

The expert voice of the residential construction industry.

Housing Matters

Saskatoon & Region
Home Builders'
Association



KEY INDUSTRY ISSUE: IMPROVING THE CITY OF SASKATOON'S APPROACH TO LAND DEVELOPMENT

BACKGROUND >> The history of Saskatoon Land

The City of Saskatoon operates the largest self-financed land bank in Canada. The City of Saskatoon's Land Bank (Saskatoon Land) was established in the 1920's as a solution to deal with a large number of properties obtained by the City through tax enforcement. In 1954, Saskatoon City Council formalized its involvement in the land development business by actively acquiring land for future development.

In order to ensure an adequate supply of land for future growth, many Canadian municipalities are active in land acquisition measures in some way – through expropriation, vacant lot adaptive reuse and brownfield redevelopment. The City of Saskatoon is unique in that it is also a land developer, servicing residential lots for sale to home builders and individuals in competition with the private sector.

According to the City of Saskatoon, Saskatoon Land is mandated to:

- Ensure adequate levels of serviced residential, institutional and industrial lands are available at competitive market values,
- Provide innovation and leadership in design for new growth, and
- Provide financial returns at competitive rates of return on investment to the City for allocation to civic projects and programs, and to invest in "what matters".

Saskatoon Land's profits have financed municipal infrastructure that supports housing, commercial, institutional and industrial sectors. In 2012, revenues from Saskatoon Land totaled \$166 million, about \$130 million of which was generated from the sale of residential lands. Since 2007, City Council has committed \$123.3 million from the City's Neighborhood Land Development Fund towards a variety of projects, including the City of Saskatoon's affordable housing initiatives, local area road upgrades and operating budget contributions.

CURRENT SCENARIO >> Many opinions

Saskatoon Land has come under scrutiny in the business community at various points over the years. On one side of the issue, some argue the City should not be in the land development business. On the other side of the issue, others have concerns and are asking important questions to find out more about how Saskatoon Land operates and what can or should be done to improve how the City manages such a substantial source of revenue and influencer in the business community.

Ultimately, both supporters and detractors of Saskatoon Land have expressed concern about negative impacts being felt in the business community in relation to this issue.

The SRHBA is well positioned to foster productive and informed discussions, satisfying both sides of the issue to determine how City Council can change the way Saskatoon Land operates, to continually improve the way they do business, so that in turn the business community can better tolerate its presence in Saskatoon.

RECOMMENDATIONS >>

> 1. Increase Efficient Transparency & Accountability

There are a number of policies and communications which could benefit from more efficient transparency. The idea is to foster a better decision-making process as it allows the proper information to be considered. From improving the complaints process, to conducting an analysis of expenses and carrying costs compared to industry averages are but a few examples of suggestions which have been mentioned in the past, that would increase accountability. The most common suggestion however is related to the profits allocated by City Council, as per their policy:

- 10% for new land acquisition,
- 65% for growth infrastructure (major municipal expenditures for broad needs such as major transportation systems and protective services, not related to the developments themselves), and
- 25% for Council discretion (which in the past has been used primarily for social housing and related developments).

In the 2015 Asset & Finance Management Report “Long-Term Financial Sustainability Plan”, it was recommended that the City adopt a number of financial principles, one being “open, accountable and transparent with respect to resource allocation and collection”.

Despite the recommendation above, there remains a certain lack of transparency regarding the collection and allocation of profits from land sales. City Council Policy C03-003 and Bylaw 6774 make reference to the ‘discretionary’ use of profits from Saskatoon Land through two specific reserve funds: the Property Realized Reserve and the Neighborhood Land Development Fund. The process and policies as to who, why, where and how these funds are allocated are vague, confusing and not easily accessible. This will especially be important as City Council considers its recently discussed Growth Plan as land development is a big piece of the puzzle.

> 2. Increase Professionalism in the Residential Construction Industry

In collaboration with SRHBA, Saskatoon Land has made changes to both business practices and eligible builder requirements since 2008 in an attempt to ensure both quality home construction, a safer industry and more timely completion of housing construction projects in Saskatoon. The sales mix for City-developed land has changed from a 50-50 split between builders and individuals to now 90% builders and only 10% individuals, increasing the level of professional expectations as we build Saskatoon. In 2015, only 40% however were professional builders (SRHBA members). And although that is up from 35% in 2014, it also means approximately 60% build fewer than 2 houses per year (2015) and are not considered full-time professionals.

The number of “builders” in the City registered with Saskatoon Land has decreased significantly from being part of some of the highest in the country in 2011 at 247 to 136 in 2016. While still 5th highest in the country (Ottawa being 6th), it is important to have a residential construction industry focused on professionalism, quality and safety because at the end of the day, it’s about protecting the consumer.

There are also more qualifying criteria for lot purchasers, such as compliance with new home warranty, WCB coverage, as well as minimum purchase requirements and build-time restrictions. However, Saskatoon Land operates what would be considered a ‘retail’ business. The minimum purchasing requirements of 1 lot every 2 years still creates a significant market for part-time and hobby builders who compete with professional home builders for lots and customers but impacting consumer protection. This artificially inflates the market demand for serviced lots, and thus skews the balance on the supply side. In 2015, 80% of new homes in Saskatoon were built by only 20% of the eligible new home builders, leaving much room for improvement. If City Council claims it must remain fair in providing access to purchase land, then it must also be responsible to not contribute to the decline of professionalism and safe, quality products in the residential construction industry.

> 3. Make Improvements to the Business Model

The City of Saskatoon must deal with potential conflicts of interest (real or perceived) as both regulator and a significant competing business participating in the local development industry. Some steps were taken to separate the regulator functions within the City from the Saskatoon Land business, but it still remains a conflict and more can be done to complete the separation. Can a change in structure and/or reporting implement this desired outcome? Options should be evaluated as the City is a large player in the industry.

Saskatoon Land generally holds about a 40-60% market share in residential development, and the City attempts to maintain a level playing field for Saskatoon Land and other private land development companies by ensuring equal opportunities for all land developers to submit proposals that are subject to provincially regulated development guidelines. Currently, Saskatoon Land has total real estate holdings of nearly 10,000 acres (about a 25-year supply) intended for future residential, commercial or industrial development, and other City projects.

With Saskatoon Land competing with private sector businesses and being responsible to the City of Saskatoon to earn profits, the perception is that lot prices may be inflated as the business of Saskatoon Land is not market driven, but solely by the need to generate revenue. This has a detrimental effect on the housing market whereby an oversupply of serviced land and inventory coupled with minimum purchasing requirements for eligible builders can lead to an abundance of unabsorbed new housing. Pushing prices higher also pushes more people to live outside city limits who are not paying property taxes, but who work and play in Saskatoon. In addition, Saskatoon Land policies are a “one-size fits all” approach based on a retail business model that does not work for a professional home building industry. It is imperative that Saskatoon Land policies (and the degree by which they are followed, and how the complaints are processed, as mentioned above) are reviewed with input from industry to ensure a healthy and sustainable housing market for future growth.

CONCLUSION >> Better build and grow our City

Home building is a profession with a complex regulatory environment, extremely high technical standards, emerging technologies and advances in building science that require new home builders to be committed to ongoing professional development. Land developers, including Saskatoon Land, need to support this environment and the professionalism of the industry through sound policy and business practices that are market driven, customer focused and promote smart and sustainable growth for Saskatoon. The City of Saskatoon, for its part, has a responsibility to provide transparency regarding its operations, foster and encourage a positive business environment and responsibly regulate the building industry in the City.

The land development issue presents an opportunity for interested parties to come together to discuss the underlying issues at play. By engaging with interested parties, we can look at addressing people’s concerns, providing information to the business community

and looking at what we can revise, tweak or change at Saskatoon Land to improve the way they do business. This is an important end goal, as all successful businesses should constantly look at adopting the best business practices in their industry, as well as looking to innovate and make improvements where possible. Ultimately, this will help us increase confidence in Saskatoon Land at an important time and better build and grow the City of Saskatoon.

UPDATES >>

Following collaborative efforts with the NSBA, SRAR, SHRBA and City Council, an independent audit was conducted on Saskatoon Land's operations, a first for the department. This was a significant win for our City and for the land development community. Saskatoon Land administration addressed very quickly a number of operational recommendations which stemmed from the results of the audit and did so in consultation with industry.

In August 2017, after the audit was completed and presented to Council by an independent auditor, City Council adopted the following recommendations contained in the report of the Standing Policy Committee on Finance:

1. That the Administration further explore what opportunities and options could exist for the City of Saskatoon to create a Municipal Land Development Corporation including the possibility of including infill development;
2. That a report be provided to the Standing Policy Committee on Finance no later than December 31, 2017 on any appropriate recommendations for a potential new governance model for land development by the City of Saskatoon;
3. That the Administration implement the auditor's recommendations and bring an update in one year with a progress report;
4. That the Administration adhere to approved policy in the administration of Saskatoon Land, and bring forth recommendations for policy changes when necessary; and
5. That the Administration develop a communications strategy to make the findings of the audit available to stakeholders in online format and as presentation to stakeholders upon request to be in as plain language as possible.

In January 2018, the Association submitted a written opinion to City Council to provide perspective on the question of moving to a model of a municipal land development corporation. Essentially, an analysis was required to make a smart decision. What are the weakness and benefits of doing this, will it have a beneficial or detrimental impact on the market? The real question being, what are the governance options that should be considered as the best model to govern the Land Bank?

In summer of 2018, a third party was sourced to evaluate these questions and by early 2019, the draft report was still not in a state to publish, providing no solid options due to a lack of proper scope analysis. The Association will continue to work with City Council to provide credible options to improve the way Saskatoon Land is governed.

First published: 01/05/16

The Saskatoon & Region Home Builders' Association is the professional association representing approximately 280 companies involved in the housing industry and provides the only certifications available for professional home builders and renovators. It is the expert voice focused on improving affordability, quality and choice of housing in Saskatoon and area, and works collaboratively with stakeholders and governments to get us there. For more information, visit www.saskatoonhomebuilders.com.