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Spring 2019 Update

Farm Credit Canada released their 2018 Farmland Values report this week. We were not surprised they reported farmland values were up 7.4% on average in Saskatchewan in 2018. This was above the Canadian average increase of 6.6%. There was, however, significant variability between regions in the province with increases ranging from 1.7% to 12.5%.



Saskatchewan farmland regions

Region	% change	Value \$/acre*	Value range**
1 North Western	4.3%	\$1,972	\$600 – \$3,300
2 North Eastern	6.0%	\$1,833	\$900 – \$2,600
3 West Central	3.2%	\$1,985	\$900 – \$3,300
4 East Central	11.6%	\$1,475	\$900 – \$2,500
5 South Western	12.5%	\$1,974	\$800 – \$2,700
6 South Eastern	1.7%	\$1,739	\$800 – \$3,400

*FCC reference value \$/acre.

**The value range represents 90% of the sales in each area and excludes the top and bottom 5%.

East Central Saskatchewan experienced an 11.6% increase. In terms of value (\$/acre), this region is the lowest in the province to begin with. Decent crop yields and commodity prices resulted in strong demand from producers for this lower priced farmland as they perceived good value and an opportunity to expand.

South West Saskatchewan had a 12.5% increase. Crop yields were average in this area, however, a significant shortage in the supply of farmland caused producers to drive up the price of the limited farmland that did become available for sale.

The remaining regions in Saskatchewan had only modest increases. This deceleration or softening is a result of farm income leveling off, fluctuating commodity prices and rising interest rates. We expect more of this moving forward into 2019.



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Saskatchewan's Ag Real Estate Professionals



Spotlight On: Kindersley Aquatic Centre

By David Fortier, Owner, Fortier Mattila Appraisals Inc.

A project 5 years in the making, the new Kindersley Aquatic centre complete.

By the Numbers

Building Cost: \$6,600,000

Construction Cycle: 20 months including design and demolition of existing aquatic centre

Building Size: 21,000 Sq.Ft.

Hot Tub: 20 person

Lanes: 6 Olympic sized lanes

Leisure Pool: 2,500 square feet

Waterslide: 150 feet

Located at 300 – 5th Avenue East, Kindersley, the new aquatic centre is located next to the West Central Events Centre. It is also located across the street from Kindersley Composite School and a block away from Elizabeth Middle School.

The new aquatic centre was a much needed addition to the Town of Kindersley and to the surrounding communities who, for the past few years, have had to use facilities elsewhere. Kindersley has a population of approximately 4,571 as per the 2016 census but is a central trading hub with a trading population of 28,000 people.

The project was completed by local Pro-Bilt Structures Ltd (Headquartered in Kindersley) and Western Recreation.

“With a young family myself, we see the benefit of Kindersley having an indoor aquatic facility, helping us break up our long cold winters. This was a community driven project from the beginning, proven by the millions of dollars of generous donations from local businesses and individuals. Over 30 local service providers and suppliers were used on the project, pumping millions of dollars directly into our local economy, which was important considering the recent headwinds faced by our resource/agriculture based economy.”

– Jeff Meyer, President, Pro-Bilt Structures Ltd.

Positive yet mixed signals in Saskatchewan Industrial

There are three significant numbers I'm looking at to determine the sentiment of the industrial real estate market. One of those numbers is positive, and two illustrate we have yet a way to go before we've fully recovered.

Saskatoon vacancy rate

Our 1Q19 market reports have just been released. Although each of the 8 areas we report on vary, the overall Saskatoon vacancy rate has dropped 6.8 to 6.5 per cent. Although that change may seem small, it has in fact been trending lower since its peak in 2016. A factor which has contributed to this reduction is the limited amount of development activity. Less than half the number of building permits were issued in 2018 as compared to the previous year and that trend has continued so far in 2019. That restraint on development provides for a much-needed reduction in the existing oversupply.

Saskatoon average asking net rental rate

It is difficult to statistically track tenant incentives which can include free rent and tenant improvement allowances. We do however track average asking net rental rates and there has been a softening of those industrial rates. The current average is \$10.64 which is down \$0.38 from a year ago.

Saskatoon sale price per square foot

Looking at the average sale price per sq ft for industrial buildings can be a somewhat simplistic way of comparing values. When completing a full property valuation, we isolate the land component and other property variables to determine a current market value. It can, however, be a valuable average indicator when grouping sales over a specific time period. With that in mind we have seen a drop in the price per square foot for industrial land and building sales from an average of approximately \$150 psf two years ago to \$130 today.

Regina's picture looks quite different

The total current industrial vacant space in Regina at the end of 1Q19 is 882,000 sq ft. Compare that to Saskatoon's vacancy of 1,545,330 sq ft. Regina's industrial sector is a smaller percentage of their overall commercial real estate. It is nonetheless currently healthier than Saskatoon's. They have reached that "under 5 per cent" sweet spot. Over a two-year period, it has dropped over 200 basis points to 4.72 percent. Over that same period, the average asking net rental rate has dropped from \$11.50 to \$11.04. Like Saskatoon, it's not common to see a reduction in rental rates at the same time vacancy is dropping. It is likely that with a vacancy rate of under 5 percent, the average asking net rental rate will now stabilize.

Feel free to contact me if you'd like a full copy of our recently released 1Q19 Saskatoon and/or Regina Industrial Market Report.



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Spotlight On: North Battleford Theatre

By David Fortier, Owner, Fortier Mattila Appraisals Inc.

Nearly 3 years after Magic Lantern announcement, the new Magic Lantern Theatre is complete.

By the Numbers

Building Cost: \$5,000,000

Land Cost: \$1 purchase from City of North Battleford

Construction Cycle: 11 months start to finish

Building Size: 13,883 square feet

Seats: 479

Movie Screens: 4

New Staff: 12

of Years Property Tax Free: 5

Located at 1091-101st Street, North Battleford, the new Magic Lantern Capitol Annex Theatre is located across from the RBC towers in the heart of the downtown core.

Magic Lantern Theatres first purchased the Capitol Theatre located at 1101-100th Street in February 2017, and shortly thereafter completed a large-scale renovation valued at \$630,000. This included removal of the dividing wall, new seating, a new roof, as well as systems upgrades.

Construction on the new Capitol Annex Theatre began in May 2018, after the land was acquired from the City of North Battleford for \$1. As part of the agreement the City of North Battleford is contractually obligated to provide 175 parking stalls within 2 blocks of the cinema for the non-exclusive use of cinema patrons. The City will be building a 50 to 60 stall parking lot northwest of the new theatre. The new Magic Lantern Capitol Annex opened to the public March 30, 2019.

Magic Lantern Theatres is a Canadian company established in 1984 with 10 locations across the country with 37 screens including 3 cinemas under the Rainbow Cinemas banner.

For more information visit their website:

www.rainbowcinemas.ca

or call 1-306-445-8300

Saskatoon Residential Market Update – Q1 2019

By Norm Fisher, Broker/Owner, Royal LePage Vidorra

Saskatoon home sales rise as listings hit four-year lows for spring.

As the first quarter of 2019 draws to a close, the Saskatoon real estate market is showing signs of promise. Residential unit sales for the period grew four percent from last year as 671 Saskatoon homes traded hands. Buyers appear to be engaged and homes that hit the market early this year are receiving viewings and, in many cases, offers.

Over the first quarter, new listing activity fell lower. Approximately 1680 residential properties hit the MLS®, down from 1807 for the same period last year.

The effect of a modest uptick in sales, and fewer homes being offered for sale is that the inventory of active listings available in the city has fallen to its lowest levels in four years (for this time of year). As March closed, there were about 1600 Saskatoon homes showing an active status on the MLS® system, down roughly 100 units on an annual basis (I'm taking care with my language using words like 'about' and 'roughly' because official numbers for the period had not yet been released by the MLS® at the time of writing).

I mentioned in my last report that the condominium market has been particularly problematic, and in my view, a catalyst in the residential market's softening. This segment is making good progress towards the end of a corrective cycle. While MLS® inventory of condos remains high at 639 (down from 682 a year ago), the number of newly constructed condos that remain unoccupied has fallen sharply. We came into the new year with just 240 new units in the inventory, a drop of 65 percent from a year earlier. At the close of 2016, there were 891 completed and unoccupied condominium units available.

According to the Canadian Real Estate Association MLS® Home Price Index, the price of a "benchmark" apartment condominium is now down 20 percent from their peak in 2015, making this a far more attractive option to entry-level buyers and prospective landlords.

I look forward to updating you on spring activity at the close of Q2.



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CMHC Reports Construction down in 2018

By David Fortier, Owner, Fortier Mattila Appraisals Inc.

The level of construction is considered a good measure of economic activity. Construction activity can be analysed by the number of new permits, number of housing and apartment units, renovation permits, and the value of the permits.

CMHC tracks dwelling starts by province and by larger centre:

Dwelling Starts in Canada*								
	Maritimes	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	B.C.	Canada
2017	8,619	46,495	79,123	7,501	4,904	29,457	43,664	219,763
2018	9,299	46,874	78,742	7,376	3,610	26,085	40,857	212,843
% Change	7.9%	0.8%	-0.5%	-1.7%	-26.4%	-11.4%	-6.4%	-3.1%

Construction activity was down year over year across the country with the exception of the Maritimes and Quebec. Eastern Canada was generally flat with slight increases in the Maritimes and Quebec, whereas Western Canada saw notable declines.

Dwelling Starts in Saskatchewan*				
	Regina	Saskatoon	Rest of Province	Saskatchewan
2017	1,923	1,915	1,066	4,904
2018	1,139	1,626	845	3,610
Decrease	-784	-289	-221	-1294
% Change	-40.8%	-15.1%	-20.7	-26.4%

Saskatchewan had the highest year over year decline at -26.4% which was considerably higher than Alberta (-11.4%) and the country as a whole (-3.1%). Residential construction activity was down throughout the province with Regina down 40.8% and Saskatoon down 15.1%. This trend was evident in numerous smaller cities and rural communities across the province as well.

Construction in Saskatchewan was down year over year as a result of:

- Interest rate increases
- Changes to mortgage qualification rules
- Declining real estate values in many markets across the province
- Decreased oil prices
- Increased construction costs including PST on construction labor

**Source: CMHC Preliminary Housing Start Data (February 2019)*

Maximize capital gains exemption

Jason MacInnis, Local Tax Consultant, FBC – Central & Northern Saskatchewan

Taking advantage of capital gains deductions associated with the selling of qualified farm property might be an appealing way for farmers to reduce their tax bills on such sales.

However, the calculations surrounding these deductions are so complicated and detailed that farmers might get a lot less than they bargained for, including reduced benefit from their \$1,000,000 enhanced capital gains exemption (CGE).

At the heart of the problem is something called cumulative net investment losses (CNILs). These little and sometimes not so little items work to drive down capital gains exemptions. CNILs are largely forgotten until it is time to file a capital gains exemption claim.

Something as simple as continually claiming interest expense as a de-duction on investment income is cumulatively subtracted from a CGE claim.

Allowable business investment losses also grind down the CGE claimed in past years. Part of the problem is that interest and carrying charges are deductible for income tax purposes, but such deductions become a problem when calculating capital gains exemptions.

Net investment losses have been calculated on a cumulative basis since 1988.

A loss occurs if the aggregate of investment expenses is greater than the aggregate of investment income, but what happens if the cumulative total of some of those expenses must now be absorbed when claiming a capital gains deduction on the sale of qualified farm property? The result is that your CGE takes a hit.

Some of those investment expenses include deductions for the cumulative total of interest and carrying charges on property that yields interest, rent or other property income and losses either from the property itself or leasing of property owned by you or by a partnership in which you are involved.

Options exist that can minimize the impact of a CNIL.

- As a shareholder, you might charge interest on shareholder loans to corporations as a means of offsetting investment losses.
- You can also reduce your CNIL exposure if, as a shareholder-manager, you take your income in dividends instead of salary.
- Deferring interest payments to the following year will have a similar effect.

A sole proprietor or active member in a partnership has another option. The interest on a loan is not considered part of the CNIL if investments are financed by taking distributions from the partnership and then replacing the distribution with borrowed money.

Did I say all of this is complicated?

The ability to maximize the lifetime exemption is also limited by the cumulative gains limit. It is a measure of the taxable portion of a farmer's net economic gain since 1985 that is eligible for exemption. However, it is eligible only after deducting previous gains claimed for exemption and the application of CNIL rules from 1988 onward.

I strongly suggest seeking advice on how CNIL will affect your capital gains deduction before selling the property in question.

FBC - Canada's Farm & Small Business Tax Specialist
1-800-265-1002
www.fbc.ca



Retrospective Valuation

By David Fortier, Owner, Fortier Mattila Appraisals Inc.

In addition to current market value, retrospective or historical valuation is a specialized field of real estate appraisal. In a retrospective appraisal the estimated market value is determined as of a specified past date. Retrospective valuation requires a thorough analysis and understanding of the subject property(s) as of that date, the economy leading up to and after the effective date, and value indications both before and after the effective date. Retrospective appraisals are often used for Valuation Day, Capital Gains, Property Taxation, Litigation, and Insurance.

Valuation Day (December 31, 1971)

- Property that was owned on or before December 31, 1971, falls under the valuation day regulations. The market value of the property on valuation day is required in order to determine capital gains or losses since that time.

Capital Gains

- A retrospective appraisal may be required to establish market value as of the date of acquiring a property (through purchase, gift, estate, title transfer), date a partnership agreement was signed, and date of death. In Canada, for tax purposes, all real estate owned as of the date of death must have a value as of that date determined.

Property Taxation

- As many municipalities in the province of Saskatchewan complete property tax assessments for the purpose of property taxation using a retrospective base date – with property tax appeals retrospective value is of particular importance.

Litigation

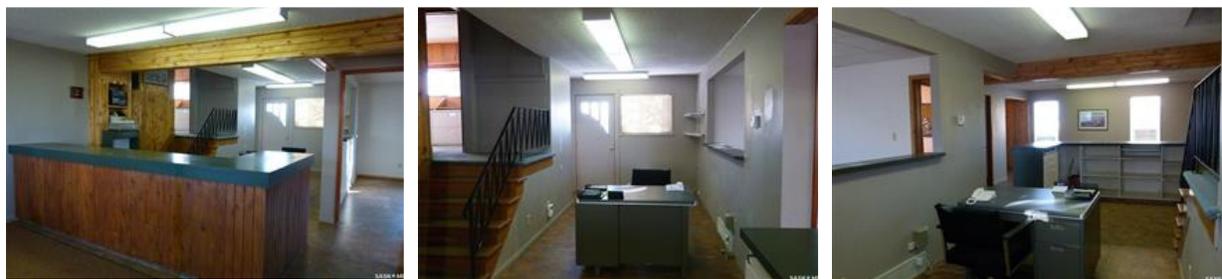
- With settlement (matrimonial, partnership dissolution, buyouts, etc), the value of the real estate as of the date of marriage, divorce, or merger are of particular importance. In some situations, loss in revenue over time is also required to which the market rent of the property over time must be considered. Retrospective valuation is often required determining damages for First Nations or other land claims.

Insurance

- The date of loss is of importance to insurance claims. The replacement cost or the actual cash value of the property before the loss occurred may be used for the insurance settlement.

Commercial Opportunity

1292-102nd Street, North Battleford



Prime office location, location on the corner of 13th Avenue and 102nd Street close to the downtown core. Being close to Innovation Credit Union and newer business, it has a high volume of vehicle traffic giving excellent exposure. The building provides over 2,000 sq. ft. of office space on 4 levels. Subject to city approval, the lower level could be converted to living quarters for a family orientated business. The main area has reception area (with counter) and 3 offices plus a washroom. The lower level has 2 offices, washroom and meeting area or coffee room. Building is wired for internet throughout, central vac rough-in and central air. Torched on asphalt roof redone in 2012 with 10 year warranty. Ample parking in front and rear of building. If you are searching for a new business location or to relocate, call for an appointment to view. Seller will consider credit to refinish exterior [Click HERE for more!](#)

MLS#	SK758585
Asking Price	\$199,000
Zoning	C1
Site Size	50'x120' (6,000 Sq.Ft.) Corner
Design	4 Level Split
Year Built	1947
Sq.Ft	1,456 Sq.Ft. Above Grade
Basement	768 Sq.Ft. – Fully Finished
Heating	Natural Gas Furnace



Realtor: Archie Robinson
 Better Homes and Gardens Real Estate – The Battlefords
 1-306-441-3455

Battleford Mini-Storage

Owned by Fortier Mattila Appraisals Inc.



Accessibility

24-7 access with keypad entry

Just off Highway #4 (1 block or 220 meters off the Highway) in the Battleford Industrial Park.

- From North Battleford
(7 minutes)

- From Jackfish/Murray Lake
(33 minutes to Cochin)

- From Turtle Lake
(50 minutes to South Bay)

Security

On-site Management: newly constructed site management office open 8:30 AM – 5 PM Monday-Friday

Fence: 2 acre lot surrounded by a 6 foot chain link fence with barbed wire topper.

Keypad: keypad entrance with automatic opener that prevents entry without an appropriate keycode. 24-7 access

Lights: security lights on both storage buildings and the office, in addition to lighted streets along 16th Street West.

Cameras: security cameras mounted on the office building and storage building with onsite and offsite monitoring

Doors: Aluminum Overhead Roll Up Doors on each storage unit, individually locked with your own lock

Pricing

10'x10' (100 sq.ft.) (\$100/month+GST) –1-2 bedroom home, smaller apartment, business inventory or file storage

10'x20' (200 sq.ft.) (\$143/month+GST) –3 bedroom home, larger apartment, office, office furniture, small automobile

Outdoor Compound Storage (\$30/month+GST) –RV, Boat, Trailer. Wider outdoor gravel spots clearly marked.

NEW: Heated basement storage available starting at \$120/month+GST located at 1322-100th Street, North Battleford

**Bonus: Now offering complimentary refreshments supplied by Coca Cola (During office hours)*

**Bonus: Borrow our Lightweight dollies for moving (During office hours)*

**Bonus: Locks available if you forget one (Pickup during office hours)*

**Bonus: Management office with wheelchair access and customer washroom (During office hours)*

Payment terms and options

Accepting Debit, VISA, Mastercard, Cash, cheque, e-transfer (Pay over the phone, by mail, email, or in person)

Pay in person at our onsite management office 8:30 AM to 5:00 PM Monday through Friday (except holidays)

Contact

Location: 461 – 16th Street West, Battleford, SK (GPS: 52.731020,-108.316465)

Mailing: Po Box 3098, Battleford, SK S0M0E0

Phone: 1-306-937-2625 (8:30 AM-5 PM Monday-Friday) Emergency: 1-306-480-7740

Fax: 1-306-445-0455

Email: bms@saskleasing.com

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