HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Saskatoon CMA

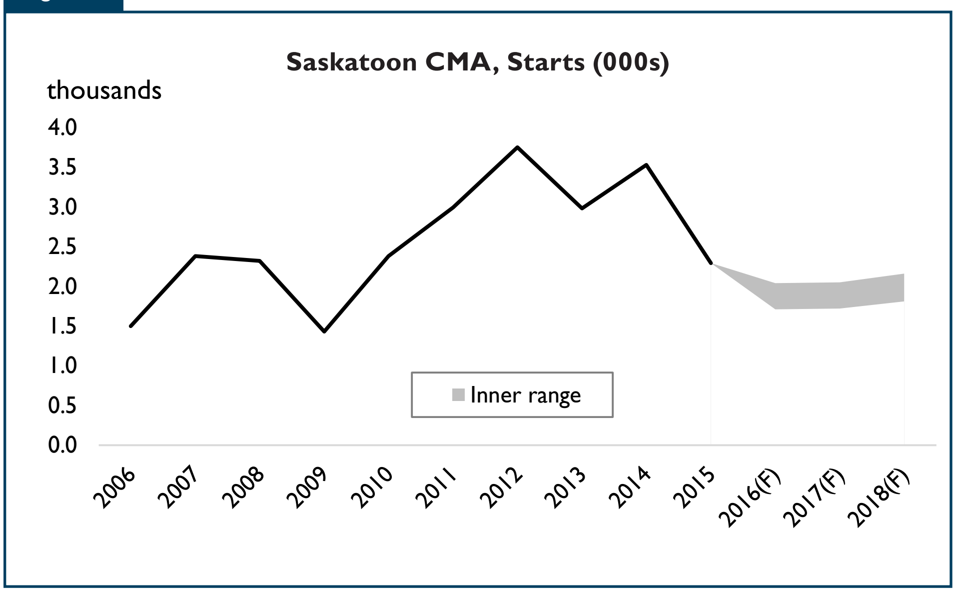
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2016

Highlights[1]

- Housing starts to edge higher in 2017, increase further in 2018 as economic conditions improve.
- MLS®[2] sales to decline further in 2016, but remain relatively stable through 2018.
- Downward pressure on resale prices to persist this year and next year, keeping price gains modest.
- Employment to contract in 2016, but growth expected to return in 2017 and 2018.

Figure 1



Source: CMHC, (F): CMHC Forecast

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[1] The forecasts and historical data included in this document reflect information available as of September 30, 2016.

[2] MLS® is a registered trademark of the Canadian Real Estate Association.

New home market: Overall housing starts on pace to moderate in 2016, but will edge higher in 2017 and 2018

Continued weakness in global prices for oil, potash and canola have moderated economic activity in Saskatoon this year. Weak labour market conditions have diminished employment opportunities, leading to job losses and a rising unemployment rate, thus reducing housing demand. As a result, total housing starts in the Saskatoon Census Metropolitan Area (CMA) are forecast to decline in 2016 and range from 1,710 to 2,040 units. A gradual improvement in economic conditions and a continued draw down of inventory will support a modest increase in total housing starts of between 1,720 and 2,050 units in 2017. A slightly higher pick up in job growth in 2018 will help housing starts increase further, leading to a range of 1,810 to 2,160 units.

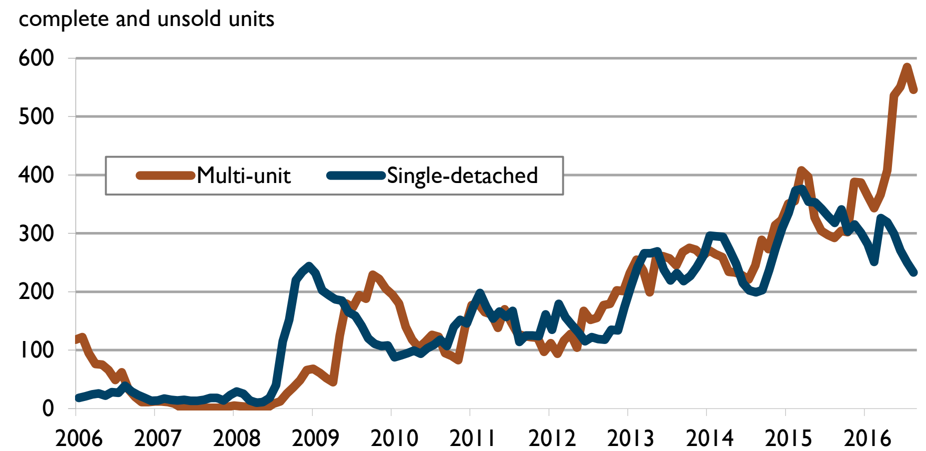
Following a 37 per cent decline in 2015 to 1,000 units, single-detached starts are on a similar pace to last year's performance, with forecast range of between 950 and 1,050 units. Builders of single-detached homes in Saskatoon have continued to face competition from lower-priced condominiums and elevated resale supply. While the inventory of completed and unsold single-detached units has declined in each of the first eight months of 2016, a weak labour market and a high unemployment rate have prevented a faster pace of single-detached starts this year. Moving forward, a gradual improvement in economic conditions will support slightly higher construction next year. As such, single-detached starts are forecast to range from 960 to 1,060 units in 2017 and from 980 to 1,080 units in 2018.

After eight months in 2016, single-detached starts were unchanged from the same period of 2015. The inventory of completed and absorbed single-detached units stood at 233 units in August, down 27 per cent from August 2015, and marginally above the five-year average of 224 units. More than 63 per cent of this inventory was in the newer subdivisions in the Northeast, Southeast and South areas of Saskatoon.

Multi-unit[3] starts are forecast to decline further in 2016 and range from 700 to 1,050 units. A contraction in employment this year has substantially reduced housing demand. In addition, elevated multi-unit inventory, particularly among row housing and apartment condominiums, has prompted local

Figure 2

Saskatoon's multi-unit inventory remains elevated despite fewer starts, will constrain new construction ahead



Source: CMHC

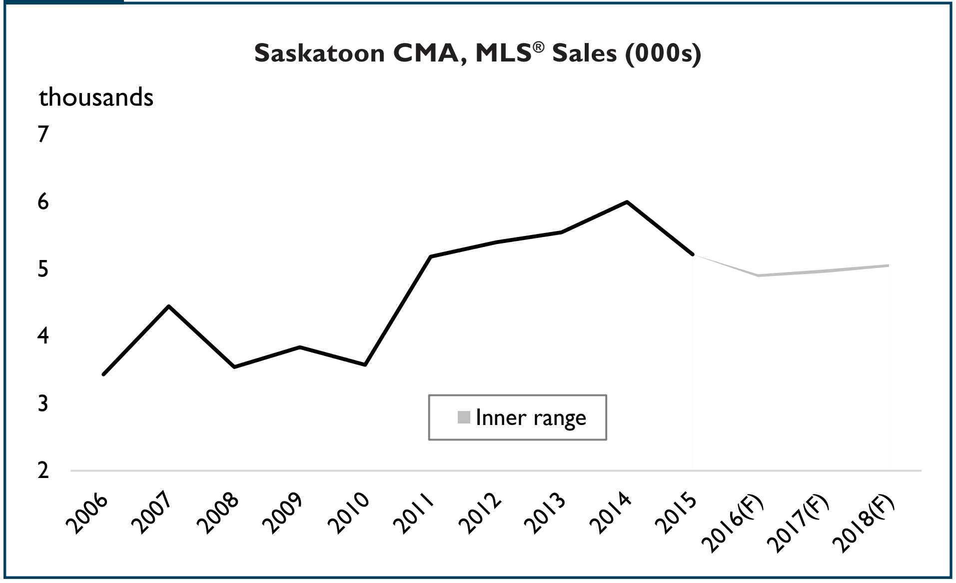
Note to readers

In an effort to align itself with the various needs of those seeking information about the housing market, CMHC's Market Analysis Centre has undertaken a complete review of its products and services. As a part of this review, the CMHC's *Housing Market Outlook* publication will be undergoing a series of modifications. The general objective is to provide a range of possible outcomes that, in a context of economic and financial uncertainty, will better help users in their decision-making process.

As a first step in this ongoing process, the present edition incorporates forecast ranges for housing variables as well as an expanded discussion on the risks to the forecast. A more detailed description of the forecast range methodology is provided at the end of the publication.

[3] Multi-unit housing starts include semi-detached, row and apartment units.

Figure 3



Source: CREA, (F): CMHC Forecast

builders to delay new construction projects in order to accelerate absorption of completed and unsold units. Next year, a gradual improvement in economic conditions and continued reduction of inventory will result in a similar forecast range of 700 to 1,050 units. In 2018, multi-unit starts are projected to range between 760 and 1,140 units, supported by further improvement in the economic outlook.

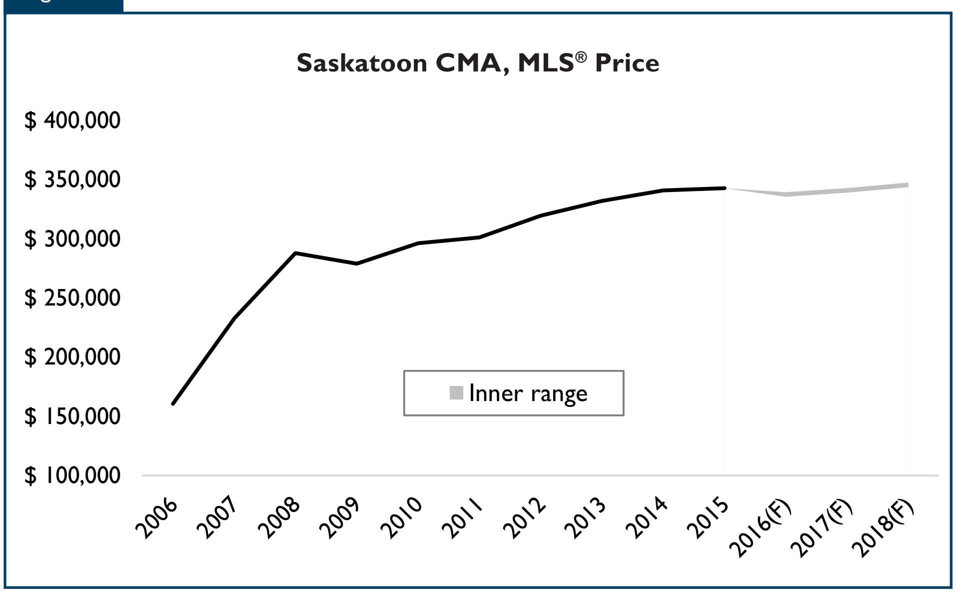
From January through August 2016, multi-unit starts in Saskatoon were down 24 per cent from the corresponding period of 2015. Apartment starts accounted for 79 per cent of multi-unit starts over this period, of which more than two thirds were market and social housing units intended for the rental market. In the ownership market, the inventory of complete and unsold multi units stood at 546 in August, 87 per cent higher than in August 2015, and significantly above both the five-year and ten-year averages of 230 units and 150 units, respectively. Half of this inventory consisted of row units, while another 40 per cent was apartment condominiums. In the current economic environment, a risk is that many of these units will not be absorbed at completion, which will slow the pace of multi-unit starts this year and into the first half of 2017.

Existing home market: MLS® sales to decline in 2016, rise in 2017 and 2018

MLS® sales in Saskatoon have continued to decline in 2016 and are forecast to range between 4,880 to 4,920 units. Continued contraction in full-time employment and a rising unemployment rate have reduced housing demand in Saskatoon. As a result, existing home sales are headed lower in 2016 from the previous year. Next year, a gradual improvement in economic conditions will allow for a slightly higher range in sales of between 4,940 and 4,990 units, despite the impact of modest increases in mortgage rates during 2017. A further pickup in employment growth in 2018 will result in home sales ranging from 5,030 to 5,070 units.

During the first eight months of 2016, MLS® sales in Saskatoon were down 7.8 per cent, compared to the same period of 2015. Active listings averaged 3,211 units in August, up 1.2 per cent from an average of 3,173

Figure 4



Source: CREA, (F): CMHC Forecast

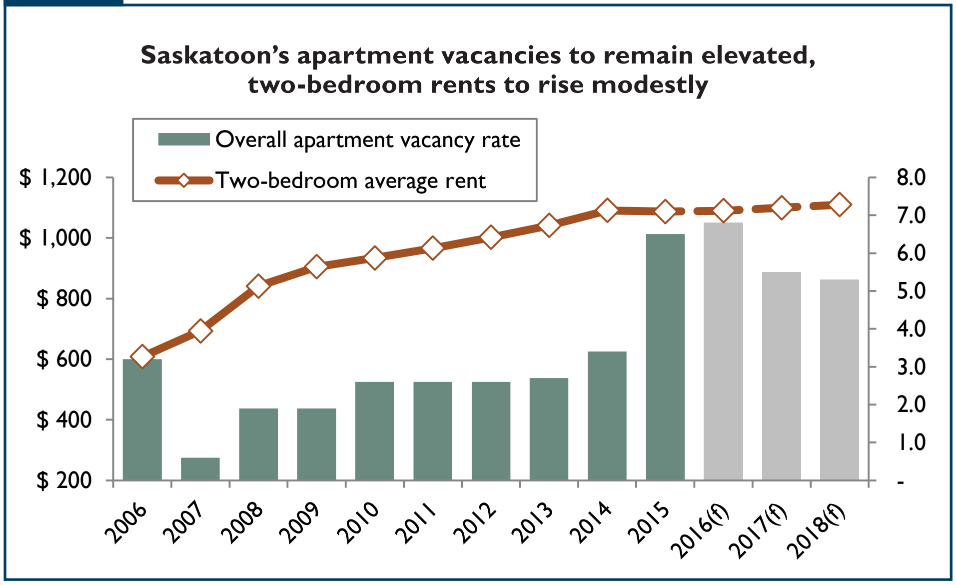
units in the same month one year prior. With resale supply staying ahead of demand, market conditions have remained largely in favour of buyers. The seasonally adjusted Sales-to-New Listings Ratio was at 37 per cent in August 2016, still in buyers' territory.

As such, downward pressure on resale prices in Saskatoon has continued this year, with the average MLS® price forecast to decline from $342,727 in 2015 and range between $335,580 and $339,060 in 2016. In 2017 and 2018, the average MLS® price is forecast to range from $339,060 to $342,940 and from $343,630 to $347,560, respectively. On a year-to-date basis, resale prices in Saskatoon were down 1.6 per cent in August 2016 from the same period a year earlier. Similarly, Saskatoon's composite MLS® Home Price Index declined 0.9 per cent in August 2016 from the preceding 12-month period. While downward pressure on prices is expected to continue for the remainder of this year, CMHC's Housing Market Assessment[4] detected moderate evidence of overvaluation in the Saskatoon market in the second quarter of 2016, suggesting that observed prices were not being fully supported by growth in fundamentals such as personal disposable income and the population aged 25 to 34.

Rental market: Vacancies to remain high in 2016, decline in 2017 and 2018

Saskatoon's average apartment vacancy rate is forecast to edge higher to 6.8 per cent in 2016 from 6.5 per cent in 2015 due to weakening rental demand and competition from the secondary rental market. Along with an elevated inventory of completed and unsold units, Saskatoon's high vacancy rate has contributed to CMHC's HMA framework detecting strong evidence of overbuilding. Moving forward, improving economic conditions are expected to support slightly stronger rental demand and bring down the average apartment vacancy rate to 5.5 per cent in 2017, followed by a further decline to 5.3 per cent in 2018. Job losses have tempered rental demand this year, particularly among the typical renter age group of 15 to 24. In addition, lower-priced new multi-unit options in Saskatoon's newest neighbourhoods will continue to support movement into first-time homeownership.

Figure 5



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

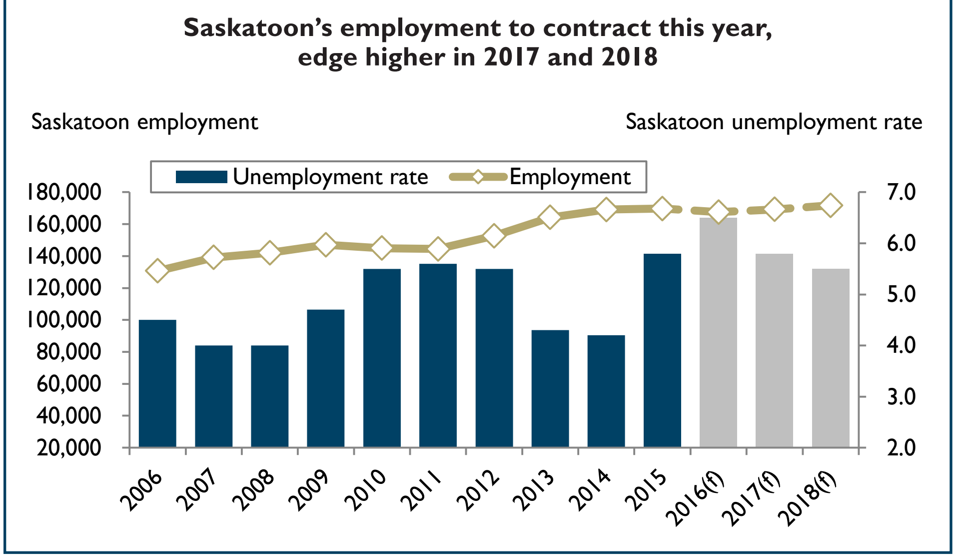
Despite the projected decline in vacancies in 2017 and 2018, a historically high apartment vacancy rate will limit gains in average monthly rents over the forecast period. Nonetheless, the addition of newly completed units to the rental supply, which typically command a higher monthly rent, will help push up the average monthly rent for a two-bedroom apartment in the Saskatoon CMA to $1,090 in 2016, to $1,100 in 2017, and to $1,110 in 2018.

Economic trends: Weak labour market conditions to persist in 2016, gradual recovery projected through 2018

Economic headwinds posed by soft global prices for oil, potash and canola have slowed economic activity in Saskatoon and led to a contraction in employment. After expanding less than half a per cent in 2015, total employment in Saskatoon is forecast to decline 1.3 per cent in 2016, representing the first contraction since 2011. A gradual improvement to the economic outlook due to modestly higher commodity prices is forecast to result in a return to employment growth of one per cent in 2017 and 1.5 per cent in 2018. Job gains over the forecast period

[4] See (Housing Market Assessment)

Figure 6



Source: Statistics Canada, CMHC Forecast (f)

will also be supported by ongoing spending in commercial, infrastructure and institutional projects.

There were 1,200 fewer people employed in Saskatoon's labour market in August 2016 than in the same month a year ago. Job losses have been widespread this year, impacting full-time positions in several industries, although a few sectors such as services, trade and manufacturing have recently began to show signs of recovery. Overall, labour shortages have continued to ease, with the seasonally adjusted unemployment rate at 6.5 per cent in August. After growing by only 1.1 per cent in 2015, average weekly earnings in Saskatoon were up 3.2 per cent in August from year ago at $987, supported by gains in the service sector. However, continued slack in Saskatoon's labour market over the forecast period will result in more modest gains in weekly earnings.

Fewer employment opportunities and a high unemployment rate have reduced the number of migrants to Saskatoon in the past two years. As a result, Saskatoon's population growth slowed to two per cent in 2015 from 2.7 per cent in 2014. Moving forward, Saskatoon's population is forecast to grow at a slightly faster rate of 2.2 per cent in 2016, supported by gains in international migration. A two per cent growth rate is forecast to be maintained over the next two years, which will result in 324,525 people residing in the Saskatoon CMA by 2018.

Mortgage rates are expected to rise modestly over the forecast horizon

Mortgage rates are expected to increase very modestly over the period 2016-2018. This is consistent with the expected pick-up over the horizon for inflation and real GDP growth by several forecasting institutions.

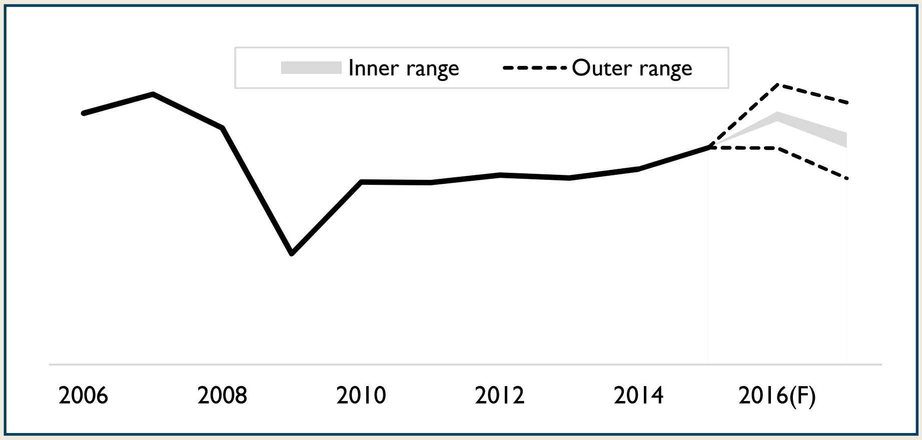
According to our base case scenario, the posted 5-year mortgage rate is expected to be within a 4.5 to 4.9 per cent range in 2016 and within a 4.4 to 5.2 range in 2017. For 2018, the posted 5-year mortgage rate should lie within a 4.5 to 5.7 per cent range.

Methodology for forecast ranges

The present edition of *Housing Market Outlook* incorporates forecast ranges for housing variables. Despite this change, all analyses and forecasts of market conditions continue to be conducted using the full range of quantitative and qualitative tools currently available. Two sets of ranges are presented in the publication:

- An inner range, which provides more precise guidance to readers on the outlook while recognizing the small random components of the relationship between the housing market and its drivers. This inner range is based on the coefficient of variation* of historical data and on past forecast accuracy. This range provides precision and direction for forecasts of housing variables, given a specific set of assumptions for the market conditions and underlying economic fundamentals.
- An outer range, which reflects potential risks to the forecast due to, for example, the impact of economic shocks. The outer range is based on a broader coefficient of variation of historical data and on past forecast accuracy. This range includes some low-probability events that could have a significant impact on the forecast.

Downward (or upward) adjustments to the ranges may be applied based on local market intelligence if there are more sources of risks (upside or downside) for that specific market.



* The coefficient of variation in this case is the standard deviation divided by the mean of that series. A higher coefficient of variation would produce wider ranges due to the higher volatility of the data, while a lower coefficient of variation would produce tighter ranges.

Trends at a glance

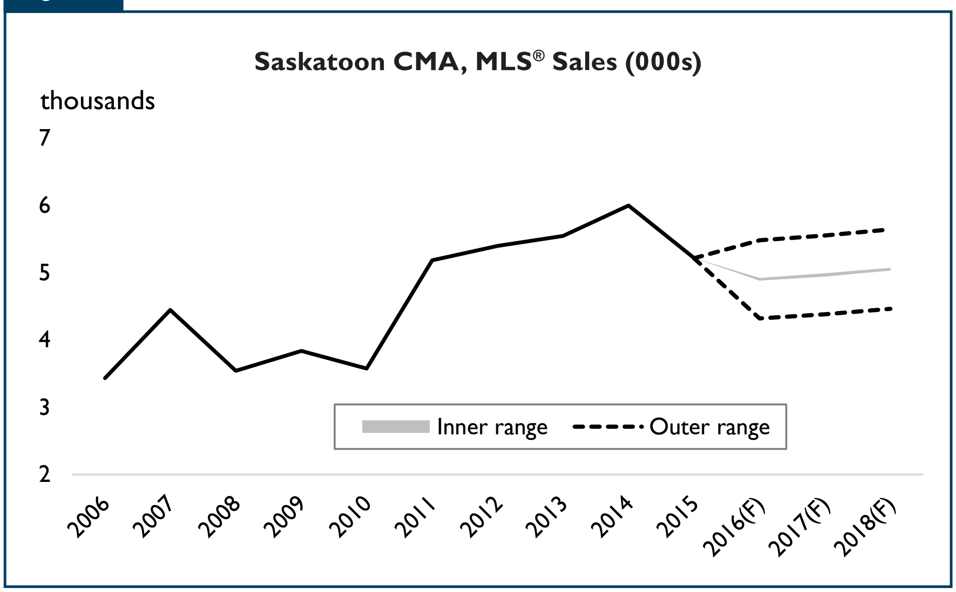
Key Factors and their Effects on Housing Starts	
Mortgage Rates	Mortgage rates are expected to stay near current levels until the end of 2016, before rising modestly over the forecast horizon. This should contribute to a slight moderation in housing demand by the end of 2018.
Employment	Employment is set to contract in 2016 on weaker commodity prices which have curtailed resource investment projects and reduced business hiring. Positive job growth is expected to return in 2017, providing support to housing demand.
Income	The loss of full-time jobs and rising unemployment will slow income growth this year, which will be less supportive of housing demand than in previous years.
Population	Saskatoon's population is expected to grow by 2.2 per cent this year, followed by a slight decline to two per cent annual growth in both 2017 and 2018. This will provide a base for housing demand and support housing starts, moving forward.
Resale Market	Fewer sales and declining resale prices will temper the move-up market, contributing to a slower pace of housing starts in 2016. As well, higher resale supply will compete with elevated inventory of new housing units. This will have a moderating effect on housing starts.
New Home Inventory	According to CMHC's HMA framework, the inventory of complete and unabsorbed units per 10,000 population increased in 2016Q2 and remained significantly above the historical threshold of overbuilding. Combined with a high rental vacancy rate, this has supported strong evidence of overbuilding in the Saskatoon CMA, which will constrain housing starts this year.

Forecast risks

There are a number of risks both to the upside and downside which contribute to uncertainty in the outlook. These risks are noted below and are represented by the lower and upper bounds of the outer forecast ranges for starts, MLS® sales and MLS® price.

- A prolonged period of weak prices for resources such as oil, potash and canola or a further decline in prices from current market levels could result in weaker economic conditions than is currently forecast. In this event, employment in Saskatoon would contract further over the forecast period than is envisaged. Conversely, a stronger than expected rebound

Figure 7



Source: CREA, (F): CMHC Forecast

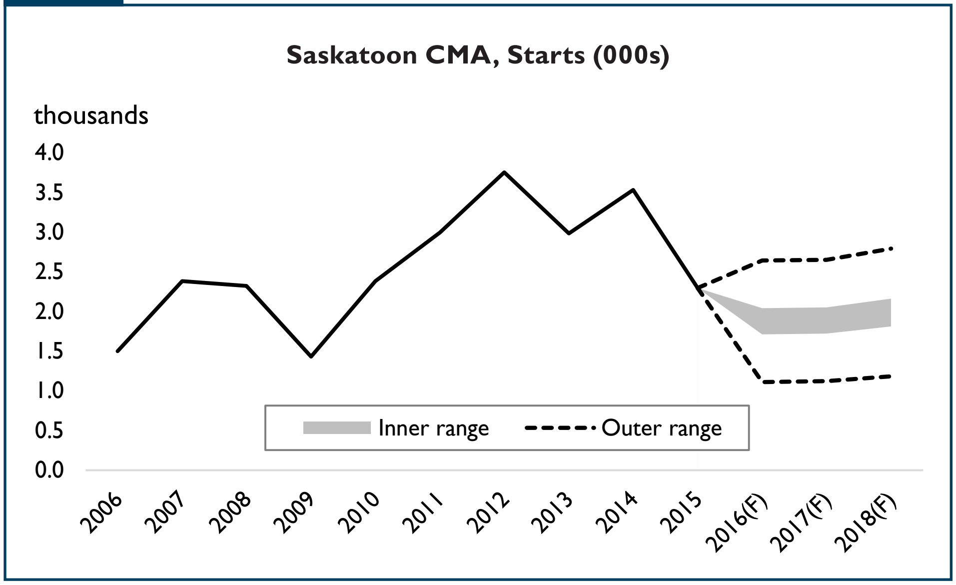
in commodity prices would significantly improve economic conditions in Saskatoon, thus resulting in firmer resale demand. As such, existing home sales in Saskatoon could range from 4,320 to 5,480 units in 2016, from 4,380 to 5,550 units in 2017, and from 4,460 to 5,640 units in 2018.

- The outlook assumes new home inventory will be drawn down at a steady pace and that market absorptions will not decline significantly from current rates. Further escalation in new home inventory, combined with a higher-than-expected increase in resale supply, would greatly reduce housing starts over the forecast period. Considering both upside and downside risks, total housing starts in Saskatoon could range from 1,110 to 2,640 units in 2016, from 1,120 to 2,650 units in 2017, and from 1,180 to 2,790 units in 2018.
- A greater-than-expected improvement in the outlook for oil prices in 2017 and 2018 would substantively boost economic activity and employment growth, thus resulting in much stronger housing demand over the next two years. This would result in higher resale prices. On the other hand, a larger contraction in employment than currently forecast would significantly reduce housing demand, while supply remained elevated. Under both scenarios, resale prices in Saskatoon could range from $324,700 to $350,300 in 2016, from $328,070 to $353,930 in 2017, and from $332,500 to $358,700 in 2018.

The impact of mortgage regulation changes

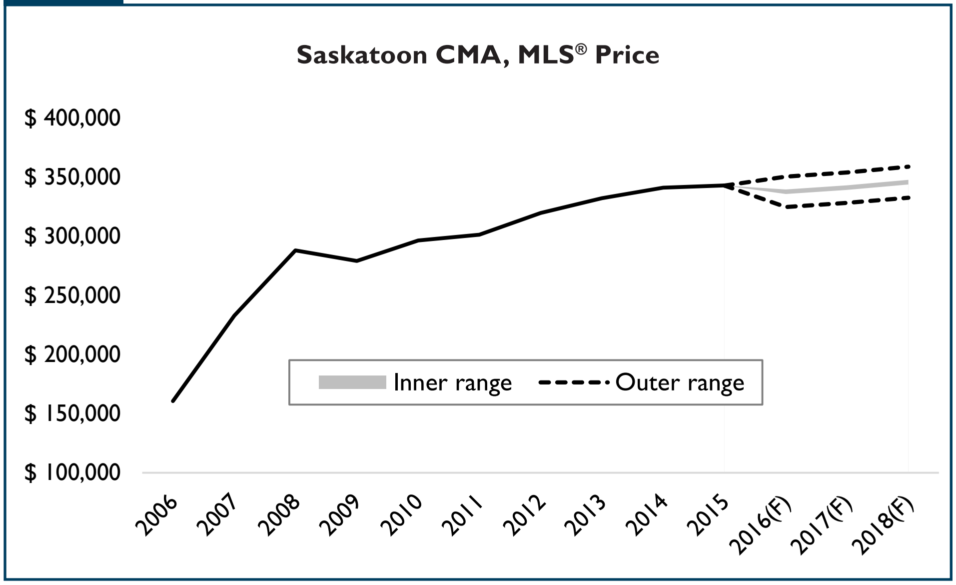
On October 3, the Government of Canada announced measures designed to support the health and stability of Canadian housing markets and housing finance system. The measures include new eligibility rules for high ratio insured mortgages (where the loan to value ratio is greater than 80%) and new eligibility criteria for low ratio insured loans (loan-to-value less than 80%) that previously only applied to high ratio mortgages. Under the new measures, all high ratio mortgages will now be "stress tested" to ensure borrowers can afford their loan if interest rates rise. Borrowers will now have to meet higher debt servicing limits calculated using the greater of the contract rate and the Bank of Canada's 5 year posted rate. The latter is currently more than 2% higher than typical contract rates. This "stress test"

Figure 8



Source: CMHC, (F): CMHC Forecast

Figure 9



Source: CREA, (F): CMHC Forecast

approach has been applied since 2010 to variable rate mortgages and fixed rate mortgages of a term of less than 5 years. Applying this stress test to loans with terms of five years and longer extends this test to all high-ratio insured mortgages.

As the policy just took effect, it is difficult to precisely evaluate the impacts on housing markets. In general, an increase in mortgage rates affects house prices, sales, and starts negatively. However, the stress test approach affects the size of the insured mortgage for which the home borrower qualifies and it is not an increase in the mortgage rate itself. As a result, borrowers could adjust their purchase behaviour in several ways. For example, they could purchase homes that are less expensive, add more down payment, delay their purchase in order to save additional funds for down payment, or add a co-signor. According to our analysis, from 5 to 10 per cent of all prospective home buyers could be affected during the first year of implementation, but the precise impact will vary depending on specific homebuyer circumstances and behaviours. Considering regional variations in drivers of housing activities, it is also likely that the impact of the announced changes could be different across the country. Taking into account all possible scenarios, the impacts on house prices, sales, and starts are within the lower band of our outer forecasting range that is designed to capture unexpected economic and financial developments, as well as unforeseen regulatory changes at the local, provincial, and national levels.

Forecast Summary
Saskatoon CMA
Fall 2016

	2013	2014	2015	2016(F)		2017(F)		2018(F)	
				(L)	(H)	(L)	(H)	(L)	(H)
New Home Market									
Starts:									
Single-Detached	1,658	1,577	1,000	950	1,050	960	1,060	980	1,080
Multiples	1,322	1,954	1,293	700	1,050	700	1,050	760	1,140
Starts - Total	2,980	3,531	2,293	1,710	2,040	1,720	2,050	1,810	2,160
Resale Market									
MLS® Sales	5,543	5,996	5,215	4,880	4,920	4,940	4,990	5,030	5,070
MLS® Average Price($)	332,058	341,061	342,727	335,580	339,420	339,060	342,940	343,630	347,560
Economic Overview									
Mortgage Rate(5 year)(%)	5.24	4.88	4.67	4.50	4.90	4.40	5.20	4.50	5.70

	2013	2014	2015	2016(F)	2017(F)	2018(F)
Rental Market						
October Vacancy Rate (%)	2.7	3.4	6.5	6.8	5.5	5.3
Two-bedroom Average Rent (October)($)	1,041	1,091	1,087	1,090	1,100	1,110
Economic Overview						
Population	291,032	298,932	304,975	311,725	318,075	324,525
Annual Employment Level	164,200	169,100	169,700	167,500	169,200	171,700

Multiple Listing Service® (MLS®) is a registered trademark of the Canadian Real Estate Association (CREA).

Rental Market: Privately initiated rental apartment structures of three units and over.

The forecasts (F) included in this document are based on information available as of 30th September 2016. (L)=Low end of Range. (H)=High end of range.

It is possible that the low end (L) and the high end (H) of forecast ranges for residential housing starts for singles and multiples jointly may not add up to the total. This is caused by rounding as well as the volatility of the data.

Source: CMHC (Starts and Completions Survey and Market Absorption Survey). Statistics Canada. CREA(MLS®). CMHC Forecast (2016-2018).

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October **Rental Market Survey** (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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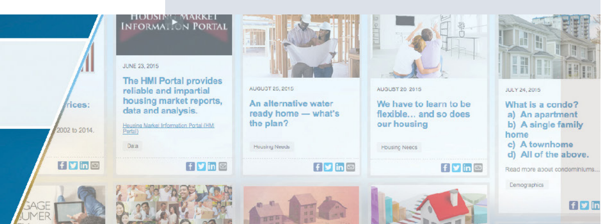

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