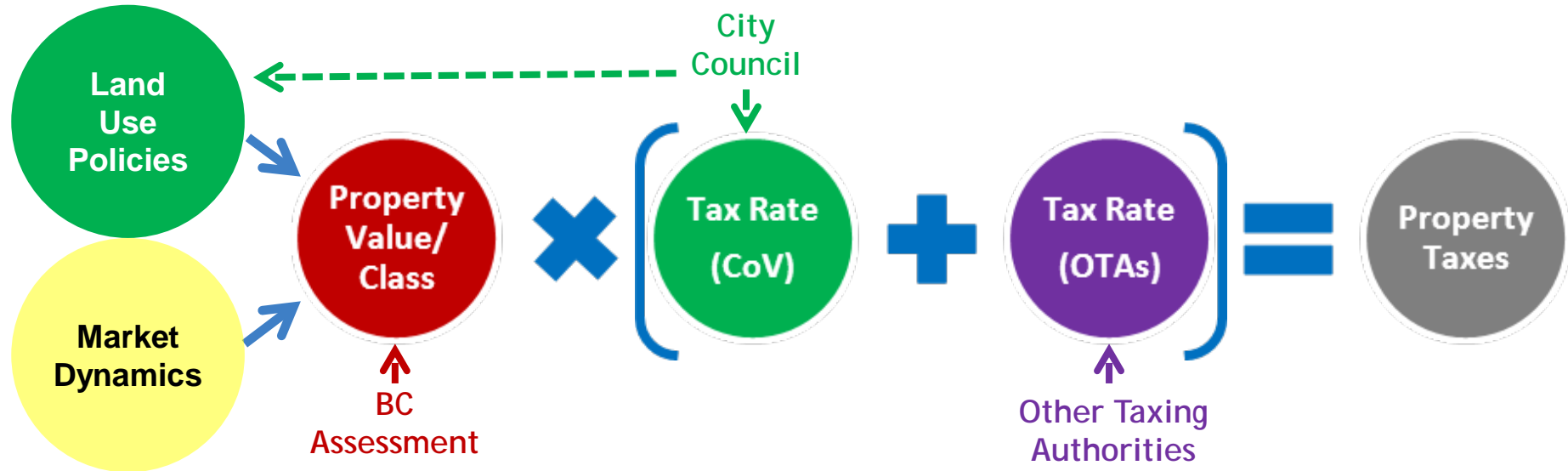




2018 Property Taxation: Targeted Land Assessment Averaging

Standing Committee on City
Finance & Services
March 14, 2018

- **Property Assessment & Taxation Framework**
- Provincial & City Property Tax Relief Programs
- “Hot” Residential Properties
- “Hot” Commercial Properties
- Director of Planning-initiated Z&D/ODP Amendments
- Properties with Class Change
- Summary, Recommendations & Next Steps



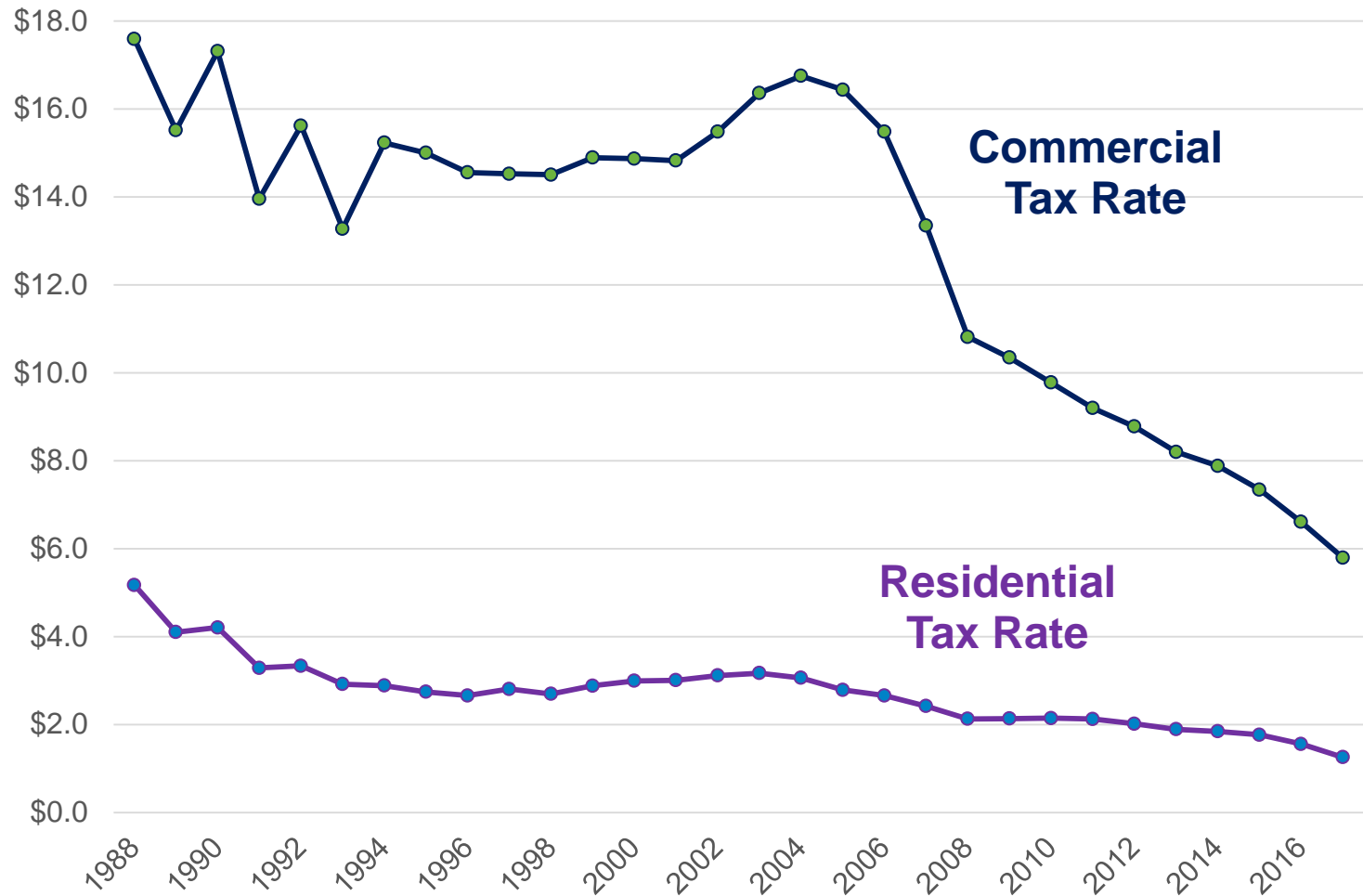
BC Assessment determines:

- property value based on highest & best use & market activities
- property class based on actual use

City Council determines:

- land use policies (zoning, density, etc.)
- total tax levy to be collected
- residential/business tax share
- tax rate for each property class
- use of land assessment averaging

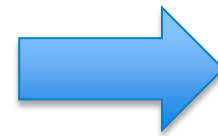
Revenue Neutrality



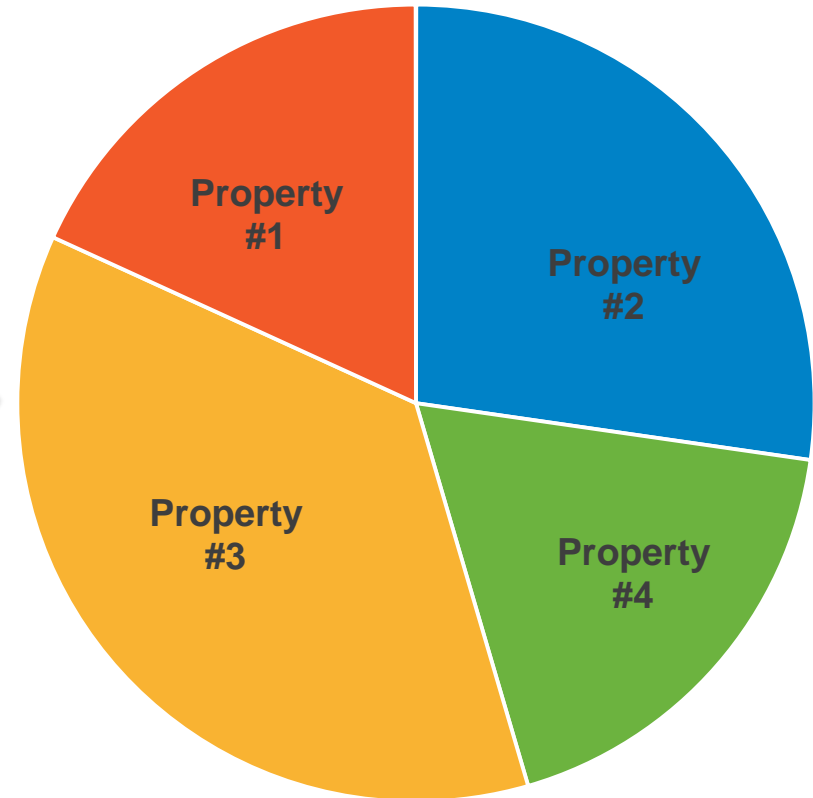
**City does NOT get more taxes due to higher assessment
Tax rates are adjusted annually to collect levy set by Council**

Differential Property Value Increases Result in Differential Taxation Impact

Year 1



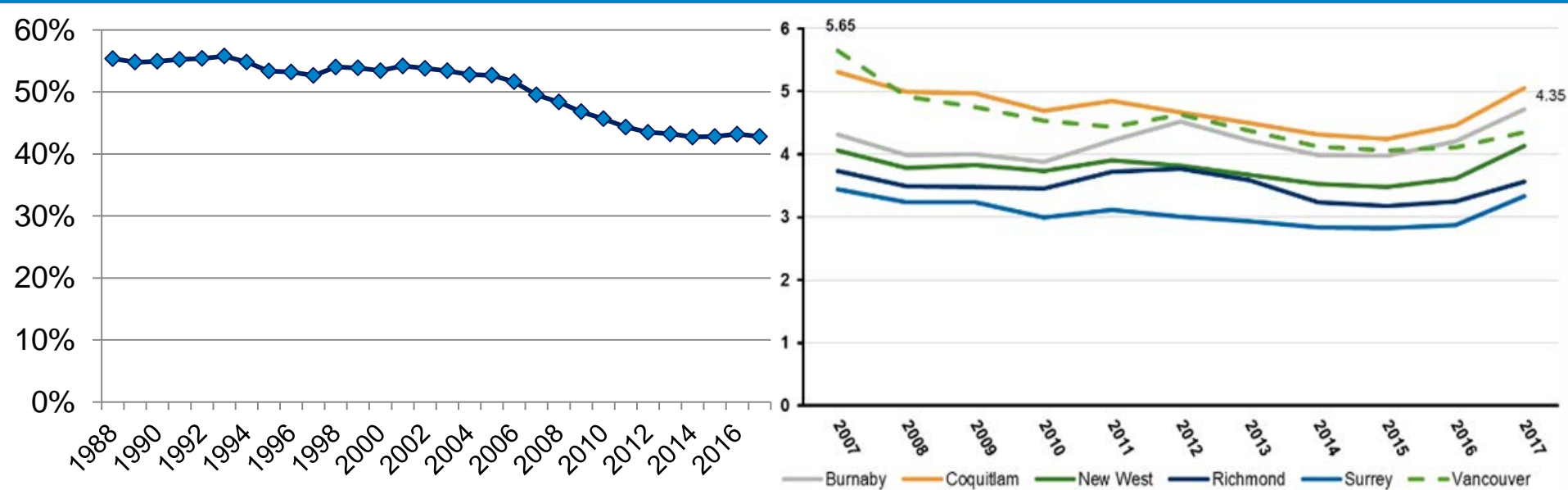
Year 2



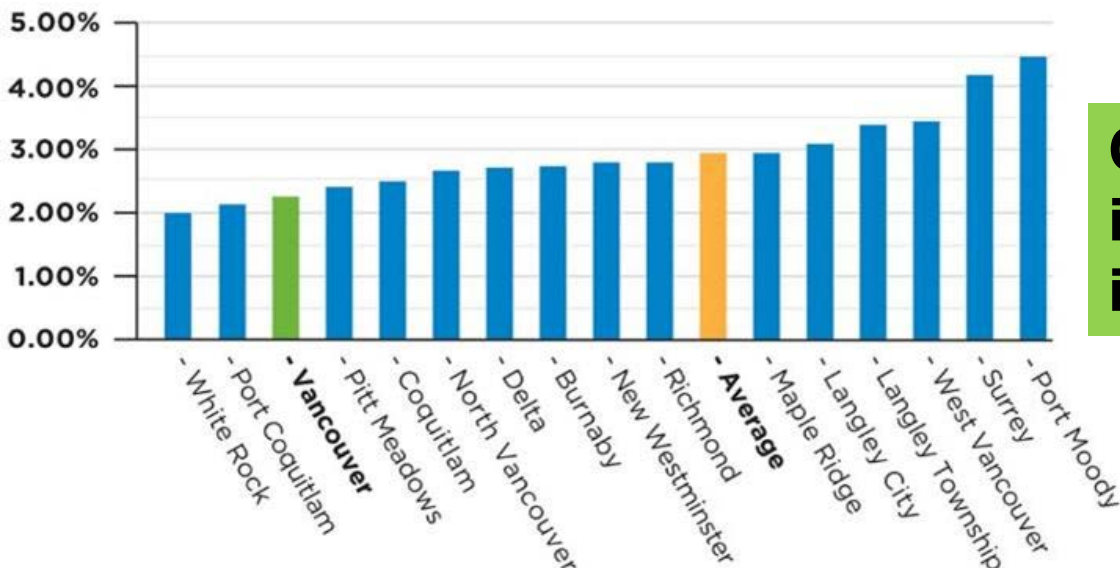
City allocates taxes among properties based on assessed values

- below avg increase in property value for 1 & 4 → lower tax
- above avg increase in property value for 2 & 3 → higher tax

Improving Business Tax Share & Fiscal Restrain

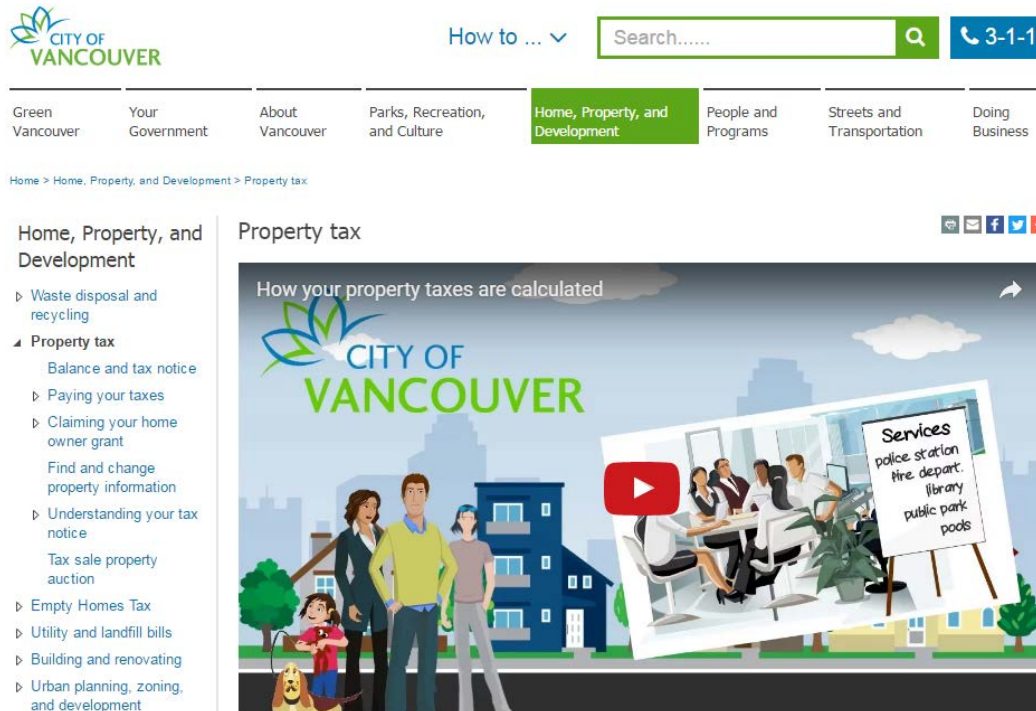


Business tax share & tax rate ratio continues to decline



City's 5-yr average tax increase among the lowest in Metro Vancouver

A video at vancouver.ca/property-tax illustrates the relationship between assessment changes and property taxes



The screenshot shows the City of Vancouver website's navigation menu with the following items: Green Vancouver, Your Government, About Vancouver, Parks, Recreation, and Culture, Home, Property, and Development (highlighted), People and Programs, Streets and Transportation, and Doing Business. Below the menu is a search bar and a '3-1-1' contact button. The main content area is titled 'Property tax' and includes a video player with the title 'How your property taxes are calculated'. The video thumbnail shows a family standing in front of a house, with a sign listing services: police station, fire depart., library, public park, and pools. A sidebar on the left lists various property tax topics, including 'Property tax', 'Balance and tax notice', 'Paying your taxes', 'Claiming your home owner grant', 'Find and change property information', 'Understanding your tax notice', 'Tax sale property auction', 'Empty Homes Tax', 'Utility and landfill bills', 'Building and renovating', and 'Urban planning, zoning, and development'.

Q4 2017 - BCA mailed notifications to property owners with significant assessment increases in 2018 ($\geq 15\%$ higher than class average increase)

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Property Tax Relief Programs



Residential	Non-residential
-------------	-----------------

Provincial Programs

- | | |
|---|-----|
| 1. Assessment Act s19(8)
(long-term owner/occupier adjustment) | N/A |
| 2. Home Owner Grant | N/A |
| 3. Property Tax Deferment | N/A |

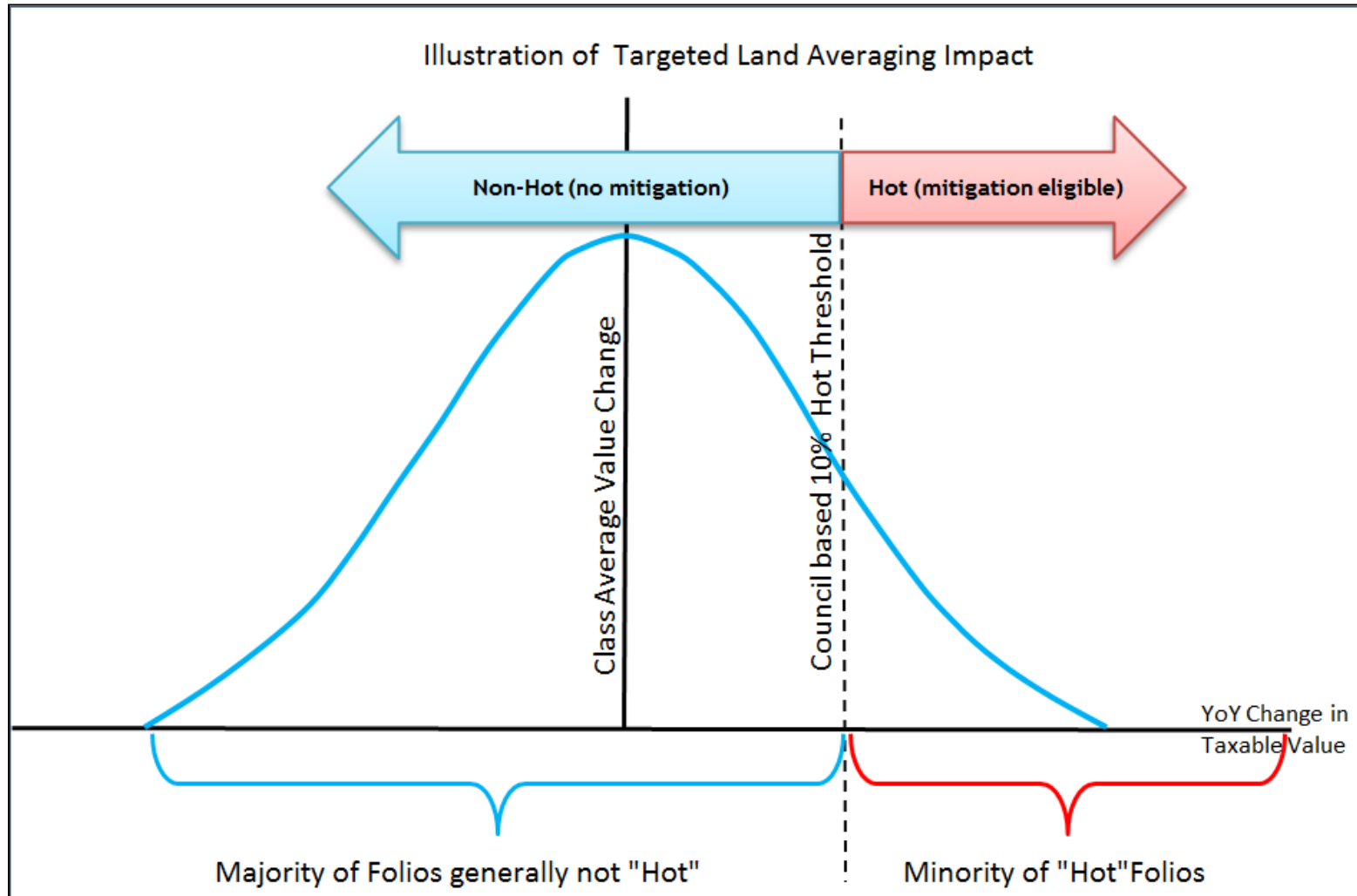
City of Vancouver Program

Targeted Land Assessment Averaging for “hot” properties
(currently 3-yr; transition to 5-yr in 2019)

Targeted averaging provides short-term, multi-year relief to residents and businesses to mitigate significant tax increases

CoV Property Tax Relief Program

Targeted Land Assessment Averaging



Targeted, tailored & time-limited tax relief

- Property Assessment & Taxation Framework
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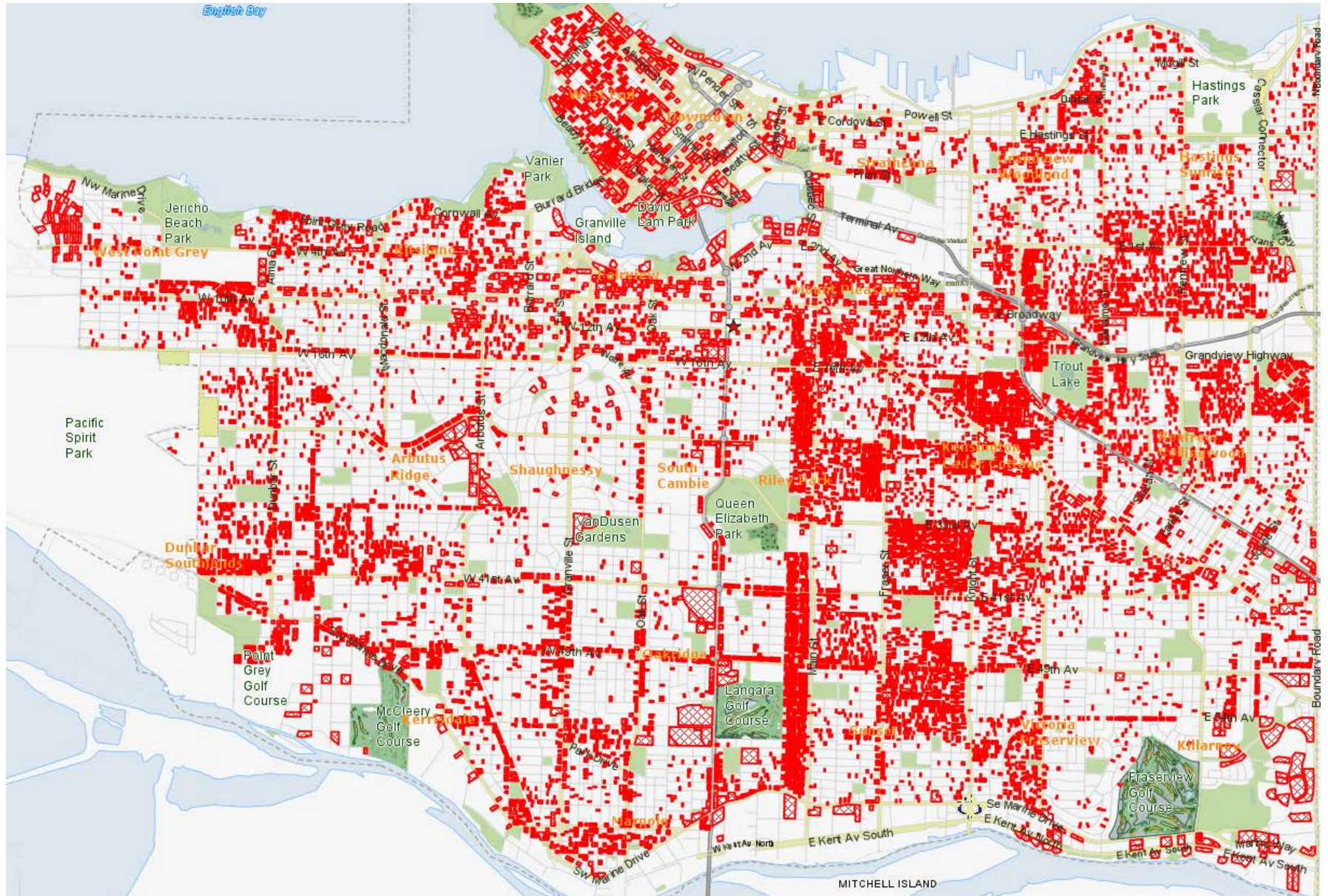
What is a “Hot” Property?

Property Tax Policy Review Commission's definition (2014)

A property that experiences an unanticipated, year-over-year increase in total net assessed value, before land averaging is applied, which exceeds the average assessment increase for the same property class >10%

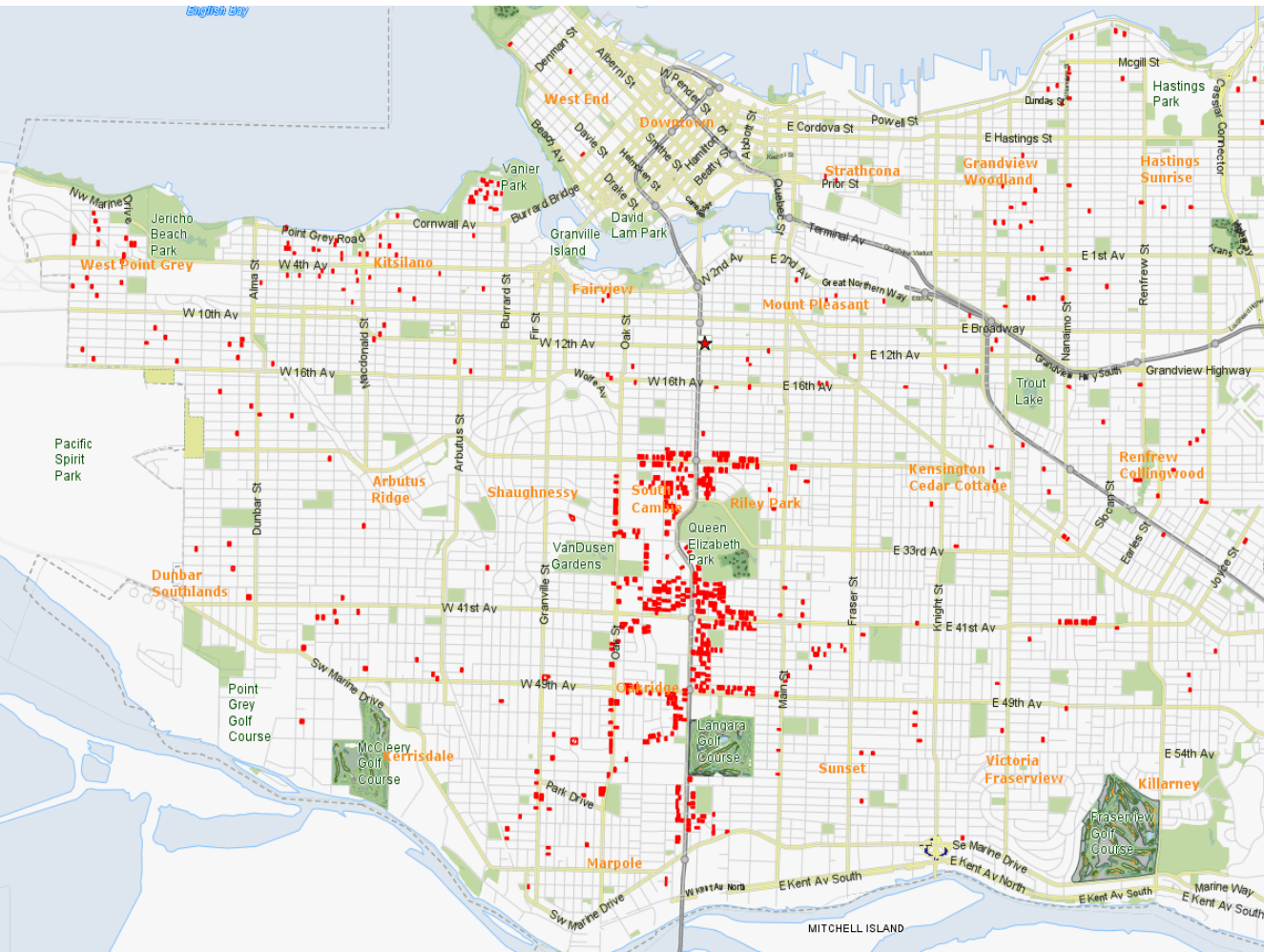
Where are the “Hot” Residential Properties?

2018: ~39,700 (21%)



Provincial Property Tax Relief Programs

Residential #1 - Assessment Act s19(8)



Intent:

Protect long-term home owners whose assessed values would rise due to zoning changes

How:

Land is assessed based on current zoning, not anticipated redevelopment potential

Eligibility:

Owner/occupier @ principal residence ≥ 10 yrs

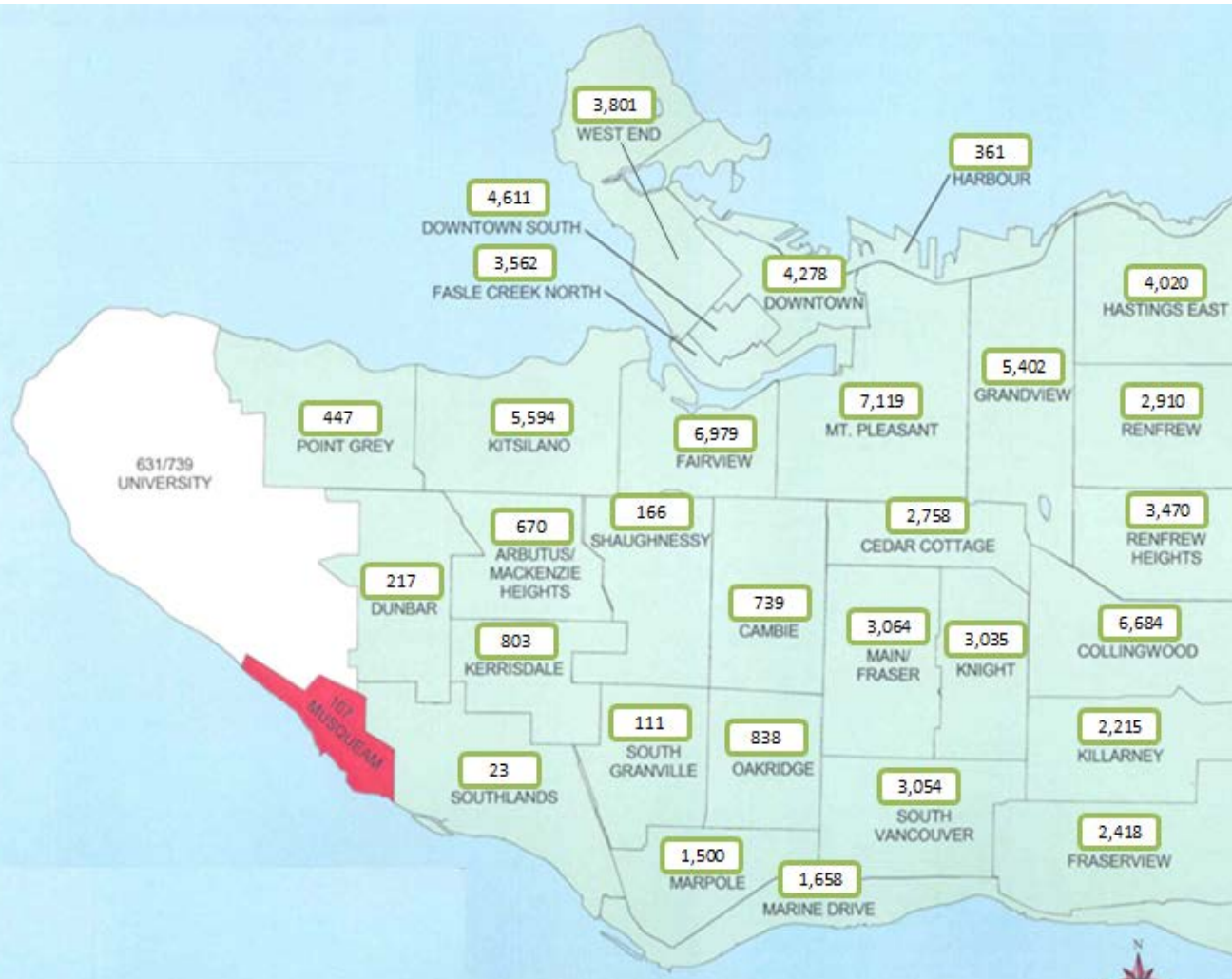
of Properties:

2017: 846

2016: 423

Provincial Property Tax Relief Programs

Residential #2 - Home Owner Grant



Intent:

Provincial grant to offset taxes to protect lower value homes & seniors

How:

Up to \$570 grant for lower value homes; additional \$275 grant to seniors

Eligibility:

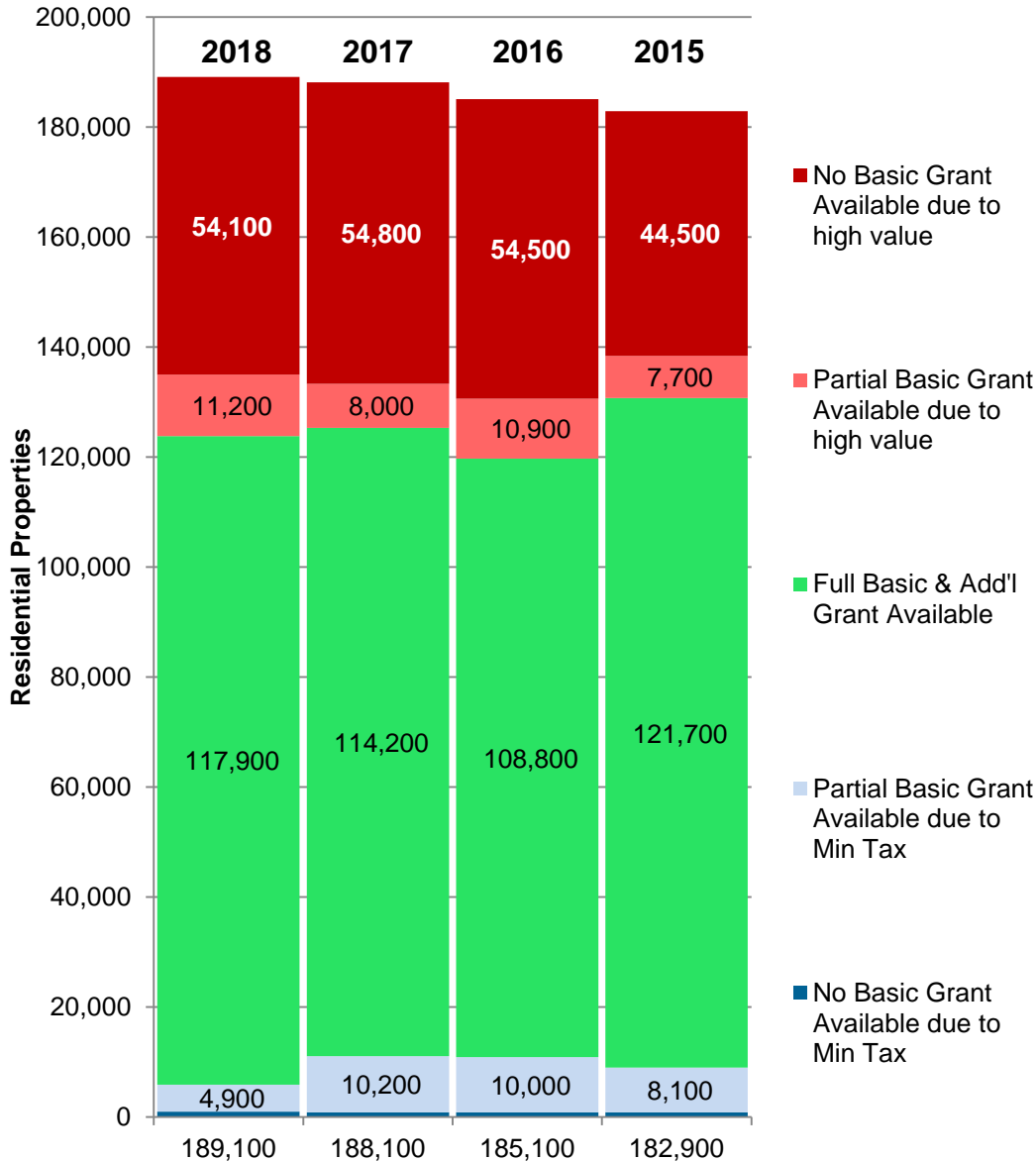
Owner/occupier @ principal residence valued up to \$1.65M (reduced to zero @ \$1.764M)

of Claims:

2018: applications pending
2017: 82,000

Provincial Property Tax Relief Programs

Residential #2 - Home Owner Grant

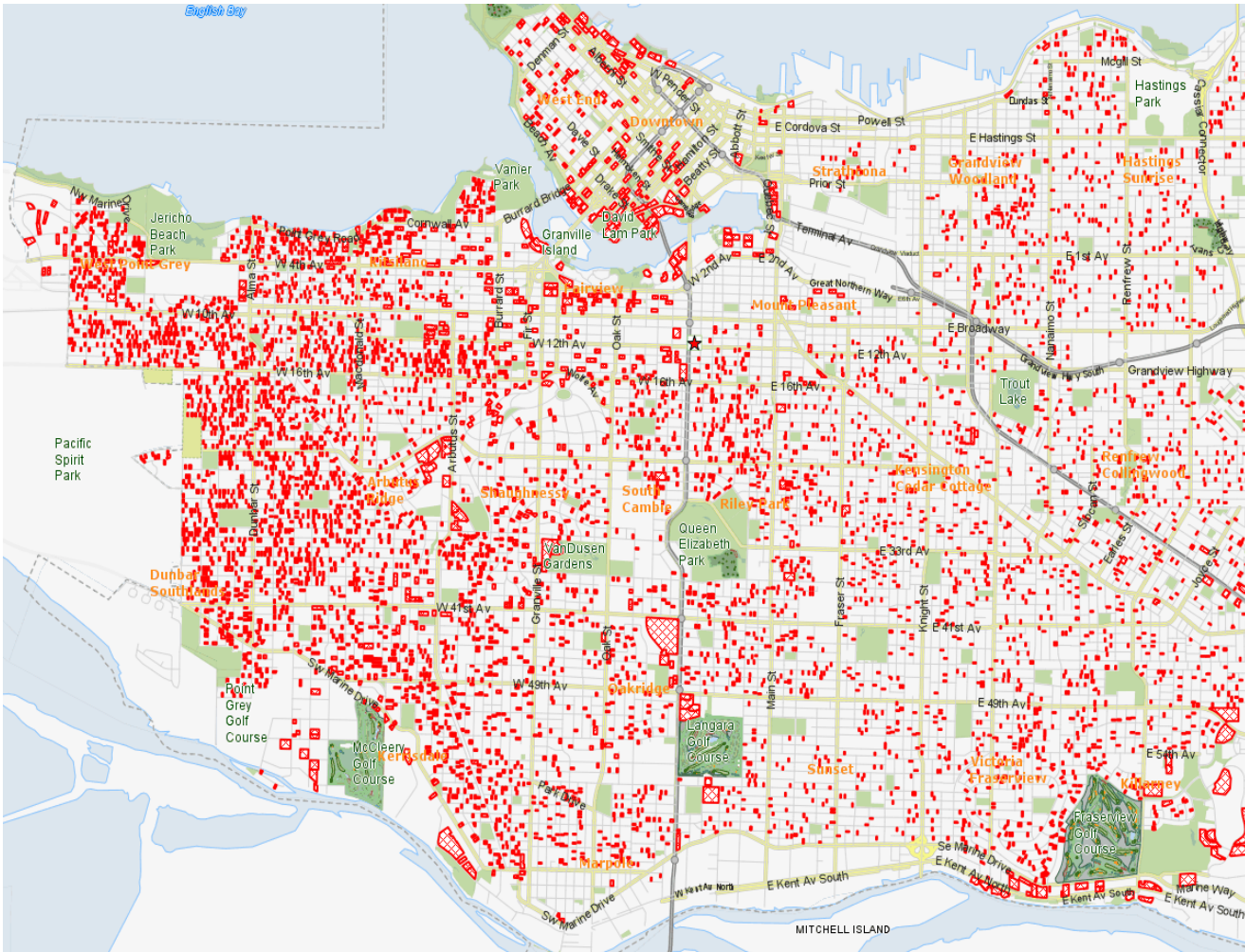


Due to the disproportionate increase in property values in Vancouver (relative to the rest of BC), # of properties not eligible for HOG has been increasing over time.

The adjustment in HOG threshold in 2018 increases # of eligible residential properties from 114,000 (61%) to 118,000 (62%) in Vancouver.

Provincial Property Tax Relief Programs

Residential #3 – Property Tax Deferment



Intent:

Tax deferral for seniors & families with children; taxes & low rate interest paid upon sale of property

How:

Charge against the property on equity released resulting from sale

Eligibility:

Owner/occupier

- ≥ 55 yrs old, or
- with children ≤ 18 yrs old

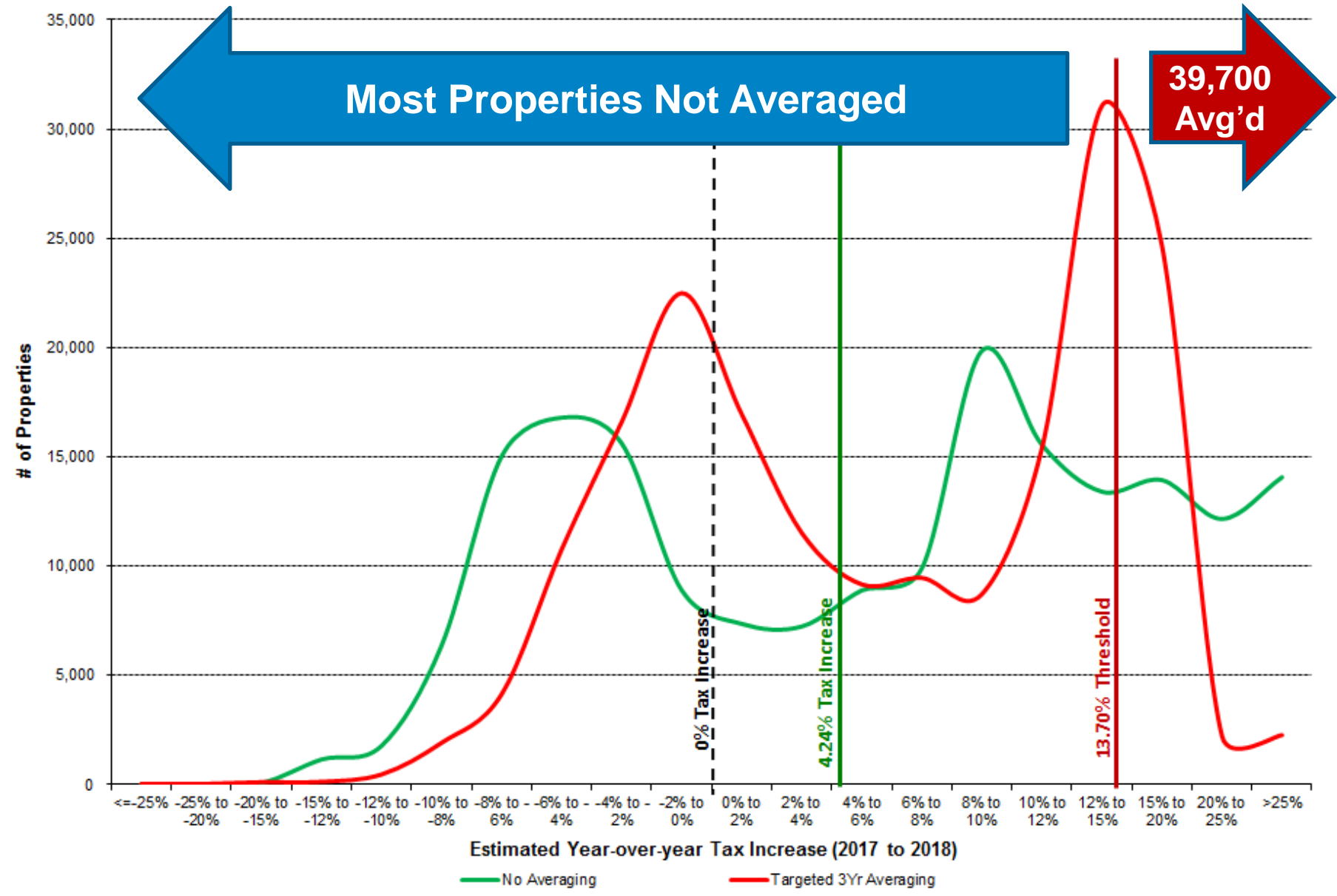
of Properties:

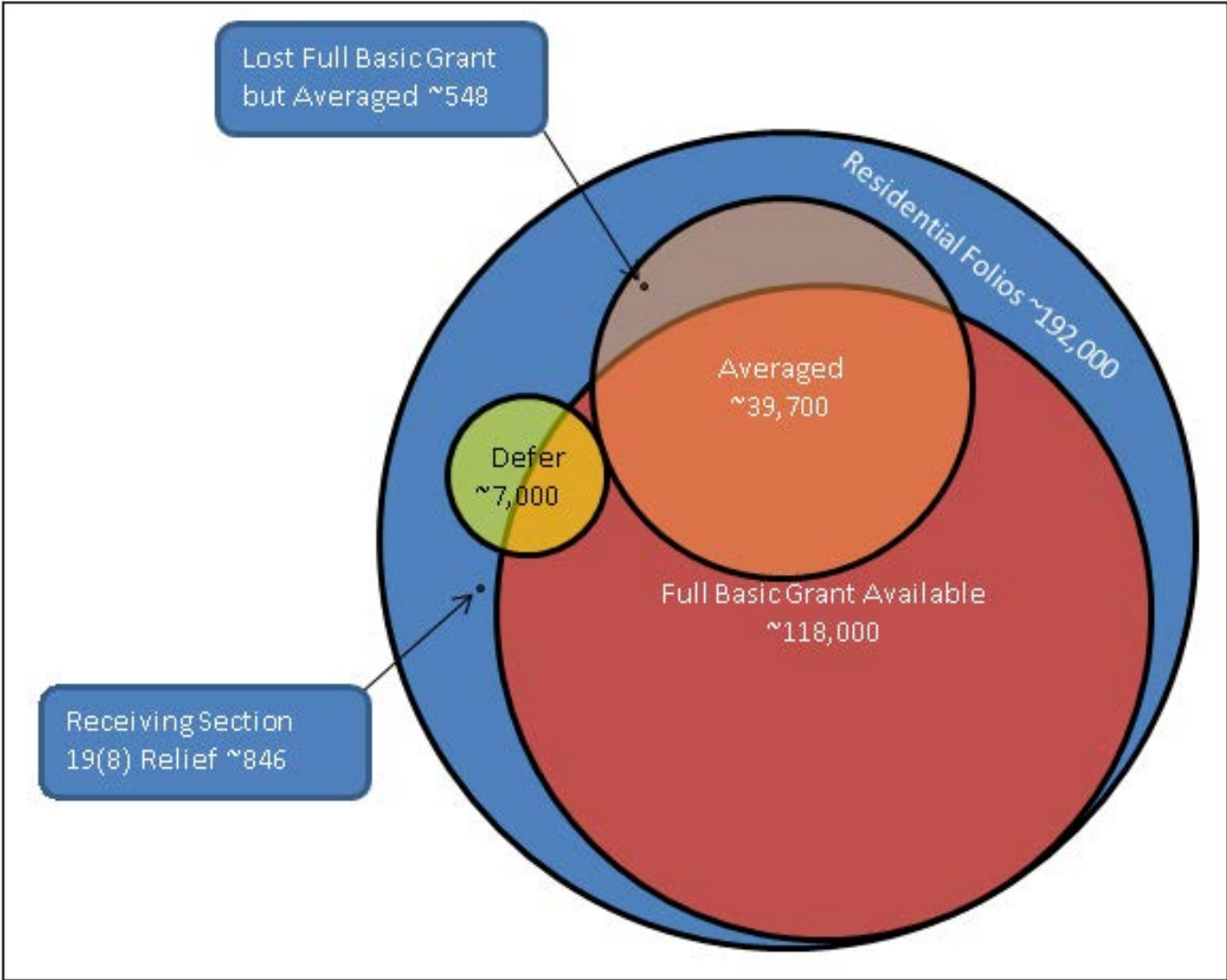
2018: applications pending

2017: 7,000

Targeted Averaging – Residential Properties

Threshold: **Value Increase >20.15%** Tax Increase >13.7%





How Provincial & City Tax Relief Programs Work Together

Loss of Home Owner Grant Offset by Averaging

- 365 properties went from full grant in 2017 to no grant in 2018
- 357 properties (98%) could be eligible for targeted averaging
- Impact of targeted averaging to these properties:

24.9%	Median Property Tax Increase with HOG loss <i>(before targeted averaging)</i>
5.7%	Median Property Tax Increase with HOG loss <i>(after targeted averaging)</i>

(Note: Analysis based on City's property tax only; taxes levied by other authorities not included)

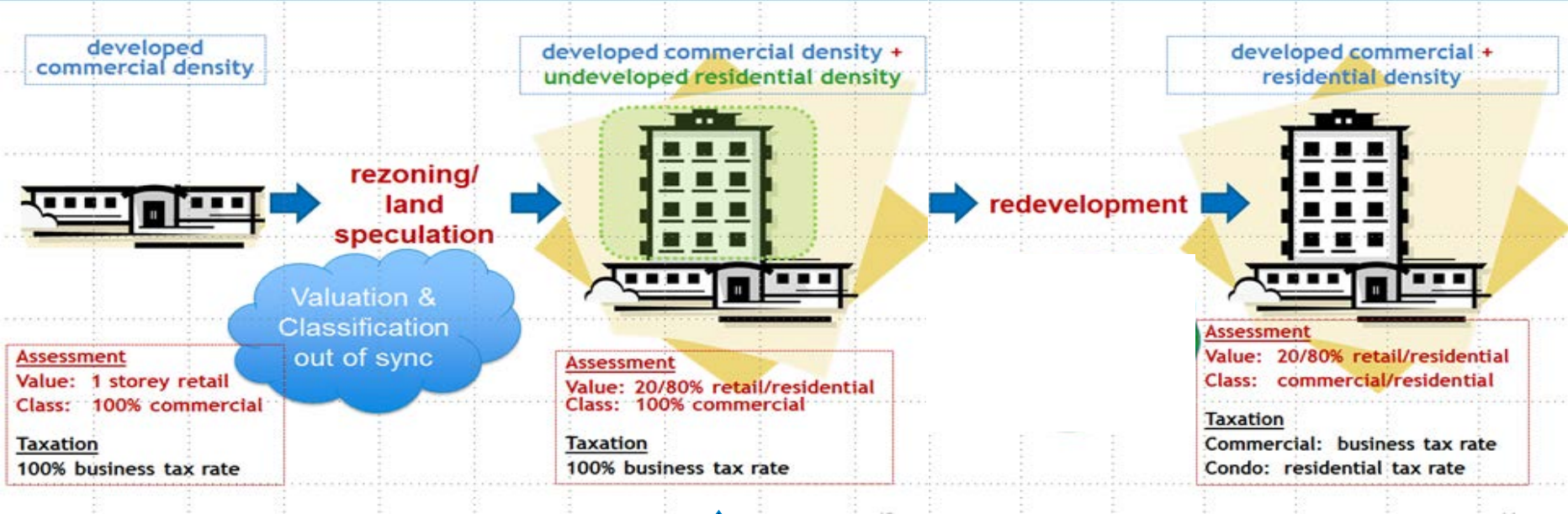
Targeted averaging largely offsets property tax increase arising from HOG loss

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Why Commercial Properties become “Hot”?

- supply and demand
- major infrastructure investment (e.g. rapid transit)
- City-led neighborhood planning effort which define new highest & best uses for existing properties
- market speculation

Current situation



Emerging situation



Appeals underway in zones with specificity
Successful appeals see development potential moved from commercial (higher tax) to residential (lower tax)

Land value escalation impacts landlords, tenants & owner/operators differently...

More certainty for...
Landlords
Tenants

Rent includes...

Add'l charges...

Gross Lease

Base rent, taxes, insurance, maintenance, utilities, janitorial

Modified Gross Lease

Base rent, taxes, insurance, maintenance

Utilities, janitorial

“N” Lease

Base rent, insurance, maintenance

Tax, utilities, janitorial

“NN” Lease

Base rent, maintenance

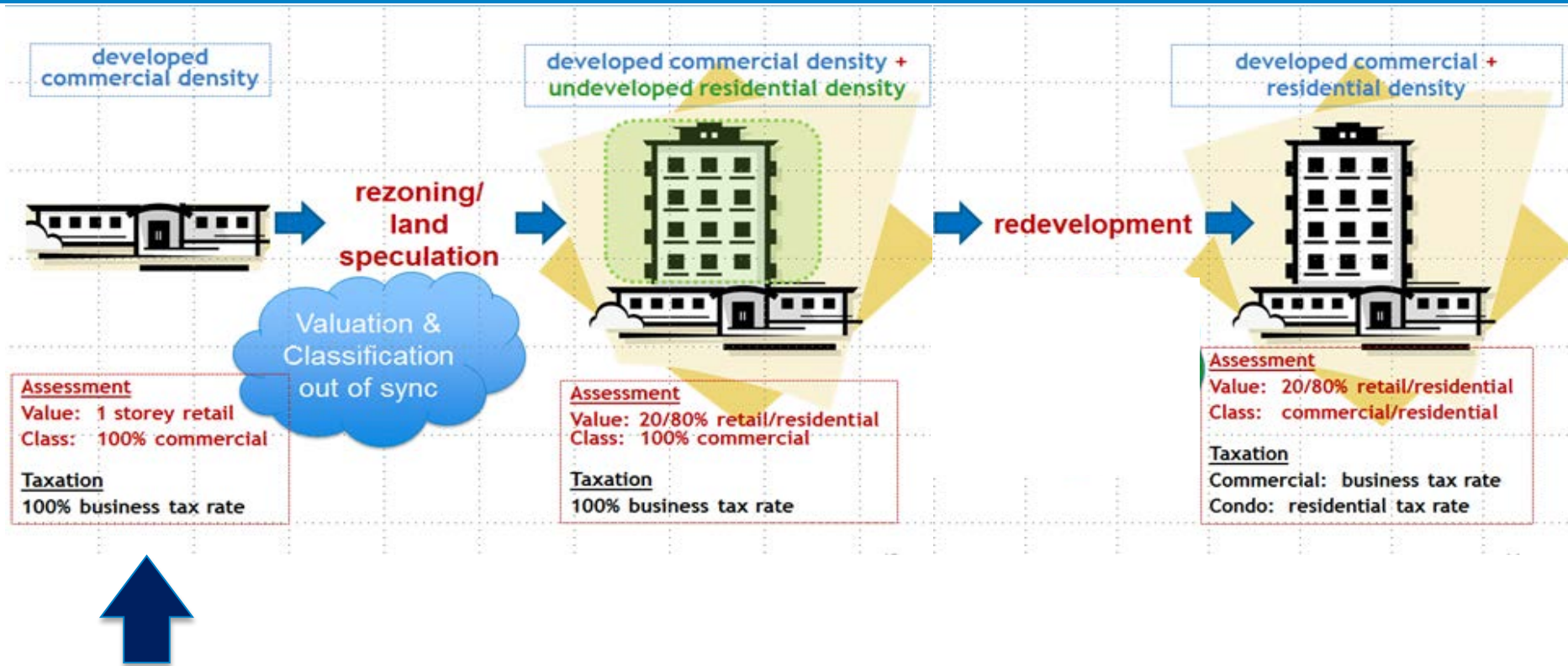
Tax, insurance, utilities, janitorial

“NNN” Lease

Base rent

Tax, insurance, maintenance, utilities, janitorial

Transfer of Tax Burden from Landlords to **Tenants**

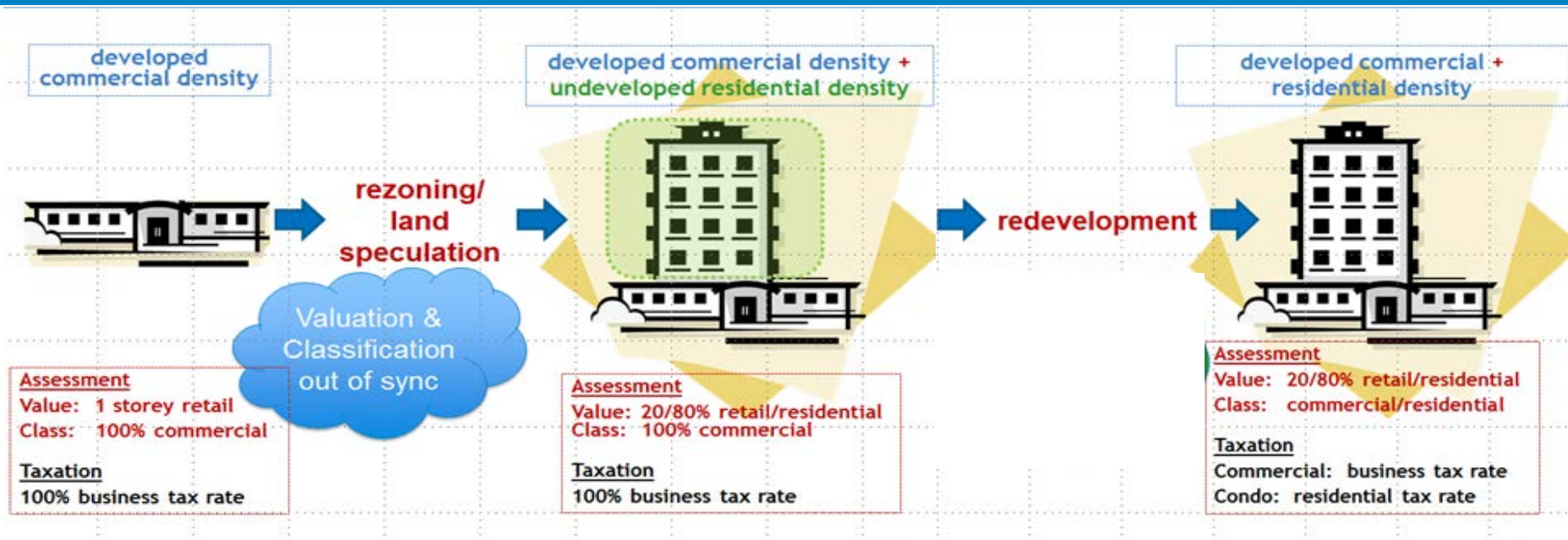


Tenants enter into leases before land value escalation, cannot reasonably anticipate, nor afford to pay, significantly higher taxes resulting from undeveloped density during lease term



- While property owners benefit from rising property values upon redevelopment or sale, small business tenants continue to shoulder the entire tax burden pertaining to the rented space as well as the unrealized development potential.
- Typical commercial leases do not convey development rights to tenants and tenants do not realize any benefit of the increase in property values, as an owner would, upon redevelopment or sale.
- Taking on the full burden of property taxes can cause significant financial distress for small businesses
- Fixed-term leases offer certainty on rent but not property taxes, especially when spike in taxes arise from actual/perceived development potential that occurs during the lease term.

Challenges Faced by **Owner/Operators**



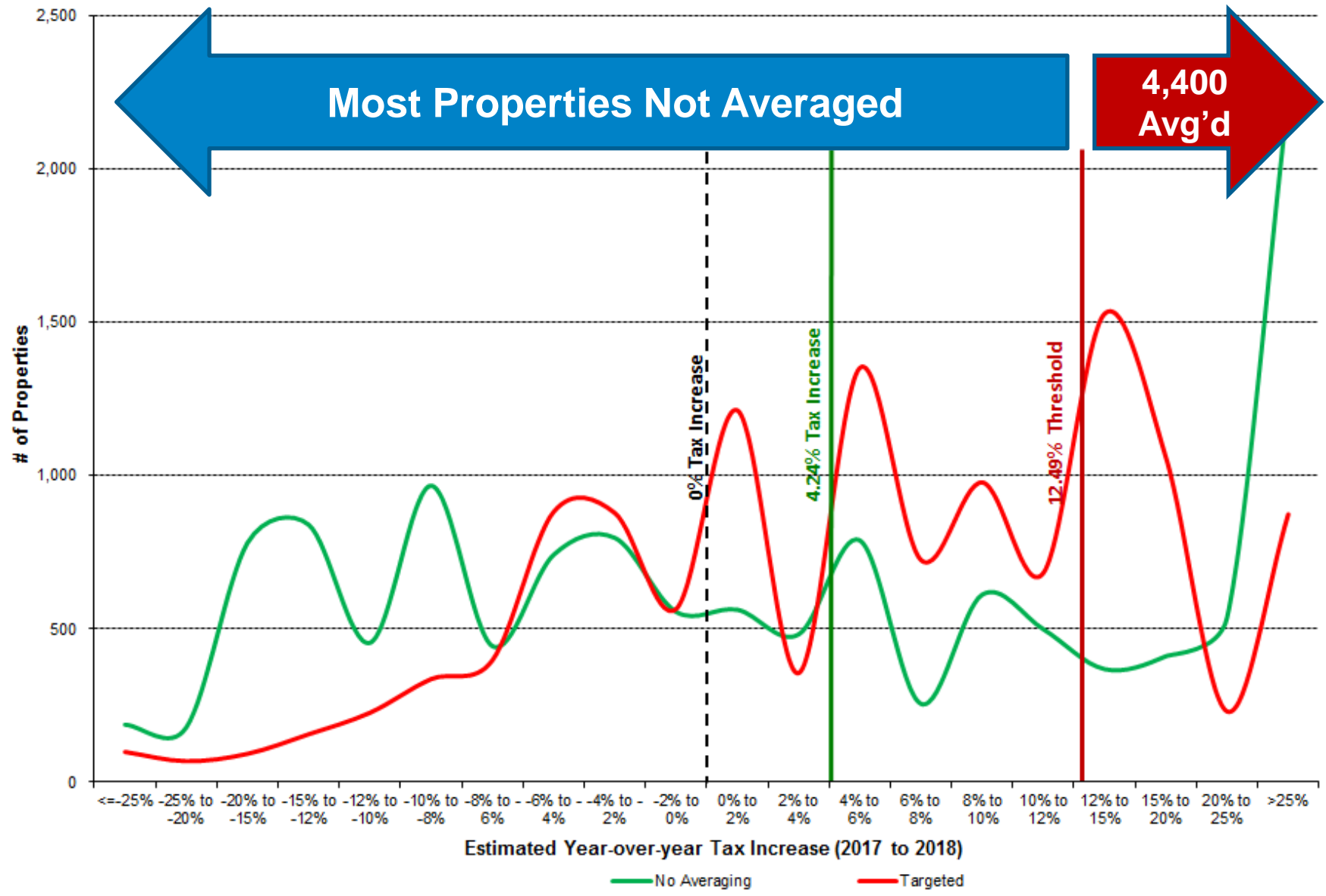
Similar to tenants, **owner/operators** cannot reasonably anticipate, and may not be able to afford to pay, significantly higher taxes resulting from undeveloped potential

Unlike tenants, **owner/operators** could arrange for mortgage financing and/or relocate and sell/redevelop property

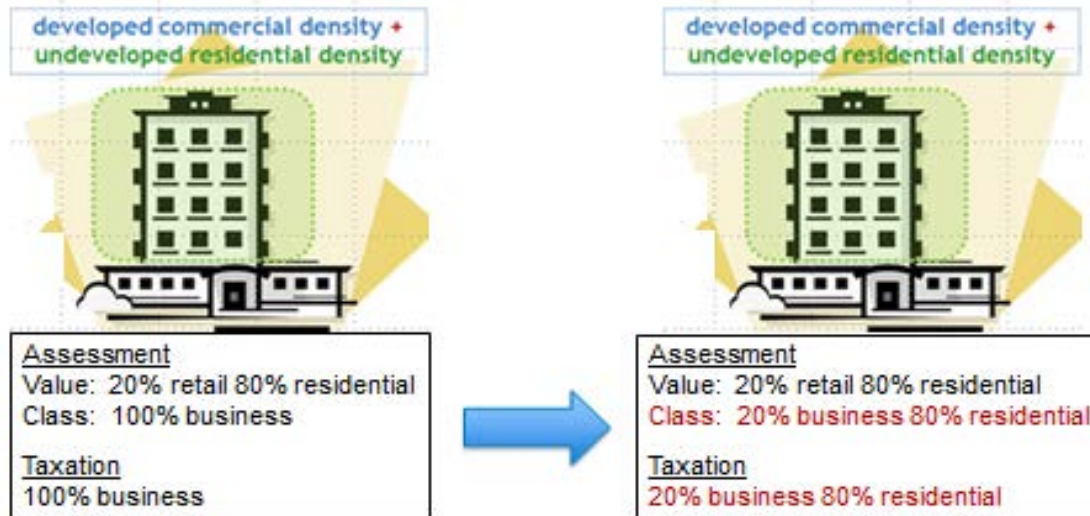
Targeted Averaging – Light Industrial/Business Properties



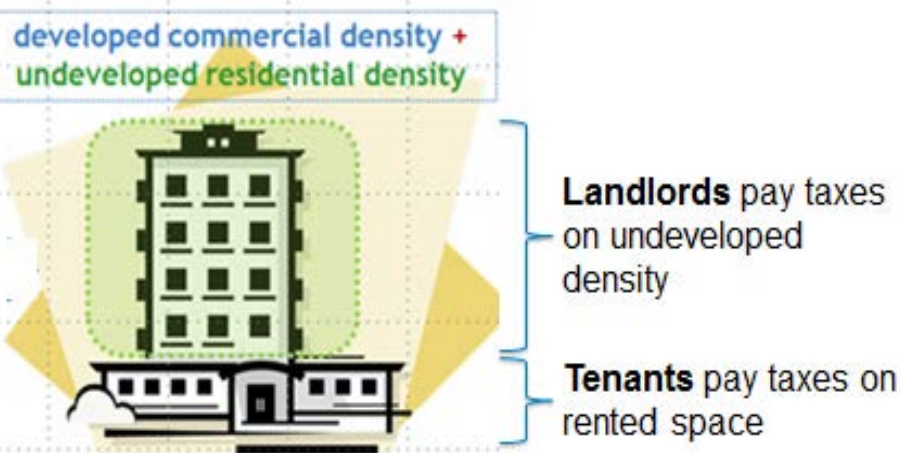
Threshold: **Value Increase >36.3%** Tax Increase >12.49%



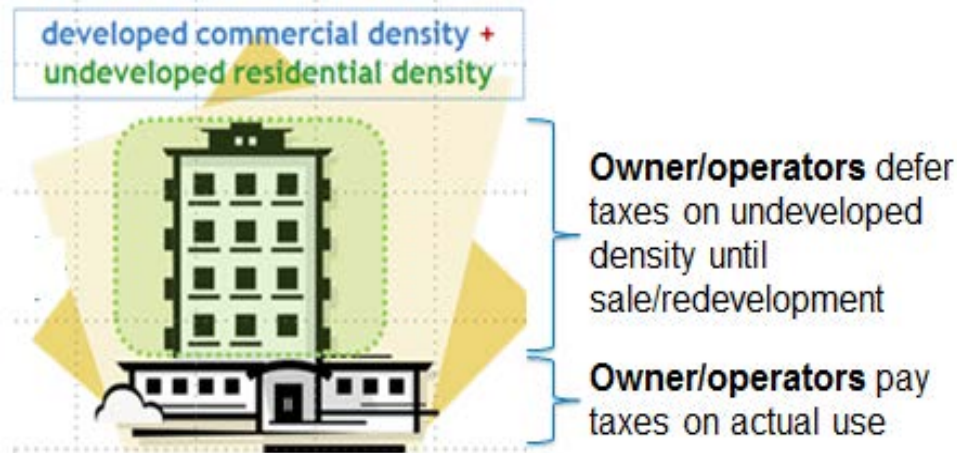
Potential Provincial Policy Tools to Complement Targeted Averaging



Clarify criteria in the *Assessment Act* for **Split Assessment**



Split Tax Bill



Tax Deferral

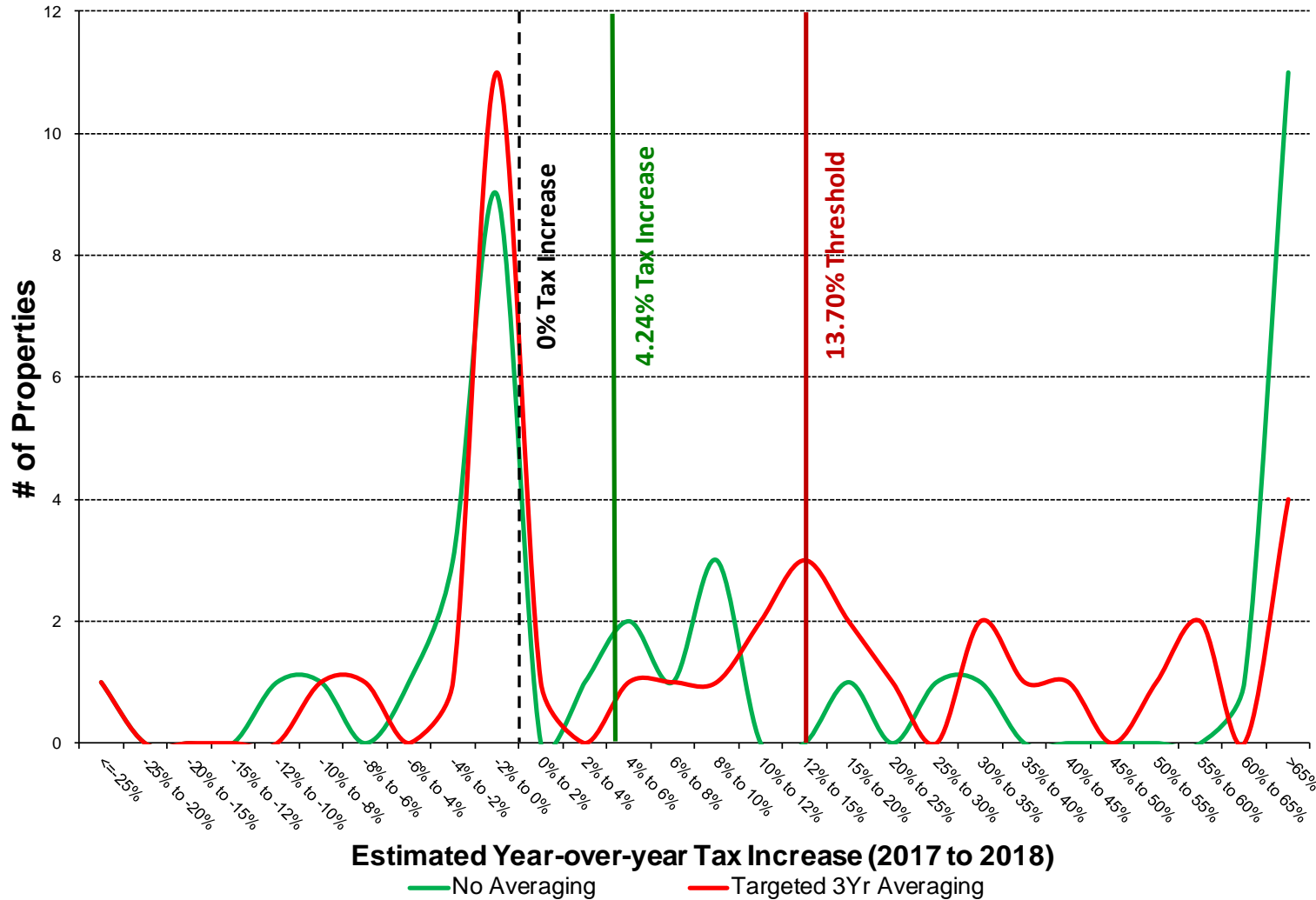
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It has been Council practice to mitigate impact of Director of Planning-initiated amendments to the Zoning & Development By-law and/or Official Development Plan under the averaging program, especially in circumstances where there has been no physical change to the property and no action by the property owner to change the zoning on the site.

2018: Mount Pleasant Industrial Area, Railtown (Historic Industrial) District, and False Creek Flats Area

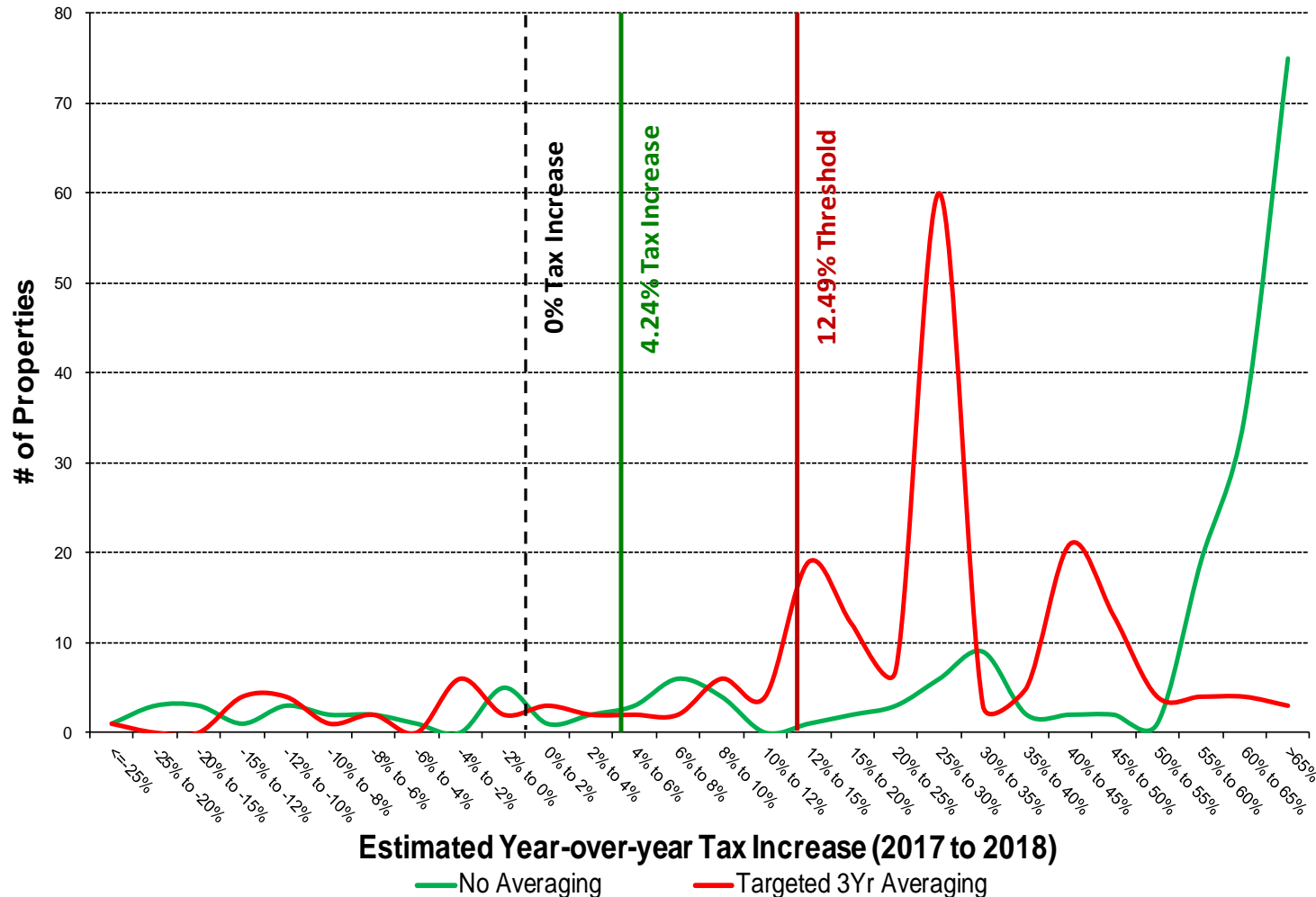
- ~170 properties (73%) would be eligible for targeted averaging:
 - ~12 residential (Class 1)
 - ~158 light industrial & business (Class 5 & 6) properties

Targeted Averaging – Residential Mt Pleasant, Railtown & False Creek Flats



~12 properties would be eligible for targeted averaging

Targeted Averaging – Light Industrial & Business Mt Pleasant, Railtown & False Creek Flats

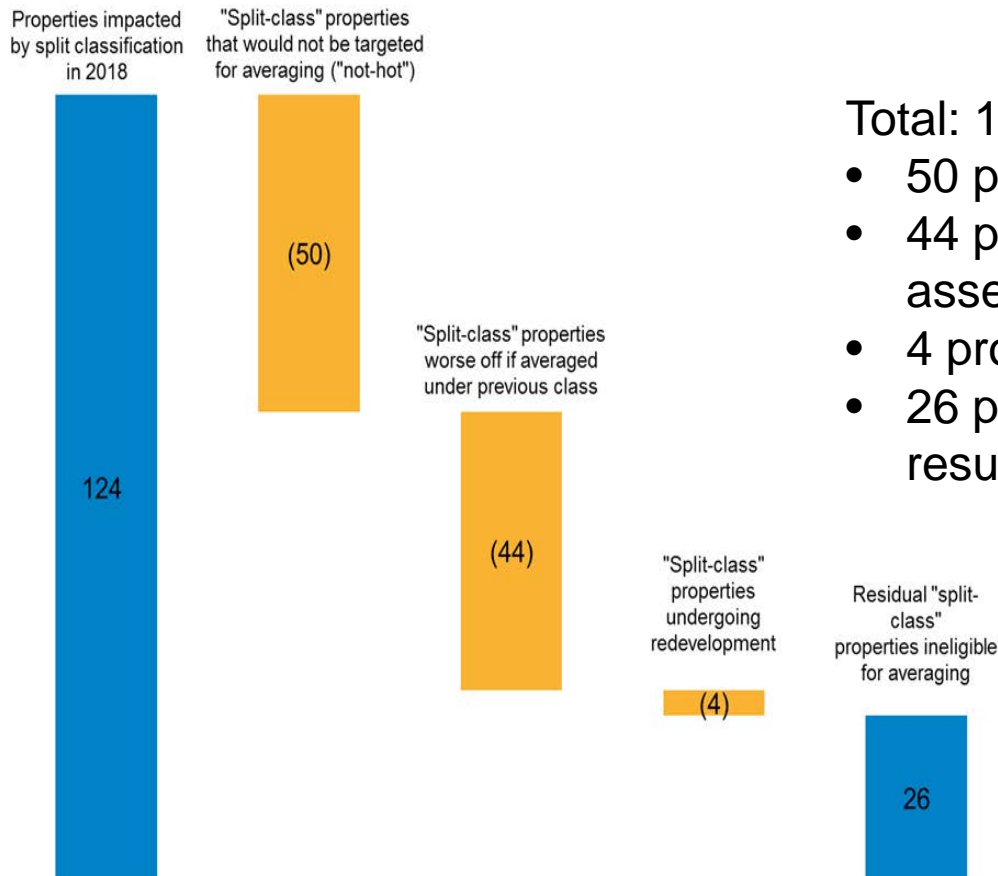


~158 properties would be eligible for targeted averaging

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Properties with Class Change Not Eligible for Targeted Averaging

A number of appeals that have similar characteristics as the Amacon have been settled in the last few months where the value of undeveloped density will be transferred from Class 6 – Business to Class 1 – Residential



Total: 124 properties

- 50 properties below averaging “threshold”
- 44 properties benefit more from “split assessment” than from averaging alone
- 4 properties undergoing redevelopment
- 26 properties receive “split assessment” and results in ~20% tax savings on average

Properties with Class Change Not Eligible for Targeted Averaging



- For the purpose of targeted averaging, a “threshold” is set for Class 1 and for Classes 5 & 6 separately, not in aggregate.
- Where certain portion of property value is reclassified from Class 6 to Class 1 and there was no Class 1 value in the prior two years, the 3-year averaging formula cannot be applied.
- Reclassification could reduce the year-over-year increase in Class 6 to below the “threshold”.
- Properties that have received reclassification cannot be treated as if such reclassification did not occur for the purpose of averaging
- No exceptions granted to prior appeals where property values came down or values got shifted between land and improvement, but resulted in a higher tax amount during the transition year.

Despite being ineligible for averaging, “split assessment” should help lower overall tax bill over the long term

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Summary - Impact of Averaging on Tax Rates



Preliminary Tax Rate (per \$1,000)

	Residential	Light Industrial & Business
No Averaging	\$1.20	\$4.62
Targeted Averaging (as proposed)	\$1.24	\$5.06
Change	3.3%	9.6%

Summary - Targeted Averaging (2015-2018)



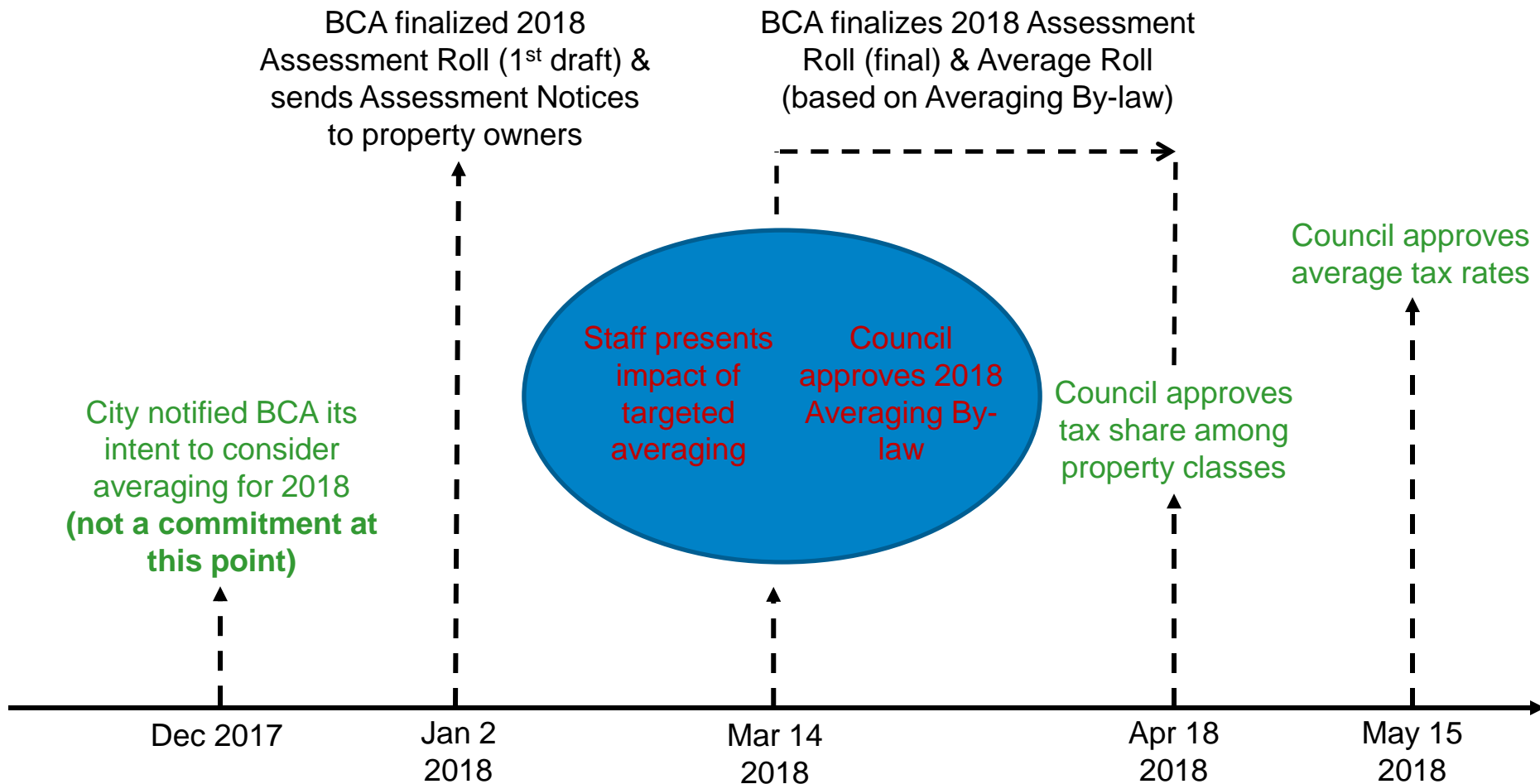
	Residential		Light Industrial & Business	
Year	Hot Property Count	Tax Rate Change (from No Avg'g)	Hot Property Count	Tax Rate Change (from No Avg'g)
2018*	39,700	+3%	4,400	+9.6%
2017	19,500	+3%	3,300	+9.8%
2016	15,800	+2%	2,800	+5.4%
2015	9,900	+1%	1,500	+3.8%

- City currently uses **Targeted Averaging** to smooth out short-term assessment volatility
- Potential provincial policy tools to support small business:
 - **Split Tax Bill** to limit tenants' tax obligation to rented space
 - **Tax Deferral** to provide cashflow relief for owner/operators
 - Clarify & standardize criteria with regards to approach for **Split Assessment**
- Review & update the **Assessment Act** to address emerging assessment & taxation issues based on best practices

- Escalating property values are a regional issue, not just in Vancouver
- A request has been sent to the Province to lead an **inter-governmental workgroup** (Province, BC Assessment, City of Vancouver, Metro Vancouver municipalities) to recommend policy options for implementation in 2019
- Continue to work with Metro Vancouver to address increasing tax burden for small business from provincial/regional taxing authorities
 - City taxes <50% of total taxes
 - Vancouver's share of OTA levies keep increasing

- **Apply targeted 3-year land assessment averaging** for Residential (Class 1) and Light Industrial & Business (Classes 5&6) properties
- **Adopt a “threshold” of 10% above the property class average change** (*2018 Revised Roll*) for Class 1 and for Classes 5 & 6 to **define eligibility** for targeted averaging
- **Consider** properties impacted by Director of Planning-initiated amendments to the Zoning & Development By-law and/or ODP in **Mt Pleasant Industrial Area, Railtown (Historic Industrial) District, and False Creek Flats Area** for targeted averaging
- **Adopt Land Assessment Averaging By-law**

2018 Property Taxation – Next Steps



Questions?