FOURTH QUARTER 2019

HOUSING MARKET DIGEST

SASKATCHEWAN

MORTGAGE PROFESSIONALS CANADA

Resale Market

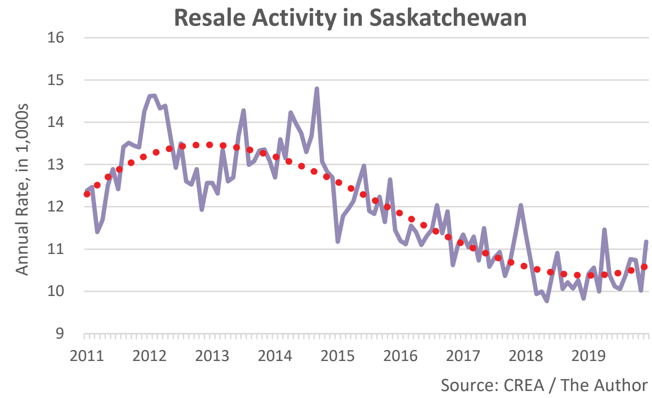
Resale activity recovered slightly during the fourth quarter (by 2% versus the third quarter), but this was from a very low level. Housing activity remains weak. Furthermore, recent rises in mortgage interest rates might have given a push to sales, as buyers take advantage of pre-approvals before they expire. That positive effect may now be ending and we might see another slowing during the first half of this year.

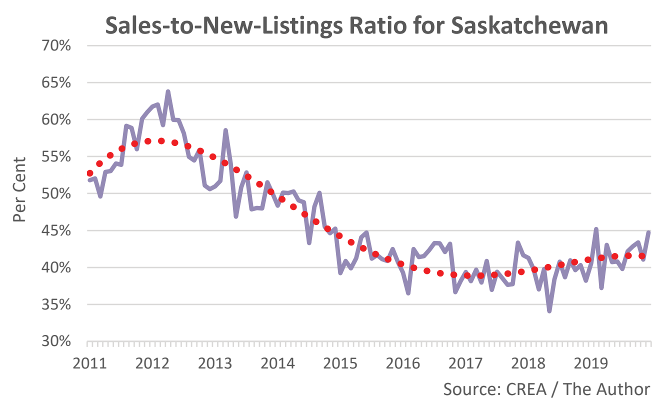
For the entire year, sales increased by 2%, to about 10,500.

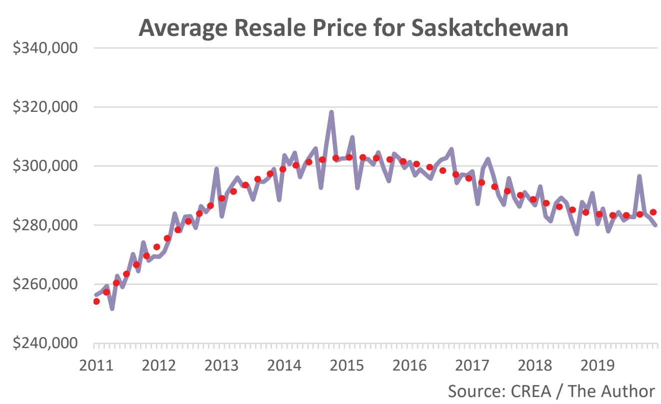
On a population-adjusted basis, sales in 2019 were 14% lower than the long-term (2001-2019) average. A negative employment situation has been partly offset by low interest rates. The mortgage stress tests are a further negative factor.

The sales-to-new-listings ratio ("SNLR") was 43% in the fourth quarter. This is below the threshold (estimated at 51%) for a "balanced market" (this is the level at which prices are expected to rise by 2% per year).

In response, prices have been roughly flat during the past year (which is an improvement from the gradual erosion that was seen during 2015 to 2018). We should expect little or no price growth for a while, and in fact there is some risk of declines, if potential sellers lose patience.







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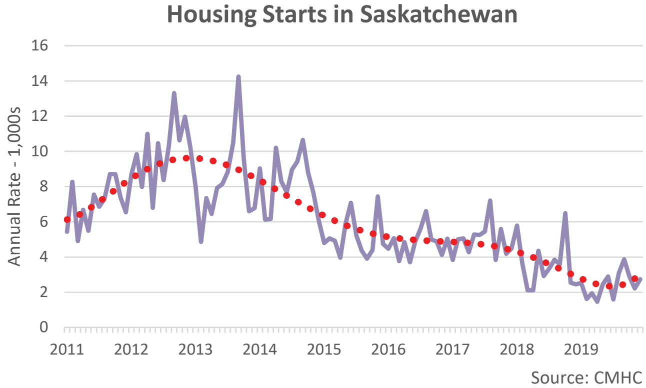
Housing Starts

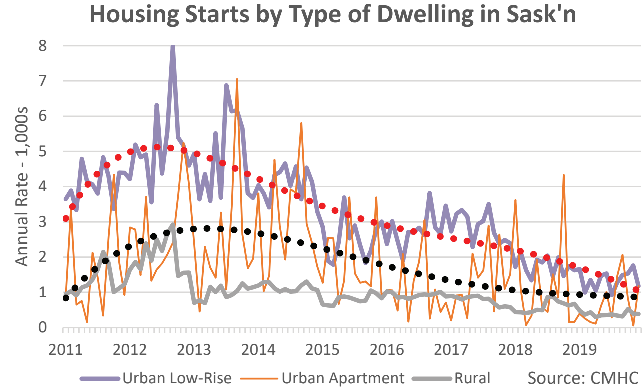
Housing starts remain badly weakened in Saskatchewan. The rate in the fourth quarter (2,600) was 8% lower than in the third quarter. For the year, starts totaled just over 2,400, which was 33% lower than in 2018, and 51% below the 20-year average of 4,956.

Starts are very weak for all types of housing. For 2019, starts of single-detached homes were 55% below the 20-year average. Apartment starts were 42% below the 20-year average.

Housing Starts in Saskatchewan



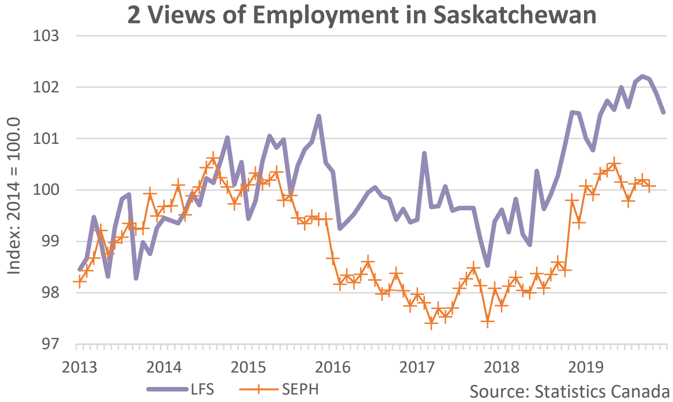
Housing Starts by Type of Dwelling in Sask'n



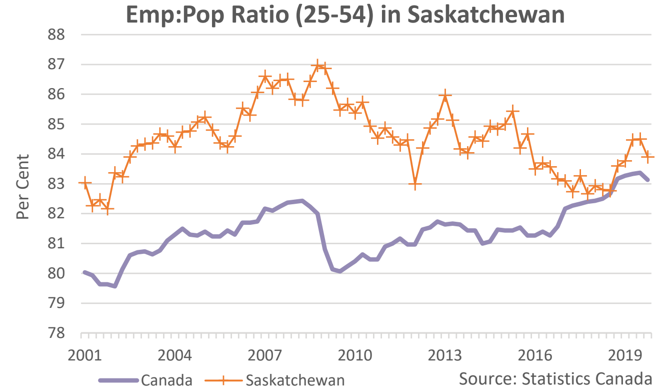
Employment Trends

Statistics Canada's surveys of employment had shown improvement during 2018, but for 2019, both surveys show further weakness. The Labour Force Survey shows no year-over-year growth, as of December. The Survey of Employment, Payrolls and Hours shows growth of 1.7% (but as of October, and no growth since last January). This data is negative for the housing market outlook.

2 Views of Employment in Saskatchewan



Emp:Pop Ratio (25-54) in Saskatchewan

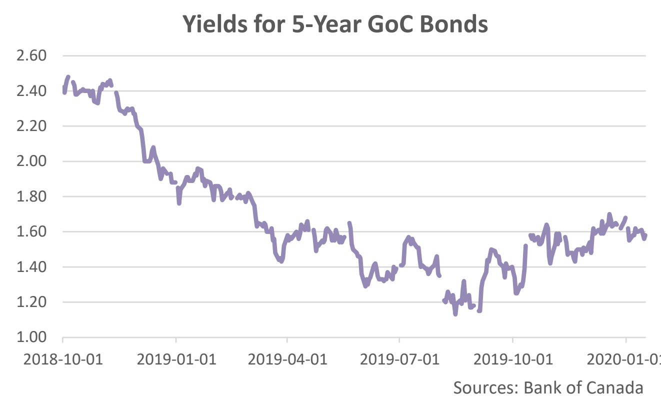


Employment Trends (Continued)

The employment-to-population ratio for "prime working age" adults (25-54) is volatile, most likely this is a random variation that is often found in surveys with small samples.

This data does suggest that the current situation is better than in 2016 and 2017, but is still mediocre in historic terms. This data also shows that while Saskatchewan, for many years, had an employment rate above the national average, it has been only average in recent times. This is a negative factor for future population growth, as the province has become comparatively less attractive to job seekers.

Interest Rates



Bond yields are now more-or-less where they should be: the current yield for 5-year Government of Canada bonds is 1.57% (as of January 16), within the range of 1.5-1.75% that I think is appropriate, and I don't expect these yields to change materially during the next few months. My opinion-estimate of a typical advertised "special offer" mortgage interest rate (5-year fixed-rate from major lenders) has been 2.85% since early November.

The spread between mortgage rates and bond yields remains skinny (in the area of 1.2-1.3 points versus a long-term average of 1.8 points), due to intense competition. Variable rates are unchanged (my opinion-estimate remains at 2.95%).

Rental Markets

Every October, Canada Mortgage and Housing Corporation does a comprehensive survey of residential rental markets in Canada. The results for 2019 were released on January 15. For the urban areas of Saskatchewan, the October 2019 vacancy rate was 8.0%, which was a slight drop from 8.3% a year earlier. This is still a very high vacancy rate. The average vacancy rate for the period shown in this chart is 3.8%.

I attribute the elevated vacancy rates to a weakened employment situation and the fact that housing production (while sharply reduced) has exceeded the need. It's not just construction of rentals: when the supply of housing rises more rapidly than the number of households that need it, vacancies increase. During 2019, there were about 3,200 housing completions. This is 36% below the 20-year average, but at a time when there should be very little expansion of the inventory. Based on trends for housing starts and employment (as shown earlier), we might expect a further gradual decline of the vacancy rate. But, for some time, there will be little upward pressures on rents.

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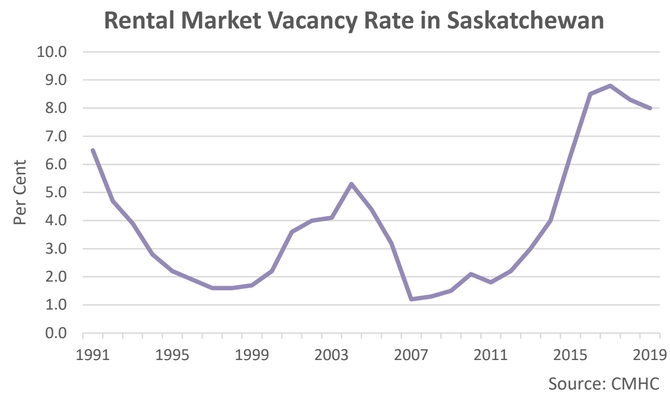
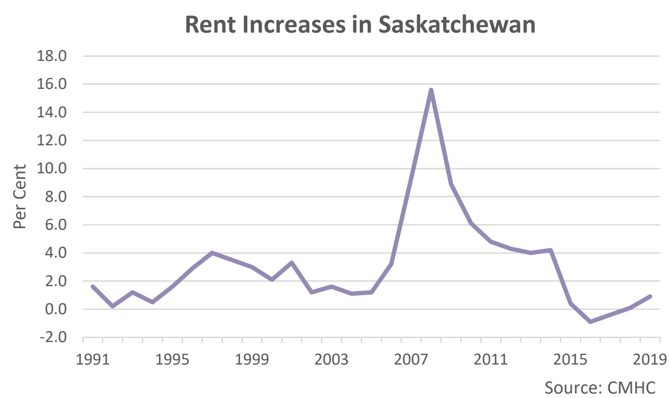
Rental Markets (Continued)

CMHC estimates that rents increased by 0.9% during the past year. Rents are lower than they were five years ago.

Occasionally, comments are made that a healthy vacancy rate is 3%. I have investigated the origins of this, and as far as I can tell, this has never been supported by actual research. In response, I have calculated the statistical relationships between vacancy rates and rent increases. For Saskatchewan, we should expect rents to increase by 2% per year when the vacancy rate is 5%. This is my opinion on a healthy ("balanced market") vacancy rate. The calculated balanced market vacancy rates vary across the provinces and cities of Canada. For all of Canada, the estimated threshold is 3.7%.





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