



## REPORT

Report Date: March 2, 2021  
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Meeting Date: March 9, 2021  
[Submit comments to Council](#)

TO: Vancouver City Council  
FROM: Director of Finance  
SUBJECT: 2021 Property Taxation: Targeted Land Assessment Averaging

### **RECOMMENDATION**

- A. THAT Council approve, in principle, the application of targeted 5-year land assessment averaging for the purpose of calculating property taxes for Residential (Class 1), Light Industry (Class 5), and Business and Other (Class 6) properties for 2021.
- B. THAT, in addition to the standard exclusions as outlined in the annual *Land Assessment Averaging By-law*, Council adopt a “threshold” of 10% above the property class average change for Class 1 and for Classes 5 & 6 to define eligibility for targeted averaging;
- FURTHER, THAT the 2021 property class average change for Class 1 and for Classes 5 & 6 be finalized upon publication of the 2021 *Revised Assessment Roll* in April 2021;
- AND FURTHER, THAT for properties that are eligible for targeted averaging, the year-over-year change in values derived from the averaging formula for the purpose of calculating property taxes not fall below the Council-adopted “threshold”.
- C. THAT properties impacted by a Director of Planning-initiated amendment to the Zoning & Development By-law or an Official Development Plan be considered for targeted averaging, in accordance with the criteria set out in the annual *Land Assessment Averaging By-law*.

- D. THAT properties whose owners sought additional density or a change in use from Council through rezoning, whether enacted or not, or through Council-approved policy changes, not be considered for targeted averaging.
- E. THAT the Director of Legal Services, in consultation with the Director of Finance, be instructed to bring forward for enactment a by-law authorizing the use of targeted 5-year land assessment averaging that reflects Council's decision on Recommendations A, B, C and D.
- F. THAT, subject to adoption of any applicable by-laws, the Director of Finance make appropriate arrangements with BC Assessment for the production of the 2021 *Average Assessment Roll* at an estimated cost of \$25,000 plus applicable taxes; source of funding to be the 2021 Operating Budget.
- G. THAT Council direct the Director of Finance to continue engaging with the Province to advance work on "Split Assessment through a Commercial Sub-class" to address the taxation impact arising from unused development potential on small businesses, non-profit, and arts and culture organizations in underdeveloped properties.

## **REPORT SUMMARY**

The purpose of this report is to seek Council approval to apply targeted 5-year land assessment averaging for the purpose of calculating property taxes for residential (Class 1), light industry (Class 5), and business & other (Class 6) properties for 2021. Since 2015, the City has used targeted averaging to provide short-term relief to "hot" properties, defined as those that have experienced significant year-over-year increases in property values above the "threshold" set by Council. The intent of the program is to reduce the level of tax increases on the target properties above the "threshold" until such time as they are no longer "hot". Target properties will pay taxes based on values derived from the averaging formula as stipulated in the annual *Land Assessment Averaging By-law*; properties below the "threshold" will pay taxes based on their BC Assessment values. Prior to 2015, the City used across-the-board averaging, which had been in effect since 1993.

Stability and predictability are two desirable attributes of a property tax system whereby businesses and residents can plan their expenditures within reasonable limits. Changes in property taxes generally reflect two factors: Council-directed tax increase (as part of annual budget) and relative changes in property assessed values.

The influx of investment capital and speculative real estate demand in Vancouver continues to drive up land values, resulting in significant volatility year-over-year in property assessment and taxes, causing hardship for some residents, small businesses, as well as the arts, culture and non-profit sectors. In British Columbia, real estate properties are assessed at their highest and best use (market value), and taxes are allocated to individual properties based on such values. In the case where a property is under-developed, its assessed value could substantially increase to reflect its development potential.

The City does not generate higher tax revenue as a result of rising property values. The required tax levy to be collected is determined by Council as part of the annual budget, and tax rates are adjusted to reflect assessment increases or decreases to ensure "revenue neutrality".

However, relative assessment increases for individual properties could shift the tax burden from one property to another in any given year.

The challenge is particularly prevalent for small business and non-profit tenants because most landlords pass on all property taxes, on both rented space and development potential, to tenants through their lease agreements. As tenants do not benefit from an increase in property values in the same way that an owner does, upon redevelopment or sale, the practice could cause significant financial distress for small business and non-profit tenants who have a limited ability to absorb and/or finance such an unanticipated surge in expenses during their lease term (typically five years or longer).

While there are a number of Provincial mitigations available for eligible residential properties (e.g. s.19(8) of the Assessment Act, Property Tax Deferral and Home Owner Grant), those measures do not apply to commercial properties. Land assessment averaging is an optional tool available to Council under the *Vancouver Charter*. Despite the fact that other municipalities have similar authority under the *Community Charter*, Vancouver is the only municipality in British Columbia that uses averaging to phase in significant property tax increases arising from assessment volatility at a city-wide level. For light industrial and business properties, the targeted averaging program is the key mitigating measure that provides businesses with targeted and time-limited relief to enable market adjustments and/or lease renegotiations. However, the program is intended to address assessment and taxation volatility, not the development potential issue arising from the highest and best use (market value) assessment methodology.

***Taxation Impact from Development Potential*** – It is important to note that the affordability challenge arising from a variety of factors including real estate speculation is a regional issue impacting most Metro Vancouver municipalities, not just Vancouver.

In 2019, staff was part of a regional Intergovernmental Working Group (IWG) that submitted a recommendation to the Province for “Split Assessment through a Commercial Sub-class” to provide the most targeted tax relief to small businesses and community partners currently residing in under-developed properties in neighborhoods that are experiencing significant pace of change (see Appendix B for more detail). Should the Province enact applicable legislation(s) and/or regulation(s), local governments will be able to levy a lower tax rate (compared to the commercial tax rate) on the development potential for eligible properties as defined by by-law.

In Spring 2020, the Province enacted the Interim Business Property Tax Relief Legislation (“Interim Solution”). The analysis done by the IWG indicated that the Interim Solution may help address the assessment and taxation volatility issue (similar to the City’s targeted land assessment averaging program) but does not address the core issue of development potential. In addition, the program at its current form could result in unintended consequences, including businesses receiving tax relief for the wrong reasons, and struggling businesses and community organizations paying higher taxes (see Appendix C for more detail). Staff is not aware of any uptake on this program.

## **COUNCIL AUTHORITY/PREVIOUS DECISIONS**

Section 374.4 of the *Vancouver Charter* allows Council to consider the application of land assessment averaging each year. If Council decides to proceed, a by-law must be adopted

before March 31 authorizing the use of the mechanism. Each year, Council can also specify certain eligibility requirements for properties to be considered for averaging under the by-law.

In 1993, Council implemented *across-the-board* 3-year land assessment averaging for the purpose of calculating property taxes for residential (Class 1) and business (Class 6) properties; and in 2007, Council extended the program to light industry (Class 5) properties.

In 2007, the Property Tax Policy Review Commission (“Commission”) provided a thorough review of the City’s property tax policy. To address the taxation impact arising from assessment volatility, the Commission recommended that Council submit a request to the Province to amend the *Vancouver Charter* to allow 5-year land assessment averaging.

In April 2013, the Province amended section 374.4(12) & (13) of the *Vancouver Charter* to allow Council to establish, by by-law, the number of preceding years to be applied in determining the average land value, up to a maximum of five years, for the purpose of land assessment averaging. Once the choice is made, the number of years used in the averaging formula must not change for at least five years. 2014 was the first year that the averaging program was governed by this amendment.

In May 2013, Council reconvened the Commission to provide an updated assessment of the City’s property tax policy. To further address the taxation impact arising from assessment volatility, in February 2014, the Commission recommended *targeted* 5-year land assessment averaging.

In March 2014, Council approved the continuation of *across-the-board* 3-year land assessment averaging, pending staff analysis on the Commission’s recommendations presented in February 2014. As a result, a shift in the averaging formula from 3 years to 5 years could not be considered until 2019. In June 2017, Council instructed staff to submit a request to the Province to enact the necessary legislative amendments to allow the City to transition from *targeted* 3-year to 5-year averaging in 2018 (one year ahead of the original target transition in 2019). The request was denied by the Province in January 2018.

In July 2014, Council adopted the Commission’s recommendation and instructed staff to transition from *across-the-board* to *targeted* 3-year land assessment averaging for the 2015 tax year, subject to confirmation of authority from the Province. In February 2015, the Province confirmed that, under section 374.4 of the *Vancouver Charter*, the City has the authority to use a “threshold” to define eligibility for *targeted* averaging.

In March 2015, Council adopted the *2015 Land Assessment Averaging By-law* that authorized, for the first time, the use of *targeted* 3-year land assessment averaging for the purpose of calculating property taxes for residential (Class 1), light industry (Class 5), and business (Class 6) properties for the 2015 tax year. Council again adopted *targeted* 3-year averaging for the 2016, 2017 and 2018 tax years.

In April 2016, at Council’s request, staff submitted a request to the Province to seek authority to limit the effect of averaging on the target properties up to the “threshold” set by Council in order to fully align with the Commission’s recommendations presented in February 2014. In February 2019, the Province confirmed that, under section 374.4(5)(b) of the *Vancouver Charter*, the City has the authority to limit the effect of averaging where averaging would result in an increase in a property’s value falling below a “threshold” set by Council.

In March 2019, Council approved the transition from 3-year to 5-year targeted land assessment averaging.

### ***CITY MANAGER'S/GENERAL MANAGER'S COMMENTS***

The City Manager RECOMMENDS approval of the foregoing.

The COVID-19 pandemic is unprecedented. In addition to the severe health impacts, many residents, businesses, and community organizations are experiencing financial hardship. The City has a significant leadership role to play, in partnership with other levels of government, in supporting both response and recovery efforts.

While staff continue to work rigorously to sustain essential public services while mitigating the financial fallout from the pandemic, it is critical for all levels of government to work together to alleviate the financial hardship on our residents, businesses and community partners. The one-time reduction in the provincial school tax for non-residential property classes and the delay in tax remittance for all taxpayers from July to September in 2020 provided a much needed relief, but the systemic challenges faced by small businesses, and the arts, culture and non-profit sectors remains.

Even before the pandemic, the affordability challenge had been impacting most Metro Vancouver municipalities. Property assessment reform is sorely needed as hundreds of small businesses and community partners are struggling with the taxation impact arising from the highest and best use (market value) assessment methodology and development potential issue. While staff appreciate the Province's effort in enacting the Interim Solution in Spring 2020, the program focuses on assessment and taxation volatility rather than development potential, and poses significant implementation challenges for municipalities. As part of the post-pandemic recovery effort, staff (through IWG) will continue to engage with the Province to work on implementing "Split Assessment through a Commercial Sub-class" to support small businesses and our community partners.

In addition to the property assessment reform work, the City is committed to working with senior levels of government and key stakeholders to support and accelerate our collective recovery from the impacts of the pandemic. Even though the City has quite limited legislative authority and fiscal capacity to directly influence the local economy, we are in a position to support a speedier recovery through strategic efforts. The most direct approach the City can take to support local businesses and community partners is by making it easier to do business in Vancouver through our regulations, services, policies and processes. The City can also influence and support recovery efforts of industry, other levels of government and regional peers through targeted advocacy.

Below are examples of specific measures undertaken as part of the City's COVID recovery program – Protect and Build a Resilient Local Economy (reported to Council in November 2020):

- Business support and liaison, including one-stop portal for City transactions and a business advisory taskforce
- Electronic permit processing and inspections, and virtual open houses and digital public hearings for rezoning applications

- Temporary expedited patio program through October 2021, including fee waiver and permit issuance in 2-5 business days
- Temporary liquor licensing pre-approvals through October 2021 through streamlined process
- Making streets for people program, including room to move/load/queue and repurposed street space to allow more walking, rolling and cycling
- Cultural grants repurposed to support COVID recovery and resilience
- Open with care campaign to encourage Vancouverites to shop local as businesses reopen, with safety top of mind

## **REPORT**

### **Background/Context**

Section 374.4 of the *Vancouver Charter* stipulates the legislative and administrative requirements for implementing **land assessment averaging**:

- a) **Land Assessment Averaging By-law** – Must be adopted before March 31.
- b) **Number of Preceding Years to be Applied in the Averaging Formula** – Subsections 12 and 13 (enacted in 2013) allow Council to establish, by by-law, the number of preceding years to be applied in determining the average land value, up to a maximum of five years, for the purpose of averaging. Once the choice is made, the number of years used in the averaging formula cannot change for at least five years.  
  
In March 2019, Council approved the transition from 3-year to 5-year averaging. A change in the number of years used in the averaging formula cannot be considered until March 2024.
- c) **Eligible Property Classes** – Residential (Class 1), light industry and business (Classes 5 & 6) properties only.
- d) **Eligible Properties** – Eligibility and exemption criteria are stipulated in the by-law. For targeted averaging, the by-law must stipulate a “threshold” to define “hot” properties eligible for averaging. As Council can only establish one tax rate for each class, properties that are not eligible for averaging are also subject to the averaged tax rates.
- e) **Averaging Applies to All Taxes** – As averaging affects the taxable values for calculating taxes levied by the City as well as Other Taxing Authorities (“OTAs”), a decision to apply averaging to a property class requires that adjustment be made to OTAs’ tax rates to ensure revenue neutrality.
- f) **Public Notification** – Must be published in two consecutive issues of a newspaper at least two weeks in advance of the adoption of the by-law. For 2021, the notice was placed in the *Vancouver is Awesome* publication on February 11 and 18. A copy of the notice can be found in Appendix D.

- g) **Appeal Process** – The by-law provides for a municipal Court of Revision for appeals that cannot be resolved within the administrative processes provided for in the *Vancouver Charter*.

Please refer to Appendix A for further details on the property assessment and taxation framework, provincial tax relief measures and the City's land assessment averaging program.

### **Strategic Analysis**

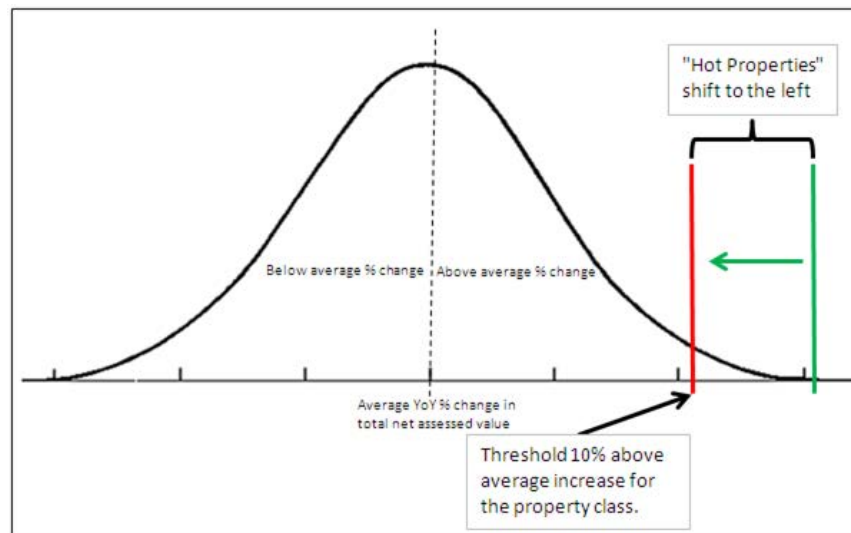
To ensure that the City's tax policies continue to be progressive and current in meeting the needs of businesses and residents, and align with the broader public policies and long-term goals, Council reconvened the Commission in April 2013 to work with staff on the two key areas:

- assess viable options to enhance property tax stability and predictability and minimize "hot spots" arising from significant year-over-year market value increases; and
- assess viable options for tax distribution; validate whether the current residential and business tax share continues to be an appropriate distribution; and recommend metrics for monitoring tax share over the long-term and its impact on residents and the business climate.

With regards to tax stability and predictability, in its report to Council on February 18, 2014, the Commission recommended that *"Council endorse the Targeted Five-Year Land Assessment Averaging method in place of the existing Three-Year Land Assessment Averaging program for Classes 1, 5 and 6"* that focuses on "hot" properties defined as *"properties that experience 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 by more than ten percent"*.

The targeted averaging method is designed to address the "hot" properties in Class 1 (Residential), 5 (Light Industry) and 6 (Business and Other). The intent is to reduce the severity of the increase in assessments until such time as the property is no longer "hot". As such, the percentage change in land value will decrease during such time when intervention is applied.

Figure 1 below shows how the targeted averaging method is intended to work. If a property is deemed "hot" (above the "threshold" set by Council), averaging would move the target property towards, but not lower than, the "threshold". The rest of the properties will not be subject to any intervention.

**Figure 1: Targeted Land Assessment Averaging**

Depending on how the land values of individual target properties have changed in recent years, the impact of averaging will likely differ for each target property.

To ensure targeted averaging would not over mitigate a “hot” property, the Commission recommended that the City limits the impact of averaging up to the “threshold” (10% above class average change). Otherwise, averaging could reduce the value of a target property below the “threshold”. As a result, some target properties could have an undue advantage or benefit over those properties that are not eligible for targeted averaging. As well, if targeted averaging keeps reducing the value of a “hot” property below the “threshold”, the year-over-year increase would be arbitrarily higher. As a result, a “hot” property could stay in the targeted averaging program for longer than required, and a higher subsidy is necessary from other properties. In February 2019, the Province confirmed that, under section 374.4(5)(b) of the *Vancouver Charter*, the City has the authority to limit the effect of averaging, where averaging would result in a property’s averaged value falling below the “threshold” set by Council.

Staff has completed an analysis of the impact of targeted averaging on properties within the residential (Class 1), and the light industry and business & other (Classes 5 & 6) property classes based on the following:

- a) **Data Source** – The 2021 *Completed Assessment Roll* available at the time of this report; the 2021 *Revised Assessment Roll* which incorporates updates from the Property Assessment Review Panel decisions will not be available until April.
- b) **Eligibility Criteria** – For targeted averaging, a “threshold” of 10% above the class average increase (provided by BC Assessment) is used to define “hot” properties. Vacant land, new construction, class transfers, and other ineligible properties as set out in the by-law are typically excluded.

Based on the 2021 *Completed Assessment Roll*, the class average increase (2021 *Completed Assessment Roll* value vs. 2020 *Average Assessment Roll* value) and “threshold” are summarized in Figure 2 below.

**Figure 2: Preliminary “Threshold” based on 2021 Completed Assessment Roll**

	Class average change		“Threshold” Class average change + 10%	
	2021	2020	2021	2020
<b>Residential (Class 1)</b>	4.4%	(8.4%)	14.4%	1.6%
<b>Light Industry &amp; Business (Classes 5 &amp; 6)</b>	(3.2%)	4.7%	6.8%	14.7%

The class average increase (provided by BC Assessment) will be finalized upon publication of the *Revised Assessment Roll* in April.

- c) **Impact on General Purpose Tax Levy Only** – While averaging is applicable to all taxes levied by the City as well as OTAs, only the City’s general purpose tax levy is considered in the model as OTAs’ tax rates are not available at the time of this report. However, a similar impact would apply.

*(Note: The additional school tax on high-valued residential properties – 0.2% on property values between \$3 million and \$4 million, and 0.4% over \$4 million – is based on BC Assessment values, not averaged values.)*

Subject to the 2021 *Revised Assessment Roll* as well as Council’s decision on tax distribution in April 2021, the impact of averaging presented in this report could change.

## **I. Residential (Class 1) Properties**

In December 2020, Council approved the 2021 budget with an estimated tax increase of 5% and an overall tax levy of ~\$896 million. However, individual properties could experience a tax increase different from the Council-approved tax increase, depending on how a property’s value has changed relative to the average change within its class.

Based on Council’s direction in April 2019 to shift 2% (up to \$15.8 million) of the tax levy from non-residential to residential properties in three years (1% in 2019, 0.5% in 2020 and the remainder in 2021) but prior to Council’s final tax distribution decision in April 2021, the tax levy to be collected from the residential property class would be ~\$512 million. As averaging reduces the total taxable value of a property class, the tax rate will be adjusted higher to collect the same amount of tax levy.

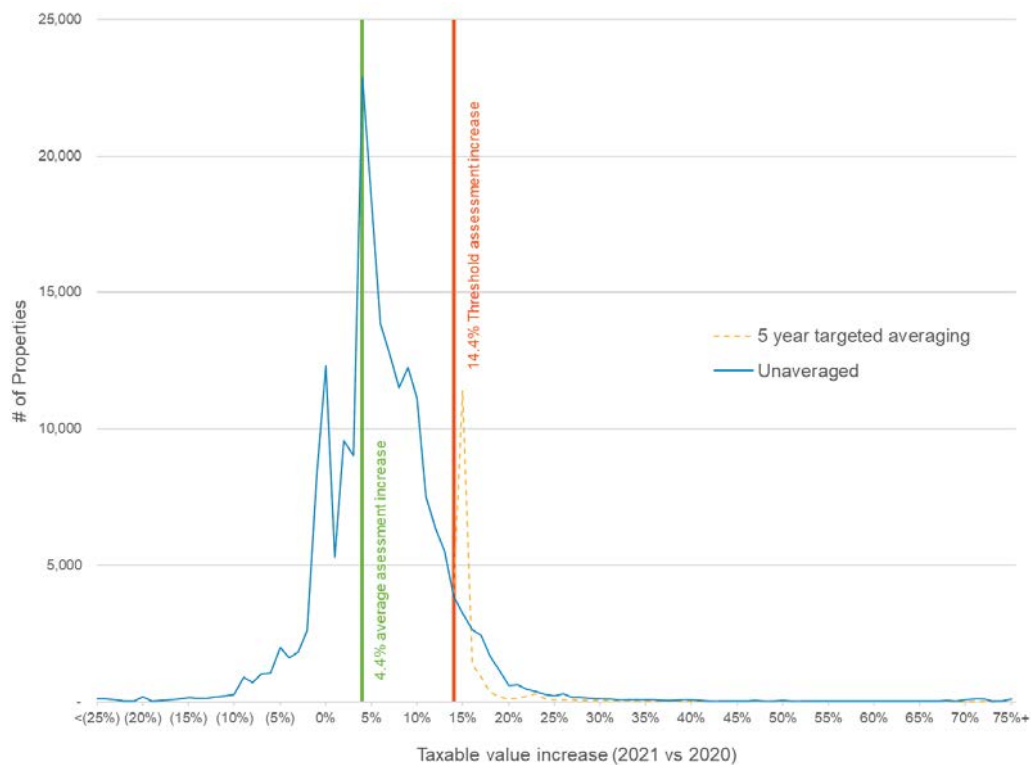
As illustrated in Figure 3 below, applying targeted averaging reduces the total taxable value slightly from \$320 to \$319 billion, and increases the tax rate by ~0.2% [2020: 0.7%] from \$1.602 to \$1.605 per \$1,000 taxable value.

**Figure 3: Residential (Class 1) Properties**  
**Estimated Impact of 5-year Averaging on 2021 Taxable Value & Tax Rate**

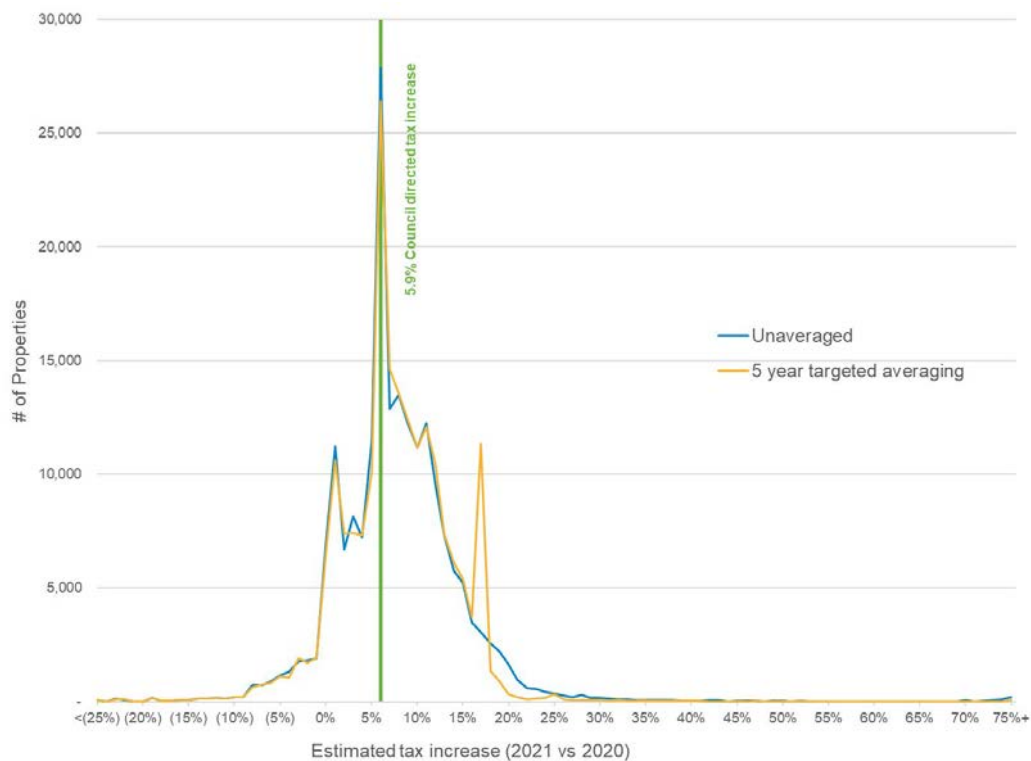
<b>Class 1 – Residential</b>	<b>No Averaging (BCA Value)</b>	<b>Targeted 5-yr Averaging</b>
Taxable Value	\$320B	\$319B
Tax Rate (per \$1,000 Taxable Value)	\$1.602	\$1.605
Target General Purpose Tax Levy	\$512M	\$512M

Figures 4 & 5 below demonstrate the effect of targeted 5-year averaging on the year-over-year increase (%) in taxable values and City property tax in 2021 for residential (Class 1) properties.

**Figure 4: Estimated 2021 Taxable Value Increase – Residential (Class 1)  
No Averaging vs. Targeted 5-yr Averaging**



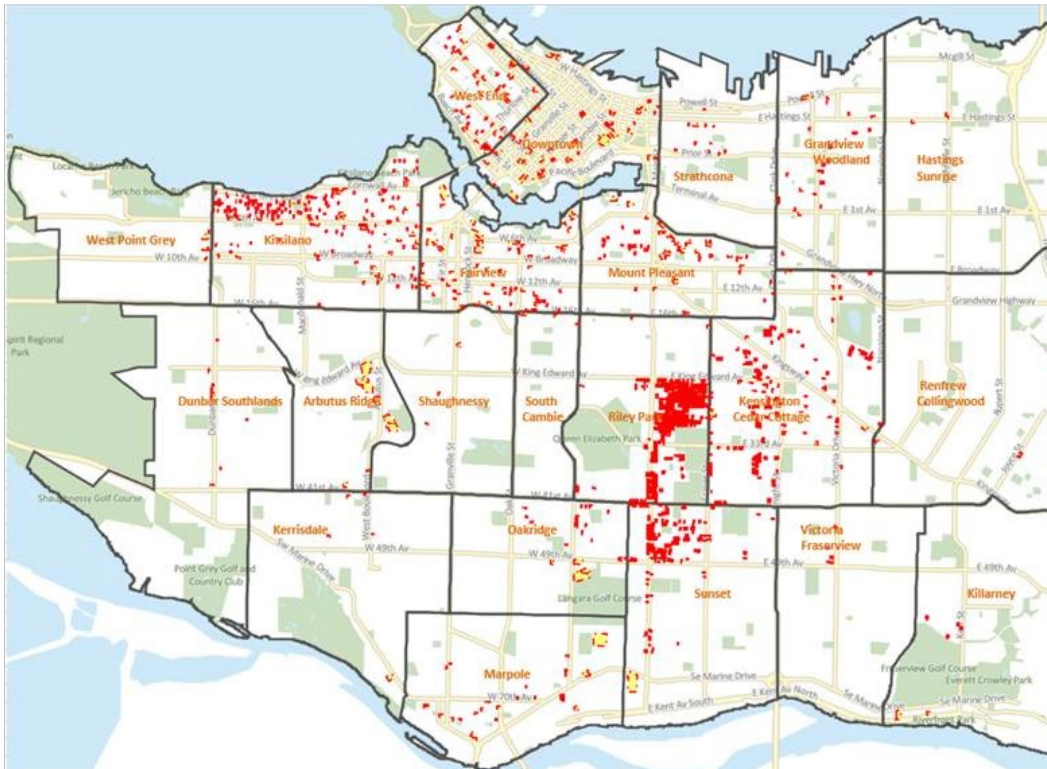
**Figure 5: Estimated 2021 City Property Tax Increase – Residential (Class 1)  
No Averaging vs. Targeted 5-yr Averaging**



With targeted 5-year averaging, ~14,900 residential properties (7%) [2020: 25,200 (13%)] are above the “threshold” and deemed “hot” and will be eligible for averaging. The vast majority of properties below the “threshold” will pay higher taxes to subsidize the tax relief for those “hot” properties.

Figure 6 below shows the geographical distribution of “hot” residential properties that have experienced a year-over-year increase in property values above the “threshold” and would be eligible for targeted averaging.

**Figure 6: Geographical Distribution of “Hot” Residential Properties**



Besides targeted averaging, the following Provincial tax relief measures are available for eligible residential properties.

- **Assessment Act s. 19(8)** - available to property owners who have continuously occupied their principal residence for at least 10 years; the land will be assessed based on current zoning rather than anticipated zoning and development potential. [2021: 1,245 properties]
- **Property Tax Deferral** - available to property owners 55 years of age or older who occupy their principal residence and families with children under 18 years of age. [2020: 10,099 properties; 2021 applications in progress]
- **Home Owner Grant** - available to property owners who occupy their principal residence of which the value falls within the qualifying range. [2020: 86,248 properties; 2021 applications in progress]

See Appendix E for the geographical distribution of properties under each program.

## II. Light Industry and Business & Other (Classes 5 & 6) Properties

Since 2007, the light industry and business (Classes 5 & 6) properties have been “blended” for the purpose of calculating property taxes, i.e. the tax rates for these classes are the same.

In December 2020, Council approved the 2021 budget with an estimated tax increase of 5% and an overall tax levy of ~\$896 million. However, individual properties could experience a tax increase different from the Council-approved tax increase, depending on how a property’s value has changed relative to average change within its class.

Based on Council’s direction in April 2019 to shift 2% (up to \$15.8 million) of the tax levy from non-residential to residential properties in three years (1% in 2019, 0.5% in 2020 and the remainder in 2021) but prior to Council’s final tax distribution decision in April 2021, the tax levy to be collected from the light industry and business property class would be ~\$369 million. As averaging reduces the total taxable value of a property class, the tax rate will be adjusted higher to collect the same amount of tax levy.

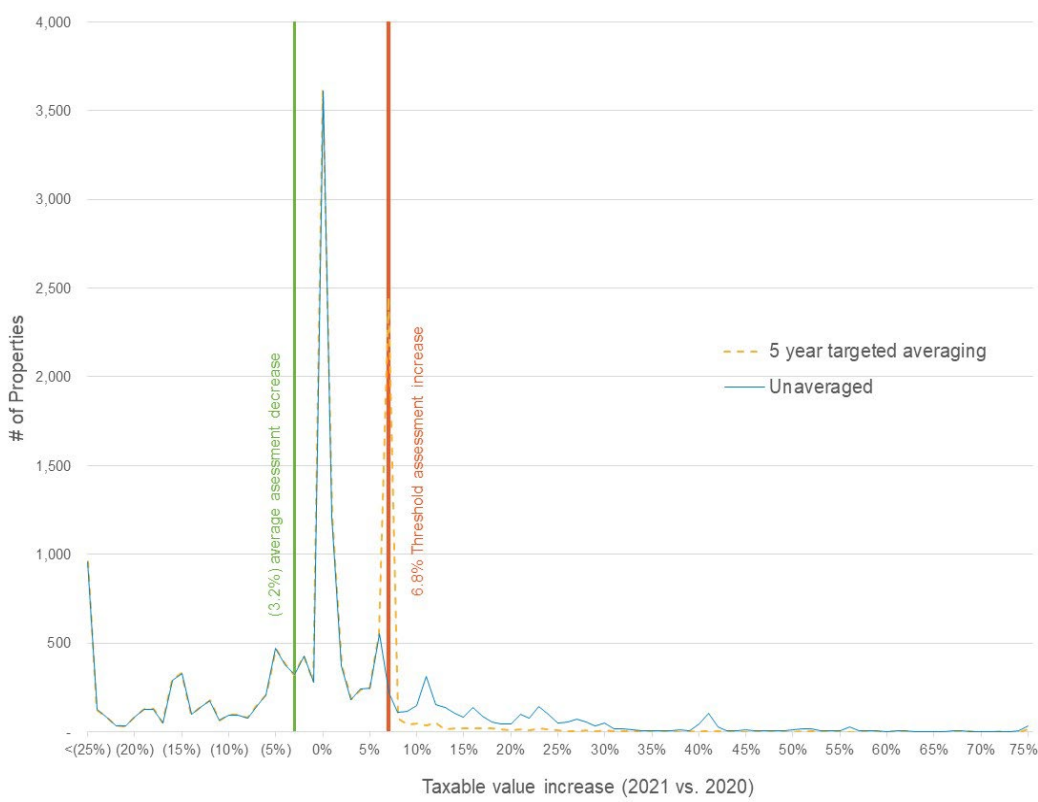
As illustrated in Figure 7 below, applying targeted averaging reduces the total taxable value from ~\$77 to ~\$75 billion, and increases the tax rate by ~2.1% [2020: 3.2%] from \$4.814 to \$4.916 per \$1,000 taxable value.

**Figure 7: Light Industry and Business & Other (Classes 5 & 6)  
Estimated Impact of Averaging on 2021 Taxable Value & Tax Rate**

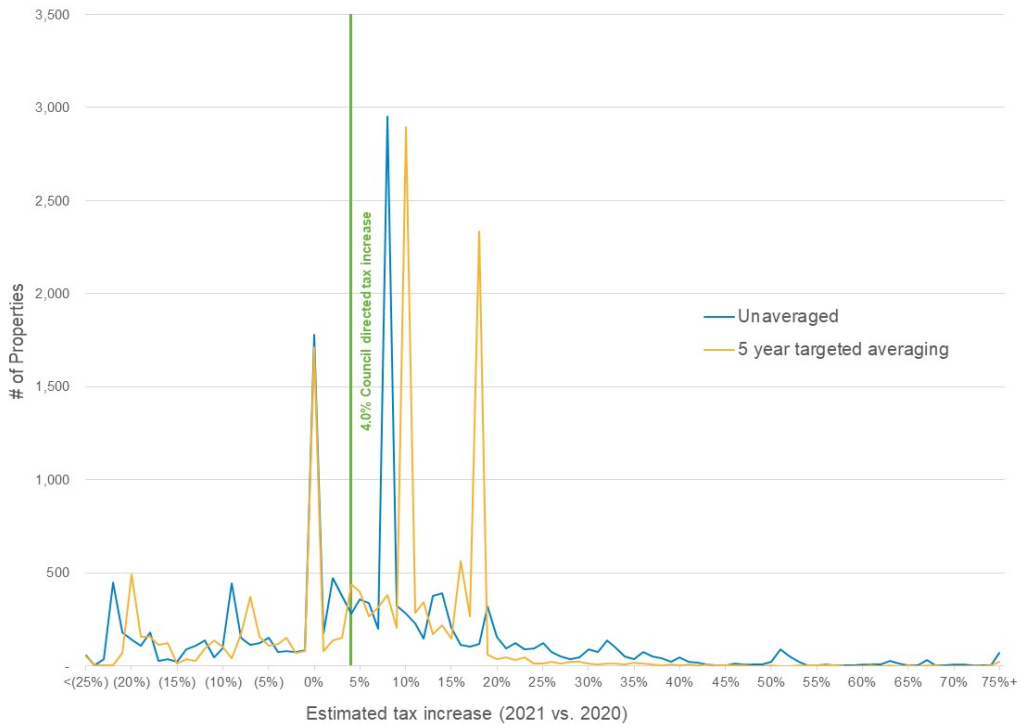
<b>Class 5 &amp; 6 – Light Industry &amp; Business</b>	<b>No Averaging (BCA Value)</b>	<b>Targeted 5-yr Averaging</b>
Taxable Value	\$77B	\$75B
Tax Rate (per \$1,000 Taxable Value)	\$4.814	\$4.916
Target General Purpose Tax Levy	\$369M	\$369M

Figures 8 & 9 below demonstrate the effect of targeted 5-year averaging on the year-over-year increase (%) in taxable values and City property tax in 2021 for light industry and business & other (Classes 5 & 6) properties.

**Figure 8: Estimated 2021 Taxable Value Increase – Light Industry & Business (Classes 5 & 6)  
No Averaging vs. Targeted 5-yr Averaging**



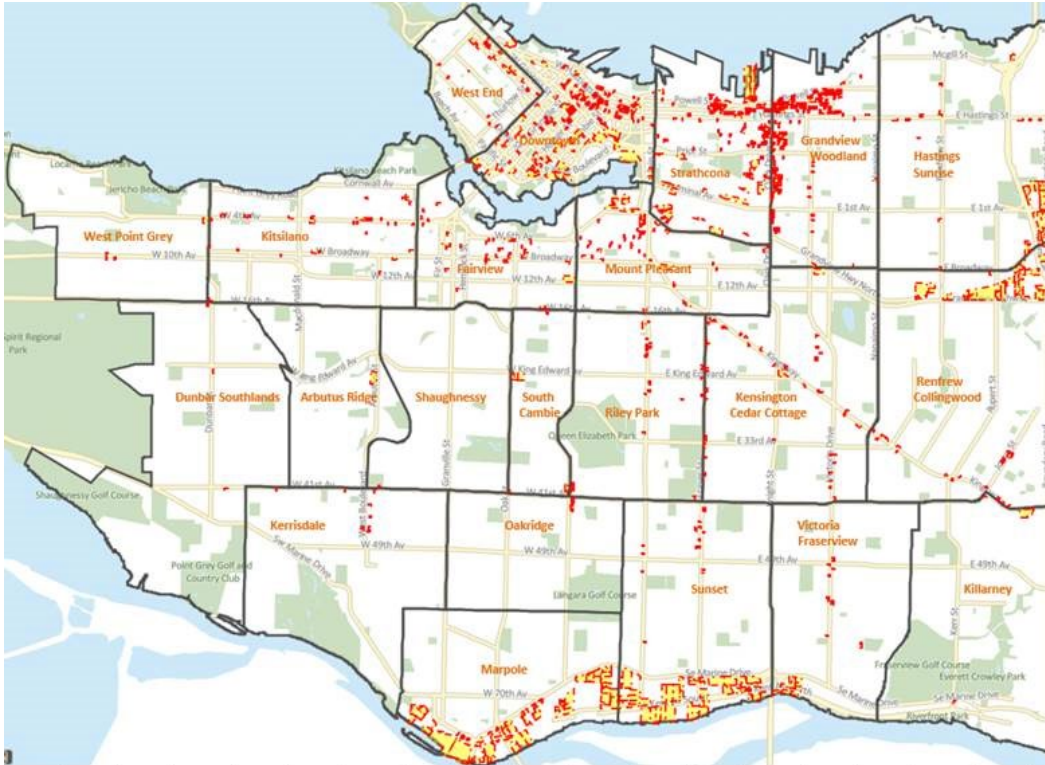
**Figure 9: Estimated 2021 City Property Tax Increase – Light Industry & Business (Classes 5 & 6)  
No Averaging vs. Targeted Averaging**



With targeted 5-year averaging, ~2,800 properties (19%) [2019: 3,200 (22%)] are above the “threshold” and deemed “hot” and would be eligible for averaging. The vast majority of properties below the “threshold” would pay higher taxes to subsidize the tax relief for those “hot” properties.

Figure 10 below shows the geographical distribution of “hot” light industrial and business properties that have experienced a year-over-year increase in property values above the “threshold” and would be eligible for targeted averaging.

**Figure 10: Geographical Distribution of Hot Light Industry & Business Properties**



### **III. Director of Planning-initiated Amendments to Zoning & Development By-law and/or Official Development Plans**

During the 12-month period ending October 31, 2020, Council approved various amendments to Zoning and Development By-law and the various Official Development Plans that were initiated by the Director of Planning, such as changes related to certain properties in the Nanaimo Sub-area of the Grandview-Woodland Community Plan.

It has been Council practice to mitigate the impact of Director of Planning-initiated amendments to the Zoning and Development By-law and/ the various Official Development Plans 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 of the site. Prior examples include Norquay, West End, Downtown Eastside, Marpole, Mount Pleasant, Railtown, False Creek Flats, Grandview Woodland, Cambie Corridor, and Joyce Collingwood.

Staff recommend that properties that are impacted by Director of Planning-initiated amendments to the Zoning and Development By-law or the various Official Development Plans be considered for targeted averaging, in accordance with the criteria as set out in the annual *Land Assessment Averaging By-law*.

#### **IV. Owner-initiated Rezoning and/or Change of Use**

Over the past few years, a number of property owners sought additional density or a change in use through policy statements or rezoning, but the enactment of applicable by-laws happened at a much later date (sometimes a couple of years later). In previous Land Assessment Averaging By-laws, properties that have gone through rezoning enactment will not be eligible for tax relief through the averaging program. Based on discussion with BC Assessment, property value typically goes up when the market reacts to a clear indication from Council (through rezoning approvals or policy statements) on the higher and better use of the property. It will not be fair for other property owners to have to subsidize those properties whose owners proactively seek additional density or change in use. Starting in 2020, properties whose owners sought additional density or a change in use from Council through rezoning, whether enacted or not, or through Council-approved policy changes will not be considered for targeted averaging.

#### ***Financial Implications***

Should Council approve the adoption of the targeted 5-year averaging program in 2021, the City will require an *Average Assessment Roll* for calculating property taxes.

Since 1993, BC Assessment has offered to produce an average or phased assessment roll to any municipal jurisdiction on a user-fee basis. The cost of producing an *Average Assessment Roll* in 2021 is estimated at \$25,000 plus applicable taxes; source of funding to be the 2021 Operating Budget.

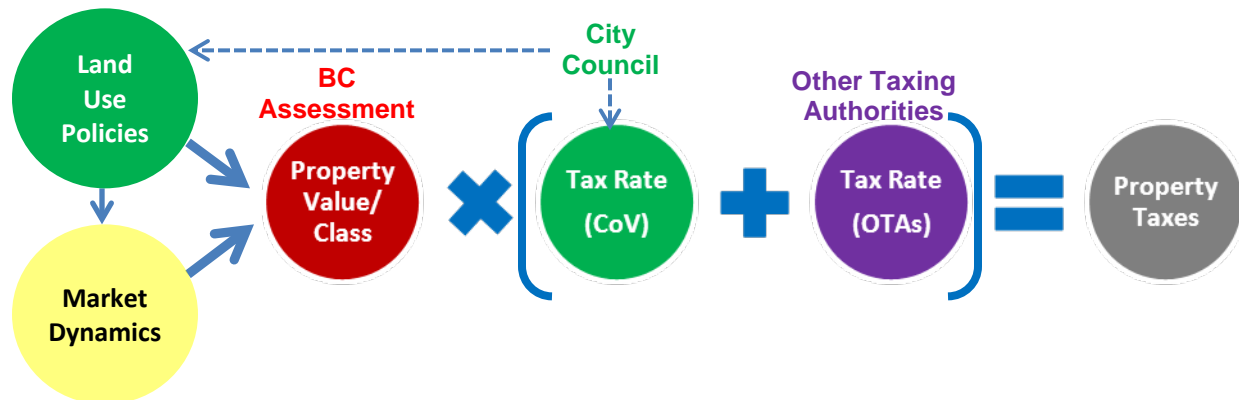
#### **CONCLUSION**

Staff recommend that Council approve the implementation of targeted 5-year averaging in 2021 for the purpose of calculating property taxes for residential (Class 1), light industry and business & other (Class 5 & 6) properties, including those properties that are impacted by Director of Planning-initiated amendments to the Zoning and Development By-law and the various Official Development Plans, in accordance with the criteria as set out in the annual *Land Assessment Averaging By-law*.

\* \* \* \* \*

## PROPERTY ASSESSMENT & TAXATION FRAMEWORK

British Columbia's property assessment and taxation framework has been recognized as one of the best in class due mainly to the segregation of assessment and taxation functions that ensure objectivity and credibility; and the annual market valuation approach that ensures currency, equity and transparency.



**Property taxes** are levied by taxing authorities based on real property values, which are driven by zoning as defined in land use policies and by market dynamics.

**BC Assessment** determines the value of all real properties in BC based on their “highest and best use” as defined by zoning and market evidence, and assigns them to appropriate property class(es) based on their “actual use” in accordance with the Assessment Act. An Assessment Roll is produced annually for municipalities and other taxing authorities (“OTAs”) - Provincial schools, Translink, BC Assessment, Metro Vancouver and Municipal Finance Authority – to levy property taxes.

**City Council** sets land use policies that define zoning; determines the amount of general purpose tax levy required to support City operations; sets residential and business tax share and tax rates; and levies property taxes using the Assessment Roll. Council may also decide whether to apply mitigation tools such as land assessment averaging in any given year. If averaging is applied, the overall tax rates (City and OTAs) for the impacted property classes will be adjusted to ensure revenue neutrality. The City's general purpose tax portion accounts for ~50% of the overall tax rate.

**OTAs** set tax share and tax rate for each property class, and levy property taxes using the Assessment Roll. OTAs accounts for ~50% of the overall tax rate.

## IMPACT OF ASSESSMENT CHANGES ON PROPERTY TAXES

While the Council-directed property tax increase applies to the overall tax levy, the extent of change, year over year, in an individual property's tax is determined primarily by how that property's assessed value has changed relative to the average change within its property class. Differential changes among properties within the same class will result in differential shifts in taxes paid by individual property owners from year to year.

Properties with a higher increase in value relative to the average change of the class could experience a much higher increase in property tax beyond the Council-directed increase, while properties with a lower increase in value could experience no change or a reduction in property tax. This situation is particularly prevalent in neighbourhoods with significant growth opportunities and/or development potential where property values could experience a much higher increase relative to other areas in the city and, as a result, pay higher taxes.

## **MITIGATION MEASURES**

Land assessment averaging is an optional tool available to Council under the *Vancouver Charter*. Land assessment averaging is revenue neutral to the City as the total general purpose tax levy collected from each property class is the same with or without application of this mechanism. To date, Vancouver is the only municipality in BC that uses averaging to phase in significant property tax increases arising from assessment volatility at a city-wide level.

- For eligible residential properties, this program complements other provincial measures such as Section 19(8) of the *Assessment Act*, Property Tax Deferment and the Home Owner Grant in alleviating significant year-over-year tax increases.
- For light industrial and business properties, this program is the only mitigation that provides businesses with short-term, multi-year relief to enable market adjustments and/or lease renegotiations.

*Land assessment averaging* - In 2013, Council reconvened the Commission to provide an updated assessment of the tax share and assessment volatility issues, and recommend further actions as appropriate for Council's consideration. In its report to Council in February 2014, the Commission remained concerned about "hot" spots in the commercial sector, assessment volatility and resulting tax impact on businesses, particularly those that rent space under triple-net leases which could be hard hit by assessment spikes with no ability of sharing any upside in property values upon redevelopment. The Commission defines "hot" spots as properties that experience an unanticipated, year-over-year increase in total assessed value before land averaging is applied, which exceeds the average increase for the property class by more than 10%. "Hot" spots may result from a number of different factors, including rezoning, speculation, market trends, infrastructure development (e.g. rapid transit), and assessment changes initiated by BC Assessment.

In determining which mitigation tool is the most appropriate, the Commission sets out the following guiding principles:

- i) targeted
  - "hot" properties only, not all properties
  - unanticipated increases only, not owner-induced increases (rezoning, improvement upgrades)
- ii) tailored mitigation to intensity of volatility
- iii) time-limited to allow tenants time to react (re-negotiate, relocate)
- iv) easy to understand
- v) straightforward to administer
- vi) minimize unintended consequences

- vii) maintain market assessment as much as possible
- viii) not to unduly defer redevelopment to highest and best use

The Commission concluded that *targeted 5-year land assessment averaging* best meets the above guiding principles. *Targeted averaging* applies to only “hot” properties (defined as those that have experienced significant year-over-year increases in property values above the “threshold” set by Council). The intent of the policy is to reduce the level of tax increases until such time as the property is no longer “hot”. Properties below the “threshold” will be left untouched and pay taxes based on their BC Assessment values.

On February 20, 2015, the Province confirmed that, under section 374.4 of the *Vancouver Charter*, the City has the authority to use a “threshold” to define eligibility for *targeted averaging*. With this authority, the value of the target properties would be reduced through averaging, thereby reducing the level of tax increases. Depending on how the land values of individual target properties have changed over the recent years, the impact of averaging will likely differ for each target property. For eligible “hot” properties, targeted averaging should reduce their values for property tax calculation; under limited circumstances where averaging would increase their values (e.g. properties that experienced significant shift in value between land and improvement), property tax will be calculated based on the assessed values provided by BC Assessment.

To ensure *targeted averaging* would not over mitigate a “hot” property, the City also has authority to limit the impact of averaging up to the “threshold” (10% above class average change). Without such limit, averaging could reduce the value of a target property below the “threshold”. As a result, some target properties could have an undue advantage over those properties that are not eligible for *targeted averaging*. As well, a “hot” property is defined as having a year-over-year increase in property value (difference between the current year’s BC Assessment value and the preceding year’s averaged value) above the “threshold”. If *targeted averaging* keeps reducing the value of a “hot” property below the “threshold”, the year-over-year increase would be arbitrarily higher. As a result, a “hot” property could stay in the *targeted averaging* program for longer than required, and a higher subsidy is necessary from other properties.

*“Brighthouse Solution”* - In May 2011, the Province enacted 2011 Municipalities Enabling & Validating Act (MEVA) (No. 4) in response to the City of Richmond’s request for specific authority to provide targeted, transitional tax relief to eligible light industrial and business properties in the Brighthouse neighbourhood. The program did not apply to other areas in Richmond or other municipalities in BC. The intent of that policy was to address the high vacancies and job loss arising from volatility in assessments and property taxes in the area, which were triggered by amendments to Richmond’s Official Community Plan (adopted in mid-2009) allowing higher density residential development in and around that neighbourhood. In addition to exempting municipal taxes under the Revitalization Tax Exemption provision, the 2011 MEVA (No. 4) enables partial exemption of the provincial school tax. The program ran from 2012 to 2016, starting with only 39 eligible properties in 2012 and reduced to 29 properties by 2016 when the program terminated.

### **Calculating Property Taxes Using Land Assessment Averaging**

The table below compares the calculation of property taxes under the market value approach and the land assessment averaging approach. The total general purpose tax levy for the City is the same under both approaches.

Market Value Approach	5-yr Land Assessment Averaging Approach
2021 Land Value	Average of 2017/18/19/20/21 Land Value
+ 2021 Improvement Value	+ 2021 Improvement Value
= 2021 Taxable Value <i>Market</i>	= 2021 Taxable Value <i>Average</i>
x 2021 Tax Rate <i>Market</i>	x 2021 Tax Rate <i>Average</i>
= 2021 Total General Purpose Tax Levy	= 2021 Total General Purpose Tax Levy

As shown in above table, application of 5-year land assessment averaging affects two components in the property tax calculation:

***Taxable Value Average*** – The taxable value of a property is calculated using the average land value of the current year and the prior four years plus the current improvement value.

***Tax Rate Average*** – For those property classes eligible for averaging, tax rates are recalculated based on the total average value of each class in order to generate the same amount of total general purpose tax levy. As targeted averaging *reduces* the total taxable value of a property class, the tax rate will be *higher when compared to the market value approach*.

## **IMPLEMENTATION – LEGISLATIVE & ADMINISTRATIVE REQUIREMENTS**

Section 374.4 of the *Vancouver Charter* stipulates the legislative and administrative requirements for the implementation of land assessment averaging:

- (i) **Land Assessment Averaging By-law**  
The by-law must be adopted by Council before March 31 each year.
- (ii) **Number of Preceding Years to be Applied in the Averaging Formula**  
Council must establish by by-law the number of preceding years to be applied, up to a maximum of five years, in determining the average land value for the purposes of land assessment averaging. Once the choice is made, the averaging formula must not change for at least five years.
- (iii) **Eligible Property Classes**  
Averaging is applicable to Residential (Class 1), Light Industry (Class 5), and Business & Other (Class 6) properties only. It is not applicable to Seasonal & Non-Profit properties (Class 8) and other properties valued at special rates – Utilities (Class 2), Supportive Housing (Class 3), Major Industry (Class 4), and Farm (Class 9).
- (iv) **Eligible Properties**  
Council can determine in the Land Assessment Averaging By-law the eligibility of individual properties within the eligible property classes. Generally speaking, in cases where there is a substantial change in the characteristics and/or use of a property from one year to the next and where such changes tend to enhance the value of the property to the benefit of the owner, the property will not be eligible for the tax-phasing benefits

that the program offers. Once a property is excluded from the program, it must regain its eligibility over time.

Below are sample properties that are not eligible for averaging:

- a property that carries no improvement value (i.e. vacant land)
- a property that has undergone a change in assessment class and/or zoning district
- a property of which the physical characteristics have been changed as a result of consolidation or subdivision

As Council can only establish one tax rate for each class, properties that are not eligible for averaging are also subject to the averaged tax rate.

**(v) Calculation of All Tax Levies**

Averaging is applicable to the calculation of taxes levied by the City and other taxing authorities on a revenue neutral basis. As averaging affects the taxable values used for calculating all taxes, a decision to apply averaging to a property class requires that Council approves a resolution adjusting the tax rates determined by other taxing authorities to ensure revenue neutrality.

**(vi) Notification to the Public**

In accordance with the notification requirements set out in the *Vancouver Charter*, a notice to inform property owners on Council's intent to consider application of land assessment averaging and the resulting tax impacts on sample properties is required. The notice must be published in two issues of a newspaper at least two weeks in advance of the adoption of the Land Assessment Averaging By-law.

**(vii) Appeal Process**

Council is required to provide a process for property taxpayers to appeal the application of the Land Assessment Averaging By-law. The by-law provides for a municipal Court of Revision after the tax billing date for appeals that cannot be resolved within the administrative processes provided for in the *Vancouver Charter*. Any tax levy losses arising from the averaging appeal process are borne by the City. Since 1993, staff has been able to resolve the majority of appeals administratively; only a handful of appeals proceeded to the Court of Revision. In all cases, the Court of Revision concluded that the Land Assessment Averaging By-law had been correctly applied.

## **Development Potential & Property Tax Impact on Small Businesses, Arts, Culture & Non-profit Sectors**

The affordability challenge is a regional issue impacting most Metro Vancouver municipalities, not just Vancouver. In British Columbia, properties are assessed at their “highest and best use” (market value). Hundreds of small businesses and community partners are impacted by property taxation on development potential for properties that are not developed to their highest and best use. In 2019, BC Assessment estimated that approximately 3,000 (~21%) commercial properties in Vancouver are deemed under-developed with their assessed values reflecting a higher and better use relative to their existing use.

As Metro Vancouver cities grow and evolve, OCPs and Neighborhood Plans are developed to set out 20-25 year plans to increase density in communities to support anticipated population and job growth, and to expand commercial and light industrial space. As OCPs and Neighborhood Plans are implemented over time, certain properties will continue their existing use for a number of years until redevelopment occurs, while their assessed value reflects a higher & better “future” use as per OCPs/Neighborhood Plans.

At present, there is no property class for this future development potential as a type of use. Existing use value and the future development potential value is aggregated into the same property class. As a result, municipalities cannot set different tax rates for existing use vs. future development potential. This limitation has significantly impacted the viability of local independent businesses as well as the arts, culture and NPO sectors, particular for tenants on triple net leases.

While there are a number of Provincial mitigation tools available for eligible residential properties (see below), those measures do not apply to commercial properties. Land assessment averaging is an optional tool available to Council under the *Vancouver Charter*. Vancouver is the only municipality that uses targeted 5-year averaging to phase in significant property tax increases arising from assessment volatility at a city-wide level.

- For eligible residential properties, this program complements other provincial measures such as s. 19(8) of the Assessment Act, Property Tax Deferment and the Home Owner Grant in alleviating significant year-over-year tax increases.
- For light industrial and business properties, this program is the key mitigating measure that provides businesses with short-term, multi-year relief to enable market adjustments and/or lease renegotiations.

***Split Assessment through a Commercial Sub-class (“Split Assessment”)*** – In May 2019, the IWG submitted a recommendation to the Province for “Split Assessment as the most targeted approach to address the core issue – taxes on development potential – impacting small business, arts, culture and non-profit organizations:

- It addresses the root cause of the problem by creating a sub-class for future development potential and allowing municipalities to tax existing use versus development potential differently.
- It offers a common platform for municipalities while allowing a high degree of flexibility, scalability and customization.

- Municipalities can decide whether or not to use the tool (permissive in nature) and determine the eligibility requirement, tax rate and duration of the tax relief by-laws.
- It is more transparent and straight-forward to administer than permissive exemptions.
- It will not result in tax shift across municipalities – for municipalities that chose to use split assessment, any tax reallocation will be confined within the municipality.

In July 2019, a joint letter of support for Split Assessment was signed by the Mayors of the Cities of Burnaby, Coquitlam, and Surrey and District of North Vancouver, and submitted to the Honorable Premier of British Columbia. Separately, in July and September 2019, two joint letters of support were signed by key stakeholders and community partners (The Vancouver BIA Partnership, Greater Vancouver Board of Trade, BC Chamber of Commerce, Canadian Federation of Independent Business, Urban Development Institute Pacific Region, National Association for Industrial and Office Parks Vancouver, and Building Owners and Managers Association of British Columbia) and submitted to the Province.

***The Interim Business Property Tax Relief Legislation (“Interim Solution”) (enacted in Spring 2020):***

**Program Criteria** – The Interim Solution requires a property to be assessed in a commercial class – Class 5 (light Industry), Class 6 (Business & Other), or a combination of the two – and have at least one tenant responsible for all or a portion of the property taxes to qualify for the exemption.

Municipalities will need to set further parameters to identify properties where the taxes have increased significantly due to a spike in land value in their communities. Those parameters include:

- A base tax year of 2015 or later to use as comparison to the current tax year
- A minimum percentage of increase in commercial land value since the base year
- A minimum percentage of the total property value that must be land value
- The percentage of the exemption by property, area or kind

For the 2020 tax year, municipalities must have the by-law passed by April 22.

**Staff Analysis** – Staff, in consultation with the CFO's from eight Metro Vancouver municipalities, reviewed and analyzed the Interim Solution, and concluded that not only does it not address the core issue of development potential, it poses significant implementation challenges:

i) *No Opportunity for Public Consultation* – The timing of the legislation does not allow sufficient time to engage stakeholders in a meaningful way, or to put processes in place to implement the legislation.

Similar to the Province needing more time for consultation across British Columbia before implementing Split Assessment, municipalities need time for public consultation and engagement with stakeholders prior to implementing any solution including a permissive tax exemption. Among other things, the public and stakeholders need to understand how and who can qualify for an exemption and the impacts of a permissive exemption.

The proposed legislation will result in a redistribution of both municipal and school taxes among taxpayers. Municipalities will be required to collect the same amount of school tax.

A structured policy is required to determine who receives benefits, the amount of the benefits, and who pays for the benefits. Time for proper consultation is critical to enable staff and Council to understand the issues and answer questions as to why some businesses receive benefits and others do not. This is particularly important as the proposed legislation is not based on development potential, something that the public is keenly aware of and understands. An appropriate public consultation process will ensure that the opinions of all those impacted are considered when creating changes.

*ii) Lack of Required Data to Meet Criteria as per Proposed Legislation –*

- There is no common definition of “small business” for property assessment/taxation purposes.

- iii) Unintended Consequences and Risks* – There could be unintended consequences such as businesses receiving tax relief for the wrong reasons, and struggling businesses and organizations paying higher taxes.

Risk of the small businesses, arts culture and non-profit organizations subsidizing big box/chain stores is a major concern. Based on proposed legislation, if a tenant on a triple net lease occupies the same property as a big box store, the entire property would receive the tax exemption due to private legal contractual agreements. However, a small mom-and-pop owner occupied and operated business will not be eligible to receive the exemption. This will result in small owner operated businesses potentially subsidizing big box stores.

**Conclusion** – Staff do not recommend proceeding with the interim solution but continue with the 5-year targeted land assessment averaging. Staff further recommend that Council direct staff to continue working with the Province to focus on the necessary work to implement Split Assessment through a commercial sub-class.



## IMPORTANT NOTICE TO PROPERTY OWNERS: Land Assessment Averaging

	Prior year		Current year without averaging		Current year with averaging	
	Taxable value (\$)	2020 taxes (\$)	Taxable value (\$)	Est. 2021 taxes (\$)	Taxable value (\$)	Est. 2021 taxes (\$)
<b>Sample Residential Strata (Class 1) properties</b>						
Targeted "hot" property	598,998	947	712,000	1,143	685,027	1,102
Other property not targeted	705,000	1,114	713,000	1,144	713,000	1,147
<b>Sample Residential Single Family (Class 1) properties</b>						
Targeted "hot" property	1,463,300	2,313	1,719,000	2,759	1,673,460	2,691
Other property not targeted	1,665,000	2,632	1,715,000	2,753	1,715,000	2,758
<b>Sample Light Industrial (Class 5) properties</b>						
Targeted "hot" property	2,878,111	12,891	3,474,000	16,724	3,073,276	15,107
Other property not targeted	3,333,404	14,930	3,474,600	16,727	3,474,600	17,080
<b>Sample Business &amp; Other (Class 6) properties</b>						
Targeted "hot" property	889,080	3,982	1,026,000	4,939	949,369	4,667
Other property not targeted	971,000	4,349	1,019,000	4,905	1,019,000	5,009

Since 2015, the City of Vancouver has used targeted land assessment averaging to calculate property taxes as recommended by the Property Tax Policy Review Commission in 2014. While averaging does not increase or decrease the City's tax revenue, it affects the amount of taxes paid by individual property owners.

The City transitioned from three-year to five-year targeted averaging in 2019. Under the targeted averaging approach, only those properties facing significant year-over-year increases in property values above a certain threshold ("hot" properties) would be considered for averaging. For eligible "hot" properties, the program calculates property taxes for the City and other taxing authorities using an average of the assessed land value for the current and prior four years, plus their current assessed improvement value, provided that this averaged value does not go below the threshold value. All other properties continue to pay property taxes based on their current year BC Assessment value.

The table presented shows the estimated effect of the targeted five-year averaging program on the City of Vancouver's general purpose tax levy for sample properties based on the thresholds proposed for 2021 (10% above class average change), subject to Council approval. The program requires an adjustment to the tax rates such that properties below the threshold would pay slightly higher taxes to provide tax relief for those "hot" properties above the threshold.

Amounts levied by other taxing authorities such as provincial schools, TransLink, BC Assessment, and Metro Vancouver are not included in the analysis.

On March 9, 2021, Vancouver City Council will consider whether to use targeted five-year averaging for residential (Class 1), light industrial (Class 5) and business and other (Class 6) properties, and determine the appropriate thresholds for these property classes if targeted averaging is adopted. Should Council decide to use targeted five-year averaging, a bylaw will be adopted.

The report, which details the program and how it could impact property taxes, will be posted on our website at: [vancouver.ca/averaging](http://vancouver.ca/averaging)

**FOR MORE INFORMATION:**  
3-1-1 or [vancouver.ca/averaging](http://vancouver.ca/averaging)

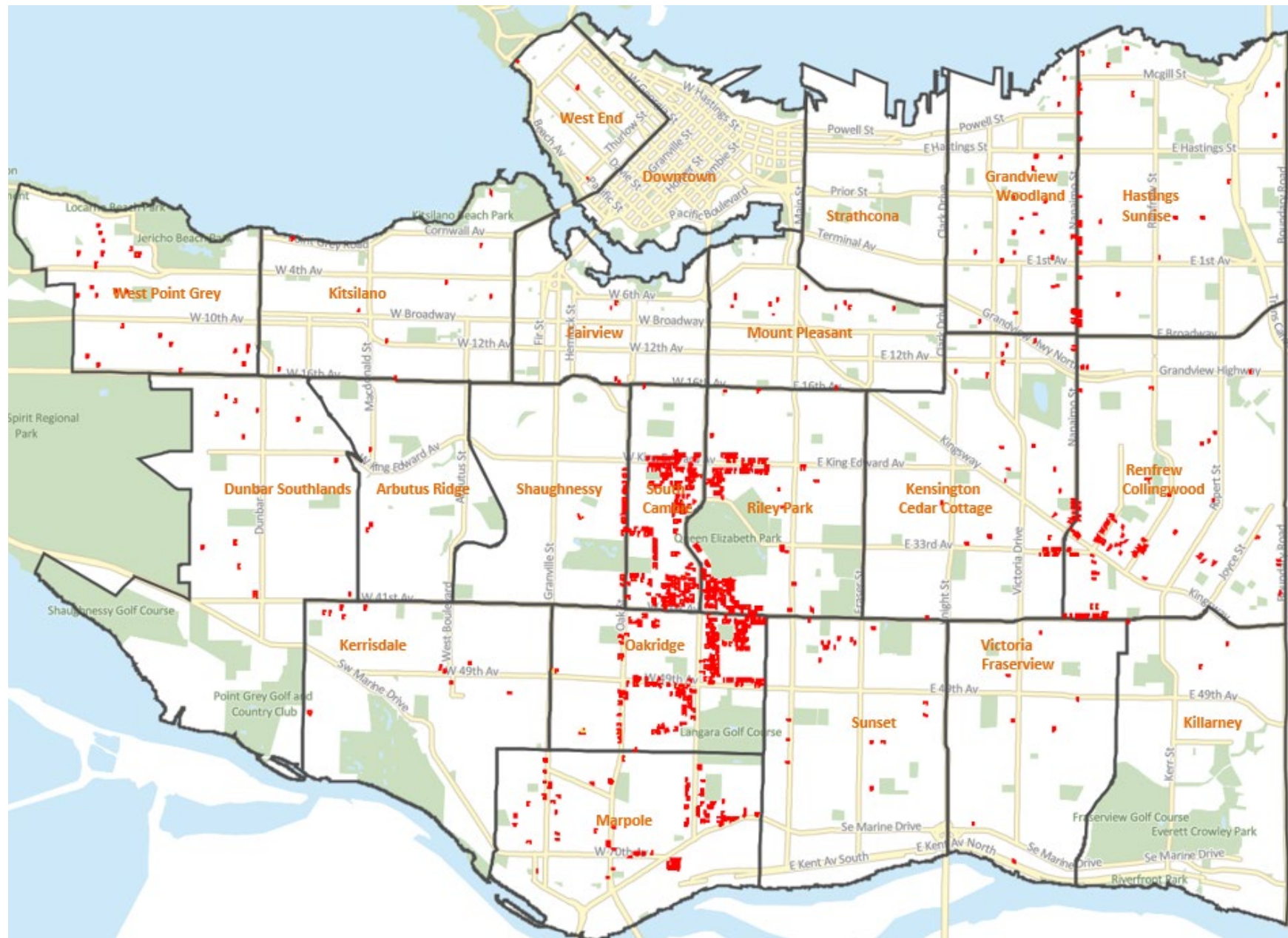
**COMMENTS?**  
Contact Council:  
[vancouver.ca/your-government/contact-council](http://vancouver.ca/your-government/contact-council)  
or write to:  
Mayor and Council  
453 West 12th Avenue  
Vancouver, BC V5Y 1V4

**SPEAK TO COUNCIL:**  
Prior to adoption of the bylaw, you may speak in person at the Council meeting on March 9, 2021.

**EMAIL:**  
[speaker.request@vancouver.ca](mailto:speaker.request@vancouver.ca) or  
phone 604-829-4272 to register.

**PROVINCIAL MITIGATION – ASSESSMENT ACT S19(8)**  
**PROPERTIES HAVING A LOWER ASSESSED VALUE UNDER S19(8)**

**APPENDIX E**  
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**APPENDIX E**  
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