High construction costs driving values up and new permits down



Apr 4-2025 By David Fortier, AACI, P.App, Bcomm, owner and president of Fortier Mattila Appraisals Inc.

SASKATOON — Construction costs increased substantially since early 2020, not only in Saskatchewan but across the country. As per the Statistics Canada Building Construction Price Index or BCPI, Residential building costs in Saskatoon have increased 46 per cent and non-residential building costs have increased 28 per cent from pre-covid. Construction costs have increased due to material cost increases, labour shortages, inflation, fuel costs.

West of Saskatoon, in many western Saskatchewan real estate markets, new residential building costs are not being recovered on a dollar-for-dollar basis. Despite an approximate 45 per cent+/- increase in building costs from pre-COVID, market values have not increased at the same rate:

• Building standards changes do not support cost increases — Building standards have not substantially changed from pre-COVID, in that a new home is not 45 per cent better than one constructed five to 10 years ago, making it harder to justify paying a significantly higher price than five years ago.

• Alternates to brand new construction — A newer (ie, five- to 10-year-old home) was built at a much lower price point, as such sellers do not necessarily need to recover new building costs as their home was constructed at a lower price point. These newer homes are available at a lower price point than a new home and provide a decent alternative to building new for many market participants.

• Building costs increases outpacing market appreciation – Real estate values in a community can fluctuate and can fluctuate by property type, design and neighbourhood as well. While there has been price appreciation for residential properties in several western Saskatchewan real estate markets, it has largely lagged behind the cost increases.

• Total price point — The total cost to build including buying land, servicing, permits and building the home has increased often to a price point that is no longer feasible for many market participants reducing the demand for housing at that price point.

Results

• Financing a new build becomes problematic as loans are based on a percentage of market value, not cost, and when cost exceeds market value, the homeowner pays the difference out of pocket. This results in a negative equity position, which many people are unwilling to put themselves in.

• Very limited new single-family building permits in the larger western Saskatchewan centres such as Meadow Lake, the Battlefords and Kindersley. There is even less new construction in smaller centres.

• Limited to no residential spec home development in western Saskatchewan, as costs are not being recovered.

• The group of market participants who would typically be building, are now opting to purchase existing newer or renovated homes, which decreases the supply and increases the price of existing homes.

• Pressure on local contractors to leave to other areas where there is work, change lines of work, or focus on renovations instead of new builds, thus limiting the number of contractors who will take on a new build.

• Most new single-family development in the past 24 months in western Saskatchewan is on agricultural land or on or near recreational developments. This may be on land that has been gifted or sold at below market rates between family members. This type of development is generally completed by affluent individuals/families who are willing to/able to afford out-of-pocket costs that may not be recovered by current market value and may not be able to be financed as such.

• Agricultural land/acreage type single family construction — At times farming businesses are able to make use of existing financial instruments like shareholder loans, and various business expenses/write-offs that may be advantageous when considering building new. Furthermore, they may have access to different types of financing ie. Farm Credit which can make financing simple.

• Recreational single-family construction — Often these new builds are not intended to be sold in the foreseeable future and may be intended to be passed on to future generations. Noting there are some intergenerational type homes in which families are collectively pooling funds together to build a residence to be used by multiple families.

New residential construction is important to the Saskatchewan economy and to Saskatchewan communities. Unfortunately, high present costs to build are complicating new construction in western Saskatchewan. If there were a simple solution, the problem would already be solved. Government incentives such as 5 years property tax free on new construction, temporarily reducing prices of municipal owned land to encourage construction, reducing provincial taxes on new construction, construction employment initiatives, reducing permit fees and related municipal business licensing fees, subsidies for use of Canadian made building products, can only go so far to offset the high costs of single-family construction.