightly increasing to 1,750 in 2014. Nevertheless, this level of production for single-detached starts in the Saskatoon CMA will be elevated by historical norms.

Gradual price increases through 2014

Statistics Canada's New House Price Index (NHPI), which measures the difference in the price of new homes where the specifications remain the same between two consecutive periods, increased in Saskatoon by 2.3 per cent in 2012. Thus far in 2013, price pressures have continued to moderate in alignment with added production capacity in the last few years and the reduction in housing starts in 2013. As a result, Saskatoon's

NHPI is forecast to increase 1.7 per cent in 2013, representing the lowest gain since 2011. Given cost pressures on newly developed lots, the land component of the NHPI will continue to account for the bulk of the gains this year.

In 2012, the single-detached absorbed price averaged \$408,491, up 4.9 per cent from the previous year and more than double the pace of growth in the NHPI. A compositional shift toward higher price homes was largely responsible for the annual gain in the average absorbed price. In 2013, the movement to higher priced homes has continued as the share of new single-detached homes selling above \$450,000 in the Saskatoon CMA increased to 28 per cent during the first quarter from 18 per cent in the same period a year prior. Notwithstanding, we expect this trend to slow over the forecast period, constrained by the combination of relatively weaker resale price gains affecting the move-up buyer and advances in monthly carrying costs. Considering these factors, the average absorbed price of single-detached

homes will rise by 3.6 per cent to \$423,000 in 2013 and by 1.9 per cent to \$431,000 in 2014.

Multi-family starts to decline in 2013, rise modestly next year

Following a 25 per cent increase to 1,728 units in 2012, multi-family starts, which consist of semi-detached units, rows, and apartments, will moderate this year. Builders are on pace to start 1,250 units in 2013, 28 per cent fewer than in 2012. In 2014, expect a similar performance with another 1,300 units started. Competition from a well-supplied resale market and a substantial supply of new multi-family dwellings will contribute to the reduction in starts this year.

While demand for multi-family housing will remain strong into 2013, the heightened pace of starts in 2012 has fuelled an increase in the overall supply of units. At the end of March, the supply of multi-family units in the Saskatoon CMA totalled 1,860 units, the third highest level on record. The under construction count at 1,608 units was 25.8 per cent higher than the previous year. This raises the risk of rising inventories in the months ahead, thereby restraining housing starts in 2013.

Despite the moderation, demand for units in the ownership market from residents seeking a lower priced option to a single-detached home will help keep multi-family construction elevated by historical standards. Furthermore, condominium units offering a different lifestyle choice and convenience will remain attractive, particularly for Saskatoon's empty-nesters looking to downsize and capitalize on the equity in their existing homes. In addition to the above, demand for multi-family units

will be supported by continued job growth, population gains from net migration and public sector incentives to promote rental construction and condominium production

RESALE MARKET

MLS® sales to moderate, remain elevated through 2014

Supported by rising wages, heightened net migration, and low mortgage rates, sales of existing homes in Saskatoon expanded during the first half of 2012 before trending lower during the second half of the year. During this time, Saskatoon's resale market faced rising competition from the new home market, as well as buyers having to adjust to continued price gains. Thus far in 2013, the downward trend in resale demand has continued, with sales edging down 7.6 per cent in the first quarter compared to the same time last year. In addition, anecdotal evidence suggests that the unusually long winter has had some impact on home purchase decisions.

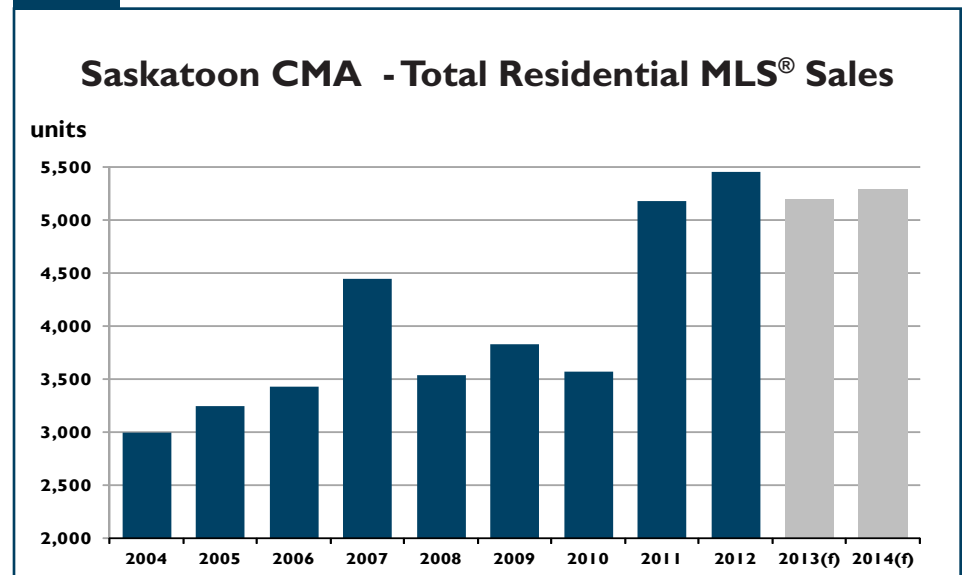
In 2013, residential transactions in the Saskatoon CMA are on pace to moderate to 5,200 units from the 5,462 MLS® sales achieved a year earlier. Notwithstanding, demand for resale homes will remain elevated by historical standards.

Over the forecast period, public sector incentives in the form of first-time homebuyer income tax credits will motivate some renter households in Saskatoon to move to homeownership. Meanwhile, low mortgage rates and recent price gains will encourage move up buying, as existing homeowners take advantage of equity gains from previous years. In 2014, resale transactions are expected to rise modestly to 5,300 units, supported by continued employment growth and a modest rise in net migration.

Sales of higher priced homes contribute to rise in average price

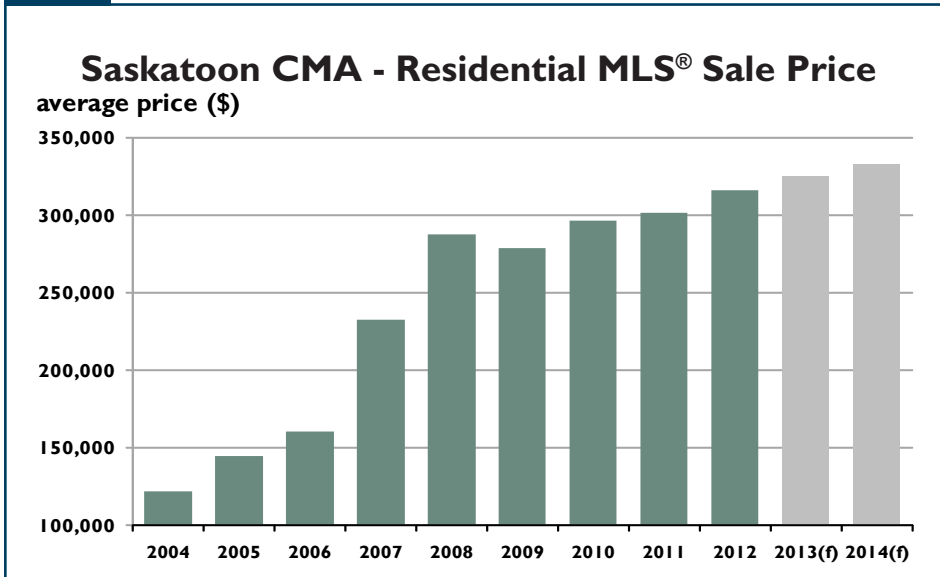
Following a 4.8 per cent increase in 2012, the average existing home price in Saskatoon is on pace to rise 2.9 per

Figure 3



Source: CREA, CMHC Forecast (f)

Figure 4



Source: CREA, CMHC Forecast (f)

cent this year, reaching \$325,000. This will be followed by a 2.5 per cent gain to \$333,000 in 2014. Price growth so far this year has largely been supported by a movement of sales to higher price ranges, as homebuyers have taken advantage of low mortgage rates and equity gains from previous years. The share of sales above \$450,000 reached 14 per cent during the first quarter of this year, up from a 10 per cent share in the same period a year prior.

Moving forward, rising carrying costs and mortgage rates over the forecast period will slow the shift towards higher priced homes. An elevated supply of resale homes relative to demand will lead to modest price growth by historical standards. In 2013, active listings are expected to rise as existing owners list their homes to lock-in equity gains and move up in the resale market or purchase a new home. On balance, these factors will lead to modest price growth over the forecast period.

RENTAL MARKET

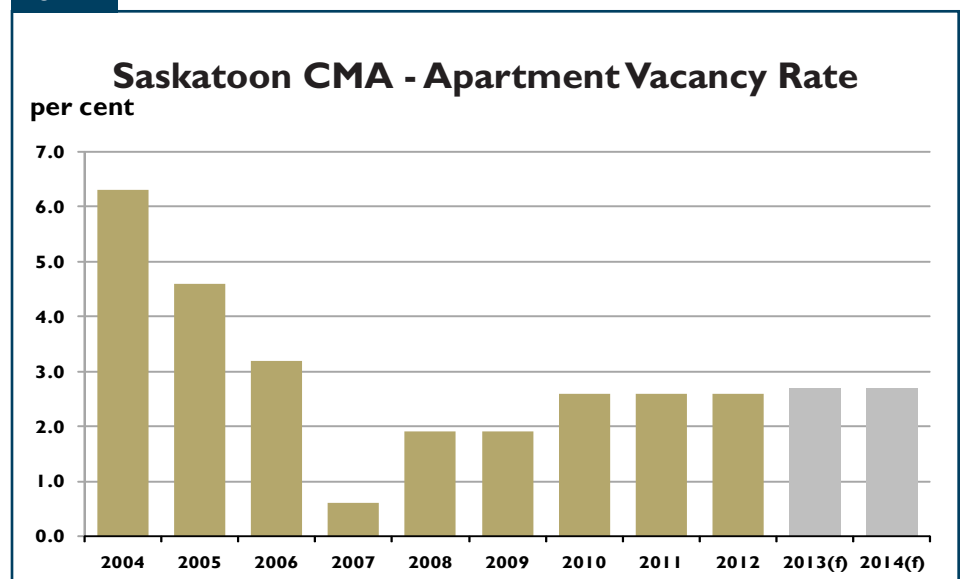
Apartment vacancy rate to remain stable through 2014

After holding steady at 2.6 per cent the last three years, the apartment vacancy rate in Saskatoon is expected to increase modestly to 2.7 per

cent in October 2013 and 2014. Employment opportunities and rising wages will continue to draw migrants to the region and support rental demand, particularly among international sources that have a high propensity to rent upon their arrival. Advances in both new and resale house prices, albeit modest compared to previous years, will also inhibit some renter households from moving to homeownership.

Additions to the rental apartment universe via new construction will help offset a reduction in vacancies, as will continued competition from the secondary rental market. A total of 272 units for rental tenure began construction in 2012, the majority of which will be completed during the next two years. Additional competition will also come indirectly from the secondary rental market, as apartment condominiums purchased by investors are rented to the general public. CMHC's October 2012 Rental Market Survey revealed that 21 per cent of condominium apartment units were investor-owned and rented rather than owner-occupied.

Figure 5



Source: CMHC, Fall Rental Market Survey, CMHC Forecast (f)

Average monthly rents to increase through 2014

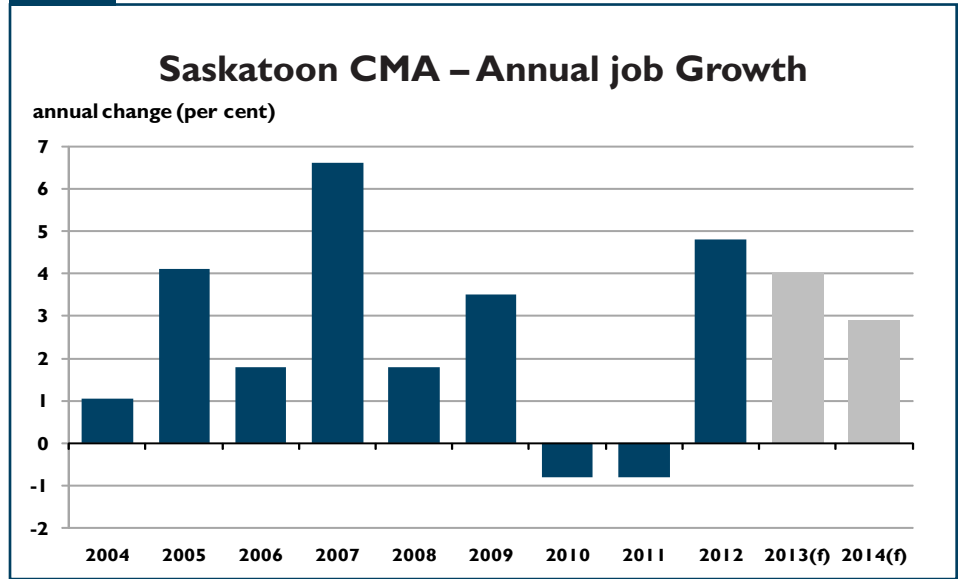
With continued strong rental demand in Saskatoon, rental market vacancy rates are expected to remain stable through 2014, encouraging landlords to increase rents modestly. The addition of newly constructed units will also help to push up average rents, as they typically command higher rents compared to older product. Under these conditions, the average monthly rent for a two-bedroom apartment will increase to \$1,025 in the October 2013 rental market survey, and then to \$1,050 by October 2014.

ECONOMIC OUTLOOK

Employment expansion to continue through 2014

Following a 4.8 per cent rebound in 2012, average employment is on pace to increase by four per cent in 2013. As was the case in previous years, the majority of positions created will be full-time. Job growth is off to a strong start this year. On a year-over-year basis, the addition of 11,900 full-time positions during the first quarter helped offset the loss of 1,300 part-time jobs, fuelling a decline in the unemployment rate and strong gains in average weekly earnings. With additions to the labour force trailing the pace of employment expansion, Saskatoon's seasonally-adjusted unemployment rate in March 2013 was four per cent, down from 5.5 per cent in the fourth quarter of 2012.

Figure 6



Source: Statistics Canada, CMHC Forecast (f)

Continued demand for commodities such as oil, natural gas, and potash will result in improving prices over the forecast period, thus bolstering local production and strengthening economic activity across the region. At the same time, Saskatoon will continue to benefit from the heightened pace of both public and private sector infrastructure spending, creating jobs in the construction, service and goods sectors.

With a labour force not growing as fast as employment gains, Saskatoon will continue to experience tight labour market conditions this year and next. By 2014, the unemployment rate is expected to average 4.3 per cent, among the lowest in Canada. This will limit employment growth to 2.9 per cent next year.

Net migration to decline in 2013, yet to remain elevated

Following reductions in the previous two years, net migration in the Saskatoon CMA in 2012 increased to the highest on record. A total of 9,382 net migrants arrived in Saskatoon last year, drawn by the rebound in job growth, expanding wages, and a declining unemployment rate. While Saskatoon will remain an attractive destination for migrants, improving economic prospects in other competing regions will result in fewer migrants over the next two years. Under these conditions, net migration to the Saskatoon CMA will moderate to 5,850 people in 2013 and rise slightly to 6,000 people next year. The majority of migrants will continue to come from international sources, supported by the province's Immigrant Nominee Program (SINP).

MORTGAGE RATE OUTLOOK

Mortgage rates to see modest and gradual increases, but will remain low

In line with the consensus among private-sector forecasters, increases in the Target Overnight Rate by the Bank of Canada are not anticipated before mid-2014, later than anticipated at the time of the 2013 First Quarter Housing Market Outlook. This reflects the downward revisions in GDP forecasts since the publication of the First Quarter Housing Market Outlook, particularly the expectations of a slower economy in 2013. The expected delay in interest rate increases will continue to be supportive of housing market activity over the forecast horizon.

According to CMHC's base case scenario for 2013, the one-year mortgage rate is forecast to be within 3.00 per cent to 3.25 per cent with an average of 3.13 per cent, while the five-year posted mortgage rate is anticipated to be within 5.00 per cent to 5.50 per cent with an average of 5.28 per cent. For 2014, the one-year posted mortgage rate is expected to rise and be in the 3.25 per cent to 3.75 per cent range with an average of 3.42, while the five-year posted mortgage rate is forecast to be within 5.25 per cent to 5.75 per cent with an average of 5.53 per cent, consistent with higher economic growth prospects in 2014.

Mortgage rates are not expected to increase until mid 2014. The anticipated small and steady increases in mortgage rates will lead to somewhat higher mortgage rates by the end of 2014. However, these rates will remain low, by historical standards, over the forecast horizon.

Forecast Summary Saskatoon CMA Spring 2013							
	2010	2011	2012	2013f	% chg	2014f	% chg
New Home Market							
Starts:							
Single-Detached	1,638	1,608	2,025	1,700	-16.0	1,750	2.9
Multiples	743	1,386	1,728	1,250	-27.7	1,300	4.0
Starts - Total	2,381	2,994	3,753	2,950	-21.4	3,050	3.4
Average Price (\$):							
Single-Detached	380,600	389,580	408,491	423,000	3.6	431,000	1.9
Median Price (\$):							
Single-Detached	359,239	360,000	370,000	380,000	2.7	388,000	2.1
New Housing Price Index (% chg.)	2.8	1.4	2.3	1.7	-	1.5	-
Resale Market							
MLS® Sales	3,574	5,183	5,462	5,200	-4.8	5,300	1.9
MLS® New Listings	6,756	10,284	10,217	10,100	-1.1	9,900	-2.0
MLS® Average Price (\$)	296,293	301,232	315,834	325,000	2.9	333,000	2.5
Rental Market							
October Vacancy Rate (%)	2.6	2.6	2.6	2.7	-	2.7	-
Two-bedroom Average Rent (October) (\$)	934	966	1,002	1,025	-	1,050	-
Economic Overview							
Mortgage Rate (1 year) (%)	3.49	3.52	3.17	3.00 - 3.25	-	3.25 - 3.75	-
Mortgage Rate (5 year) (%)	5.61	5.37	5.27	5.00 - 5.50	-	5.25 - 5.75	-
Annual Employment Level	145,900	144,700	151,500	157,560	4.0	162,129	2.9
Employment Growth (%)	-0.7	-0.8	4.7	4.0	-	2.9	-
Unemployment rate (%)	5.4	5.6	5.6	4.5	-	4.3	-
Net Migration ⁽¹⁾	5,278	5,844	9,382	5,850	-37.6	6,000	2.6

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

The forecasts included in this document are based on information available as of April 26, 2013.

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