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Saskatchewan Real Estate Newsletter

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In this Issue

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Saskatchewan Assessment Management Agency
Saskatchewan's 2017 Revaluation - Outcomes and Expectations

On January 1, 2017, Saskatchewan implemented the 2017 Revaluation using January 1, 2015 as the base date. Saskatchewan's revaluations are based on a four-year cycle, and 2013 was the year of the last revaluation using a January 1, 2011 base date. The revaluation includes an updating of all assessments in the province to reflect economic and market conditions as of the new base date.

Saskatchewan has two valuation standards; the market valuation standard for residential and commercial properties, and the regulated property assessment valuation standard for agricultural land, heavy industrial property, railway roadway, pipelines and resource production equipment (mines and oil and gas wells).

The Saskatchewan Assessment Management Agency (SAMA) is responsible for the governance of the assessment system in the province. This includes researching and studying assessment valuation policy and best practices with regards to application of province-wide assessment valuation standards and policies. As of January 1, 2018 SAMA is the assessment service provider for 763 municipalities in the province. The cities of Prince Albert, Regina, Saskatoon and Swift Current provide for their own assessment services.

On November 28, 2016, the Government of Saskatchewan announced the percentages of value for the 2017 Revaluation. All percentages of value are staying the same with the exception of residential, multi-family and seasonal residential property, going up from 70% to 80%, and non-arable agricultural land (pasture) going up from 40 to 45%. Commercial and Industrial property remains at 100% of assessed value.

For 2017, assessment trends reflect a four year economic update between the 2013 and the 2017 revaluations (with corresponding base dates of January 1, 2011 and January 1, 2015). The variation between the two revaluations saw the 100% assessed value trend for the province increase from $175 billion in 2013, to $242 billion in 2017, a multiple of 1.38 times. Similarly, the taxable assessment trend rose 1.44 times, from $111 billion in 2013 to $160 billion in 2017.

The value of arable agricultural land in Saskatchewan has increased significantly since the 2013 revaluation, and saw the largest overall increase compared to other property types in 2017. The value of arable and pasture agricultural land have both increased by over two times for the 2017 revaluation. This increase in value is similar to increases for other categories of property that occurred between the 2009 and 2013 revaluation when residential, seasonal, and multi-family also increased by nearly two times.

There are some risk areas associated with this new revaluation, particularly the probability for increased appeals and the potential changes in market trends after the base date. The first year of a revaluation typically involves increased property appeal counts, and in Saskatchewan there currently exists a backlog of appeals dating back to 2013. Important precedent setting appeals are still being decided by the courts, which could affect assessments moving forward.

More information about the 2017 Revaluation can be obtained by visiting SAMA's website (www.sama.sk.ca) or contacting SAMA directly. For jurisdictions that provide their own assessment services, please contact the municipality directly. For information on the 2017 Revaluation and tax policy, please see the Ministry of Government Relations Website, or view the Ministry's 2017 Property Revaluation and Tax Policy document http://publications.gov.sk.ca/documents/313/93311-WebPres2017.pdf

Peter Ryan
Communications Coordinator
Saskatchewan Assessment Management Agency (SAMA)

SASKATOON MARKET UPDATE
From CBRE Saskatoon

SASKATOON'S INDUSTRIAL SECTORS SHOWS SIGNS OF RECOVERY

Complimented by a stabilization in occupancy and positive absorption, Saskatoon industrial market has seen vacancy rates decline for the first time in nearly four years to 6.86%. This contraction has been fueled by falling net rental rates and, more significantly, increased leasing incentives offered by landlords to attract quality tenants. Subsequently, many major tenants have exploited current market conditions to secure new leases or expand existing operations. The industrial vacancy rate is expected to continue to trend downward through 2018 amidst a limited amount of new supply and continued recovery in the industrial sector.

NEW DEVELOPMENT IS SLOWING

Moving into 2018, Saskatoon's industrial market is starting to see a rebalancing of supply & demand fundamentals with 2017 showing a nearly 70% reduction in new development when compared to the 10-year average. This reduction has significantly contributed to the falling vacancy rates and overall recovery in the sector. Although speculative development has pulled back, the market is expecting the completion of roughly 100,000 square feet of new product. The majority of this new construction is expected to be owner user facilities continuing a trend seen throughout 2017.

RENTAL RATES RESPOND TO MARKET CONDITIONS

A result of product oversupply and a slumping provincial economy amidst a depressed commodities market, Saskatoon's average industrial rental rates have fallen consistently from the record high levels of approximately $13.50 per square foot in 2013 to nearly $9.00 per square foot today. Downward pressure on net rental rates is expected to remain through 2018 as the shift to a Tenant's market continues and Landlords continue to do what they can to retain tenants.

INVESTMENT? WHAT INVESTMENT?

Consistent with the sentiment of the broader industrial sector, investment transactions in Saskatoon's Industrial market have declined in both volume and value. Largely a function of negative investor sentiment and aversion to further exposure, the majority of transactions have been those of owner-users looking to secure facilities in a buyers' market, while the remaining transactions comprised of investors seeking strong financial covenants and significant remaining term. Additionally, the value in these transactions has been affected by a fall in net rental rates with the average transaction price falling from approximately $160 per square foot in 2016

Winter 2018 Market Update
From Hammond Realty

In 2017, Hammond Realty had the opportunity, and privilege, to meet with several independent agricultural retailers, equipment dealers, farm accountants, Farm Credit Canada (FCC), and J.P. Gervais, Vice-President and Chief Agricultural Economist for FCC. It was a round table meeting to discuss current economic drivers impacting the agriculture industry.
These are some of the highlights we took away from the meeting:

- CDN farm cash receipts are up approximately 20 billion to nearly 60 billion in the past decade representing a 50% increase.
- 2017 national farm cash receipts are estimated to be comparable with 2016. Saskatchewan is expected to be down a bit with reduced yields in dryer areas.
- Farmland values are strongly correlated to farm cash receipts so it stands to reason that if farm cash income remains relatively stable, so will farmland values.
- FCC is forecasting a $0.75 - $0.78 CDN dollar for the next year. A weak currency is good for CDN agriculture on a net basis (some inputs and machinery costs are higher but revenue is higher).
- FCC feels there is more risk/probability the dollar will be below $0.75 - $0.78 than above.
- If CDN dollar rose to $0.85 or higher, the agriculture industry would start to become stressed as would any industry exporting to the US.
- Interest Rates: FCC forecasts they will generally trend sideways with a slight bias towards an increase. The potential risk of a substantial or significant increase in the next year, however, is low.
- Interest rates could rise by 100 basis points and the agriculture industry is well positioned to handle it.
- The wild card is how the USA (Trump) will approach international politics and trade agreements.

Farmland Values: Ratio of Average Farmland Price to Crop Receipts (Source FCC 2017)

Canada	BC	AB	SK	MB	QB	ON	NB	NFL	NS	PEI
8.4	12.9	13.6	4.9	5.4	7.6	10.3	3.8	7.0	5.1	3.8

When considering the ratio of farmland price to crop receipts, Saskatchewan farmland offers tremendous value compared to many regions in Canada, and certainly compared to the rest of the first world. The fundamentals driving farmland values in Saskatchewan are strong and will likely hold firm into the near future.

How to help clients get approved for commercial real estate financing from BDC

Asking for a commercial real estate loan can be daunting. More often than not, the fate of the purchase rests heavily on whether the bank says yes or no. However, a few important steps can boost your client's chances significantly. Here are five crucial steps that can help ensure your clients get a commercial real estate loan.

1. Show profitability

The most important requirement for getting financing is having a profitable and growing company. A business with no profitability doesn't have good chances.

2. Have a property in mind

Banks decide how much to lend based not only on a business's finances, but also on the type of building, and its condition, age and resale potential. Without a specific property, it's hard for a bank to be precise on how much financing it can offer.

3. Gather the necessary documents

Banks will want to see up-to-date financial statements, a solid business plan and details on the property. They also like to see evidence of an experienced management team.

4. Give yourself time

A purchase offer should give the bank enough time to review the transaction. It's common for offers to provide only 30 days, while banks often need six weeks—and possibly more, if due diligence issues arise.

5. Investigate loan terms, not just rates

When speaking with banks, look not only at their rates, but also their terms. These can sometimes be just as important to your bottom line.

A key variable is the **loan-to-value ratio—**the portion of the property's value that the bank will finance. Banks generally offer to finance 75% to 100% of the value of commercial real estate. A higher ratio means more money remains in your client's company to invest in growth or to cover cash flow shortages.

Consider the **bank's flexibility** in offering loan repayment holidays. For example, your client may be able to seek a holiday on capital repayments for one or two years post-transaction in order to absorb the cost and disruption of the move. The bank may also be able to roll some or all of the cost of renovations into the **term loan**, particularly if they add value to the property. Thoroughly explore various financing options—you may be pleasantly surprised at the opportunities they open up for your client's business. Learn more, visit bdc.ca/realestate for more information about buying or leasing commercial real estate.

What makes agricultural property different?
By David A. Fortier, AACI, P.App, Bcomm (Dist.)

Agricultural property is a unique form of real estate and differs from residential and ICI (Industrial Commercial Investment) property in the following ways:

1. How it sells

Agricultural Property in Saskatchewan typically sells,

- Privately
- Tender
- Auction
- Through Realtors®

**Agricultural land tends to sell more privately, through auction, or through tender than other forms of real estate; Thus identifying and verifying arms-length sales proves to be more challenging. Note: transfers identified as "arms-length" in transfer lists are not necessarily so – each transaction should be verified.*

2. Highest and Best Use

When considering market value, the appraiser is to consider the Highest and Best Use of the property, which can vary significantly. Highest and best use could be,

- arable land
- grazing/hayland
- mixed arable/pasture land
- waste land
- To be used as a residential acreage site
- To be used as a recreational building site
- To be developed/subdivided into a more intensive use

**Highest and Best Use may not necessarily be the current use. Current zoning, development patterns, cost/availability of land in nearby residential areas as well as the physical characteristics such as soil capability, topography, access, services, gravel deposits, oil and gas leases must be carefully considered.*

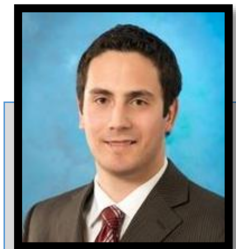
3. Who is buying and why

Agricultural Property in Saskatchewan is typically purchased by;

- Producers - Small to Large Scale – wanting to increase size of operation and may be willing to pay premium for adjacent land or previously rented land
- Investors - Dividend Yield Investors; acquiring stable income stream. Long term investors (Speculators); counting on long term appreciation. Developers; acquiring for more intensive land use
- Residents/Outdoor Enthusiasts - Acquiring land based on proximity to urban/recreational features with less consideration to the agricultural productivity of the land

**Given a variety of different types of purchasers, the underlying motivation can significantly impact purchase price. Current use and alternate uses, both now and in the future should be considered.*

Ultimately, the agricultural property market is imperfect and sales can have considerable variability. Sale Price per title acre, Sale price per cultivated acre, Sale to Assessment ratio, and Price per parcel can vary significantly from one sale to another - as such one or two sales do not make a market. It is imperative to understand each transaction in terms of, who bought it, why they paid what they did, and how that compares with other transactions.



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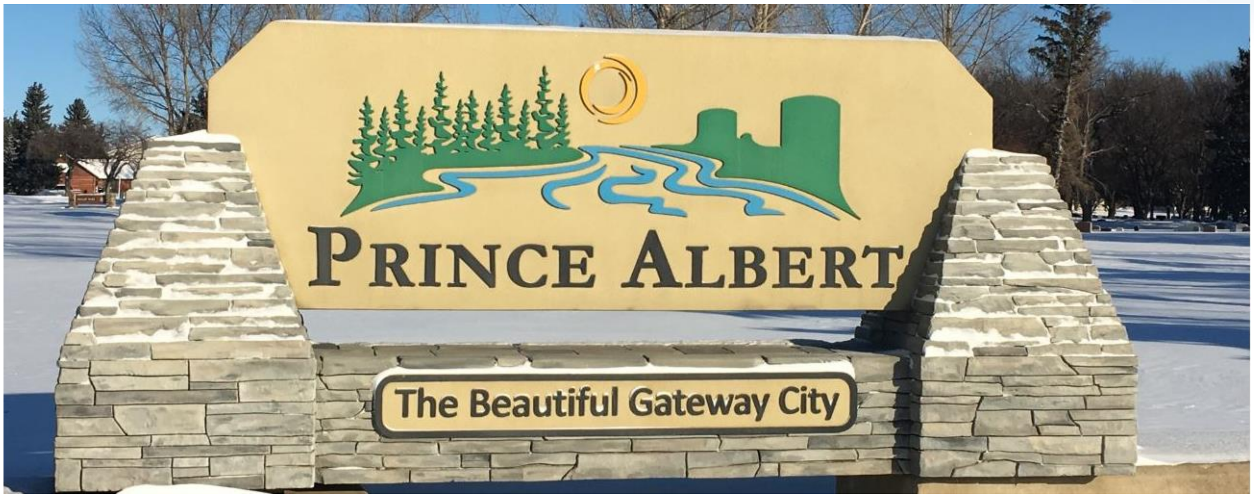
Spotlight On
- Prince Albert Residential Rental Market



Prince Albert							% Change		
	Oct-12	Oct-13	Oct-14	Oct-15	Oct-16	Oct-17	1 Year	3 year	5 Year
Bachelor Rent	$557	$756	$620	$615	$606	$616	1.65%	-0.65%	10.59%
1 Bedroom Rent	$721	$744	$782	$794	$754	$781	3.58%	-0.13%	8.32%
2 Bedroom Rent	$831	$859	$879	$911	$880	$897	1.93%	2.05%	7.94%
3 Bedroom + Rent	$926	$971	$984	$983	$948	$950	0.21%	-3.46%	2.59%
Total Rent	$798	$825	$861	$870	$837	$855	2.15%	-0.70%	7.14%
# of Apartments	2021	1986	2030	2003	2015	2009	-0.30%	-1.03%	-0.59%
Total Vacancy	6.0%	10.3%	8.8%	5.9%	5.3%	6.0%	13.2%	-31.8%	0.0%
*Source: Canada Mortgage and Housing Corporation (CMHC) Rental Market Survey** *									

Year over Year
The CMHC Rental Market Survey for the City of Prince Albert indicates relative stability year over year (2016 vs. 2017) with slight increases in rental rates, slight increases in vacancy, and nearly identical number of units. Overall vacancy at 6.0% is still well below the average for the province (8.7%).

Past Three years
Relative stability over the past three years with the biggest difference being vacancy declining from 8.8% in October 2014 to 6.0% in October 2017 (-31.8%).

Past Five Years
Rental rate increases across all 4 categories, with the smallest increase in 3+ bedroom rents (2.59%) and the largest increase in Bachelor Rents (10.59%). Vacancy fluctuated from 5.3% to 10.3% but has hovered around 6.0% since October 2015. Ultimately vacancy rates were identical October 12 and October 2017.

Conclusion
The Prince Albert residential rental market has remained around 2,000+/- units for the past 5 years with vacancy averaging around 7.7%. The most recent survey data (October 2017) indicates slight increases, but overall stability.

***Canada Mortgage and Housing Corporation (CMHC) conducts the Rental Market Survey (RMS) every fall to estimate the relative strengths in the rental market. The survey is conducted on a sample basis in all urban areas with populations of 10,000 and more. The survey targets only privately initiated structures with at least three rental units, which have been on the market for at least three months. The survey collects market rent, available and vacant unit data for all sampled structures*