

The purpose of this submission is to inform City Council of the effect that property taxation has on housing affordability and to provide the Association's views on the 2022 proposed budget.

These are incredibly challenging times in the policy world. Thank you for your commitment to your city during this pandemic. There is no playbook but there are good people working hard and doing their best during this trying and divisive time.

SOME QUICK FACTS

- The Association represents over 1,550 individual REALTOR® members across the province in 180 member-offices. There are thirty-six member offices in Regina, with 390 members.
- The Saskatchewan REALTORS® Association operates the Multiple Listing Service® System across Saskatchewan. Just over 3,616 (almost 700 more than in 2020) properties valued at \$1.1 billion (\$927 million in 2020) exchanged hands through the System in Regina in 2021.
*based on residential home sales including lot/land in the City of Regina.
- The real estate industry is the second-largest industry in Saskatchewan. On average, every home sold in the province is responsible for an additional \$53,000 in economic activity, meaning that residential real estate is critical to the health of the provincial and local economy.

REGINA'S HOUSING MARKET

Prior to the pandemic, a challenging energy sector and falling potash prices impacted the Saskatchewan economy throughout 2014- 2017. During this time, we saw a corresponding impact on the resale market as job losses and rising unemployment rates slowed housing demand in Regina. While the economy showed signs of recovery, the housing sector, from new builds to the resale market, suffered from the effects of policy layering. The federal government introduced a more stringent mortgage stress test in 2018 in 2 phases, combined with higher lending rates, PST on construction, which was later reversed, caused further pullbacks in sales.

Regina recorded the lowest level of sales since 2006 and construction permit had never seen such lows in permits. From 2014-2019, inventories in Regina remained high relative to demand. That caused benchmark prices to trend down from their annual high of \$297,108 in 2013 to a low of \$243,467 in 2019, reflecting an 18 per cent decline.

The pandemic has created a significant shift in housing markets across the country and Regina is no exception. Home sales soared in 2020 and 2021 is on pace to reach record levels. This is an abrupt shift from the struggles the resale market faced prior to the pandemic.



Unlike some parts of the country, Regina's housing market entered the pandemic with excess supply which made it easier to absorb the sudden spike in housing demand. This helped shift the market into more balanced conditions in 2020 supporting modest price growth. As we moved into 2021, strong housing demand persisted relative to the supply causing the market to shift into seller's conditions through periods of the year causing steeper price growth this year.

The steep price growth earlier in the year has since eased. While prices have trended down over the past three months, they remain over 6 per cent higher than last year's levels. 2021 prices are over 12 per cent below the annual high reached in 2013.

While inventory levels have trended down, Regina's housing market still has inventory levels that are high compared to long-term trends. This is one of the key differences in this market versus what we see in other parts of the province. This makes Regina's home prices sensitive to any changes that could impact demand. A sudden pullback in housing sales would be enough to shift the market back into buyer's conditions causing further downward pressure on prices slowing the recovery of home prices.

Lending rates are expected to rise into 2022 as the economic recovery from the pandemic continues. Gains in rates will dampen housing demand into next year. However, renewed economic growth and a return of migration can help offset some of the pullback. At the same time, further supply pressure is not expected to persist into next year helping keep the market balanced. The largest risk for Regina is that the pullback in demand is more significant than expected.

PROPERTY TAXATION AFFECTS HOUSING AFFORDABILITY AND DEMAND

Mortgage lenders consider property tax when approving financing. The higher the level of taxation, the less financing there is available to purchase a home or commercial space.

At the end of the day, property taxes add to the cost of home ownership. Homes are already the most taxed investment. The more taken in tax, the less there is available for mortgage principal and other uses. It can also affect whether buyers can qualify for mortgage financing.

PROPERTY TAX RESEARCH – PUBLIC VIEWS

Praxis Analytics' public trends survey polls residents about a variety of housing related issues, property taxation being one of them. The 2018 survey revealed some interesting results in the areas of property taxation.

Property tax was a crucial factor in consumers' home buying decision, ranking only behind the purchase price and monthly mortgage payments, but ahead of insurance and utilities. Some other findings from the survey include:

- 16% believe the city should raise taxes when needing more revenue;
- 84% would prefer to see revenue raised by increasing user fees; and
- 76% support dedicated tax increases to pay for specific needs known to taxpayers in advance (such as infrastructure).

ASSOCIATION POSITION ON PROPOSED 2022 BUDGET

We do agree with the general direction of the proposed budget as it is transparent, and the approach is consistent with the results from the survey. We support the 0.5% dedicated to recreational infrastructure as this helps in building attractive residential communities that benefit all residents.

The 2022 Budget Book states that “[l]ooking at the impacts to the City, the Conference Board of Canada’s (CBoC) October 2021 forecast predicts Regina’s Real Gross Domestic Product (GDP) will increase by 5.5 per cent in 2021. This contrasts the 5.3 per cent drop in 2020 due to COVID-19 and weak commodity prices; the drop was less severe than that of the province and Canada thanks, in part, to Regina’s stable public sector. Regina’s GDP is expected to continue to rebound in 2022, increasing by 4.5 per cent. The unemployment rate will see significant progress, decreasing from 8.3 per cent in 2020 to 6.9 per cent in 2021, and further down to an estimated 5.8 per cent in 2022.”

The budget goes on to call that “almost back to normal” and go on to share that the City anticipates “slower growth in the utilization of City services”. It is concerning that property taxes are proposed to increase in the context of ‘modest economic activity’ and the City “being well situated financially to manage the challenges presented by COVID-19.”

Although the proposed increase will raise annual property taxes an average of just under \$50 this year, this increase will continue to compound and help make housing more unaffordable in the future. Thus, we would continue to encourage you to seek additional efficiencies that would minimize a tax increase and help to keep housing affordable.

The pandemic has shifted the way people live and where they live. People work from home more and are very willing to move to lower-cost areas where prices are more affordable. Research shows that people will drive farther out for a more affordable home. An RBC poll done in January found that 39 per cent of people in Saskatchewan and Manitoba felt they would have to move out of the city they are in if they want to own a larger home. We have an opportunity as a community and city to do everything we can to be fiercely competitive in a post-COVID market. We urge council to take that into consideration as you deliberate this budget.

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