2019 Property Taxation: Distribution of Property Tax Levy

Standing Committee on
City Finance & Services

April 29, 2019

Council Motion (December 2018)

- *THAT Council support the exploration of a shift of 2% of the fixed property tax levy from commercial to non-commercial with the goal of supporting small business and retail;*

- *FURTHER THAT staff engage the Property Tax Policy Review Commission and report back by April, 2019 regarding the opportunity and impact of a 2% tax shift.*

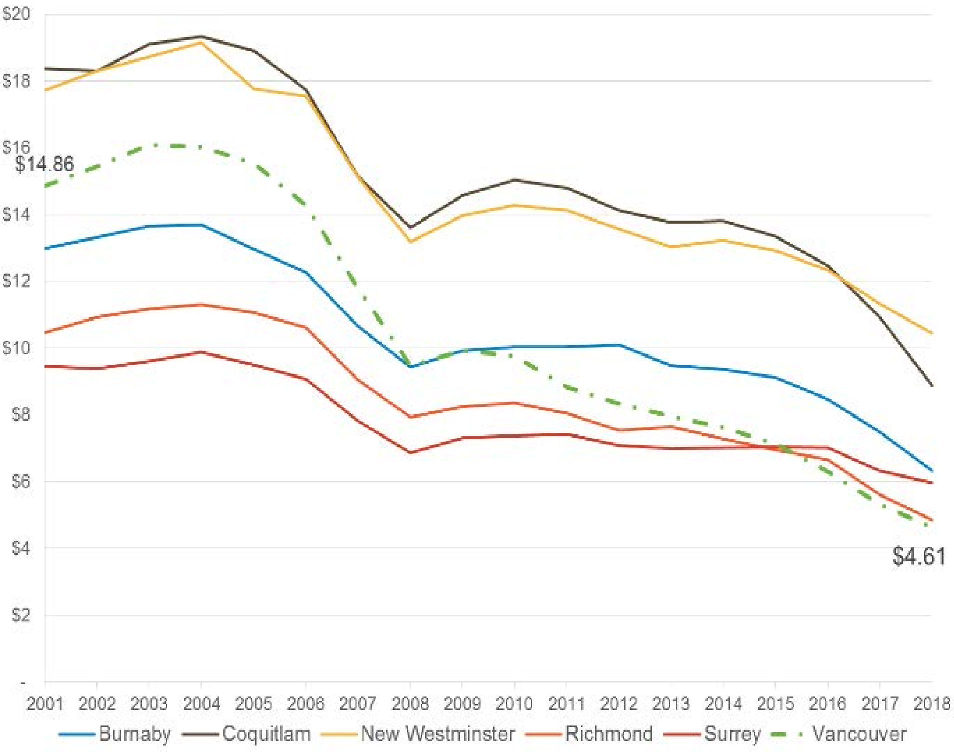
Engaging Property Tax Policy Review Commission Chair

Staff consulted the Commission Chair on…

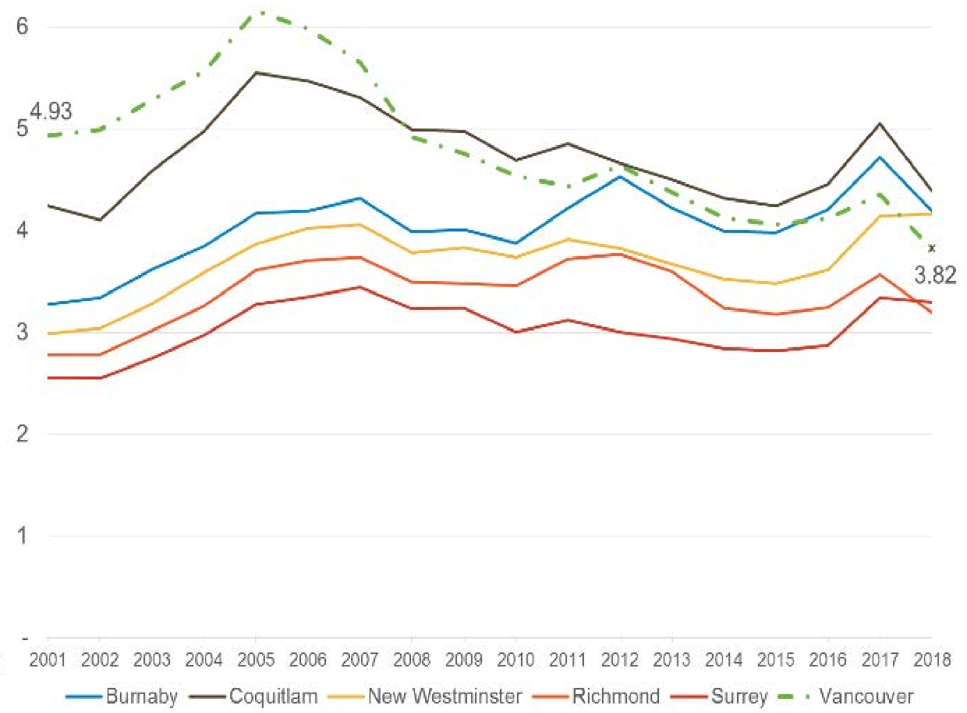
- Efficacy of a blanket 2% tax shift from commercial to residential versus other policy tools under consideration in providing **targeted and time-limited tax relief** to impacted properties
- Impact of the current property assessment and classification regime, particularly as it applies to under-developed properties
- Alternative strategies to assist small businesses

How does Vancouver's commercial tax compare to neighboring municipalities?

Declining Business Tax Rate



Declining Business Tax Rate Ratio



2019 Business Tax Rate Ratio: 3.17 (before averaging)

Are businesses leaving Vancouver for neighboring municipalities?

“Vacancy rates for all office classes in downtown Vancouver have fallen to 4.5% from 5% a year ago.”

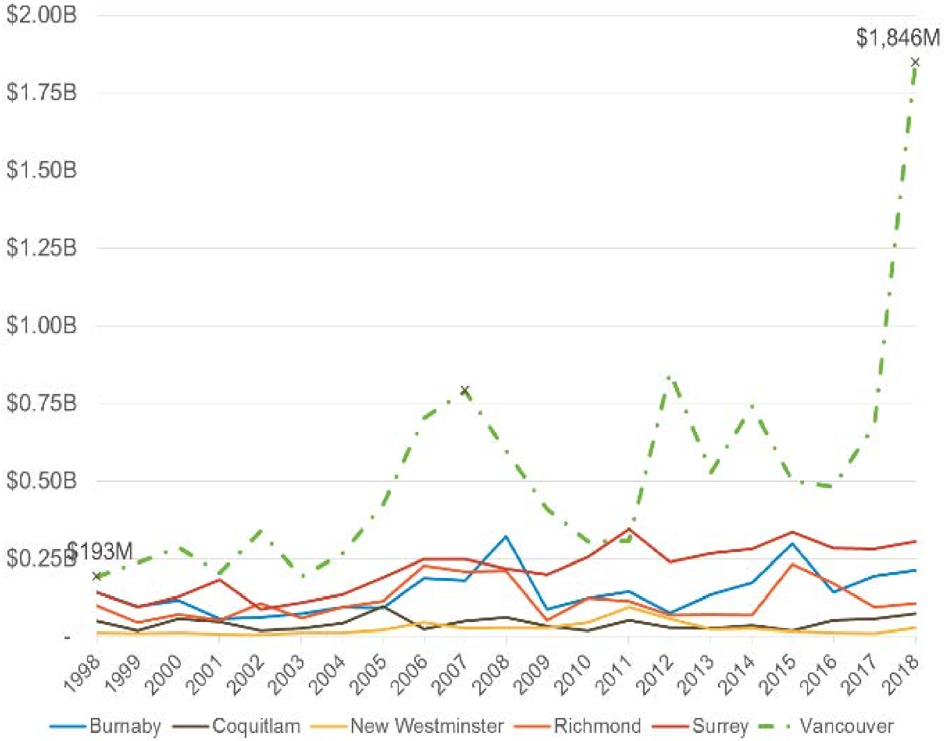
“Class A office vacancy rates are at 3.9%...average gross rents are continuing to climb…exceeding $51 per sq ft.”

“In Mt Pleasant and the emerging Clark Drive and Hastings Street zone, light industrial space is fetching $800-$1,000 per sq ft in trendy new low-rise buildings.”

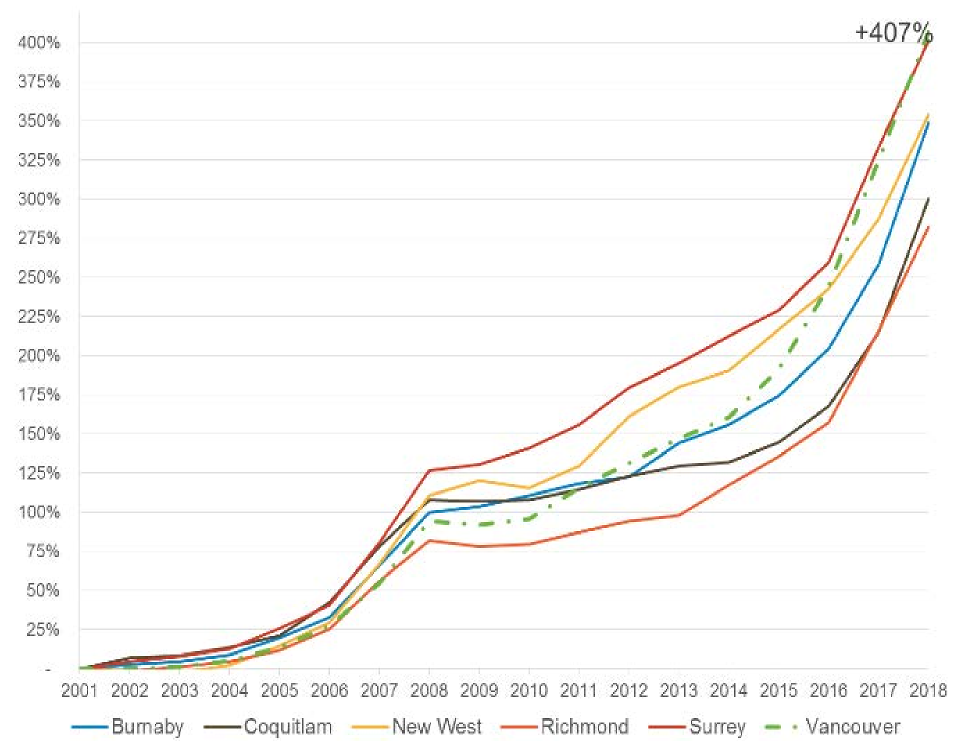
Demand for commercial space in Vancouver is very strong

Are businesses leaving Vancouver for neighboring municipalities?

Commercial Building Permits



Business Assessment Growth



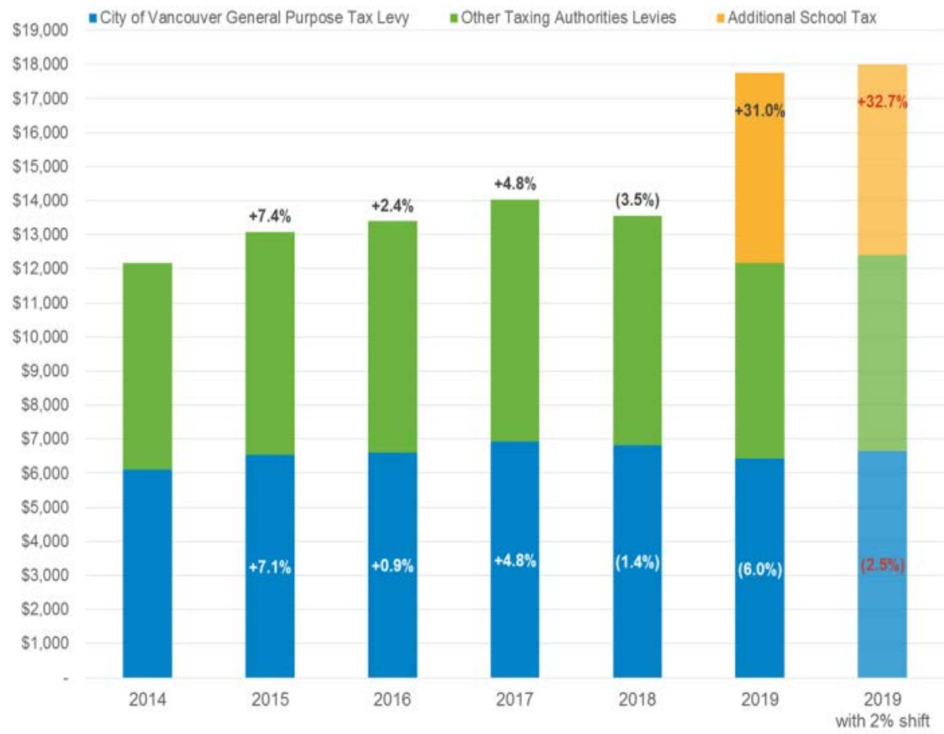
Demand for commercial space drives new construction & assessment growth for commercial properties

Impact of a 2% Tax Shift: Residential vs. Commercial

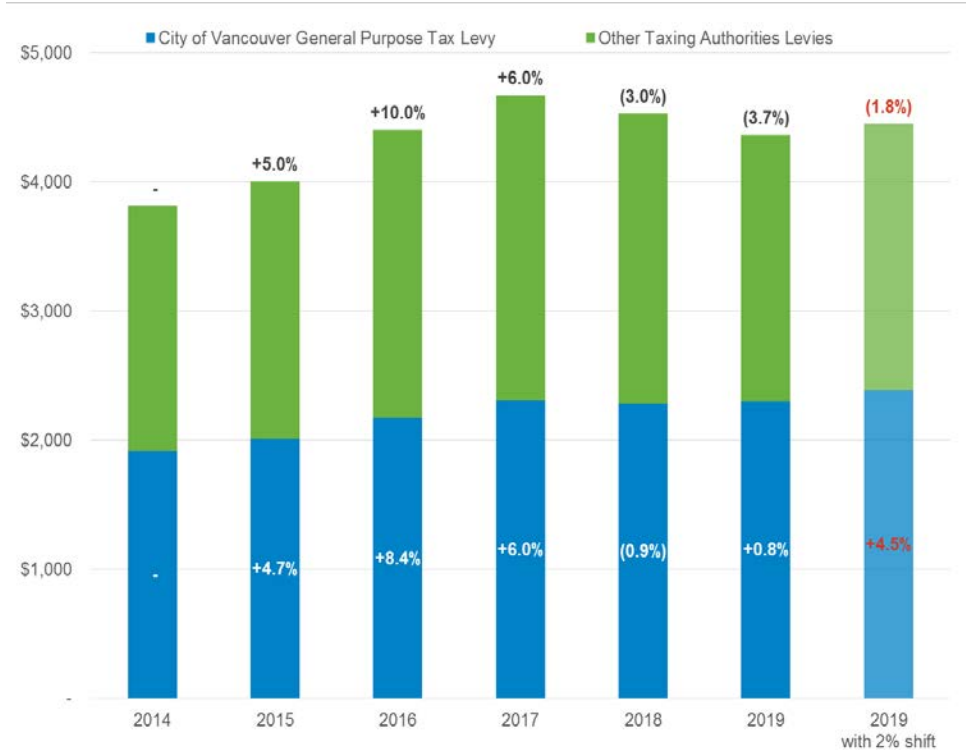
	Property valued @ $1 million	
	Residential (Class 1)	**Business (Class 6)**
General Purpose Tax Levy		
Base	$1,234	$3,913
Tax Increase	$52	$163
	$1,286	**$4,076**
2% Tax Shift	$46	($181)
Total	**$1,332**	**$3,895**
Year-over-year Tax Increase	**+7.9%**	**-0.5%**

Impact of 2% Tax Shift on Sample Residential Properties

Single Family Home ($4.8M) w/ AST



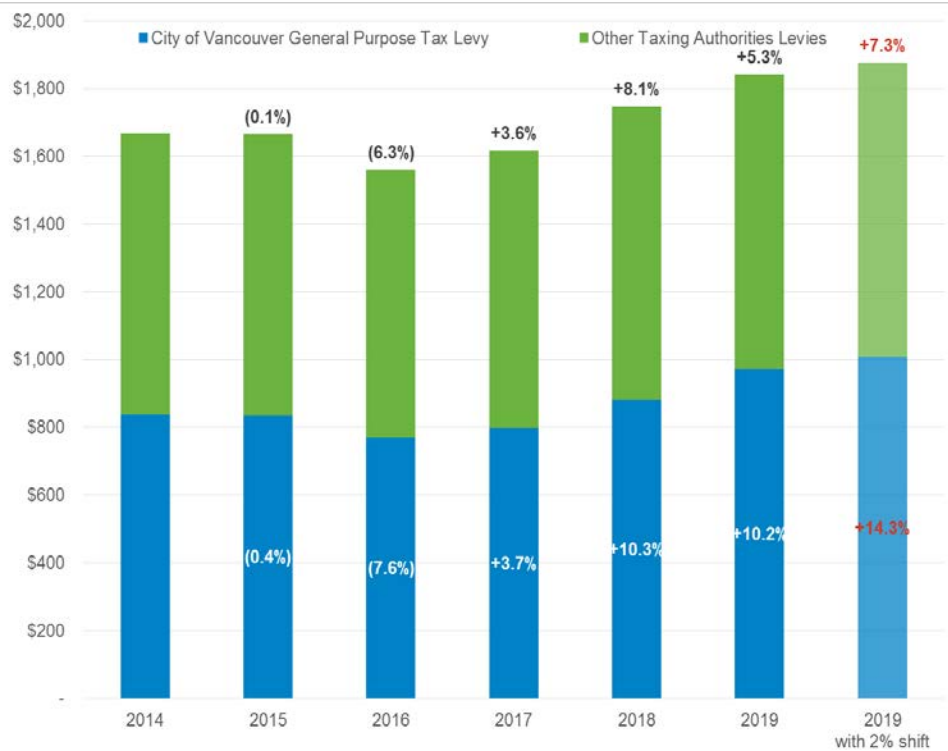
Single Family Home ($1.8M)



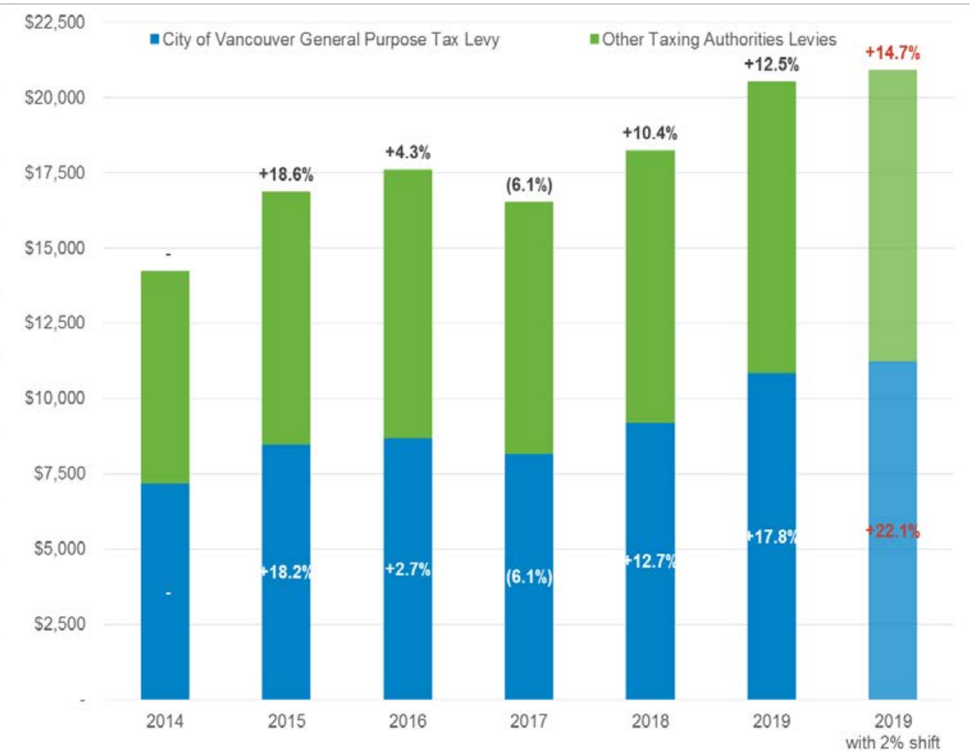
Residential properties that are subject to Additional School Tax (AST) would see a significant increase in overall tax levy this year

Impact of 2% Tax Shift on Sample Residential Properties

Sample Residential Strata ($0.7M)



Sample Rental Apartment ($9M)

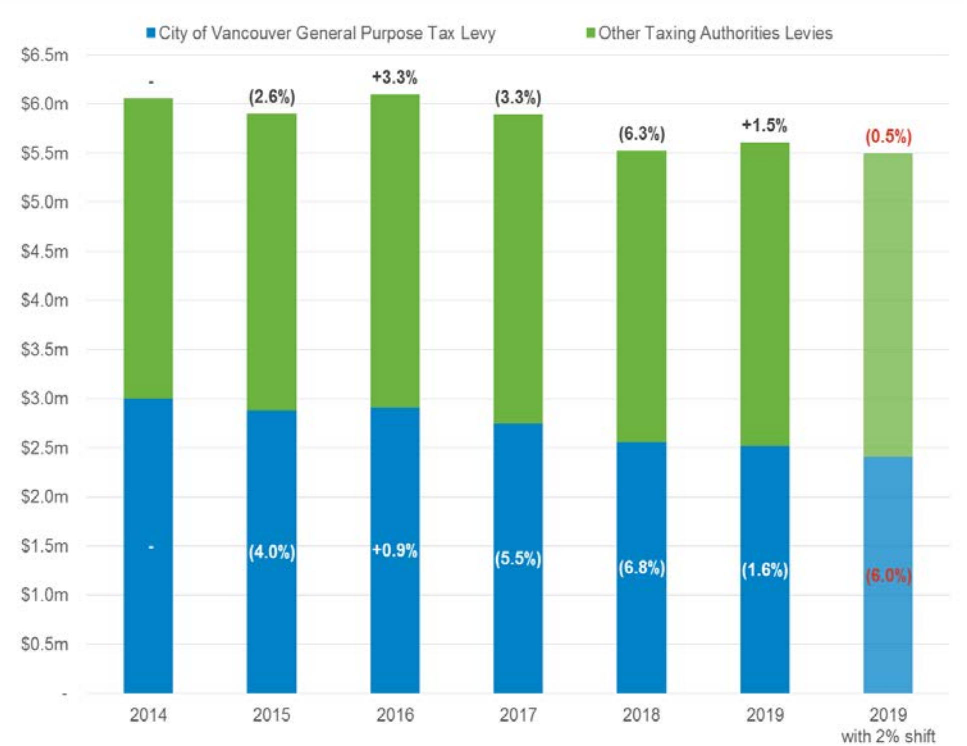


A 2% shift would further impact residential properties already experiencing a higher than average increase in assessed value

Do all commercial properties need tax relief through a 2% shift?

Sample Commercial Property ($1M)

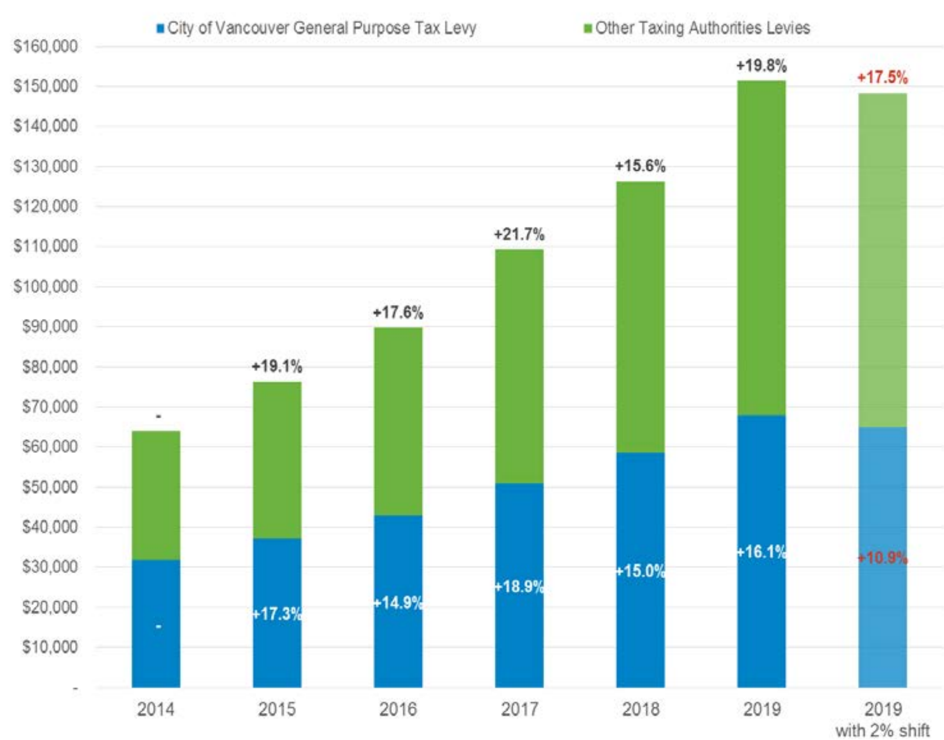
Sample AAA Office ($576.2M)

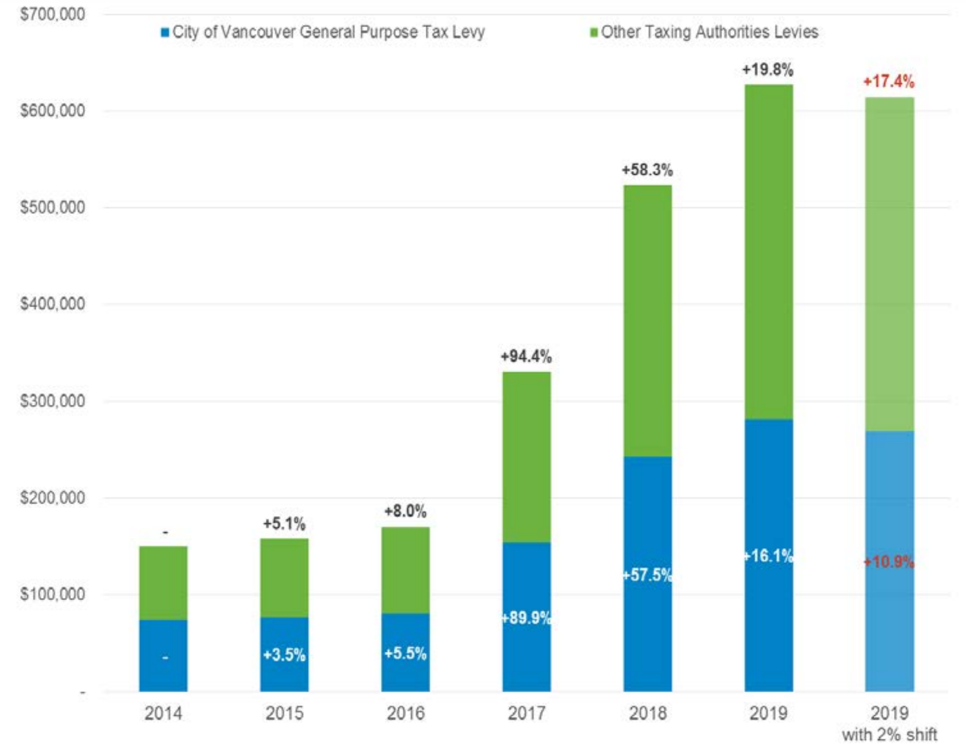


Some commercial properties have been benefiting from lower taxes in recent years as tax burden is gradually shifting to commercial properties with significant development potential

Do all commercial properties need tax relief through a 2% shift?

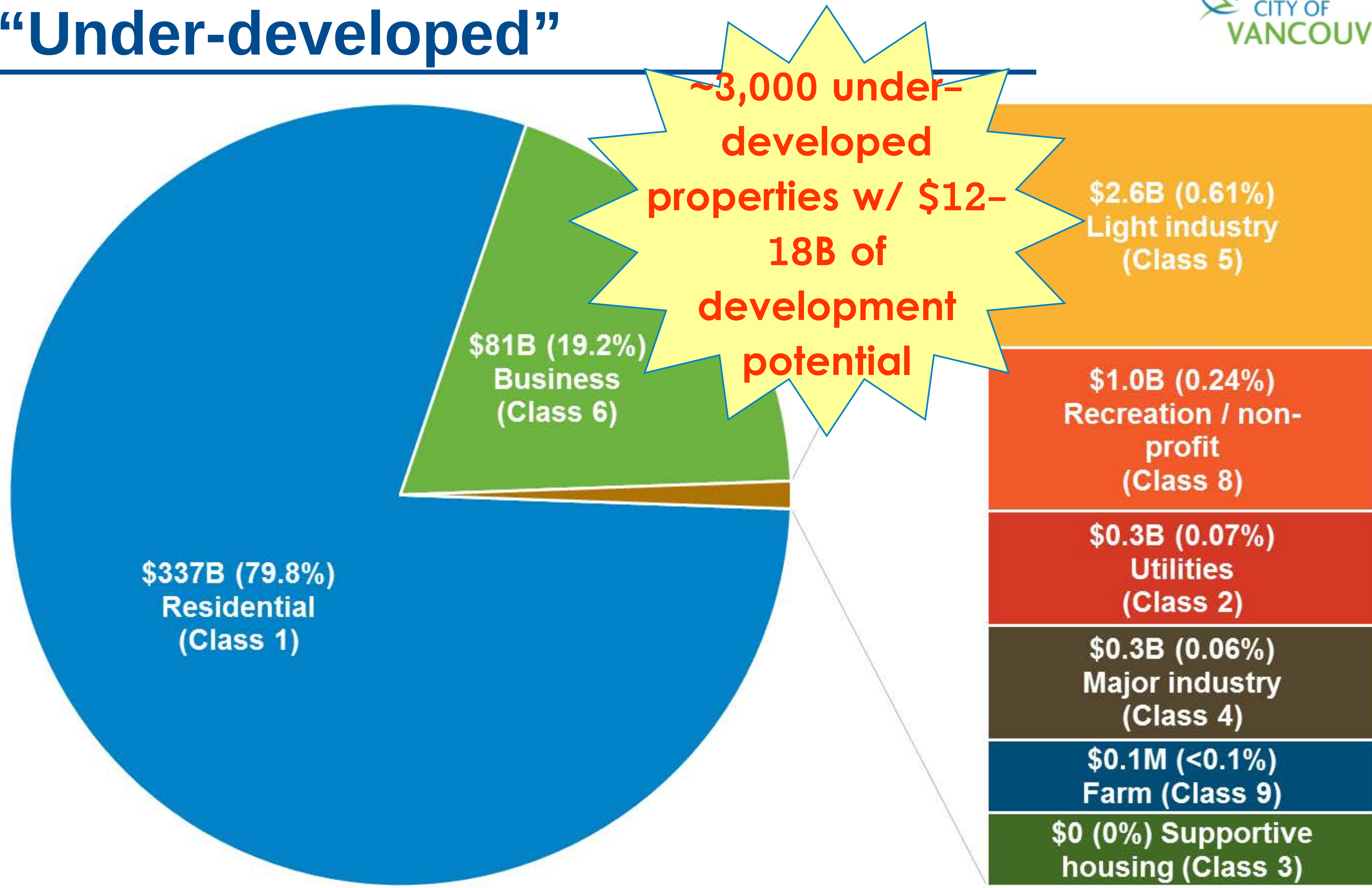
Sample Under-developed Properties ($17.9M & $82.5M)





A 2% tax shift provides limited relief for under-development properties; a targeted solution would be much more effective

~21% of Business Properties are “Under-developed”



Primary Focus: Address impact of assessment & taxation of development potential on independent small businesses

Update on Provincial Assessment & Tax Reform Work

An Inter-governmental Working Group was established in Q4 2018 based on Council's proposal (Feb 2018), with support from Metro Vancouver (Jul 2018) and UBCM (Sept 2018)

- Ministry of Municipal Affairs & Housing and Ministry of Finance
- BC Assessment
- Metro Vancouver: Vancouver, Burnaby, Coquitlam, North Vancouver, Richmond, Surrey and West Vancouver

The Working Group strongly supports splitting the "development potential" from "existing use" for under-developed properties ("Split Assessment"), and creating a commercial sub-class to capture the "development potential" value

Split Assessment: Splitting Development Potential from Existing Use

Commercial Development Potential

Current: Class 6 – Business
Future: Business *Sub-class*

Existing Commercial Use

Remains in Class 6 - Business

Council define eligible properties for "Split Assessment", set a lower tax rate (compared to commercial) for the development potential, and limit the duration of such tax relief

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Split Classification (aka Amacon)

Tax Residential Development Potential @ Residential Rate

Residential Development Potential

Current: Class 6 – Business

Future: Class 1 – Residential

Existing Commercial Use

Remains in Class 6 - Business

Council effect Split Classification through adding specificity in zoning by-laws where it makes sense, without hindering preservation and expansion of employment land

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Other Considerations

- Only ~3,000 of 14,470 business properties (21%) are under-developed
  - not all businesses are impacted by development potential
  - policy options must be **targeted & time-limited** to address transitional issues
- **Must balance tax relief vs. pace of development**, otherwise incentivize sub-optimal land use through cross-subsidies
- **Can't guarantee savings go to tenants**; landlords could increase rent to claw back tax savings
- **Tenants continue to pay taxes on development potential** with no ability to reap capital gain upon sale/redevelopment
- **Difficult to target independent small businesses** effectively as lease terms & tenancies differ and change over time
- Council could reduce tax rate on development potential to $0, but has **no control over OTA tax rates**

Conclusion

- **A blanket 2% tax shift from commercial to residential reduces property tax for all commercial properties without considering whether or not they need any tax relief**

- **A tax shift is not recommended at this time** because…
  - of positive trending of the **Commission-recommended metrics**
  - it does not effectively target the ~21% of commercial properties impacted by development potential
  - ongoing work through the Inter-governmental Working Group on **“Split Assessment”** and other options to provide **targeted and time-limited tax relief** to properties impacted by development potential
  - of the **significant impact on residential properties**, considering the Additional School Tax also commencing this year
  - of uncertainties surrounding possible future tax changes relating to small businesses