

INVESTMENT PROPERTY UPDATE

BY: DON SYLVESTER

Most local real estate agents and investors agree that there is a scarcity of available investment properties in Saskatoon. I have talked to several agents and investors recently looking for apartments or small strip malls or office buildings and fielded a number of calls from agents looking for prospective properties for sale.

Apartment availability is reduced for several reasons. Many buildings were converted, some with sales prices around \$100,000 per unit. Today these values have fallen to closer to \$75,000, more for the good locations and amenities but still substantially less than peak numbers. Sales now must make sense from an investment perspective rather than from a conversion perspective.

Sellers are discouraged from selling with those recent prices still fresh in their minds. Development of new rental product is still very slow because a number of the converted condos came back on as rental product and rents are still not sufficient to spur new construction.

In office and strip malls Mike Laliberte from Fortress Properties indicates they have not bought anything in Saskatoon since 2003. There is simply more product at better prices in other jurisdictions. Mike noted that rents took a quantum leap in Saskatoon a couple of years ago but the lease renewal cycle has left most rents still below market for another couple of years.

Local owners want cap rates that reflect future rents and need those numbers in order to find replacement investments for the proceeds. Tax considerations are important but Mike believes that is not the primary reason for the lack of supply.

Good accountants and family trusts are just two avenues that can assist with tax deferral, but the over-riding concern is what you do with the proceeds. Successful real estate investments are primarily very long term, a number of the early Fortress investors are seeing the mortgages retired and a beginning of cash flows. In order to sell these investments they need to have an alternative that will provide similar long term returns.

Without new construction they simply can't find reasonable alternatives. New product in industrial needs

at least \$12.00 net (much more in retail) to be economic and the market has not been able to provide that in many cases.

Also contributing to the lack of supply is the fact that the economic forecast for Saskatoon is so positive especially compared to other areas that buyers are abundant and sellers are scarce. There are also few sites available for new construction, particularly smaller ones.

City planners have tended to gear new developments for large big box retail while Innovation place has met most of the new small office demand. New office construction is simply cost prohibitive at existing office rents. Combine those factors with the lag time needed for rents to meet economic levels and you have a recipe for a shortage of supply.

CREA has strongly lobbied government for capital gains rollover provisions, citing strong evidence of significant spinoff effect in almost every area of real estate. Most properties undergo significant renovation by new owners thus providing strong benefits throughout the construction and retail industry. Opponents (primarily in the government finance departments) point to the need for consistent tax policy and ask where the lost tax revenue will be made up.

In Saskatoon, whether or not a capital gains rollover or reduction would free up additional supply is somewhat less certain. Real estate developments have become much larger over the past few years limiting the availability of new projects to small investors.

What might help is greater supply of land and higher existing rents to encourage construction. REALTORS® need to ask City Council to assist in providing additional smaller retail sites, apartment rental sites and neighborhood strip mall sites.

