
Inquiry – Councillor Z. Jeffries (September 28, 2015) Undeveloped Lots after Sale of Lot

Recommendation

That the report of the CFO/General Manager, Asset and Financial Management Department, dated May 7, 2018, be received as information.

Topic and Purpose

The purpose of this report is to provide information regarding the possibility of Saskatoon Land pursuing negotiated buy-backs of previously sold but undeveloped lots in areas developed by Saskatoon Land, including estimated overall costs to pursue buy-backs.

Report Highlights

1. In 2014, Saskatoon Land bought back a single-family lot in the Briarwood neighbourhood.
2. Previous experience estimates the cost in staff time to complete a buy-back and resale of a lot to be 225 hours over a period of approximately 14 months.
3. In order for it to be possible to pursue a successful negotiation, there must be a willing seller, a willing buyer, and terms agreeable to both.
4. The Administration does not support the establishment of a formal program for the negotiated buy-back of vacant lots to ensure or encourage timely development of new homes.

Strategic Goal

This report supports the long-term strategy of creating and encouraging a work place culture of continuous improvement that encourages innovation and forward-thinking under the Strategic Goal of Continuous Improvement.

Background

At its March 27, 2017 meeting, City Council, when considering a report of the Standing Policy Committee on Finance regarding undeveloped lots after the sale of lot, resolved, in part:

- “2. That Saskatoon Land look into the possibility of negotiated buy-back of unsold lots for a report back to the Standing Policy Committee on Finance; and
3. That the report to the Standing Policy Committee on Finance include information on the overall costs to administer a program involving negotiated buy-backs.”

Current practice for ensuring timely development of lots sold by Saskatoon Land is stated in Sections 3.9 and 3.10 of Council Policy No. C09-006, Residential Lot Sales – General Policy, which requires lot purchasers to build a fully completed residence within three years of purchasing a lot.

For Eligible Contractors, enforcement of the requirement involves temporary suspension from further lot purchases until the violation has been rectified. Individual purchasers are subject to a four-year residency requirement beginning at the time of title transfer, enforced by a forgivable \$50,000 mortgage registered against each lot.

Generally speaking, the Policy requirements for both contractors and individuals have been effective in limiting speculation and lot flipping during times of elevated market conditions. The Policy also encourages timely builds to take place in Saskatoon Land development areas. In instances where purchased lots have remained undeveloped for a number of years, the purchasers have cited varied reasons for not proceeding with timely construction on the lots, including:

- difficulty selling excess inventory in the current market;
- reluctance to build speculatively in the current market;
- difficulty selling existing property or accessing funds from recent sale of property; and
- personal circumstances.

Report

Negotiated Buy-back Case Example

Saskatoon Land has completed one negotiated buy-back through the reacquisition and subsequent retendering of a residential lot in the Briarwood neighbourhood. In this case, the lot owner was willing to sell the lot back to Saskatoon Land at an agreeable price, and due to an escalating market at the time, Saskatoon Land was able to resell the lot at a higher value through a public tender. The buy-back resulted in construction taking place on the lot approximately two years from the start of buy-back negotiations.

While the above-noted buy-back was considered successful, a significant amount of time and administrative resources were utilized to complete the transaction, taking approximately eight months from commencement of discussions with the owner until actual transfer of ownership and another six months to resell the site. Although circumstances related to any individual buy-back may differ, this is representative of the time and resources required to achieve a successful outcome for a lot buy-back.

Conditions for Success and Potential Risks

It is possible for Saskatoon Land to pursue negotiated buy-backs provided the current lot owner is interested in reselling the lot back to Saskatoon Land. In order for the buy-back to be financially feasible and meet the intent of accelerating development on the lot, a number of additional conditions would also need to be in place, including the following:

- agreed upon price should be such that Saskatoon Land would not anticipate a financial loss through the acquisition and resale of the lot;
- lot must be resold in a reasonable amount of time; and
- new purchaser must have a buyer and proceed with construction in a timely manner.

Should these conditions not be met, the overall purpose of the buy-back will not be served.

The conditions related to terms and timely resale and construction are highly contingent on market conditions, and are, therefore, difficult to predict particularly when resale could take place a year or two after negotiations begin. In an appreciating market, Saskatoon Land may then be able to resell the lot for a higher value to recover costs needed to reacquire and retender the lot. Conversely, in a stable or declining market, Saskatoon Land could suffer a loss.

There may also be undesirable outcomes whereby either Saskatoon Land is not able to resell the lot in short order, or the builder or individual purchaser is unable to proceed with construction in a timely manner. In either scenario, the objective of repurchasing the lot may not be met, and the lot continues to be undeveloped for an extended period of time. In addition, there are financial risks related to the potential for the market value of the lot to decrease in value during or after buy-back negotiations due to market fluctuations and carrying costs (e.g. taxes, maintenance) while the lot is in inventory.

With the initiation of targeted buy-backs, the Administration is also concerned that lot purchasers becoming aware of these buy-backs may believe that Saskatoon Land would be willing to buy-back their undeveloped lots. The assumption of Saskatoon Land pursuing buy-backs could impact the purchaser's assessment of risk related to lot purchases. In consideration of the potential implications noted above, Saskatoon Land does not support the general practice of pursuing the negotiated buy-back of vacant lots to ensure or encourage the timely development of new homes.

Financial Implications

There is significant costs in staff time, resources, and disbursements to complete the buy-back process. Staff time required to facilitate the Briarwood example is estimated at 225 hours. Other incurred costs include advertising, Information Services Corporation's fees, and holding costs estimated at \$2,500/lot. Additional financial implications could result if negative changes in market valuation occur after negotiations are complete and resale of the lot takes place. For these reasons, determining the overall cost to administer a buy-back program is not possible.

Due Date for Follow-up and/or Project Completion

Follow-up and/or project completion is not required.

Public Notice

Public Notice pursuant to Section 3 of Policy No. C01-021, Public Notice Policy, is not required.

Report Approval

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