

Top 4 Real **INSIGHTS**

2021 Saskatchewan Real Estate Update

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The Saskatchewan tech industry generates over \$10 B in revenue every year and represents 5.6% of GDP

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1. SASKATCHEWAN STARTS 2021 ON STRONG GROUND

January unemployment rate of 7.2% the lowest among all Canadian provinces

According to the Statistics Canada Labour Force Survey, the January 2021 seasonally adjusted unemployment rate of 7.2% in Saskatchewan was the lowest among all provinces, sitting below the national rate of 9.4%.

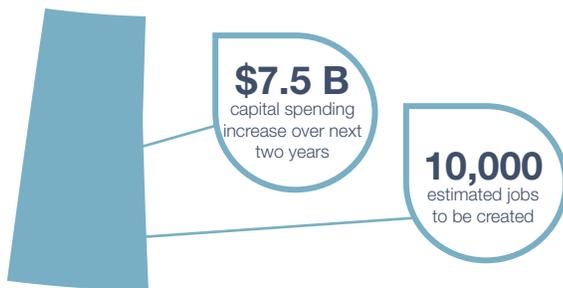
RBC projects that provincial GDP will grow by 4.7% in 2021, up from negative 4.7% in 2020, to reach 4.2% in 2022. It further forecasts that the provincial unemployment rate will drop to 6.6% this year and 5.9% in 2022, targeting pre-pandemic levels.

As a result of a large surge in agricultural and food exports fueled by solid international demand, exports increased in January 2021 by 14.6% compared to January 2020.

Farm cash receipts were up more than 20% through the first three quarters of 2020 – the most of any province according to the December 2020 TD Provincial Economic Forecast.

The province is increasing capital spending to \$7.5 B over the next two years. Roads, municipal infrastructure and schools will be the primary beneficiaries of the increased spending. The government estimates that this stimulus to the economy will lead to the creation of about 10,000 jobs.

Saskatchewan



“Our province continues to recover from the global COVID-19 pandemic and our economy is moving in the right direction,” Trade and Export Development Minister Jeremy Harrison said.

Increased demand for commodities is expected to provide another tailwind for the province over the next year.

At the beginning of March, Saskatchewan’s Ministry of Finance said the province has allocated all of the \$200 M contingency fund established last year to cover costs tied to the pandemic. The most considerable portion (\$76 M) went to the Saskatchewan Health Authority, \$20 M towards grants for small businesses affected by COVID-19, \$17 M to support the tourism sector, and \$40 M spent on reopening schools last September.

The government will be running a deficit of \$2.1 B in 2020-2021, lower than projected. Saskatchewan will have the lowest net debt to GDP ratio of any province.

In March, the Saskatoon Regional Economic Development Authority reported that the city had recovered 58.5% of pre-pandemic levels. The economic development agency used a tracking system that measured the city’s unemployment rate, GDP and retail sales to calculate the recovery rate.

In Regina, 185 businesses have taken advantage of the city’s economic recovery grant program as of January. Since the program’s rollout last August, \$688,000 has been dispersed to Regina businesses. Phase two of the program began in December and provides a maximum grant funding of \$25,000.

Protein Industries Canada (PIC) is a Regina-based supercluster that is made up of more than 120 private-sector companies, academics and industry stakeholders from Western Canada. In February 2018, PIC was chosen to receive funding under the federal Innovation Superclusters Initiative. PIC’s mission is to inspire innovation and support collaboration to transform Canada’s agriculture and food processing sectors and acknowledges the role of technology to accomplish this.

This deal could create an estimated 4,700 new jobs in the sector, bring in \$700 M in new commercial activity and potentially add billions to the GDP.

2. HOUSING DEMAND INTENSIFIES

2020 momentum carries into 2021 nudging home prices higher

Home prices continue to increase in Saskatchewan, reaching a median price of \$272,000. Building on the momentum of strong performance in January, February sales were up more than 74% from the year before, according to the Saskatchewan Realtors Association (SRA). There were 919 home sales in the first month of 2021 compared with 616 in January 2020.

Sales in Saskatoon were up 53.0%, increasing from 230 in February 2020 to 352 in February 2021.

Sales in Regina were up 55.2%, increasing from 154 in February 2020 to 239 in February 2021.

Significant increases were seen throughout the province, and median sales prices were up in 13 of the 19 markets that the SRA tracks.

Housing starts were a lot higher in 2020, although 2019 was an 18-year low, according to RBC Economics. The bank forecasts that the “red-hot” housing market will continue to fuel an increase in home construction in 2021. True to their prediction, residential building construction grew by 12.5% in January 2021 from the month before, according to Statistics Canada.



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According to Altus Group, while national residential land transactions in 2020 were down 12% year over year, activity picked up in the fourth quarter of 2020 to reach \$2.5 B in volume – up 35% from the previous quarter, and 71% from Q2 2020. In 2020, apartment vacancy in Saskatoon remained unchanged at 5.9%. Although, CMHC reports that the vacancy rate in buildings constructed within the last two years was 8.8%, while the vacancy rate for rental condominium units remained way below the overall average at 1.8%.

CMHC reports that there were 550 rental apartment completions in Saskatoon between Q3 2019 and Q2 2020. At the end of October 2020, there were more than 800 rental apartments under construction in the city.

The agency stated that “a moratorium on evictions during the summer months and various income support programs appear to have enabled some renter households to remain in their units despite the loss of hours worked or labour income.”

Last spring Baydo Development Corporation began construction on its two 25 storey projects at 25th Street East and 5th Avenue North. The development will contain 426 rental units and 11,000 square feet of commercial space. It will include four levels of underground parking with 513 stalls plus bike parking and a bike tune-up room.

The \$100 M project, the most significant residential development in Saskatoon’s history, is slated for completion in late 2022.

In Regina, apartment vacancy rates held steady at 7.5% in 2020, despite an increase in the rental stock of 248 units, CMHC reports.

Demand outpaced additional supply of townhome and rental condominium apartments, driving vacancy rates lower than the city’s average to 2.7% and 5.0%, respectively.

COVID-19 has resulted in increased demand for ground-oriented rental options in Regina with the townhome vacancy rate declining to 2.7% in 2020 compared to 4.6% recorded the year before, CMHC reports.

Rental condominium vacancy rates declined for a second year in a row to 5%, dropping from 5.7% one year earlier. “Overall, taking into consideration growth in occupancy versus new additions to supply in all market segments surveyed, growth in occupancy outpaced new additions to supply in 2020,” the agency stated.

RE/MAX’s 2021 Regina Housing Market Outlook forecasts that the city’s housing market will remain balanced and that new home development will remain on par with demand. The real estate company predicts that home prices will decrease by 1.5% in 2021 to an average of \$303,282.

“Move-up buyers are currently driving demand in the Regina real estate market, which is expected to continue into 2021,” RE/MAX reports.

Rohit Development and Pacesetter Homes have several low-rise and townhome developments under construction in areas surrounding central Regina.

3. MARKET FUNDAMENTALS PROVIDE POSITIVE OUTLOOK

Commercial real estate sector shows resilience despite economic uncertainty generated by the pandemic

At the end of 2020, Saskatoon’s overall office vacancy sat at 15.8%, according to Colliers. Average net asking rates were stable at \$20.46 per square foot. Landlords have become increasingly flexible in negotiating lease terms, offering inducements to retain current tenants and attract new ones, the real estate services company reports.

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Nutrien Tower, the second tower at River Landing, is nearing completion and will be ready for occupancy later in 2021. Demand for the new Class AA office has weakened and halted pre-leasing activity, according to CBRE. “With many tenants putting relocation and expansion plans on hold, a more cautious near-term outlook will have a direct impact on Saskatoon’s downtown office market.”

ICR Commercial reports that available sublease space continued to rise in the fourth quarter of 2020. It has increased 40% over the last year and as of Q4 2020 was equal to 1.6% of inventory. The company forecasts that overall vacancy will likely grow in 2021 as sublease space comes to market.

In their Industrial Market Report, ICR Commercial reports that vacancy in Saskatoon dropped 60 bps between Q3 and Q4 2020. With overall vacancy at 4.7%, there are pockets in the city where vacancy is even lower. In the Marquis area, vacancy is sub 4%.

Average asking rates increase by 4.5% year-over-year and range between \$9.50 and \$12.50 per square foot net, ICR Commercial reports.



Limited new supply and growing demand have resulted in the absorption of available space, further improving market fundamentals, CBRE reports. Competitive rents leave the Saskatoon industrial market with growth opportunities as well as the potential for speculative construction in 2021, the company adds.

The Saskatoon retail market experienced a rise in vacancy in the fourth quarter of 2020. ICR Commercial reports that vacancy rose by 31 bps to 5.52%. Average asking rents ranged from a low of \$11 per square foot to a high of \$34 per square foot in new suburban markets. Under construction are two new developments, Market Corner and Evergreen Crossing and the 7,000 square-foot Cory Common was completed.

In Regina, Colliers reports that office vacancy ticked up to end 2020 at 14.1%. Average asking rates dropped from \$15.32 per square foot in Q3, to \$15.16 per square foot in Q4 2020. Landlords are offering inducements in the form of rent relief and tenant allowances to attract new tenants.

The space formerly occupied by Sears is being redeveloped into 36,600 square feet of office space at the Cornwall Centre. In the southern part of the city, a fourth building is being planned within the office park of Harbour Landing, according to Colliers.

The retail sector has been able to stave off large increases in vacancy with government assistance through support initiatives, and retailers pivoting to include curbside pickup and e-commerce channels. Colliers reports that at the end of Q4 2020, overall vacancy remained steady at 6.0% while downtown vacancy dropped by 100 bps from earlier in the year.

The Regina industrial sector performed well in 2020 with the vacancy rate sitting at 4.55% at the end of the year, according to ICR Commercial. Average asking rates ranged from \$8.00 per square foot for older properties to \$10.50 for newer, more flexible spaces, the company reported.

Morguard reports that development has largely been build-to-suit as developers have been hesitant to begin construction without a lead tenant in place. There has been about 130,000 square feet of industrial product completed recently for the following occupiers: Canada Post, EMCO and Harley Davidson.

“Private equity continues to drive Saskatchewan’s investment market, specifically within the retail sector. Even amidst the uncertainty created by COVID-19, quality retail centres with strong tenant mixes and stable cash flows continue to be in high demand, with several quality retail sites trading hand in 2020, a trend that is expected to continue into 2021,” CBRE reports.

4. TECH SECTOR SHINES BRIGHT

The Saskatchewan tech industry generates over \$10 B in revenue every year and represents 5.6% of GDP

Technology is a growing sector in Saskatchewan. A 2020 study that was led by Sask. Interactive found that the tech sector contributed \$4.7 B to the provincial economy in 2018 and represented 5.6% of the Saskatchewan GDP. There are approximately 5,000 tech companies that employ 52,300 people in the province. According to the report, it has grown 38% since 2010 and 19% since 2015.

Part of the tech boom can be attributed to an increase in private investment. In 2019, the province pulled in about \$100 M in venture capital, according to Canadian Venture Capital and Private Equity Association (CVCA). This amount represents more than the previous five years combined.

It can also be ascribed to the growing tech ecosystem of companies coming out of incubators such as Conexus Credit Union’s Cultivator in Regina and the Co.Labs in Saskatoon.

Government support has also played a part in the tech boom. The province has made technology a crucial part of its growth strategy. Its goal is to triple the growth of the sector by 2030.

The government raised financial support to the province's tech sector in the 2020-21 Budget:

- \$1.0 M was given to launch an agricultural technology program to drive investment into local early-stage ag-tech innovations and attract international ag-tech companies
- \$125,000 was given in additional funding for Saskatoon-based tech business incubator Co.Labs, to help expand programming and scale-up support for tech start-ups.

In addition to this money, the government invested an additional \$15 M last August, through Innovation Saskatchewan, to help develop new technologies in agriculture.

"This investment will bring jobs and new growth to our province and equip farmers and producers with game-changing technology," Former Innovation Minister Tina Beaudry-Mellor said.

Beaudry-Mellor was a proponent of the Saskatchewan Technology Startup Incentive (STSI), which has become known as "the most aggressive angel investment tax credit in Western Canada," according to BetaKit. STSI provides 45% non-refundable tax credits for individual and corporate equity investments, to a maximum annual benefit of \$140,000 per investor.

A concern for the industry is the shortage of senior developers in the province, but there is reason for optimism. The number of tech student enrollments in Saskatchewan increased by 24% between 2009 and 2016, in contrast to only 7% growth in all other fields of study, Innovation Saskatchewan reports.

In the CBRE Fall 2020 Canadian Tech Talent report, Regina and Saskatoon both ranked among the top 20 tech talent markets in Canada. Regina landed in 16th position, and Saskatoon ranked 18th. Saskatoon ranked well in terms of tech employment growth which has increased by 9.8% between 2014 and 2019. Both cities are cost-competitive and have high-quality labour.

The Saskatchewan government plans to continue to prioritize the tech sector, according to Jeremy Harrison, the recently appointed Minister Responsible for Innovation Saskatchewan. "The sector should expect the government to continue strengthening the tech ecosystem through supporting start-up growth, incentivizing early-stage investments and ensuring that the companies that are scaling will have the talent they need to grow," he told BetaKit.



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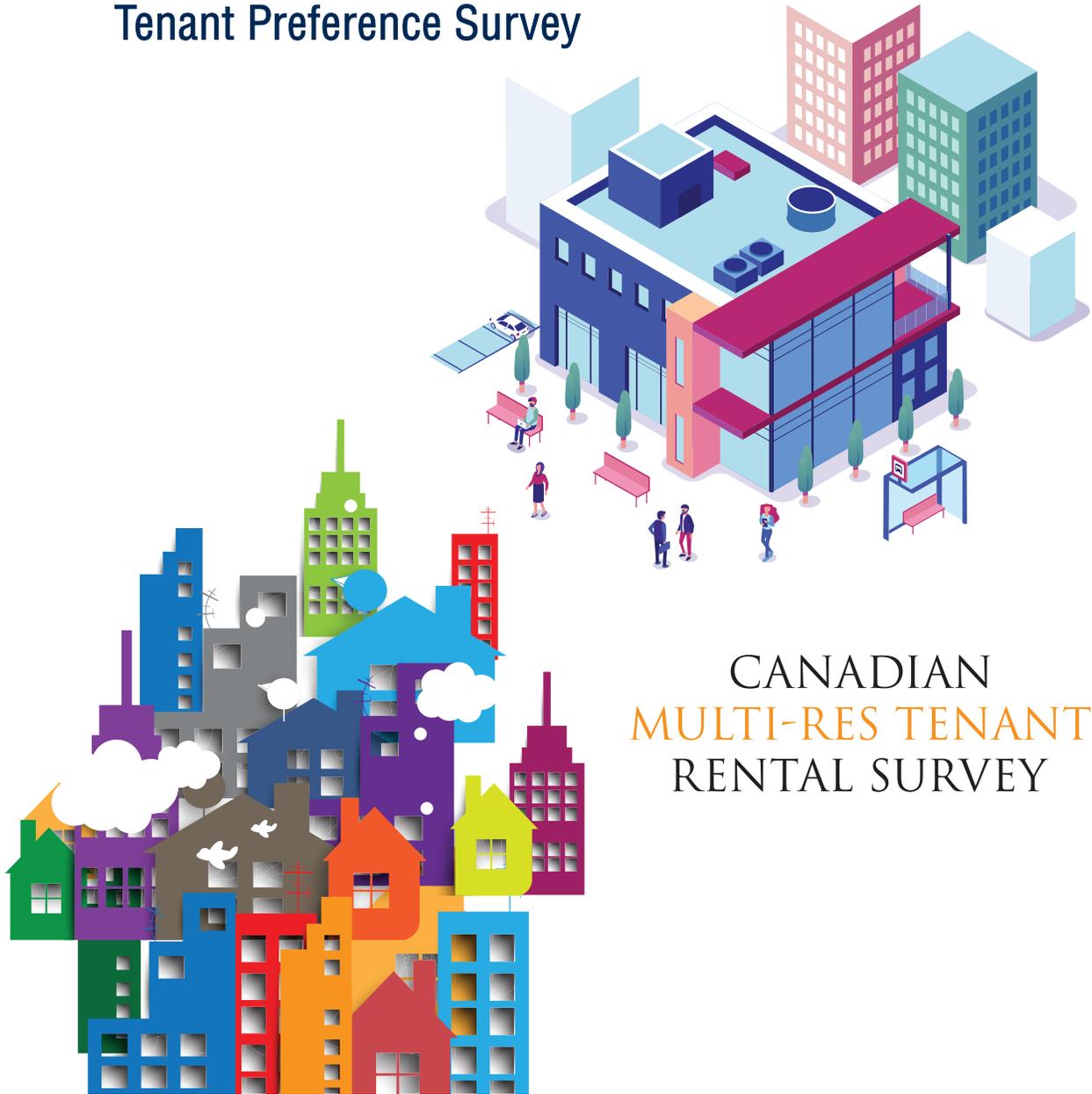
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