

Split Assessment Through New Commercial Sub-class

Standing Committee on
Policy & Strategic Priorities
July 10, 2019



Impact of Development Potential on Independent Small Businesses, Arts, Culture & NPOs

- In BC, properties are assessed at “highest & best use” (full market value) in accordance with the *Assessment Act*, and property taxes are allocated to individual properties based on those values
- For underdeveloped/non-HBU commercial properties, the unrealized development potential could result in significant property tax implications

In West End, a property experienced a 7.6-fold increase in value over a short period of time (\$10.4M in 2015 to \$52.3M in 2017 | sold for \$79.5M end of 2017)

Impact of Development Potential on Independent Small Businesses, Arts, Culture & NPOs

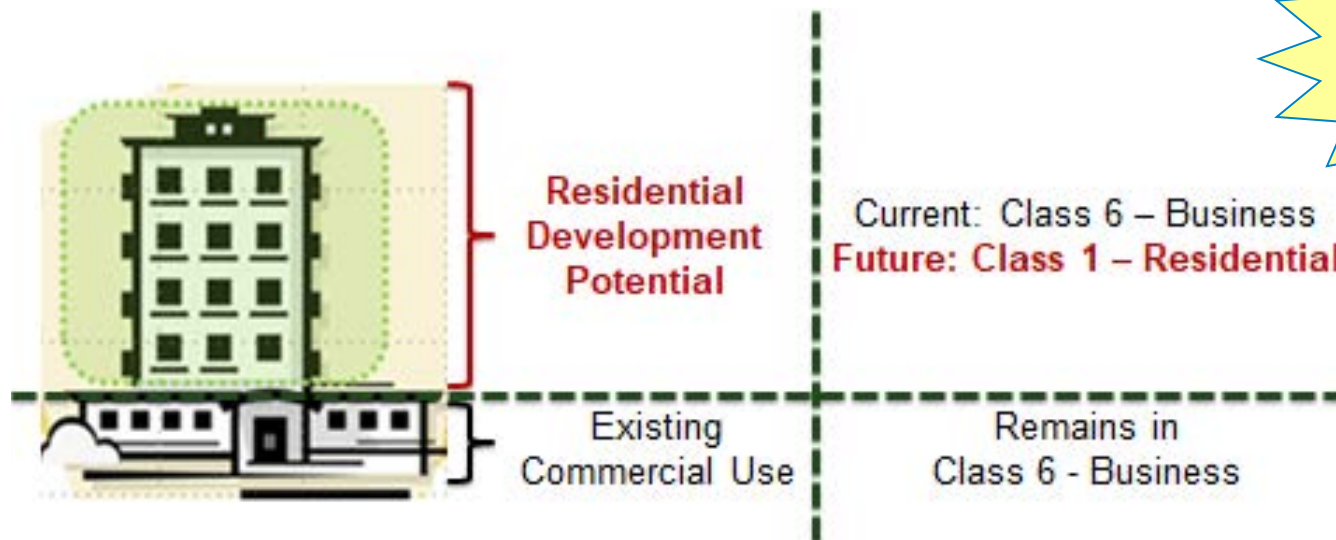
Independent small businesses, arts, culture & NPOs operating in underdeveloped/non-HBU properties, particularly those in neighborhoods that are experiencing fast pace of change and dramatic increase in market valuation, are impacted the most

- Through triple net leases, landlords pass the entire tax burden onto tenants – taxes on the space they rent and taxes on the development potential
- Independent owner/operators may also experience significant cashflow challenges until they redevelop/sell their properties

Split Classification (a.k.a. Amacon)

Tax Residential Development Potential @ Residential Rate

In zoning districts where there is enough specificity on residential vs. commercial use, residential development potential would be taxed at Class 1 (Residential) rate

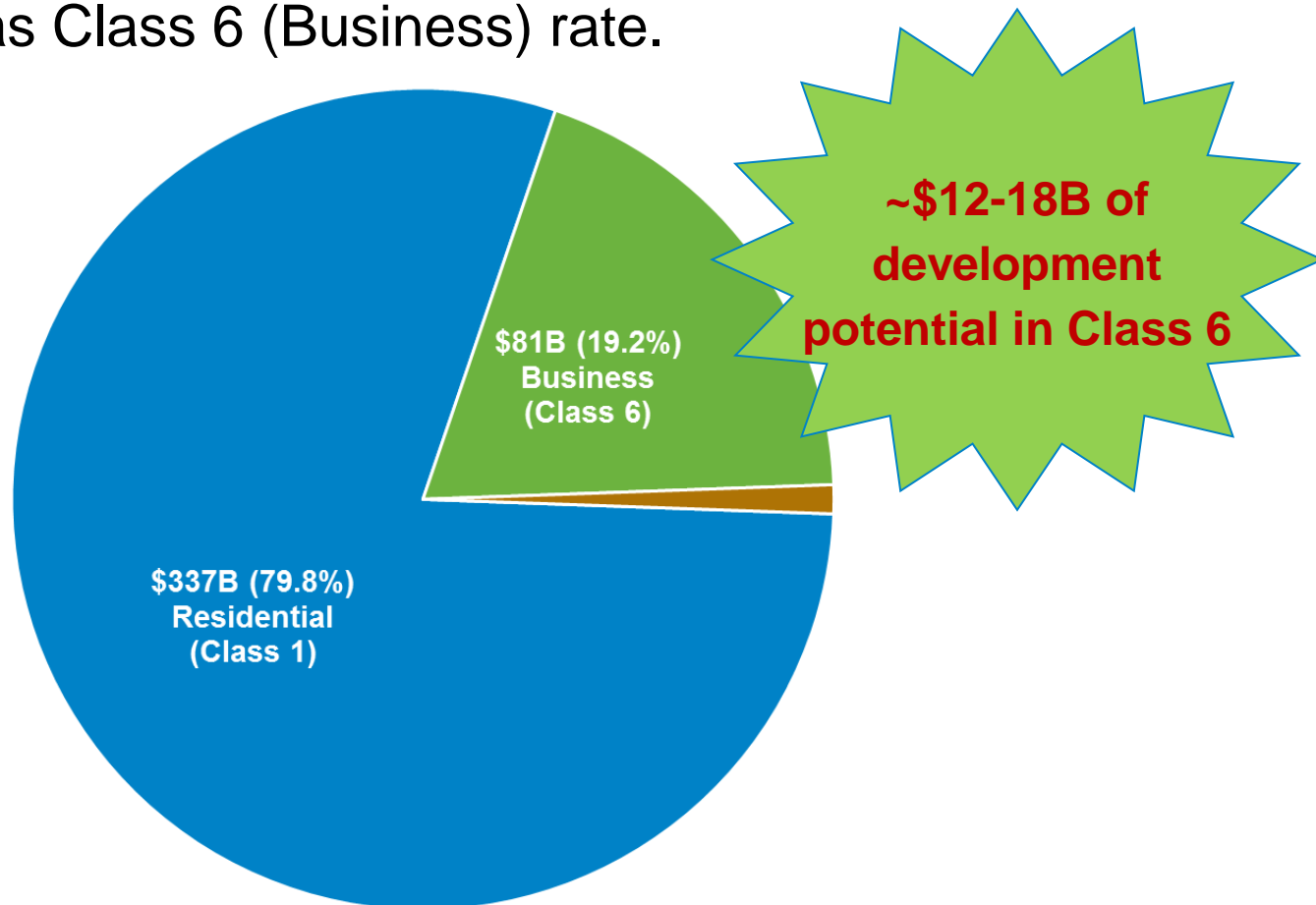


Key challenges:

- i. Specificity may not be feasible in all zones
- ii. Addition School Tax & Speculation & Vacancy Tax applicable

Impact of Development Potential on Independent Small Businesses, Arts, Culture & NPOs

In zoning districts where a) there is not enough specificity in zoning by-laws, or b) residential development is not an allowable use (e.g. light industrial districts), development potential would be taxed as Class 6 (Business) rate.



UBCM Motion (Sept 18): Supporting Independent Small Businesses Through Provincial Assessment & Tax Reform



Whereas the widespread land speculation and soaring assessment on commercial and industrial properties continue to pose significant affordability challenges to independent small businesses who have limited ability to absorb extraordinary increases in rent and assume all property taxes passed on to them by their landlords, including taxes on the development potential;

And whereas Vancouver City Council has formally submitted a request to the Province of BC in February 2018 to initiate a province-led intergovernmental workgroup to assess the options put forward by the City of Vancouver to address the impact of soaring property assessments on independent small business tenants in time for the 2019 tax year. The City of Vancouver has not formally heard back from the Province to-date;

Therefore be it resolved that UBCM request the Province of BC to initiate a province-led intergovernmental workgroup to address these assessment and taxation issues immediately to enable the long-term viability of independent small businesses in Metro Vancouver and the rest of British Columbia.

Ministry of Municipal Affairs & Housing Response (Oct 18)



Upon the introduction of Bill 42, Minister Robinson committed to reviewing “Highest & Best Use” valuation impacts on various non-residential property classes, including light industrial and business, in addition to ongoing work on identifying property tax mitigation strategies for small businesses subject to triple net leases.

The Province is seeking to understand what changes could be considered to provide a more fair and efficient assessment system for the affected classes in the context of real estate market pressures, affordability issues and Government’s economic priorities.

Update on Provincial Assessment & Tax Reform Work



An Inter-governmental Working Group was established in Q4 2018

- Senior staff from Ministry of Municipal Affairs & Housing
- Senior staff from Ministry of Finance
- Senior staff from BC Assessment
- CFO's representing Metro Vancouver: Vancouver, Burnaby, Coquitlam, North Vancouver, Richmond, Surrey and West Vancouver

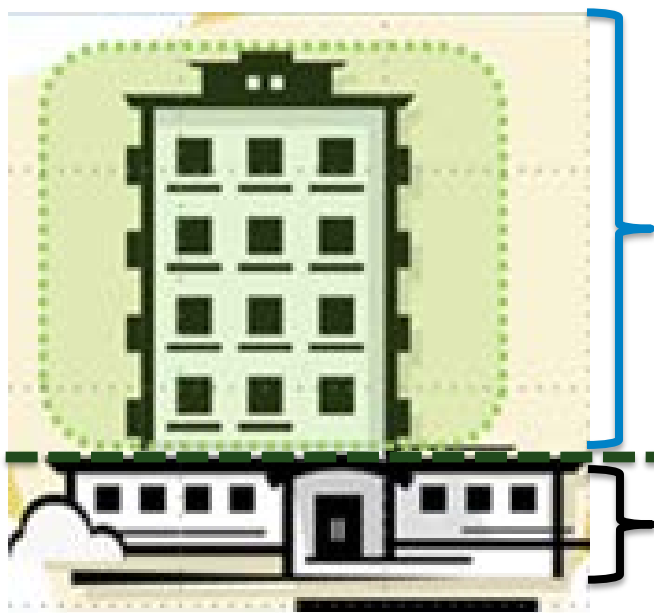
Intergovernmental Working Group's recommendation for 2020:

- i) Split "development potential" from "existing use"**
- ii) Capture "development potential" in new commercial sub-class**

Split Assessment: Splitting Development Potential from Existing Use



New methodology being considered by the Province



Development Potential

Existing Commercial Use

Current: Class 6 – Business
Future: New Commercial Sub-class

Remains in Class 6 - Business

City Council, by by-law(s):

- i) define eligibility requirements
- ii) define duration of tax relief
- iii) set appropriate tax rate for development potential (ranging from x% below Class 6 rate to \$0)

Split Assessment: Splitting Development Potential from Existing Use

- Provides the most *targeted and time-limited* approach to address taxation impact arising from development potential
- Does not shift tax to residential properties
- Upholds the HBU assessment methodology as stipulated in the *Assessment Act* while enabling municipalities to tax “existing use” vs. “development potential” differently
- Offers a common platform for municipalities while allowing for a high degree of flexibility, scalability and customization
- Highly scalable and significantly less administratively burdensome than the revitalization tax exemption tool (based on actual experience of City of Richmond)

Split Assessment: Splitting Development Potential from Existing Use



1 Seek Provincial approval (imminent)

2 Policy Development & Implementation
(eligibility requirements, duration of tax relief, etc.)

3 By-law(s) Adoption (by Oct 23, 2019)

4 BC Assessment Implementation



**Stakeholder
engagement**

The sooner we get Provincial approval, the sooner staff could engage key stakeholders in policy development. Otherwise, implementation (City & BC Assessment) for 2020 will be at risk.

Support from Key Stakeholders

Summary

- Assessment & taxation impact is causing major viability concerns for independent small businesses, as well as arts, culture and NPOs
- It is critical to implement “**Split Assessment through a New Commercial Sub-class**” in 2020
- Key stakeholders have indicated strong support
- Metro Vancouver municipalities are on board
- **Provincial support is required imminently**