CITY OF VANCOUVER

COUNCIL REPORT

Report Date:	April 9, 2024
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Meeting Date:	April 24, 2024

Submit comments to Council

TO: Standing Committee on City Finance and Services

FROM: Director of Finance

SUBJECT: Property Tax Policy Review – Phase I

Recommendation

THAT Council receive for information the report on Property Tax Policy Review – Phase I prepared by Ernst & Young LLP in Appendix B.

Purpose and Executive Summary

In April 2023, Council directed staff to convene a property tax policy review to assess the City's property tax policy, efficacy of mitigation tools (targeted averaging, development potential relief, etc.), tax share approach, and other relevant metrics to gauge Vancouver's business climate and competitiveness relative to our neighboring municipalities.

In November 2023, Council further approved the revised Terms of Reference for the Property Tax Policy Review (Appendix A), to be undertaken in two phases. Phase I – "Tax Distribution" work was to be delivered in time to inform Council's deliberation on the 2024 tax distribution.

The purpose of this report is to present to Council the work undertaken by Ernst & Young LLP ("EY") on the Property Tax Policy Review – Phase I.

As summarized in their report (Appendix B), EY examined a portfolio of non-residential and residential metrics and recent economic development since the COVID-19 pandemic, and concluded that there is no compelling evidence that warrants a tax shift between non-residential and residential property classes at this time. Recent economic development has presented financial challenges to households and businesses, and both have limited capacity to absorb further property tax increases arising from a tax shift.

The City's expert advisors, who led the previous property tax policy review commission work ("Expert Advisors"), agree that there is no compelling evidence to warrant a tax shift between non-residential and residential property classes at this time. Their conclusion is based on their own analysis and the metrics in the EY report.

In their report, EY acknowledged that there will always be inherent data limitations, and there is no single definition of the "correct" or most appropriate tax share; however, the metrics are intended to provide insights and perspectives when comparing the City's competitiveness with neighboring Metro Vancouver municipalities and other major urban cities like Toronto, Montreal and Calgary.

Council Authority/Previous Decisions

In April 2023, Council adopted the following motion:

THAT Council direct staff to report back with a plan to convene a new Property Tax Policy Review Commission to assess the City's property tax policy, efficacy of mitigation tools (targeted averaging, development potential relief, etc.), tax share approach, and other relevant metrics to gauge Vancouver's business climate and competitiveness relative to our neighboring municipalities;

FURTHER THAT Council direct staff to establish terms of reference for the Commission that include assessing how other taxing authorities' policies and decisions may impact the affordability and viability of businesses in Vancouver relative to the rest of the region. The assessment initiative could include for example the application of the speculation and vacancy tax on unbuilt residential airspace above commercial, and the disproportionate amount of provincial school tax shouldered by businesses in Metro Vancouver relative to the rest of the province;

AND FURTHER THAT terms of reference for the Commission include an assessment and possible recommendations of how City's property tax policy and tax share approach could support vibrant local serving small business districts, without incentivizing the holding or hoarding of vacant and otherwise non-productive investment properties.

In November 2023, Council approved the revised Terms of Reference for the Property Tax Policy Review (Appendix A), to be undertaken in two phases:

- Phase I – Section 3.2 "Tax Distribution" to be delivered in time to inform Council's deliberation on the 2024 tax distribution
- Phase II – Section 3.1 "Tax Stability & Predictability" and Section 3.3 "Impact of Tax Policies from Other Taxing Authorities on Businesses" to be delivered in 2025

To complete the Phase I work expeditiously, in place of the Commission structure, Council authorized staff to engage an external consultant to lead the work, with guidance from the Expert Advisors.

City Manager's Comments

The City Manager concurs with the foregoing recommendations.

Context and Background

Over the last 15 years, Council engaged the Property Tax Policy Review Commission (the "Commission") multiple times to address two key issues concerning the impact the City's taxation policies have on Vancouver's economy:

- *Tax Stability & Predictability* – to assess viable options to enhance tax stability and predictability arising from significant year-over-year market value changes.

- *Tax Distribution* – to assess viable options to achieve a "fair" tax distribution; validate if the tax share between residential and non-residential property classes were appropriate; and recommend metrics for monitoring tax share and impact on residents and business climate.

Recommendations put forward by the Commission were adopted by Council and implemented over time, some of which were enabled by Provincial legislation:

- Transitioned from *across-the-board* 3-year land assessment averaging to *targeted* 5-year land assessment averaging to provide short-term relief to "hot" properties by phasing in significant property tax increases arising from assessment volatility.

- A 5-year, $23.8 million tax shift program completed in 2012 to redistribute 5% of the City's general purpose tax levy from non-residential to residential property classes.

- Tracking and reporting key metrics annually to guide tax share decisions.

In addition to the above, Council also approved the following:

- A 3-year, $15.8 million tax shift program completed in 2021 to redistribute 2% of the City's general purpose tax levy from non-residential to residential property classes.

- A pilot development potential relief program ("Pilot DPRP") for 2023 and 2024 to support independent businesses and community partners by reducing the City's general purpose tax levy on a portion of the assessed land value of eligible Light Industry (Class 5) and Business and Other (Class 6) properties.

Discussion

In December 2023, EY was selected from the City's pre-qualified list for Management Consultant Services (PS201334) to lead the Phase I review, encompassing the following:

- *Metrics for Business* – Confirm and update the current set of metrics to gauge Vancouver's business climate and competitiveness relative to neighboring municipalities within Metro Vancouver and major urban cities across Canada.

  (*Current set of metrics: business tax share, business tax rate ratio, business tax rate, business tax per capita, commercial building permit, business assessment growth)*

- *Metrics for Residents* – Recommend key metrics to gauge the affordability for homeowners and renters in Vancouver relative to neighboring municipalities within Metro Vancouver and major urban cities across Canada, taking into consideration factors such as home values, housing costs, household income and expenses.

- *Tax Share* – Validate whether the current tax share of ~57% residential and ~43% business (based on 2023 Assessment Roll) is appropriate. Should a new tax share target be considered, recommend an approach and timeline for achieving the new tax share target.

Metrics – Business & Residents

EY considered the metrics recommended by the Commission, and identified additional non-residential metrics and new residential metrics based on the guiding principles of transparency, replicability and reliability.

Table 1: Non-residential & Residential Metrics

Non-residential	Residential
Business tax share*	Non-residential**
Business tax rate*	Residential tax share**
Business tax per capita*	Residential tax rate**
Commercial building permit growth*	Residential tax per capita**
Business assessment growth*	Residential building permit growth**
Business tax rate ratio*	Residential assessment growth**
All property taxes per sq ft for office properties**	All property taxes as % of median after-tax household income**
All property taxes per sq ft as % of avg net asking rent for downtown office properties**	
Vacancy rates for downtown office properties**	

* Metrics recommended by the Commission
** New metrics introduced by EY

In their report, EY noted that when comparing Vancouver with neighboring municipalities within Metro Vancouver or major Canadian cities such as Toronto, Montreal and Calgary, the City should exercise caution and consider the unique aspects of Vancouver being a commercial hub within the region, and the variation in the range of services provided, the size and population, the legislative framework, the property assessment and taxation systems, and the sources of funding available.

Stakeholder Engagement

EY conducted targeted stakeholder engagement with representatives from Greater Vancouver Board of Trade (GVBOT), Building Owners & Managers Association (BOMA), Canadian Federation of Independent Businesses (CFIB), and Vancouver Business Improvement Associations (BIAs) in February and March of 2024. Below is a summary of the common themes raised by the stakeholders and EY's comments:

- Importance of a consumption study to determine if the non-residential sector pays a disproportionate amount of municipal taxes compared to the services they consume.

  EY comment: While consumption studies have consistently been raised by stakeholders, the Commission, in its previous reports, acknowledged some legitimacy of this approach but raised concerns about its validity and acceptance by all stakeholders, citing that the indirect benefits to non-residential property classes were not effectively measured. (Note: Consumption study is out of scope for the Property Policy Review – Phase I work.)

- Desire for more representative properties besides office buildings for the purpose of comparing property taxes per square foot.

  EY comment: Consistent with previous property tax policy reviews, it is difficult to define what constitutes a representative property for benchmark purposes; as such, downtown office spaces have been analyzed as a proxy for non-residential properties given data availability and comparability among municipalities.

- Acknowledgement of the challenging economic pressures on small business.

  EY comment: Defining small businesses for targeted tax relief may be challenging as it is difficult to substantiate any correlation between the value of a business's property value, and the size and financial capacity of the business.

- Desire for an additional metric to compare the assessment share with the tax share, citing that non-residential properties account for ~19% of the total property assessments but contribute ~40% of the City's general purpose tax levy, resulting in a ratio of 2.1.

  EY comment: Residential properties are typically assessed at double the value of non-residential properties on a per square foot basis. After adjusting for the disparity, the ratio declines from 2.1 to 1.1.

Tax Share Recommendation

EY – Effective property tax policy requires careful consideration of principles such as stability, predictability, accountability, fairness, and regional and national competitiveness. When considering tax fairness, it is important to note that increases in property values do not directly translate to an increase in an individual's or business' capacity to pay higher property taxes. In other words, property owners may experience an increase in property values due to market conditions without a corresponding increase in income. When considering competitiveness, headline property tax rates are not a direct measure of property tax burden. Property taxes are a function of a property's assessed value and property tax rate. Owners of high-value properties may incur large property tax levies despite relatively low property tax rates.

Based on the metrics presented in the report as well as consultation with the Expert Advisors and key stakeholders, it is EY's opinion that there is no compelling evidence that warrants a tax shift between non-residential and residential property classes at this time. Recent economic development has presented financial challenges to households and businesses, and both have limited capacity to absorb further property tax increases arising from a tax shift.

Expert Advisors – The Expert Advisors agree that there is no compelling evidence to warrant a tax shift between non-residential and residential property classes at this time. Their conclusion is based on their own analysis and the metrics in the EY report.

City Staff – Staff agree with the recommendation from both EY and the Expert Advisors. In particular, tax shift from commercial to residential is not an effective way to provide targeted relief for independent businesses and community partners; instead, it reduces property tax for all commercial properties regardless of the need.

Upon completion of the 3-year, $15.8 million tax shift program in 2021, Council instructed staff to report back on how much of the tax shift benefitted large corporations and businesses as opposed to smaller ones. Staff analysis, which was incorporated in the 2022 Property Taxation: Distribution of Property Tax Levy Report (RTS14711), demonstrated that ~$6.9 million (43%) of the $15.8 million was provided to the following types of commercial properties:

- Regional malls (e.g. Pacific Centre)
- Banks
- Hotels
- Auto dealer shops
- Big box retail
- Warehouse & storage
- Office buildings developed at, or close to, "highest and best use" (e.g. downtown AAA office buildings)

Instead of blanket tax shifts, more targeted tax relief is made available for eligible properties under two programs:

- Targeted Land Assessment Averaging – to address tax impact arising from significant property assessment increase

- Development Potential Relief Program – to address tax impact arising from development potential

To date, Vancouver is the only municipality in British Columbia that offers targeted tax relief. The efficacy of these programs will be evaluated as part of Property Tax Policy Review – Phase II in 2025.

Financial Implications

Implementation of the EY recommendation, including tracking and reporting out additional metrics where applicable, will be undertaken within existing staffing resources.

Legal Implications

There are no legal implications associated with this report's recommendations.

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APPENDIX A: TERMS OF REFERENCE
PROPERTY TAX POLICY REVIEW CONSULTANCY

1. TERMS OF REFERENCE

On April 25, 2023, Vancouver City Council directed staff to develop a plan to convene a Property Tax Policy Review Commission (the "Commission") to perform the following:

- An assessment of the City's property tax policy, efficacy of mitigation tools, tax share approach, and other relevant metrics to gauge Vancouver's business climate and competitiveness relative to its neighboring municipalities;
- An assessment of how other taxing authorities' policies and decisions – including but not limited to the application of the Speculation and Vacancy Tax on unbuilt residential airspace above commercial, and the disproportionate amount of Provincial School Tax shouldered by businesses in Metro Vancouver relative to the rest of the province – may impact the affordability and viability of businesses in Vancouver relative to the rest of the region; and
- An assessment of and possible recommendations on how the City's property tax policy and tax share approach could support vibrant local serving small business districts, without incentivizing the holding or hoarding of vacant and otherwise non-productive commercial investment properties.

2. BACKGROUND / CONTEXT

Over the last 15 years, the Commission was engaged multiple times to address two key issues concerning the impact the City's taxation policies have on Vancouver's economy:

- **Tax Stability & Predictability** – to assess viable options to enhance tax stability and predictability arising from significant year-over-year market value changes.
- **Tax Distribution** – to assess viable options to achieve a "fair" tax distribution; validate if the tax share between residential and non-residential property classes were appropriate; and recommend metrics for monitoring tax share and impact on residents and business climate.

2.1 Tax stability and predictability

Between 1993 and 2014, it had been Council policy to apply across-the-board 3-year land assessment averaging to eligible Residential (Class 1) and Business (Class 6) properties to phase in significant property tax increases arising from assessment volatility. In 2007, Council extended the program to Light Industry (Class 5) properties.

The Commission made the following recommendations:

2008: Seek *Vancouver Charter* amendment to enable 5-year land assessment averaging *(granted by the Province in 2013)*.

2014: Implement targeted land assessment averaging to provide short-term relief to "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 10%"; and

Invite neighboring municipalities and Union of British Columbia Municipalities to join the City in submitting a request to BC Assessment to prepare and distribute a report on the advantages and disadvantages of the Split Classification (Amacon) methodology to address taxation impact arising from development potential.

Vancouver City Council adopted the use of targeted land assessment averaging in 2015, and transitioned from 3-year to 5-year averaging in 2019.

Enabled by Bill 28 which came into effect in November 2022, Vancouver City Council approved a pilot Development Potential Relief Program (the "DPRP") in March 2023 to provide temporary relief on the City's general purpose tax levy for eligible Light Industry (Class 5) and Business (Class 6) properties. Properties that are eligible for the pilot DPRP are not eligible for targeted land assessment averaging.

To date, Vancouver is the only municipality in British Columbia that uses land assessment averaging and development potential relief on a city-wide basis.

2.2 Tax distribution

Since 1983, it has been Council policy to allocate the general purpose tax levy across property classes through a "tax share" approach. Under this approach, Vancouver City Council approves the tax share for residential and non-residential property classes each year, including any tax shift decisions, subject to adjustments arising from non-market changes on the Assessment Roll (e.g. new construction, transfer of properties among classes). This approach ensures that tax share is set by Council policy, not driven by market forces.

The Commission endorsed the "tax share" approach and made the following recommendations:

2008: Shift $23.8 million (5% of total general purpose tax levy) from non-residential to residential property classes over five years *(completed in 2012)*.

2014: No tax shift; use metrics to guide tax share decisions *(implemented)*.

2019: No tax shift based on metrics *(recommended by Commission Chair)*.

In 2019, Vancouver City Council directed staff to shift $15.8 million (2% of total general purpose tax levy) from non-residential to residential property classes over three years *(completed in 2021)*.

3. DELIVERABLES

3.1 Tax Stability & Predictability

Since the last Commission review, the City has transitioned from across-the-board 3-year land assessment averaging to targeted 5-year land assessment averaging to address taxation impact arising from assessment volatility, and implemented a pilot DPRP to address taxation impact arising from development potential. Stakeholder engagement on the pilot DPRP was completed in July 2023 and feedback was reported to Vancouver City Council in October 2023 to inform the pilot DPRP for the 2024 tax year.

The Consultant, with guidance from Expert Advisors, will report to Vancouver City Council on the following:

i) Assess the efficacy of the City's targeted 5-year land assessment averaging program and the pilot DPRP, including but not limited to eligibility requirements and level of tax relief, and identify potential areas for improvement.

ii) Identify opportunities to synergize the use of targeted land assessment averaging, DPRP, and grants to support independent businesses and community partners in the most effective way.

3.2 Tax Distribution

In the past reviews, the Commission had consistently supported the use of the "tax share" approach (over the "tax rate ratio" approach and "consumption study") where tax distribution across property classes is based on Council policy supported by key metrics.

The Consultant, with guidance from Expert Advisors, will report to Vancouver City Council on the following:

i) Validate whether the current tax share of ~57% residential and ~43% business (based on 2023 Assessment Roll) is appropriate. Should a new tax share target be considered, recommend an approach (e.g. phasing) and timeline for achieving the new tax share target.

ii) Confirm and update the current set of metrics for gauging Vancouver's business climate and competitiveness relative to neighboring municipalities within Metro Vancouver and major urban cities across Canada. *(Current set of metrics: business tax share, business tax rate ratio, business tax rate, business tax per capita, commercial building permit, business assessment growth)*

iii) Similar to those business metrics in 3.2 ii, recommend key metrics to gauge the affordability for Vancouver homeowners and renters, taking into consideration factors such as home values, housing charges, household income and expenses, relative to neighboring municipalities within Metro Vancouver and major urban cities across Canada.

iv) Recommend a set of guiding principles and criteria to guide future tax share decisions.

v) Assess the efficacy of the City's property tax policies in supporting local serving small business districts, and recommend viable approaches without incentivizing the holding or hoarding of vacant and otherwise non-productive commercial investment properties.

3.3 Impact of Tax Policies from Other Taxing Authorities on Businesses

Since the last Commission review, a lot has changed over the past few years that has a direct impact on the viability of independent businesses and community partners, including the COVID-19 pandemic, additional taxes levied by the Province (e.g. Additional School Tax, Speculation and Vacancy Tax, Employee Health Tax), escalating rent, high inflation, and an extremely tight labor market. In particular, the hybrid work-from-home arrangement and a growing e-commerce is expected to fundamentally shift the demand for office and commercial space across neighbourhoods in Vancouver and across Metro Vancouver.

The Consultant, with guidance from Expert Advisors, will report to Vancouver City Council on the following:

i) Assess how property and business taxes levied by the Province and other taxing authorities impact the viability of businesses in Vancouver relative to neighboring municipalities in Metro Vancouver and major urban cities across Canada.

ii) Identify key metrics and quantify the impact on Vancouver businesses arising from a shift in demand for office and commercial space out of the central business districts across Metro Vancouver (e.g. assessed value changes, intra-property class tax shift), and recommend viable policy options and intergovernmental advocacy approaches to mitigate the impact.

4. GUIDING PRINCIPLES

i) **Alignment with Vancouver City Council's Public Policy Objectives** – The Consultant, with guidance from Expert Advisors, should develop recommendations that align with Vancouver City Council's public policy objectives and long-term goals with regards to economic, social, fiscal and environmental sustainability.

ii) **Consistent with Vancouver City Council's Property Tax Policy Framework** – The Consultant, with guidance from Expert Advisors, should develop recommendations that align with Vancouver City Council's property tax policy framework, including but not limited to the "tax share" approach where distribution of the municipal general purpose tax levy across property classes is determined by Vancouver City Council rather than by external market forces.

iii) **Objectivity** – The Consultant, with guidance from Expert Advisors, should conduct their work objectively and develop recommendations that aim to achieve the best possible outcome for Vancouver as a whole, without favoring any one stakeholder group another.

iv) **Balanced Approach** – In developing their recommendations, the Consultant, with guidance from Expert Advisors, should balance the impact of property tax policies on businesses, residents and community partners across all property classes.

v) **Easy to Understand and Administer** – The Consultant's findings and recommendations should be reasonably easy to understand by the general public, and be effectively administered by the City within the existing legislative framework and resources. Where an issue resides outside of Vancouver City Council's jurisdiction, the Consultant should identify opportunities for legislative changes and/or intergovernmental advocacy approaches.

vi) **Public Engagement** – The Consultant should engage the business community, residents, community partners, and other key stakeholders across property classes, and consider their input in developing their findings and recommendations.

vii) **Transparency** – The work of the Consultant, including but not limited to public engagement, data/policy analyses, and findings and recommendations, should be documented and accessible by the public.

5. PROJECT TIMELINE

i) The Consultant is expected to deliver to Vancouver City Council the Phase I report on 3.2 Tax Distribution by March 2024, and the Phase II report on 3.1 Tax Stability & Predictability and 3.3 Impact of Tax Policies from Other Taxing Authorities on Businesses in 2025.

ii) The Consultant, in consultation with the Chief Finance Officer and the Chief Communications Officer, will determine the appropriate public engagement approach and schedule.

6. WORKING RELATIONSHIPS

i) **Vancouver City Council** – The Consultant will report their findings and recommendations to Vancouver City Council on the work items listed in the Deliverables section.

ii) **City of Vancouver Staff** – City staff will be made available to support the Consultant throughout the course of this work, including provision of applicable data, financial models, analytics, policies and strategies as requested; and will coordinate the Consultant's requests for any other support and/or services across the organization and affiliated agencies.

iii) **BC Assessment** – The Consultant will seek input from BC Assessment on property assessment issues and obtain assessment data for analytical and benchmark purposes.

iv) **Professional and Academic Expert Advisors ("Expert Advisors")** – The Consultant will consult various professional and/or academic experts in the field of property and business taxation, real estate, economics, and public finance.

7. HONORARIA AND BUDGET

The Consultant will receive a budget of up to $150,000, including honoraria for Expert Advisors and funding for contract and/or consulting services, public engagement, project management and other administrative expenses.

APPENDIX B: PROPERTY TAX POLICY REVIEW – PHASE I FINAL REPORT PREPARED BY ERNST & YOUNG LLP

Note: the report will follow on the next page.

2024 Property Tax Policy Review

City of Vancouver

Final Report

April 2024

Building a better working world

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Glossary

Term	Definition
2007 Review	2007 Property Tax Policy Review
2014 Review	2014 Property Tax Policy Review
AB	Alberta
Apartment	Refers to "A dwelling unit attached to other dwelling units, commercial units or other non-residential space in a building."
BC	British Columbia
BIA	Business Improvement Areas of British Columbia
BOMA BC	Building Owners and Managers Association of British Columbia
Calgary	City of Calgary
CFIB	The Canadian Federation of Independent Businesses
City or the City	City of Vancouver
Council	Vancouver City Council
DPRP	Development Potential Relief Program
EY	Ernst & Young LLP
GDP	Gross domestic product
GVBOT	The Greater Vancouver Board of Trade
GVRD	Greater Vancouver Regional District
Montréal	City of Montréal
ON	Ontario
Project	2024 Property Tax Policy Review: Phase 1
QC	Québec
Single detached house	Refers to "A single dwelling not attached to any other dwelling or structure."
The Commission	Property Tax Policy Review Commission
Toronto	City of Toronto

Executive summary

Introduction and background

The City of Vancouver (City or the City) relies upon property taxes as a fundamental source of revenue to fund services for businesses and residents. Effective property tax policy is important to keep the City attractive and habitable for residents, while also encouraging a competitive, investment-friendly market to boost business activity and job opportunities for residents.

Effective property tax policy includes considerations of principles such as stability, predictability, accountability, fairness and regional and national competitiveness. This requires an understanding of the unique nature of property taxation to ensure it achieves the desired objectives. Some of the distinctive characteristics of property taxes include the following:

- Property tax is levied on the assessed value of a property. However, increases in assessed values may be balanced by corresponding decreases in property tax rates.
- Increases in property assessment values do not directly translate to an increase in an individual's or business's capacity to pay higher property taxes. For example, property owners may experience an increase in property values due to market conditions without a corresponding increase in income.
- Headline property tax rates are not a direct measure of property taxation levels in a municipality. Property taxes are calculated using a property's assessed value and a property tax rate. Therefore, owners of high-value properties may incur large property tax levies despite relatively low property tax rates.

The City's current property tax policy utilizes a "tax share" approach to distribute property tax across residential and non-residential property classes. This approach makes the tax share independent of the differential in market changes of property classes, ensuring that the tax share is determined by Vancouver City Council (Council) policy. The City regularly conducts Property Tax Policy Reviews to study key issues concerning the impact of its property taxation policy.

The two previous Property Tax Policy Reviews, completed in 2007 and 2014, respectively, examined specific policy issues regarding tax distribution. These were undertaken by a Property Tax Policy Review Commission made up of three subject matter advisors.

- The 2007 Property Tax Policy Review (2007 Review) recommended shifting $23.8 million from commercial to residential property classes. The tax shift program was completed in 2012.
- The 2014 Property Tax Policy Review (2014 Review) found no evidence to support a further shift and recommended that the City maintain its current tax share. In addition, it proposed a set of metrics to help guide future tax distribution decisions.

In 2019, Council directed staff to shift $15.8 million from non-residential properties to residential properties. Note that this change was not informed by a formal Property Tax Policy Review.

In 2023, Council directed staff to undertake a Property Tax Policy Review (the Project). Ernst & Young LLP (EY) was engaged to complete Phase 1, which included the following objectives:

- Determining whether the City's property tax share is appropriately balanced between the residential and non-residential sectors.
- Updating the metrics identified in the 2014 Review for gauging Vancouver's business climate and competitiveness relative to other Metro Vancouver and major urban cities across Canada, including the City of Toronto (Toronto), City of Calgary (Calgary), and City of Montréal (Montréal).

- Recommend additional metrics to gauge the affordability for Vancouver homeowners and renters, taking into consideration factors such as property values and household income.

Metrics considered in the report

EY considered the metrics recommended by the Property Tax Policy Review Commission (the Commission) in the 2014 Review and, in collaboration with the City, its stakeholders and advisors, identified additional non-residential metrics and new residential metrics for further insights to inform property tax distribution. Guiding principles for the metrics were developed in the form of transparency, replicability and reliability to ensure the City would be able to perform annual updates and monitor the metrics in future years.

Table 1 and Table 2 below include a list of non-residential and residential metrics considered in the Project. Metrics highlighted in yellow indicate new metrics developed as part of the Project. Insights and observations from all listed metrics were used to inform EY's conclusions and recommendations. When comparing the City to other municipalities, EY considered its unique aspects. These include its role as Metro Vancouver's commercial hub, the variety of municipal services it offers, its funding sources and its geographic and population size relative to its peers.

Table 1: Non-residential metrics considered in the 2024 Property Tax Policy Review

Metrics	Description and findings
Business tax share	The metric is designed to evaluate the balance of municipal property taxation between the non-residential and residential sectors. The City has experienced a declining ratio from 43% in 2014 to 40% in 2023. Despite this, the City's ratio is slightly higher than all other Metro Vancouver municipalities.
Business tax rate	This metric compares the Class 6 general levy property tax rates for the City and other Metro Vancouver municipalities. The City's business tax rate has steadily declined since 2014, in line with other Metro Vancouver municipalities.
Business tax per capita	This metric considers the absolute value of property taxes raised from the Class 6 general levy in proportion to the population of a municipality. The data reveals that the City has seen a rise in business taxes per capita since 2014, maintaining its standing as the municipality with the highest business taxes per capita among those considered in Metro Vancouver.
Commercial building permit growth	This metric presents changes in the total value of Class 6 construction planned for the City and other Metro Vancouver municipalities. Commercial building permits have remained consistently higher in the City than other Metro Vancouver municipalities, which may suggest that the City is competitive in attracting commercial investment.
Business assessment growth	This metric analyzes the trend of total assessed value of Class 6 properties, which may provide an indication of market demand for commercial space. Class 6 property value increases have outpaced all other Metro Vancouver municipalities considered.

Metrics	Description and findings
Business tax rate ratio	This metric may help identify if municipal property taxation between the non-residential and residential sectors is balanced. The City's business tax rate ratio has steadily declined since 2014, in line with other Metro Vancouver municipalities. The metric is mainly driven by relative changes in assessment values across property classes. As such, results from this metric in isolation are not indicative of property taxation fairness between residential and non-residential sectors.
All property taxes per square foot for office properties	This metric estimates all property taxes (including those levied by other taxing authorities, such as TransLink, Provincial School Tax, etc.) per square foot of office properties within a municipality. Vancouver has consistently had higher property taxes per square foot than other Metro Vancouver municipalities.
All property taxes per square foot as a percentage of average net asking rent for downtown office properties	This metric estimates all property taxes as a percentage of net asking rent for downtown office properties. As a proportion of net asking rent, the City is broadly comparable with other Metro Vancouver municipalities and lower than Toronto and Calgary.
Vacancy rates for downtown office properties	This metric provides data for vacancy rates of downtown office properties. Vacancy rates in the City have been trending upwards since the COVID-19 pandemic; however, they are broadly comparable with other dense urban cities such as Toronto and Montréal.

Table 2: Residential metrics considered in the 2024 Property Tax Policy Review

Metrics	Description and findings
Residential tax share	This metric represents the contribution of residential properties to a municipality's total property tax levy. The City's residential tax share has increased slightly since 2014 and is one of the lowest shares of the municipalities considered.
Residential tax rate	This metric compares all residential property taxes (including those levied by other taxing authorities, such as TransLink, Provincial School Tax, etc.) for each municipality. Residential tax rates have steadily declined since 2014, in line with other Metro Vancouver municipalities.
Residential tax per capita	This metric considers the absolute value of property taxes raised from the residential property class in proportion to the population of each municipality. The City has the highest residential tax per capita of all Metro Vancouver municipalities and is comparable with Toronto, despite Toronto undertaking several additional functions of government that are undertaken by the provincial government in British Columbia (BC).

Metrics	Description and findings
Residential building permit growth	This metric presents changes in the total value of residential construction (as defined by Statistics Canada). The City has been consistently accounting for approximately 30% of the total residential building permits in the Greater Vancouver Regional District (GVRD), which indicates that residential investment has remained stable despite changes to property tax rates over this period. For contrast, the City, on average, accounts for approximately 26% of GVRD's population.
Residential assessment growth	This metric analyzes the trend of total assessed value of residential properties, which may provide an indication of market demand for residential property. Assessed values of residential properties in the City have experienced strong growth and are second only to Toronto, despite Calgary and Montréal having more than double the population of the City.
All property taxes to median after-tax household income	This metric estimates total property taxes (including those levied by other taxing authorities, such as TransLink, Provincial School Tax, etc.) to median after-tax household income for single detached houses and apartments. For single detached houses, the City has consistently had higher municipal taxes than most other Metro Vancouver municipalities. For apartments,[1] the City is broadly comparable with other Metro Vancouver municipalities.

Stakeholder engagement

EY engaged with a number of key stakeholders from the business community to collect their viewpoints and feedback on the City's property taxation policies and the associated metrics used to inform non-residential and residential tax shares. In collaboration with City officials, EY engaged with representatives from:

- The Greater Vancouver Board of Trade (GVBOT)
- The Canadian Federation of Independent Businesses (CFIB)
- Business Improvement Areas of British Columbia (BIA)
- Building Owners and Managers Association of British Columbia (BOMA BC)

Below is a summary of common themes raised by the stakeholder groups:

- **Consumption of municipal services —** All stakeholders indicated a desire for a consumption study to determine if the non-residential sector pays a proportionate amount of municipal taxes compared to the services they consume. Consumption studies have consistently been raised by stakeholders in previous property tax policy reviews. The Commission reviewed a consumption study in the 2007 Review and acknowledged some legitimacy of this approach but raised concerns about its validity and acceptance by all stakeholders. The indirect benefits to non-residential property classes, the Commission noted, were not effectively measured by the consumption study.
- **Representative properties —** Several stakeholders pointed out that for metrics such as *All property taxes per square foot for office properties*, it would be more accurate to compare representative properties in benchmarked locations. However, the implementation of a representative property was limited due to data constraints.
- **Small businesses —** Some stakeholders highlighted that property taxes are placing operating pressures on small businesses that are already dealing with challenging economic conditions. However, defining small businesses for targeted property tax relief measures may be challenging

due to lack of evidence that supports the correlation between a business's property value and the size of the business. For example, the difference in financial capacity of a law firm and a family-owned grocery, both classified as a small business based on number of employees, may be significant.

- **Proportional taxation —** Some stakeholders recommended the inclusion of a metric to compare the assessment share with the tax share of non-residential property classes, citing that non-residential properties account for approximately 19% of the total property assessments but contribute approximately 40% of the City's general property tax levy, providing a ratio of approximately 2.1. It is important to note non-residential properties typically have lower assessment values than residential properties on a per square foot basis. According to assessment data the City has provided, residential property class values are approximately double the value of non-residential classes on a per square foot basis. After adjusting for this disparity, the ratio declines from 2.1 to 1.1.

Conclusions and recommendations

Conclusions on tax share

Based on the metrics presented in this report and consultations with key stakeholders, EY concludes that there is insufficient evidence to suggest that a tax shift from non-residential to residential property classes is required at this time. This view is also supported by subject matter advisors who led the previous Commission's work.

For instance, both the *Business Tax per Capita* and *Residential Tax per Capita* metrics are higher when compared to other Metro Vancouver municipalities, which may indicate little capacity to absorb a tax shift either way. However, EY recognizes the limitations of the metrics and based our conclusion on the directional trend each metric provides, as we are unable to definitively rely on a single metric.

In addition, recent economic developments since the COVID-19 pandemic have presented numerous challenges to both residential and non-residential sectors. For instance, a higher interest rate and inflationary environment have placed cost pressures on both households and businesses. As a result, household budgets are likely constrained and may have a limited capacity to absorb further increases in property taxes arising from a tax shift. Similarly, businesses are also facing pressures from escalating costs and constrained households, lowering demand for goods and services.

As noted in the 2014 Review, there is no single definition of the correct or most appropriate residential and non-residential share of municipal property taxes. Based on the metrics presented in this report, which provide insightful information on current business and residential conditions, it is EY's view that there is no compelling evidence that warrants a tax shift from non-residential to residential property classes at this time.

Conclusion on future tax decisions

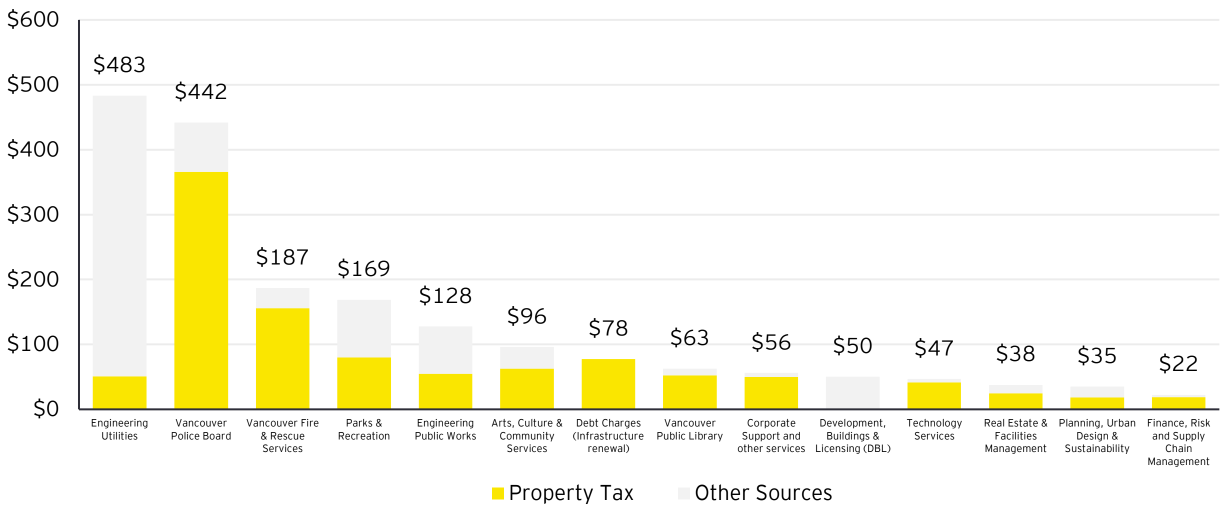
The metrics presented in this report provide the City with a variety of quantitative data and analysis to inform property tax share decisions now and into the future. Although these metrics contain limitations, they may still provide insights and perspectives when comparing the City's competitiveness with neighbouring Metro Vancouver municipalities and other competitors, such as Calgary, Toronto and Montréal. However, caution should be exercised when comparing the City with cities outside of Metro Vancouver. Despite this, EY recommends that the City continue to use the metrics presented in this report to benchmark the City against Metro Vancouver municipalities and the cities of Toronto, Calgary and Montréal if the data permits and noting the constraints and limitations of comparisons.

1. Introduction and background

1.1 Property taxation

The City relies upon property taxes as a fundamental source of revenue to fund services for businesses and residents. Approximately 60% of the City's operating budget is funded by property taxes. **Figure 1** below provides a summary of the City's tax-supported budget expenditure and shows the expenditure items funded by property taxation. Notably, approximately 80% of property tax revenue is directed towards public safety, public works, city administration and debt charges related to infrastructure renewal.

Figure 1: Tax-supported budget expenditure by department (CAD million, 2024)[2]



An effective property tax policy includes considerations of principles such as stability, predictability, accountability, fairness, and regional and national competitiveness. Developing an effective property taxation policy also requires an understanding of the unique nature of property taxation to ensure it achieves the desired objectives. Some of the distinctive characteristics of property taxes include:

- Property tax is levied on the assessed value of a property. However, increases in assessed values may be balanced by corresponding decreases in tax rates.
- Increases in property assessment values do not directly translate to an increase in an individual's or business's capacity to pay higher property taxes. For example, property owners may experience an increase in property values due to market conditions without a corresponding increase in income.
- Headline property tax rates are not a direct measure of property taxation levels in a municipality. Property taxes are calculated using a property's assessed value and a property tax rate. Therefore, owners of high-value properties may incur large property tax levies despite relatively low property tax rates.

It is important that the City's property taxation policy maintains an appropriate balance between the residential and non-residential sectors and that these dynamics be considered. Achieving this balance will keep the City attractive and habitable for residents and support population growth, while also encouraging a competitive, investment-friendly market to boost business activity and job opportunities for residents. As a result, the City has conducted multiple property tax policy reviews over the last 15 years in efforts to study key issues concerning the impact of the City's property taxation policy.

1.2 Previous property tax reviews

1.2.1 2007 Review

In 2006, the City established the Commission to conduct the 2007 Review and provide recommendations on two specific policy issues: [3]

- **Tax share** – the allocation of the municipal tax burden between residential properties and non-residential properties (also referred to as *tax distribution*).
- **Tax volatility** – the volatility in property taxes faced by individual properties that experience sudden and significant year-over-year increases in market value (also referred to as *tax stability and predictability)*.

The 2007 Review considered three factors in its approach:

- **Consumption of services –** The City commissioned a consumption study from MMK Consulting in 2006 to measure the relationship between property taxes paid and the benefits received from local government services by residential and non-residential property classes; this study was an update of a similar study published in 1995. The study found that the non-residential sector paid more in taxes for services than it received in benefits. The Commission reviewed the study and acknowledged some legitimacy of this approach but raised concerns about its validity and acceptance by all stakeholders. The indirect benefits to non-residential property classes, the Commission noted, were not effectively measured by the consumption study.

  Competitiveness – The Commission examined the municipal tax regimes of commercial properties across Canadian cities and Metro Vancouver. Despite the City of Vancouver's higher property taxes, the Commission found little evidence of a decline in commercial activity. However, high tax levels were thought to potentially compromise the City's competitiveness within the GVRD.
- **Accountability –** The issue of non-residential property owners paying municipal property taxes without voting rights in municipal elections was raised by the Commission. It saw this impacting the principle of accountability, making non-residential property tax a less suitable financing source for local government expenses.

The Commission did not find a definitive tax share for the commercial sector through literature review. However, it did conclude that issues concerning service consumption, competitiveness and accountability required tax burden shifting from non-residential to residential properties.

The Commission recommended that the City shift one percentage point of the non-residential (Class 5 and 6) tax burden each year until the Class 5 and 6 tax shares reached 48% of total property taxation. In addition, it recommended that this share be maintained for five years unless significant changes in tax differentials or investment patterns occurred.

Council approved and executed these recommendations between 2008 and 2012, which shifted a total of $23.8 million in property tax from non-residential properties (mainly Class 6) to the residential sector. As a result, the tax shares for Class 1 and Class 6 changed significantly, with residential property taxes increasing from 44.9% to 53.6% and Class 6 taxes decreasing from 51.6% to 43.2%.

1.2.2 2014 Review

In 2013, Council re-convened the Commission to conduct the 2014 Review. The Commission's mandate included the same two issues that were examined in the 2007 Review. The Commission was also asked to recommend a set of metrics to assist Council in monitoring the allocation of property taxes and assessing the need for future tax shifts among property classes.[4]

The Commission highlighted that determining a "fair tax share" between residential and non-residential property classes lacks a clear definition and requires decision-makers' judgment. However, it identified eight metrics to aid decision-making. These metrics compare Vancouver's commercial property tax conditions with other Metro Vancouver municipalities. The metrics included Tax share, Class 6 tax rates, Class 6 taxes per square foot/capita, Tax rate ratio, Change in Class 6 building permits, Change in Class 6 assessment, and Change in Class 6 vacancy rates.

From these metrics, the Commission shared these observations:

- **Tax share:** Vancouver's tax shift from non-residential to residential properties exceeds that of other municipalities studied.
- **Class 6 tax rates:** The rate has declined more significantly in Vancouver than in other cities.
- **Class 6 assessment:** Class 6 property values have remained strong since 2010.
- **Class 6 taxes per capita:** The data shows a decrease in property taxes paid in Vancouver since 2006, contrasted with increases in almost all comparison cities.
- **Commercial development:** Vancouver's ability to attract investment, as observed through Class 6 building permit values, remains robust.
- **Vacancy rates:** Data does not indicate issues in the office and retail (mall-based) sectors in Vancouver.
- **Taxes across Canada:** Vancouver's property taxes are competitive with those in other large Canadian cities.

Referencing the conclusions from the 2007 Review, the Commission found no evidence of an increasing business tax differential or of business investment shifting to other municipalities in Metro Vancouver. Therefore, the Commission recommended the City maintain its current tax shares, use the new metrics for future tax burden decisions and invest in improving data and resources for these metrics.

However, in its subsequent review on the issue of tax volatility, the Commission highlighted concerns about tax volatility and hot spots in Vancouver. Significant, unanticipated increases in assessed values and in property taxes that accompany such increases undermine confidence in the property assessment and taxation systems. Businesses that rent their space under standard, triple-net leases may be particularly hard hit by assessment spikes that provide no short- or long-term return to the tenant.

The Commission recommended a targeted five-year land assessment averaging method to address the issue. Further, it urged Council to engage other Metro Vancouver municipalities in requesting a BC Assessment report on the pros and cons of the split class assessment option. Additionally, it recommended that BC Assessment highlight when a change in a property's assessed value exceeded the property class average in its assessment notice.

1.3 2024 Property Tax Policy Review

In April 2023, Council directed staff to develop a plan to conduct a new Property Tax Policy Review with three distinct work streams. As set out in the Revised Terms of Reference,[5] these have been divided into Phase 1 and Phase 2 deliverables:

Phase 1 (to be delivered in April 2024)**:**

- **Tax distribution —** to assess viable options to achieve a "fair" tax distribution, validate if the tax share between residential and non-residential property classes is appropriate and recommend metrics for monitoring tax share and the impact on residents and the business climate.

Phase 2 (to be completed in 2025)**:**

- **Tax stability and predictability —** to assess viable options to enhance tax stability and predictability arising from significant year-over-year market value changes.
- **Impact of tax policies from other taxing authorities —** Assess how different property tax levies impact the viability of businesses in Vancouver. In addition, quantify the impact on businesses arising from a shift in demand for office and commercial spaces and recommend viable policy options to mitigate the impact.

EY was engaged by the City to undertake Phase 1 of the Project. The Project's objectives include:

- Determining whether the City's property taxation policy is appropriately balanced between the residential and non-residential sectors.
- Updating the metrics identified in the 2014 Review for gauging Vancouver's climate and competitiveness relative to other Metro Vancouver and major urban cities across Canada, including Toronto, Calgary, and Montréal.
- Recommending additional metrics to gauge the affordability for Vancouver homeowners and renters, taking into consideration factors such as home values, housing charges, household income and expenses.

The Project follows a similar approach to the 2014 Review and supplements the metrics identified in it with additional business metrics and new residential metrics to provide further insights. EY developed these metrics in collaboration with the City, its stakeholders and advisors while considering transparency, replicability and reliability of the metrics to allow for annual updates and monitoring by the City.

This report includes detailed outcomes of Project activities, including key takeaways from stakeholder consultations and results of residential and non-residential metrics to be considered by Council. Based on the review of the data, conclusions and recommendations have been provided on whether to adjust the current residential (57%) and non-residential (43%) tax shares, with the objective of enabling the City to make informed, data-led decisions on current and future property tax policy.

The remainder of this report includes the following sections:

- **Property tax in the context of rent control:** This section provides an overview of how property taxes may affect renters in the context of provincial protections and regulations.
- **Metric results:** This section includes results and key findings for the metrics from the 2014 Review and additional metrics identified.
- **Stakeholder engagement:** This section includes a summary of viewpoints and themes raised by key stakeholder groups.

- **Conclusions and recommendations:** This section includes conclusions and recommendations on the City's tax share based on a review of the available data and outcomes of the stakeholder engagement and consultations with the City and previous Property Tax Commissioners.

1.4 Property tax in the context of rent control and other protections

This section provides an overview of how property taxes may affect renters and property owners in the context of provincial protections and regulations.

Table 3 below provides an overview of the status of rent control and other protections across provinces.

Table 3: Status of select protections for renters across provinces

Protection type	Description	Municipal applicability			
		BC	ON	AB	QC
Residential rent control	Refers to government-regulated limits on the annual increase of rent prices to ensure affordable and stabilized housing for tenants.	✓	✓	X	N/A
Commercial rent control	Refers to government regulations limiting the rate at which rent for commercial properties can be increased to foster a stable and economically viable environment for businesses.	X	X	X	X
Vacancy control	Refers to regulations that restrict landlords from increasing rent significantly for a new tenant when the old tenant vacates the premises.	X	X	X	✓

Rent control and other protections are varied across provinces across residential and non-residential lease types. A summary of key observations is included below:

- Typically, residential rent agreements require the landlord to cover expenses such as repairs and property taxes. However, commercial triple-net leases pass these costs, including maintenance, insurance and property taxes to the tenant.
- Residents are further protected with rent control provisions. Such regulations are active in BC and Ontario (ON), but not in Alberta (AB).
- In BC, higher property taxes don't qualify for exemption to rent control limits, unlike ON, which permits exceeding rent control limits for "extraordinary" hikes in property taxes. Additionally, ON also mandates rent reduction when property taxes decline.
- Québec's (QC) regulation ties rent increase rules to property-specific expenses and revenue. It provides an enforceable rent estimation tool which includes annual adjustments for each operational expense. Notably, this regulation allows landlords to transfer property tax increases to tenants.
- Vacancy controls, which ensure consistent rent for new tenants, are only observed in QC, though in limited capacity. Landlords are required to reveal the previous tenant's rent on a new lease, aiding negotiations for new tenants. Yet the gap between new and existing rents is increasing annually, as per an advocacy group's analysis. Moreover, Montréal's lease transfer protections, which allowed lease transfers at unchanged rent, were cancelled in February 2024 under Bill 31.

The current observations reveal variations in rent control and tenancy protections across Canadian provinces. It is evident that such measures involve a balance between safeguarding renters and minimizing burdens on property owners.

As noted in the 2014 Review, the prevalence of triple-net and gross leases for commercial properties enables property tax increases to be passed directly to tenants. However, tenants may not necessarily benefit from any subsequent increase in property value or gains from rezoning upon disposition or redevelopment.

Existing research suggests that, within the current framework, rent control for residential properties in BC may prevent the full transfer of tax increases to existing tenants. However, other channels remain open for landlords to offset cost increases. In the absence of vacancy control regulations, this may include charging higher rent to new tenants.

Under the status quo, it is evident that increases in property taxes will eventually be borne by tenants of both residential and non-residential properties. Changes in property taxes directly impact tenants in non-residential properties through triple-net and gross leases, while, in the long-term, residential property owners may pass on higher property taxes to their tenants.

2. Metric results

2.1 Introduction

The 2014 Review presented a set of metrics designed to help the City in monitoring residential and non-residential tax shares, and in determining if there is a need for a shift between the residential and non-residential property classes. EY has included the metrics from the 2014 Review as well as additional non-residential metrics and new residential metrics to provide additional insights in determining the need for a shift in the tax shares.

Table 4 below includes the final list of metrics considered in the Project. The observations and insights generated from a review of these metrics have been used to inform EY's conclusion on the suitability of the current tax shares.

Table 4: List of metrics

Non-residential metrics	Residential metrics
Business tax share	Residential tax share
Business tax rate	Residential tax rate
Business tax per capita	Residential tax per capita
Commercial building permit growth	Residential building permit growth
Business assessment growth	Residential assessment growth
Business tax rate ratio	All property taxes to median after-tax household income
All property taxes per square foot for office properties	
All property taxes per square foot as a percentage of average net asking rent for downtown office properties	
Vacancy rates for downtown office properties	

2.1.1 Comparison with Toronto, Montréal and Calgary

As part of the Project's scope of work, EY was tasked with comparing the City's property taxation with comparable Canadian cities. These included the cities of Toronto, Calgary and Montréal. EY notes that any such comparison must be interpreted with caution while considering the inherent differences between these cities. Some of these differences include:

- **Population:** Other cities may have significantly higher populations than the City. Populations in Toronto, Calgary and Montréal are approximately 4.3, 2.0 and 2.5 times larger, respectively.
- **Reliance on property taxation:** Other cities may have higher or lower reliance on property taxes to fund service delivery. The City is expected to finance approximately 60% of its expenditure through property taxes in 2024, compared to approximately 31% in Toronto.

- **Property taxation method:** Legislative framework of property classifications, assessment cycles and corresponding taxation policies across Toronto, Montréal and Calgary vary from that of the City and other Metro Vancouver municipalities.
- **Municipal responsibilities:** Municipalities across Canadian provinces offer different types and levels of service, which influence municipal taxation policy.

Table 5 below outlines the municipal areas of responsibility for infrastructure and service provision across Canada. The variations in levels of service provision are likely to impact the comparability of municipal property taxation in municipalities located in different provinces.

Table 5: Comparison of municipal areas of responsibility[6]

Municipal responsibility	British Columbia	Ontario	Alberta	Québec
General government services	✓	✓	✓	✓
Courts of law				✓
Policing and bylaw enforcement	✓	✓	✓	✓
Firefighting	✓	✓	✓	✓
Roads and streets	✓	✓	✓	✓
Public transit*	✓	✓	✓	✓
Hospital care**	✓			
Preventative care		✓		
Other health services		✓	✓	
Social assistance		✓	✓	✓
Other social services		✓	✓	
Agriculture			✓	✓
Tourism / promotion and trade / industry	✓	✓		✓
Water purification and supply	✓	✓	✓	✓
Sewage collection and disposal	✓	✓	✓	✓
Garbage / waste collection and disposal	✓	✓	✓	✓
Recreation and culture	✓	✓	✓	✓
Housing***		✓	✓	✓
Regional planning and development	✓	✓	✓	✓

* Transport is conducted by TransLink in Metro Vancouver.
** Outside of Metro Vancouver, BC regional districts help finance their regional health authorities through a hospital property tax levy.
*** Despite BC municipalities not being responsible for housing, the City has been contributing increasing amounts of funding and resources to affordable housing over recent years.

Attempting to normalize property taxation of comparable major Canadian cities involved combining multiple methods to adjust property tax rates, property classes and property assessment values. However, this approach introduced risks and limitations associated with interpretation, communication and replication of the metric results. Given these constraints, Toronto, Montréal and Calgary have only been included in the new metrics.

These new metrics use an alternative approach of including all property taxes by all taxing authorities. This "all property tax" approach allows differences to be reconciled arising from separate taxing authorities. For instance, while public transit in Toronto is financed through the City's property tax levy, it is funded via TransLink's distinct property tax rate in the City. Moreover, implementing this approach allowed the assessment of total tax burden on property owners across municipalities. It should be noted that these modified property tax rates may not align with the general levy tax rates published by Metro Vancouver municipalities.

2.1.2 Selection of new metrics

Metrics included in the report were identified and refined based on the principles included below; metrics that did not meet these criteria were excluded from the analysis.

1. **Transparency:** The metrics should be clearly understood with complete disclosure of all data sources and methodologies.
2. **Replicability:** The metrics should be easily reproduced for future years, permitting their continuous monitoring over time.
3. **Reliability:** The metrics should produce reliable and consistent results over time.

2.2 Non-residential metrics

The following section includes updated results of non-residential metrics included in the City's 2014 Review and additional non-residential metrics that were identified during the Project.

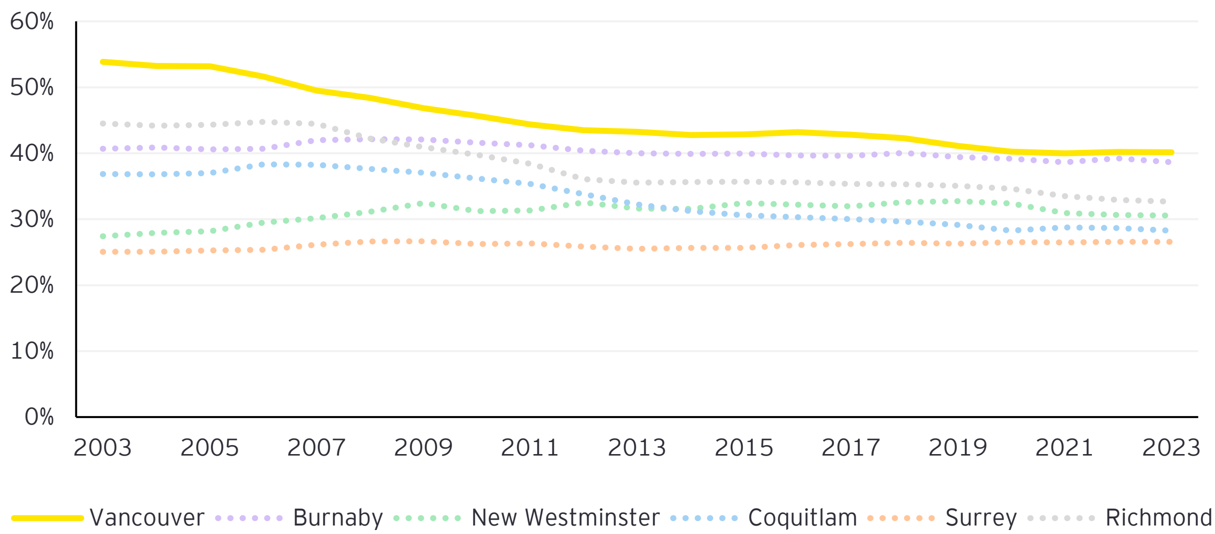
Metrics in this section include:

- **Business tax share –** This metric is designed to evaluate the balance of municipal property taxation between the non-residential and residential sectors.
- **Business tax rate –** This metric compares the Class 6 general levy property tax rates for the City and other Metro Vancouver municipalities.
- **Business tax per capita –** This metric considers the absolute value of property taxes raised from the Class 6 general levy in proportion to the population of a municipality.
- **Commercial building permit growth –** This metric presents changes in the total value of Class 6 construction planned for the City and other Metro Vancouver municipalities.
- **Business assessment growth –** This metric analyzes the trend of total assessed value of Class 6 properties, which may provide an indication of market demand for commercial space.
- **Business tax rate ratio –** This metric may help identify if municipal property taxation between the non-residential and residential sectors is balanced.
- **All property taxes per square foot for office properties –** This metric estimates all property taxes (including those levied by other taxing authorities, such as TransLink, Provincial School Tax, etc.) per square foot of office properties within a municipality.
- **All property taxes per square foot as a percentage of average net asking rent for downtown office properties –** This metric estimates all property taxes as a percentage of net asking rent for downtown office properties.
- **Vacancy rates for downtown office properties –** This metric provides data for vacancy rates of downtown office properties.

2.2.1 Business tax share

The metric of business tax share is designed to evaluate the balance of municipal property taxation between the non-residential and residential sectors. The estimation of this metric is performed for the City and other Metro Vancouver municipalities by calculating the Class 6 general levy revenue as a percentage of the total general levy revenue. A high business tax share in the City relative to other municipalities may indicate a relatively higher proportion of non-residential assessment base or may suggest the need to consider a tax shift to residential properties.

Figure 2: Business tax share



Observations:

- The City has consistently had the highest business tax share when compared to the other Metro Vancouver municipalities.
- However, the business tax share in the City has decreased from approximately 43% in 2014 to approximately 40% in 2023.

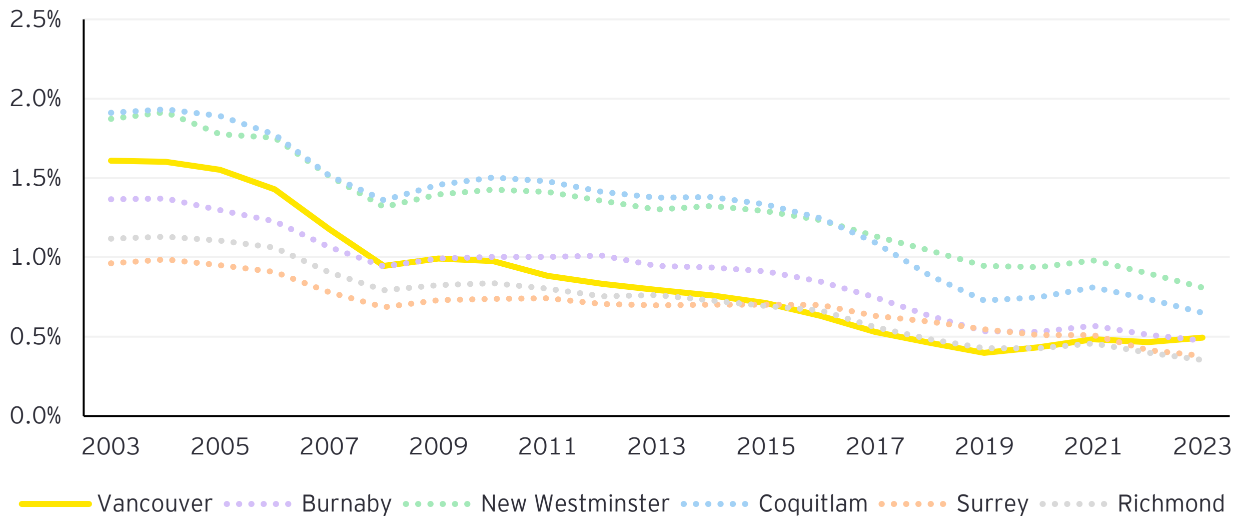
Limitations:

- N/A

2.2.2 Business tax rate

The business tax rate metric currently compares Class 6 general levy property tax rates for the City and other Metro Vancouver municipalities. An increase in the City's business tax rate relative to that of other places may suggest a worsening situation for the City's non-residential sector.

Figure 3: Business tax rate



Observations:

- Business tax rates have decreased consistently across all Metro Vancouver municipalities since 2014. However, the City's decrease in business tax rates was marginally higher, resulting in its business tax rate being one of the lowest from 2014 to 2023.

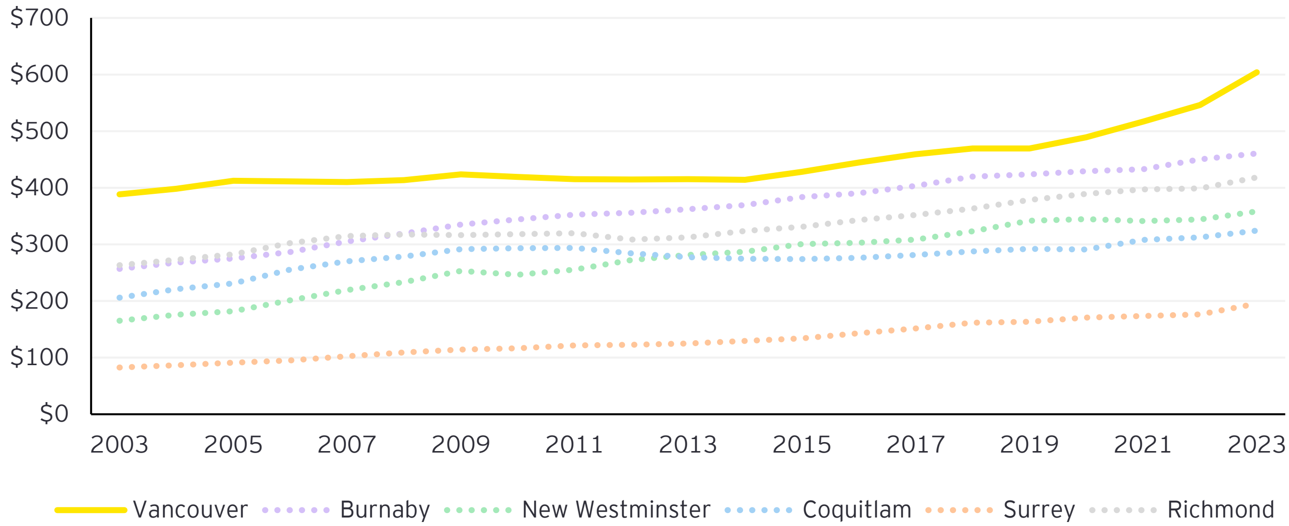
Limitations:

- This metric might not accurately reflect the actual tax burden because reductions in tax rates could be balanced out by increases in assessed property values.

2.2.3 Business tax per capita

This metric considers the absolute value of property taxes raised from the Class 6 general levy in proportion to the population of a municipality. A high level of tax per person relative to other places may be cause for concern. A downward shift in other places, relative to the City's trend, may also be reason to consider a shift in the burden from the non-residential sector.

Figure 4: Business tax per capita



Observations:

- The City has consistently had the highest business tax per capita relative to its peers.
- While the metric was generally stable from 2003 to 2014, it has increased by 46% from 2014 to 2023. While other Metro Vancouver municipalities are also showing increases in the metric, the City's growth has been higher in recent years.
- As noted in the 2014 Review, the City's relative position can be partly explained by its role as the commercial hub of Metro Vancouver and the range and cost of services provided by the City relative to its peers.

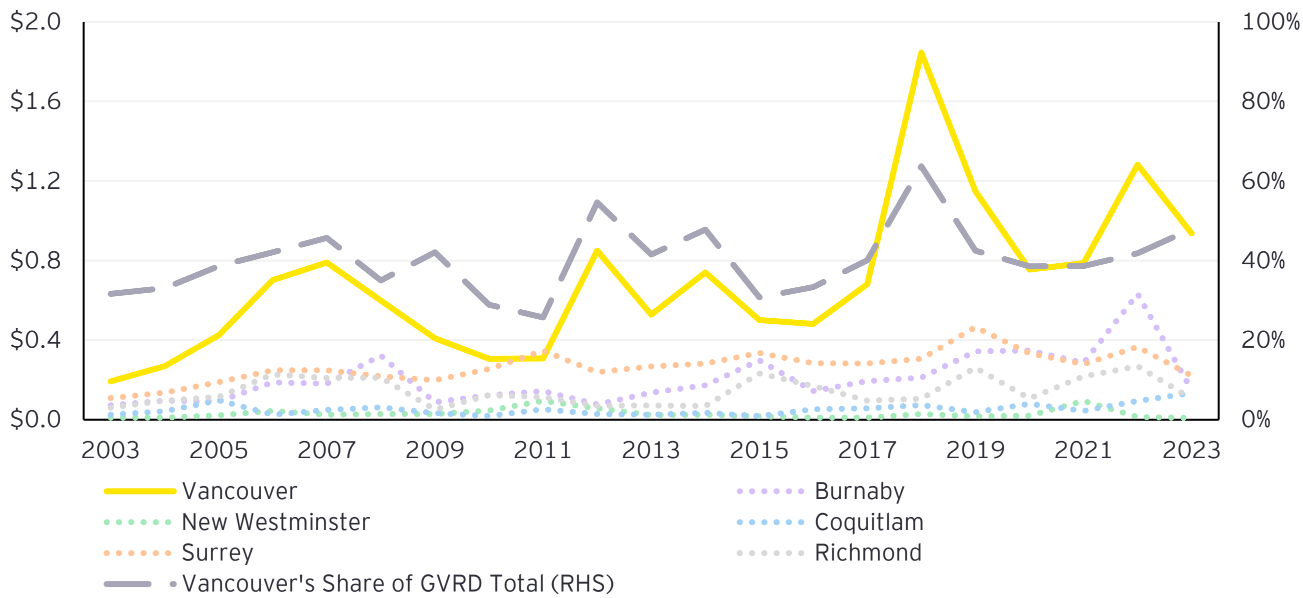
Limitations:

- This metric does not consider the relative size and value of businesses operating in each municipality.

2.2.4 Commercial building permit growth

This metric presents changes in the total value of Class 6 construction planned for the City and other Metro Vancouver municipalities. Building permit values indicate investments in the development of commercial spaces. Changes in these values may be used as a proxy to gauge demand for commercial spaces and, by extension, as an indicator of a municipality's attractiveness for commercial development. The trend of growth relative to other municipalities may indicate a loss or gain in non-residential investment compared to other Metro Vancouver municipalities or Canadian cities.

Figure 5: Commercial building permits
(Annual values, CAD billion)



Observations:

- Commercial building permits have remained consistently higher in the City than other Metro Vancouver municipalities.
- Since 2014, this gap has widened with significantly higher building permit values observed in the City relative to other Metro Vancouver municipalities. As a result, the City is accounting for an increasing share of total building permit values in the GVRD.
- This trend may indicate that the City is more competitive in attracting investment compared with other Metro Vancouver municipalities despite concerns relating to property taxes.

Limitations:

- N/A

2.2.5 Business assessment growth

This metric analyzes the trend of total assessed value of Class 6 properties, which may provide an indication of market demand for commercial space. In addition, the share of non-market changes indicates only investment-led changes in assessment values such as new construction, alterations and renovations, among others. A decline in total Class 6 assessment values and a lower share of non-market changes relative to other municipalities may suggest a decline in the City's investment attractiveness and prompt an adjustment in non-residential and residential property tax shares.

Figure 6: Business assessment
(Three-year moving average annual values, CAD billion)

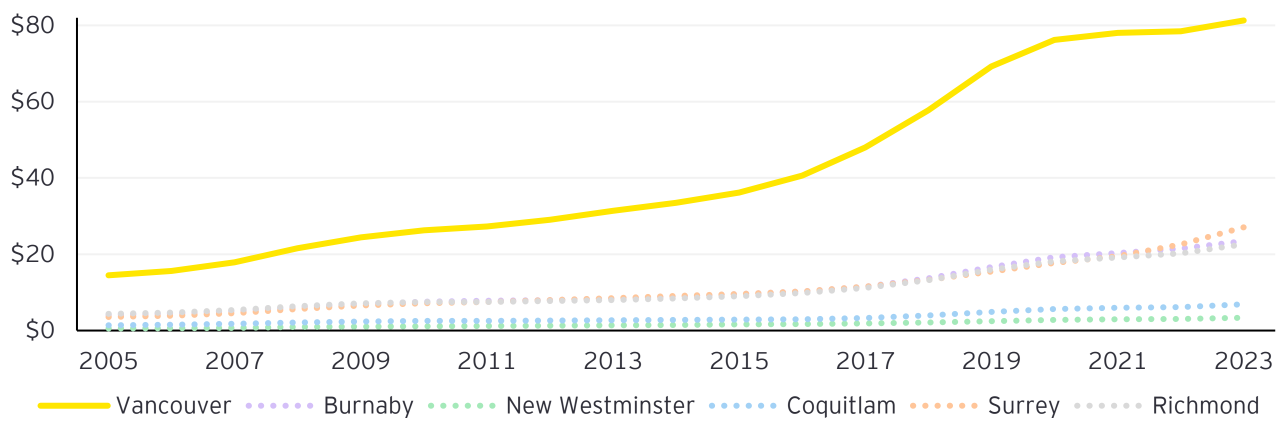
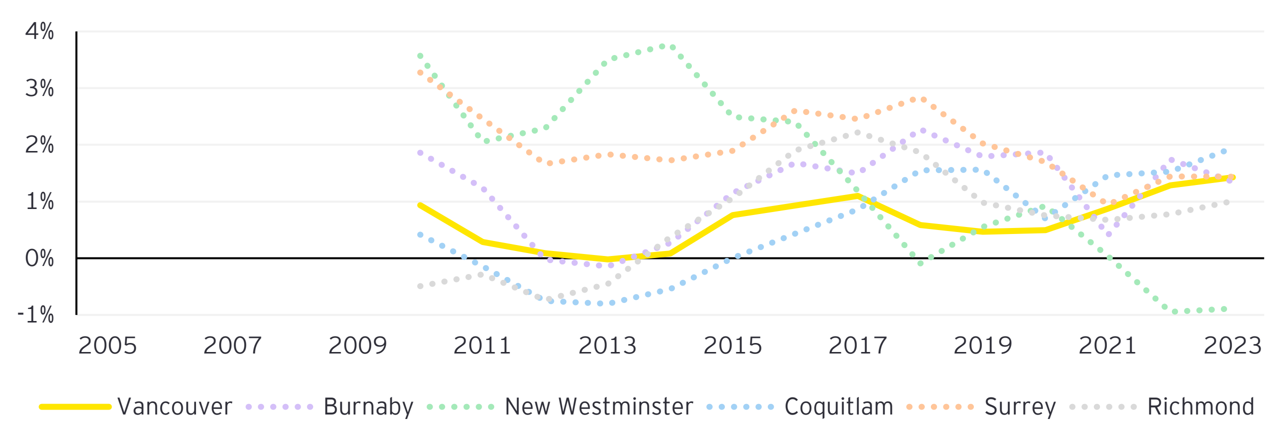


Figure 7: Share of non-market changes in business assessment
(Three-year moving average values)



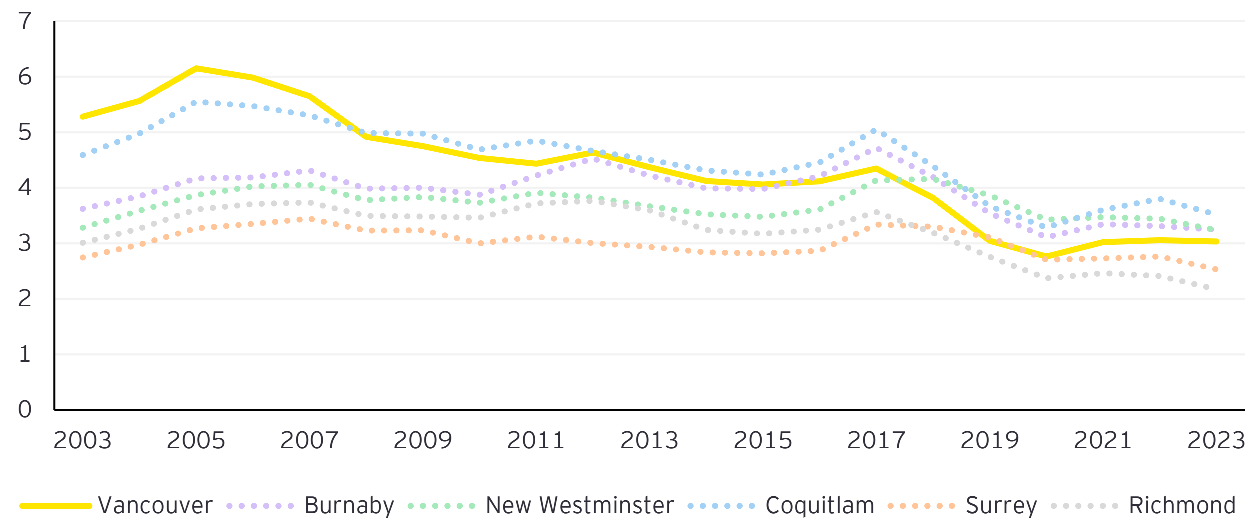
Observations:

- Assessed values of Class 6 properties across Metro Vancouver municipalities, including the City, have more than doubled since 2014.
- Exponential growth and broader non-residential assessment base of the City means that the gap in total business assessment values between the City and other Metro Vancouver municipalities is expanding.
- Since 2014, non-market changes have increased in the City, indicating strong non-residential investment.

2.2.6 Business tax rate ratio

The business tax rate ratio metric may help identify if municipal property taxation between the non-residential and residential sectors is balanced. It is estimated by calculating the ratio of Class 6 (commercial) to Class 1 (residential) general levy tax rates for the City and other Metro Vancouver municipalities. Since the City's property tax policy is based on a tax share approach, changes in this metric are driven by tax shifts and relative changes in assessment values across property classes. As such, higher relative changes in the business tax rate ratio may require a review of other metrics to identify its drivers.

Figure 8: Business tax rate ratio



Observations:

- In 2014, the City had the second-highest business tax rate ratio at 4.37, second only to Coquitlam. Since then, the City's ratio has decreased to a value of 3.03 in 2023 placing it relatively in the middle of Metro Vancouver municipalities.

Limitations:

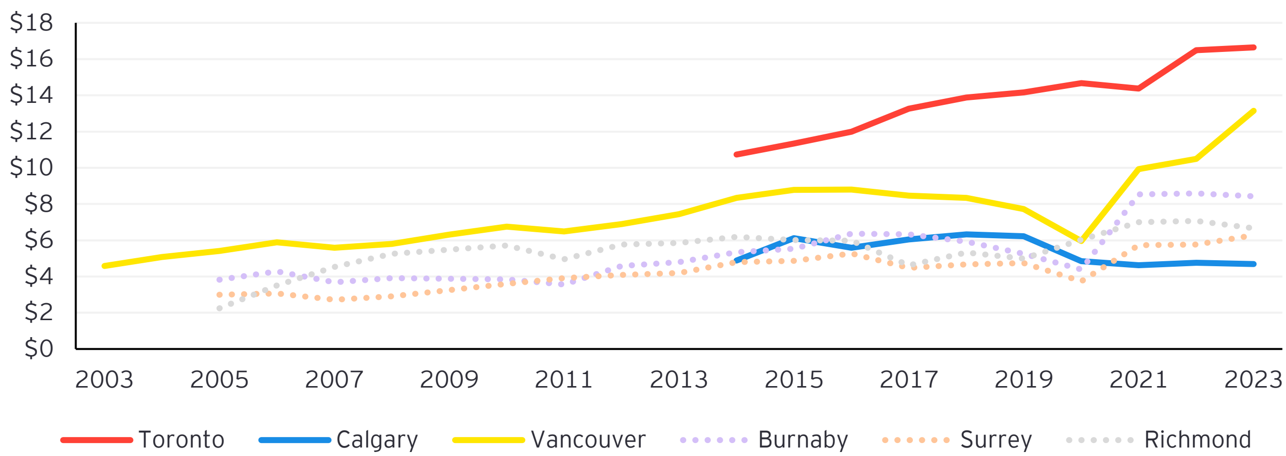
- This metric may not accurately reflect the actual tax burden because changes in the ratio are driven by differential changes in assessed values within the residential and non-residential property classes, alongside decisions made by Council regarding the tax share.

2.2.7 All property taxes per square foot for office properties

This metric estimates all property taxes (including those levied by other taxing authorities, such as TransLink, Provincial School Tax, etc.) per square foot of office properties within a municipality. High municipal taxation for office space in the City relative to other municipalities may indicate disproportionate taxation of non-residential properties.

Note that it is difficult to find a representative property with consistent features and attributes across municipalities. Therefore, office spaces were included as a proxy for overall non-residential property taxation.

Figure 9: All property taxes per square foot for office properties
Three-year moving average of annual office real estate transactions –all grades



Observations:

- While average property values (and property taxes per square foot) in the City declined during the COVID-19 pandemic, they have increased considerably in recent years, which may have led to increasing property taxes per square foot for office space.
- Although this metric uses transactional data and may not be representative of all office properties across each municipality, the City should continue to monitor the upward trend in this metric.
- The City has consistently had lower property taxes than Toronto, which may be due to Toronto providing additional services compared with BC municipalities. The data presented in 2023 may also be a result of higher value office property transactions than usual.
- Despite Calgary having the lowest municipal tax, vacancy rates for office space remain much higher than other municipalities.

Limitations:

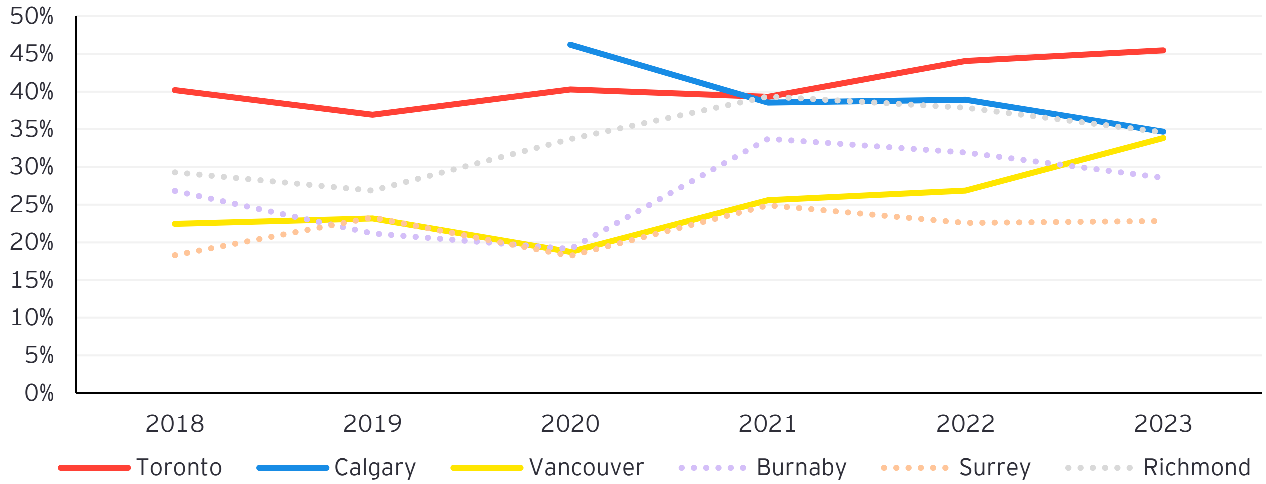
- This metric utilizes transactional data, which may generate year-on-year variances given the size, quality and number of office transactions each year.
- Data for Montréal is not available, and data for Coquitlam and New Westminster was removed due to low transaction volumes.
- This metric is not able to be disaggregated by office grade (AAA office space, etc.).

2.2.8 All property taxes per square foot as a percentage of average net asking rent for downtown office properties

This metric estimates all property taxes (including those levied by other taxing authorities, such as TransLink, Provincial School Tax, etc.) as a percentage of net asking rent for downtown office properties. High property taxes as a percentage of gross rental costs relative to other municipalities may be a driver for affordability of non-residential space.

Figure 10: All property taxes per square foot as a percentage of average net asking rent for downtown office properties

Downtown offices, all grades, Three-year moving average of property values



Observations:

- Toronto and Calgary have consistently experienced higher property taxes as a percentage of net asking rent than the City.
- While average City real estate values are higher than Toronto's, Toronto's higher tax rates lead to having a higher municipal property taxes per square foot.
- While non-residential property taxes for the City and Toronto seem to be increasing in the observed time period, the City seems to be closing the gap with Toronto in this metric.
- Similar to the preceding metric, the City should continue to monitor this upward trend.
- Calgary's result may be driven by lower net asking rents for office spaces relative to the City and Toronto.

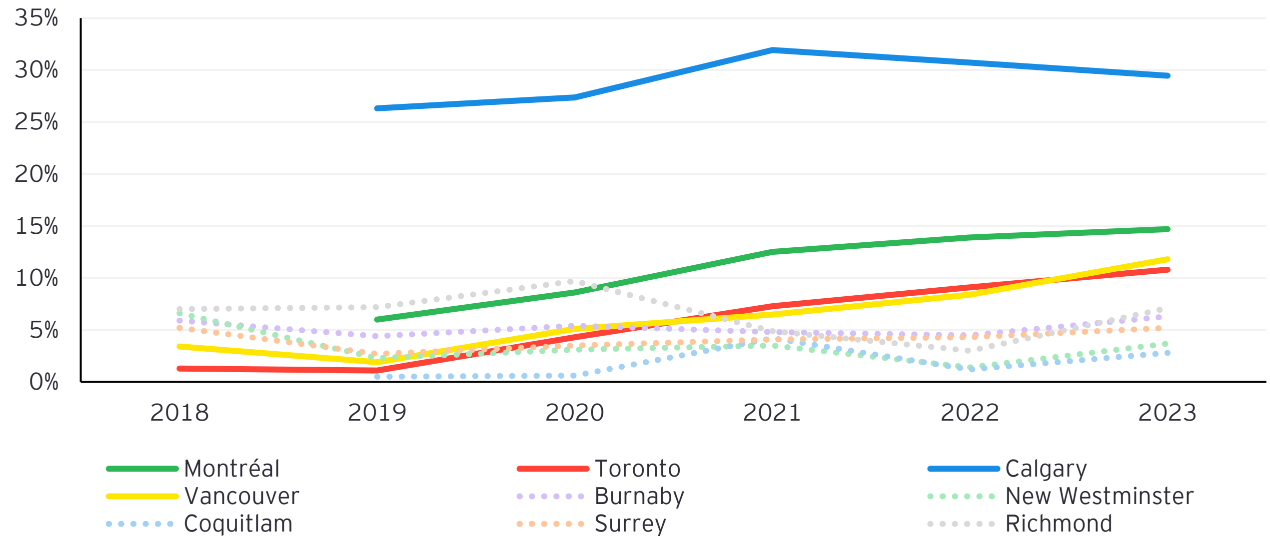
Limitations:

- Property taxes per square foot are derived from transactional data which may generate year-on-year variances. Moving averages have been utilized to limit these variances.
- Due to data availability, property taxes are municipal averages instead of downtown-only.
- Data for Montréal is not available, and data for Coquitlam and New Westminster was removed due to low transaction volumes.
- This metric is not able to be disaggregated by office grade (AAA office space, etc.) for all municipalities considered.

2.2.9 Vacancy rates for downtown office properties

This metric provides data for vacancy rates of downtown office properties. High vacancy rates relative to other municipalities may indicate that non-residential property is disproportionately contributing to the tax base.

Figure 11: Vacancy rate
Downtown offices, all grades



Observations:

- Vacancy rates across observed municipalities are trending upwards, which may be due to the increasing adoption of remote/hybrid work models.
- Calgary has an elevated vacancy rate due to subdued oil prices over the last decade; however, this is expected to decline as part of a residential conversion program.
- The City and Toronto have experienced similar vacancy rates since 2019.

Limitations:

- Increases in vacancy rates may be as the result of new supply being added to the market and not an indication of deteriorating municipal tax competitiveness or economic conditions.
- This metric is not able to be disaggregated by office grade (AAA office space, etc.) for all municipalities considered.

2.3 Residential metrics

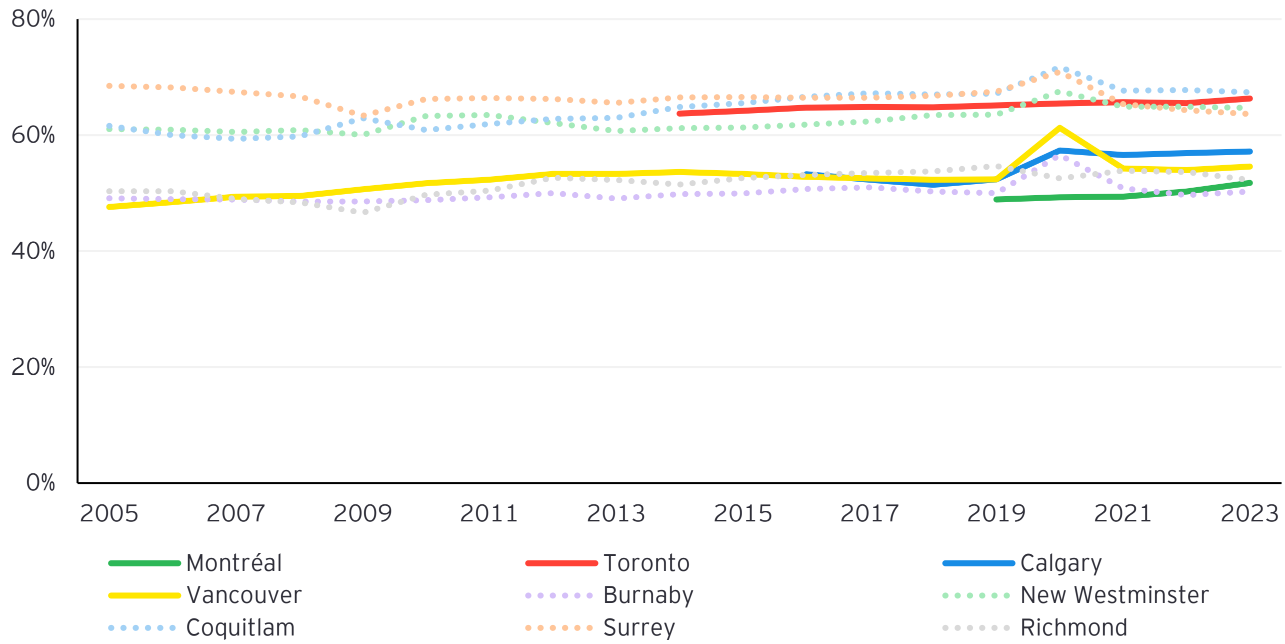
In the 2024 Property Tax Policy Review, new metrics for residents have been identified for the purpose of informing future residential and non-residential property tax shares. This section includes results of these metrics as follows:

- **Residential tax share –** This metric represents the contribution of residential properties to a municipality's total property tax levy.
- **Residential tax rate –** This metric compares all residential property taxes (including those levied by other taxing authorities, such as TransLink, Provincial School Tax, etc.) for each municipality.
- **Residential tax per capita –** This metric considers the absolute value of property taxes raised from the residential property class in proportion to the population of each municipality.
- **Residential building permit growth –** This metric presents changes in the total value of residential construction (as defined by Statistics Canada).
- **Residential assessment growth –** This metric analyzes the trend of total assessed value of residential properties, which may provide an indication of market demand for residential property.
- **All property taxes to median after-tax household income –** This metric estimates total property taxes (including those levied by other taxing authorities, such as TransLink, Provincial School Tax, etc.) to median after-tax household income for single detached houses and apartments.[1]

2.3.1 Residential tax share

This metric represents the contribution of residential properties to a municipality's total property tax levy. The total tax levy includes all property taxes (including those levied by other taxing authorities, such as TransLink, Provincial School Tax, etc.) for each municipality. A high residential tax share in the City relative to other municipalities may indicate a relatively higher proportion of the residential assessment base or may suggest the need to consider a tax shift to non-residential properties.

Figure 12: Residential tax share



Observations:

- Residential tax shares are observed to be increasing slightly across all municipalities observed in the analysis.
- Two clusters of municipalities can be observed, with the first cluster keeping the residential tax share above 60% and the second keeping it below 60%. The City is joined in the latter by Calgary, Montréal, Richmond and Burnaby.

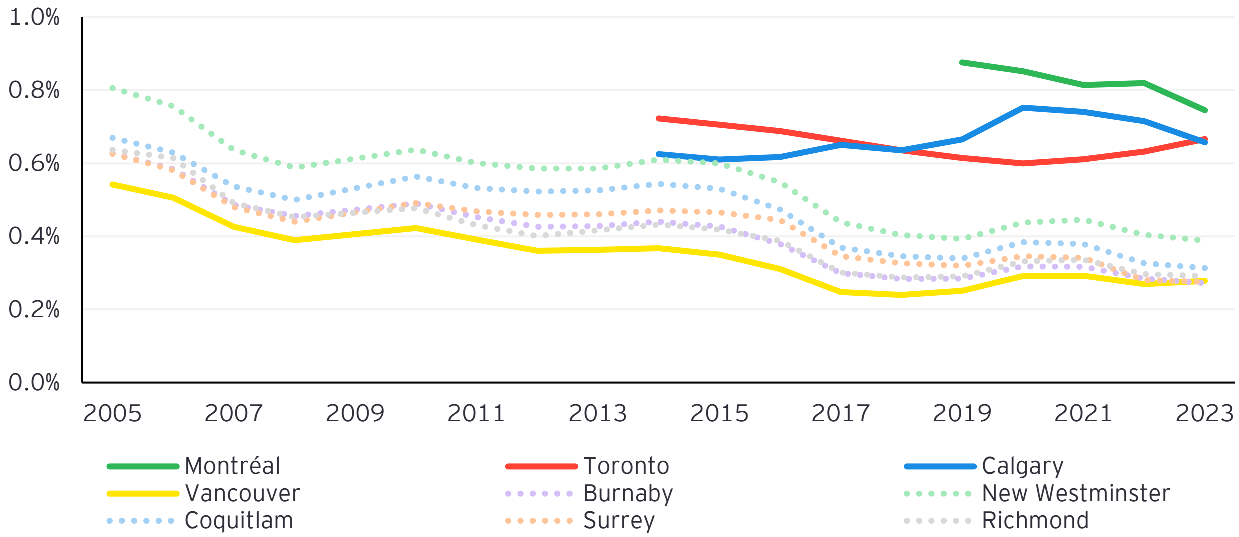
Limitations:

- Property classifications used in Montréal, Toronto and Calgary are not exact matches to the classification used in the City and other Metro Vancouver municipalities.
- Data limitations do not allow for a complete time-series analysis for Montréal, Calgary and Toronto.

2.3.2 Residential tax rate

The residential tax rate metric compares all residential property taxes (including those levied by other taxing authorities, such as TransLink, Provincial School Tax, etc.) for each municipality. An increase in the City's residential tax rates relative to that of other places may suggest worsening situation for its residential sector.

Figure 13: Residential tax rate



Observations:

- Residential property tax rates in the City are the lowest among all the municipalities analyzed; however, this may be due to higher residential property values in the City.
- Residential property tax rates in all Metro Vancouver municipalities are lower than in Calgary, Montréal and Toronto.

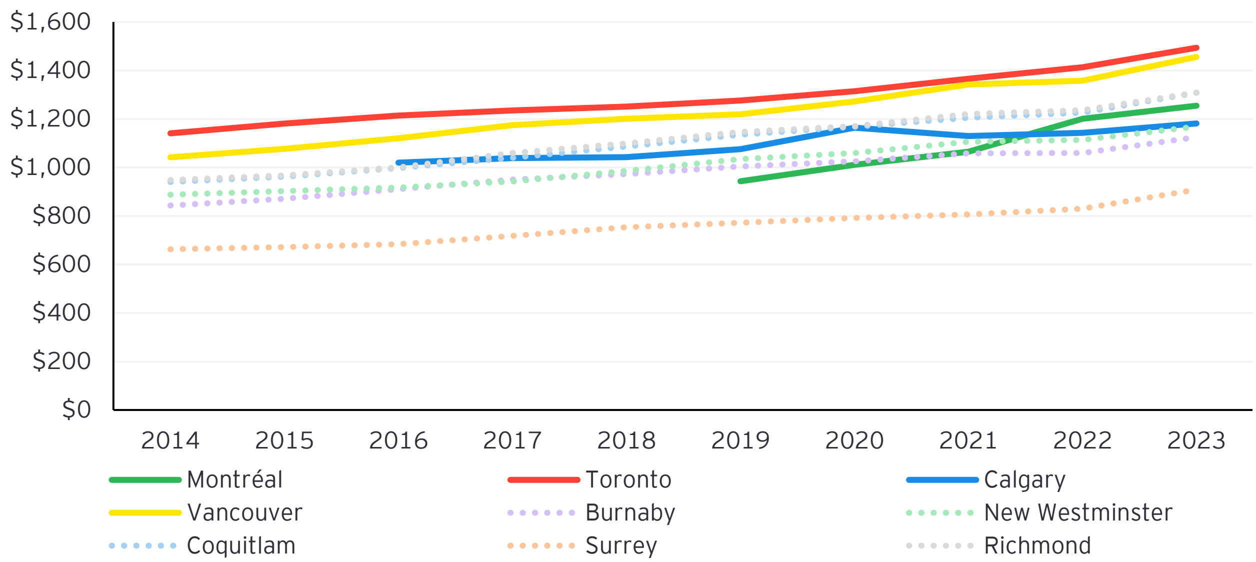
Limitations:

- Property classifications used in Montréal, Toronto and Calgary are not exact matches to the classification used in the City and other Metro Vancouver municipalities.
- This metric may not accurately reflect the actual tax burden because reductions in tax rates could be balanced out by increases in assessed property values.
- Even while this metric is calculated using all property tax rates for each municipality, differences in municipal responsibilities, as highlighted in **Table 5**, may limit an exact comparison.

2.3.3 Residential tax per capita

This metric considers the absolute value of taxes raised from the residential property class in proportion to population of the municipality. It is calculated using all residential property taxes (including those levied by other taxing authorities, such as TransLink, Provincial School Tax, etc.) for each municipality. A high level of residential tax per person relative to other municipalities may be reason to consider a shift in the burden from the residential sector.

Figure 14: All residential property taxes per capita



Observations:

- The City has consistently had higher residential property taxes per capita than other Metro Vancouver municipalities, Montréal and Calgary.
- Toronto has slightly higher residential taxes per capita than the City; however, it undertakes several additional functions of government that are undertaken by the provincial government in BC.
- High residential tax per capita in the City may indicate limited capacity for residential property owners to pay increased taxes.
- As noted in 2014 Review, the City's relative position can be partly explained by the City's role as the commercial hub of Metro Vancouver and the range and cost of services provided by the City relative to its peers.

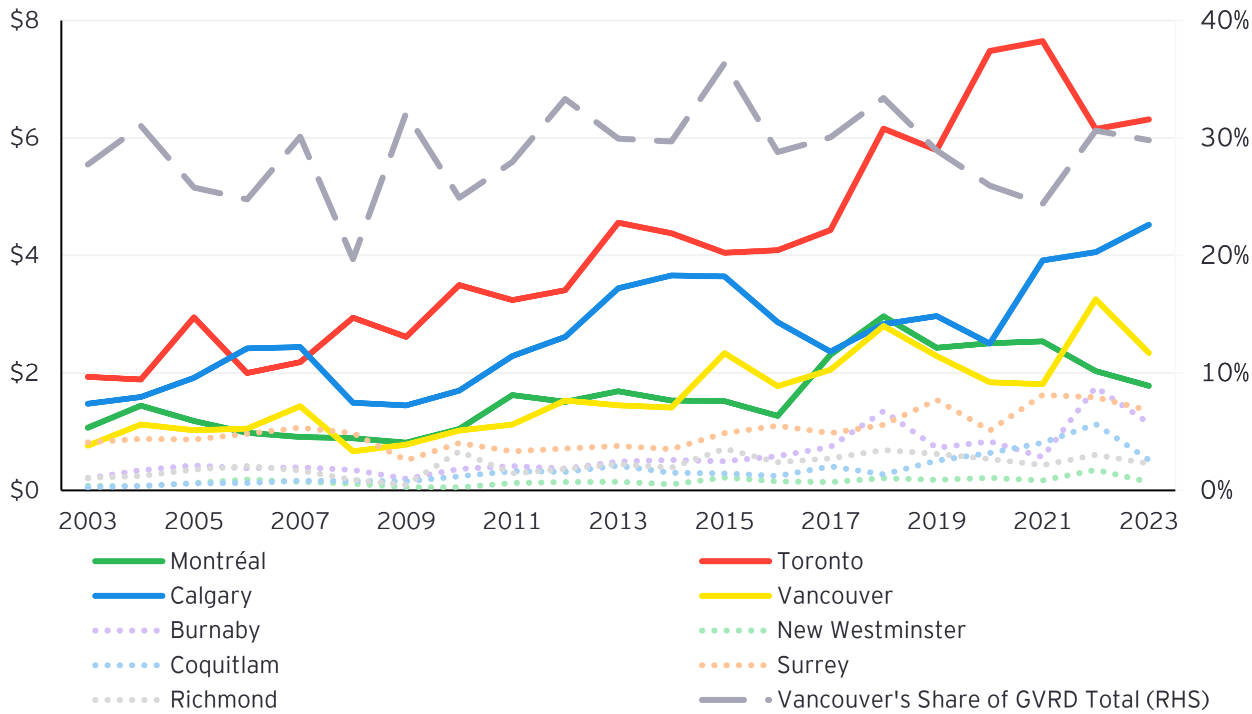
Limitations:

- The Montréal and Toronto residential property calculation was estimated based on assessed values and property tax rates, whereas other municipality revenues were sourced from their respective financial reports.

2.3.4 Residential building permit growth

This metric presents changes in the total value of residential construction (as defined by Statistics Canada). The trend of growth relative to other municipalities may indicate a loss or gain in residential investment compared to other Metro Vancouver municipalities or Canadian cities.

Figure 15: Residential building permits
(Annual values, CAD billion)



Observations:

- Toronto and Calgary have experienced higher levels of residential building permit growth over the last 20 years.
- However, other major cities have significantly higher populations than the City. Populations in Toronto, Calgary and Montréal are approximately 4.3, 2.0, and 2.5 times larger, respectively.
- The City has consistently accounted for approximately 30% of the total residential building permits in the GVRD, which indicates that residential investment has remained stable despite changes to property tax ratios over this period. For comparison, the City accounts for approximately 26% of GVRD's population, on average.

Limitations:

- Requires a custom dataset from Statistics Canada for municipalities outside of BC.

2.3.5 Residential assessment growth

This metric analyzes the trend of total assessed value of residential properties, which may provide an indication of market demand for residential space. In addition, the share of non-market changes in the annual assessment tracks only investment-led changes in the total assessment. A decline in total residential assessment values and lower share of non-market changes relative to other municipalities may suggest a decline in the City's residential investment attractiveness.

Figure 16: Residential assessment
(Three-year moving average values, CAD billion)

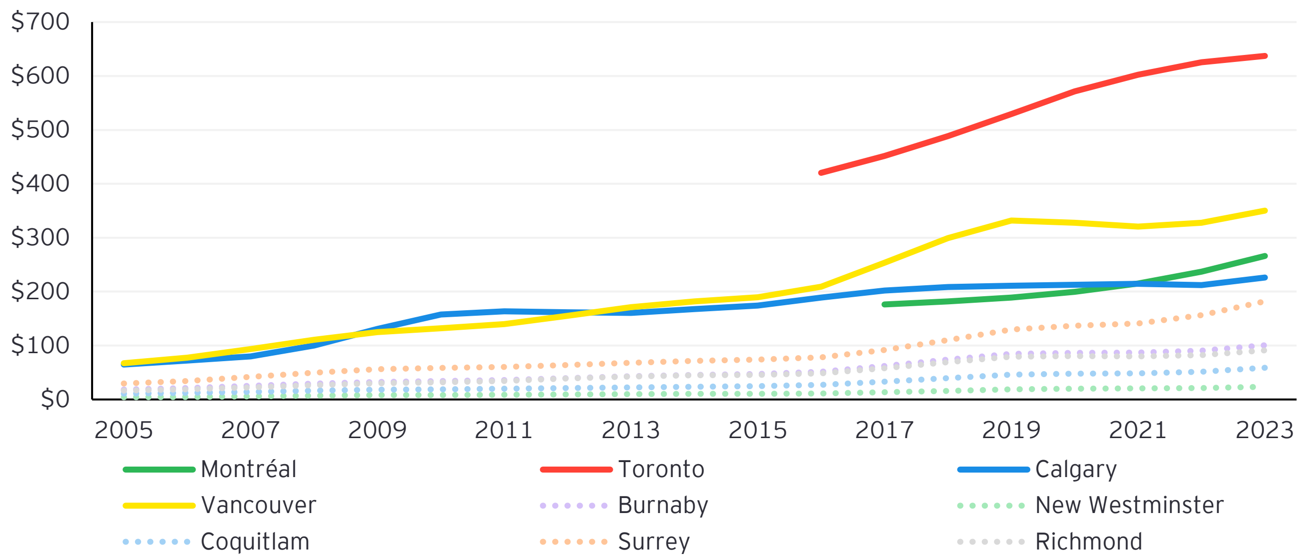
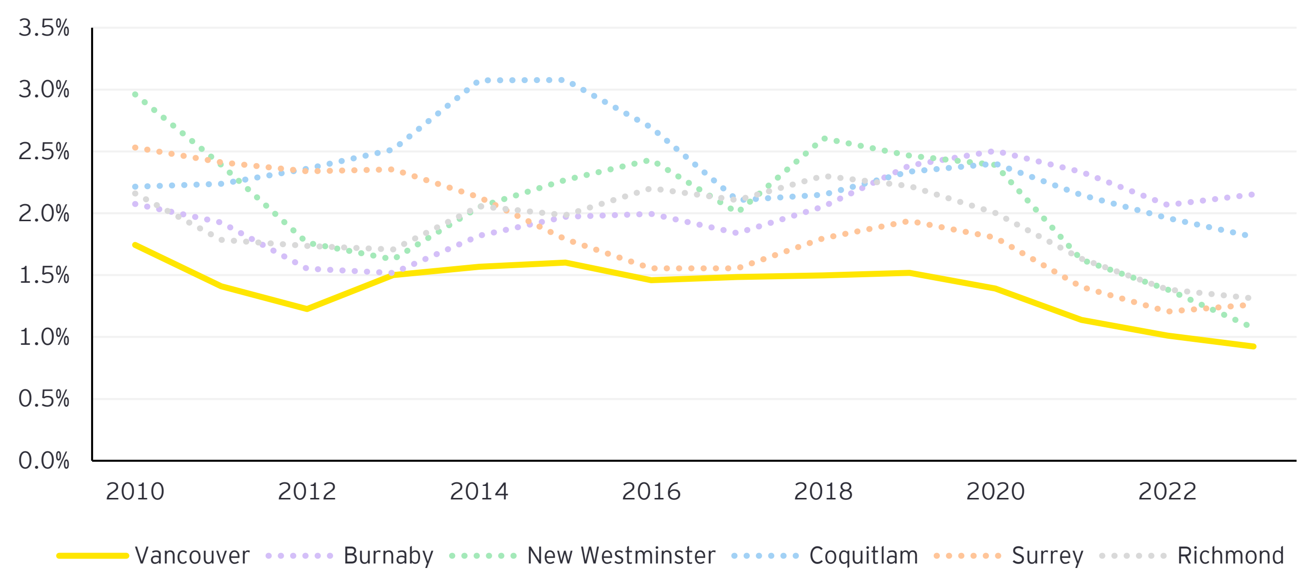


Figure 17: Share of non-market changes in residential assessment
(Three-year moving average values)



Observations:

- Assessed values of residential properties in the City are second only to Toronto, even though Calgary and Montréal have more than double the population of the City.
- Among Metro Vancouver municipalities, the City has the lowest share of non-market changes in residential assessment, which may indicate relatively lower investment-related assessment growth. However, this result may also be impacted by rising property values (i.e., market changes) over this period and a larger residential base compared to other Metro Vancouver municipalities.

Limitations:

- Property class definitions used in Montréal, Toronto and Calgary are not exact matches to the classifications used in the City and other Metro Vancouver municipalities.

2.3.6 All property taxes to median after-tax household income

This metric estimates total property taxes (including those levied by other taxing authorities, such as TransLink, Provincial School Tax, etc.) to median after-tax household income for residents of single detached houses and apartments.[1] The metric provides an indication of household capacity to pay all property taxes.

Figure 18: All property taxes to median after-tax household income
*Median value single detached house**

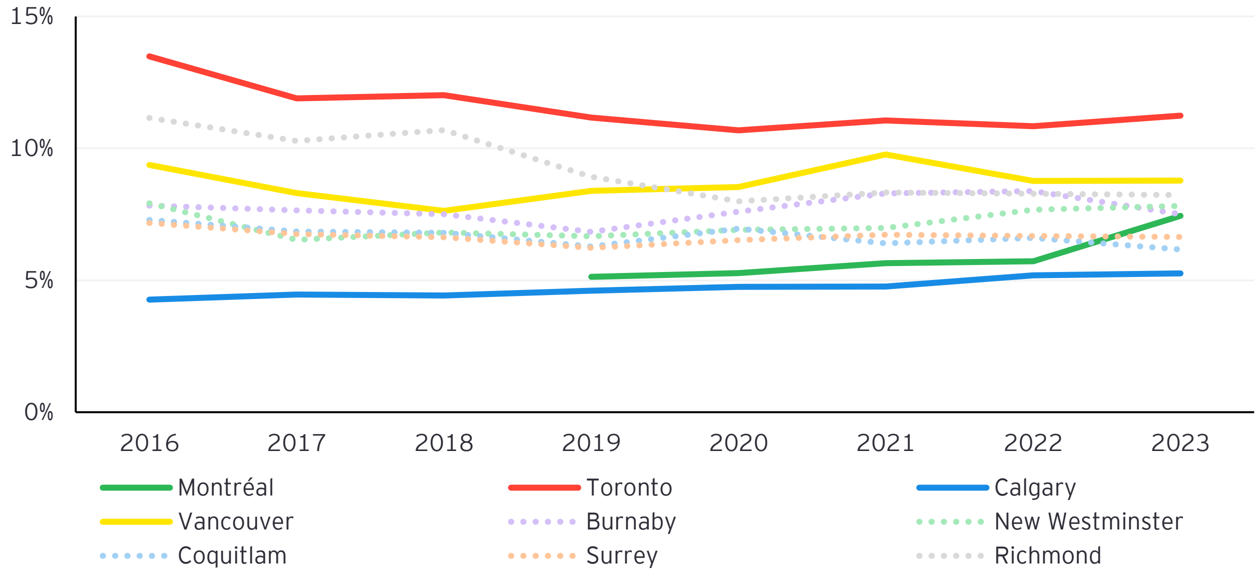
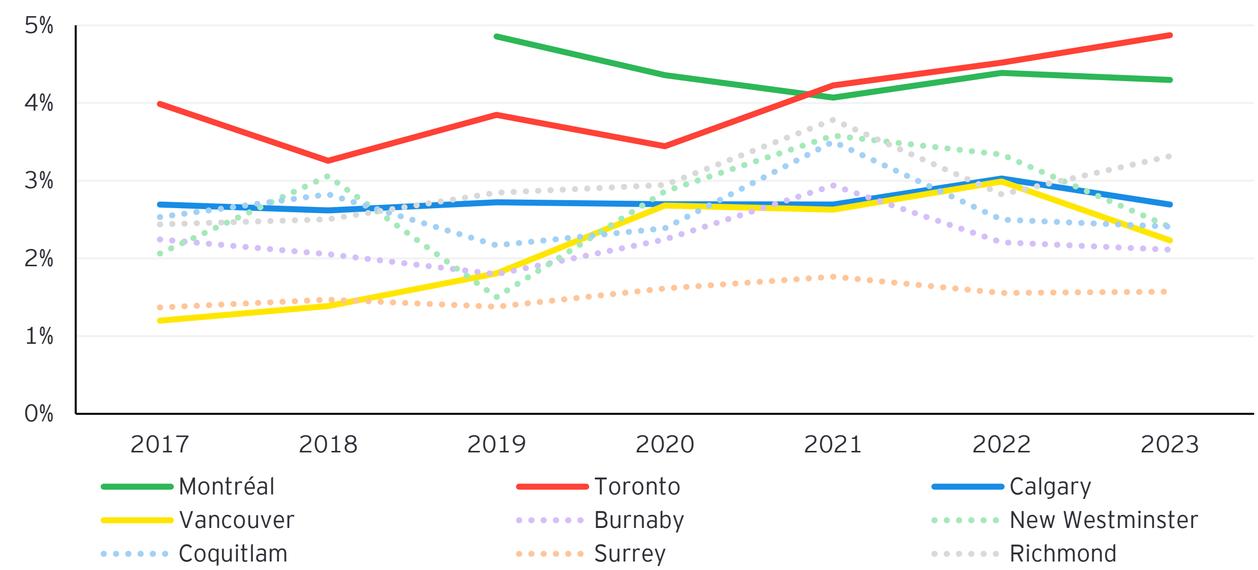


*Figure includes average utility fee for single detached houses.

Figure 19: All property taxes to median after-tax household income
Median value apartment



Observations:

- For single detached houses, Toronto has consistently had the highest municipal tax as a ratio of median household after-tax income. The City has consistently had higher municipal taxes than most other Metro Vancouver municipalities, which may indicate that household capacity to pay additional municipal tax is limited. Similar to office properties, Calgary has the lowest municipal taxes compared to median after-tax household income.
- For apartments, the City has consistently had lower property taxes than Toronto and Montréal when compared to median after-tax income.
- This metric may be useful when considering the segregation of residential property types for property tax policy purposes.

Limitations:

- Median house prices may be impacted by transaction volumes in municipalities with less inventory.
- Frequency of census data requires interpolation and extrapolation of median income for non-census years.
- Median income is not by tenure, i.e., it includes both renters and owners.
- Median income is for census families, i.e., it excludes non-census family households.

3. Stakeholder engagement

EY engaged with a number of key stakeholders from the business community to collect their viewpoints and feedback on the City's property taxation policies and the associated metrics used to guide non-residential and residential tax shares. In collaboration with City officials, EY engaged with representatives from:

- The Greater Vancouver Board of Trade (GVBOT)
- The Canadian Federation of Independent Businesses (CFIB)
- Business Improvement Areas of British Columbia (BIA)
- Building Owners and Managers Association of British Columbia (BOMA BC)

The Project engaged stakeholders from the outset with an industry briefing session to provide them with sufficient time to contribute information they deemed relevant to the analysis. In later stages of the Project, the results of the metrics were shared and discussed with stakeholders to gather their feedback. Written feedback was also requested and has been included in Section **5.2** for reference.

Below is a summary of consistent themes raised by the stakeholder groups.

3.1 Consumption of municipal services

All stakeholders highlighted the importance of a consumption study to determine if the non-residential sector pays a disproportionate amount of municipal taxes when compared to the services they consume. Consumption studies have consistently been raised by stakeholders in previous property tax policy reviews and are still a key concern. The Commission reviewed a consumption study in the 2007 Review and acknowledged some legitimacy of this approach but raised concerns about its validity and acceptance by all stakeholders. The Commission noted that the indirect benefits to non-residential property classes were not effectively measured by the consumption study. This highlights the complexities and difficulties of undertaking such studies.

It should be noted that consumption studies were not in the scope of Phase 1 of the Project, as described in Section **1.3** of this document.

3.2 Representative properties

Several stakeholders pointed out that for metrics, such as *All property taxes per square foot for office properties*, it would be more accurate to compare representative properties in benchmarked locations, for example, comparing property taxes for a representative convenience store located in a benchmarked high street in each municipality considered.

During previous property tax policy reviews, the City has noted that alignment on the definition of what constitutes a representative has been difficult. EY encountered similar difficulties during the Project. Subsequently, downtown office spaces have been analyzed in the Project as a proxy for non-residential properties given data availability and comparability between municipalities.

3.3 Small businesses

Some stakeholders highlighted that property taxes are placing operating pressures on small businesses that are already dealing with challenging economic conditions.

In recent years, the City has introduced tax relief measures, including:

- The pilot Development Potential Relief Program (DPRP)[7] to provide temporary property tax relief to independent businesses and community partners who are paying disproportionately high taxes due to development potential.
- The targeted five-year Land Assessment Averaging Program[8] for eligible "hot" properties, which provides temporary tax relief by phasing in tax increases due to higher-than-average changes in land values as determined by BC Assessment.

However, defining small businesses for targeted property tax relief measures may be challenging due to lack of information that supports the correlation between a business's property value and the size of the business. For example, the difference in financial capacity of a law firm and a family-owned grocery, both classified as small based on number of employees, may be significant.

3.4 Proportional taxation

Some stakeholders recommended the inclusion of a metric to compare the assessment share with the tax share of non-residential property classes, citing that non-residential properties account for approximately 19% of the total property assessments but contribute approximately 40% of the City's general property tax levy, providing a ratio of approximately 2.1.

It is important to note that non-residential properties typically have lower assessment values than residential properties on a per square foot basis. Therefore, comparing proportional taxation with property values may not be appropriate. According to assessment data the City has provided, residential property class values are approximately double the value of non-residential classes on a per square foot basis. After adjusting for this disparity, the ratio declines from 2.1 to 1.1.

4. Conclusions and recommendations

4.1 Tax share

Based on the metrics presented in this report and consultations with key stakeholders, EY concludes that there is insufficient evidence to suggest that a tax shift from non-residential to residential property classes is required at this time. This view is also supported by subject matter advisors who led the previous Commission's work.

For instance, both the *Business tax per capita* and *Residential tax per capita* metrics are higher when compared to other Metro Vancouver municipalities, which may indicate no capacity to absorb a tax shift either way. However, EY recognizes the limitations of the metrics and based our conclusion on the directional trend each metric provides, as we are unable to definitively rely on a single metric.

In addition, recent economic developments since the COVID-19 pandemic have presented numerous challenges to both residential and non-residential sectors. For instance, a higher interest rate and inflationary environment have placed cost pressures on both households and businesses. As a result, household budgets are likely constrained and may have a limited capacity to absorb further increases in property taxes arising from a tax shift. Similarly, businesses are also facing pressures from escalating costs and constrained households, lowering demand for goods and services.

As noted in the 2014 Review, there is no single definition of the correct or most appropriate residential and non-residential share of municipal property taxes. Based on the metrics presented in this report, which provide insightful information on current business and residential conditions, it is EY's view that there is no compelling evidence that warrants a tax shift from non-residential to residential property classes at this time.

4.2 Future decisions on tax share

The metrics presented in this report provide the City with a variety of quantitative data and analysis to inform property taxation policy now and into the future. Although these metrics contain limitations, they may still provide insights and perspectives when comparing the City's competitiveness with neighbouring Metro Vancouver municipalities and other competitors, such as Calgary, Toronto and Montréal. However, as noted under Section **2.1.1**, caution should be exercised when comparing the City with cities outside of Metro Vancouver. Despite this, EY recommends that the City continues to use the metrics presented in this report to benchmark the City against Metro Vancouver municipalities and the cities of Toronto, Calgary and Montréal if the data permits and noting the constraints and limitations of comparisons.

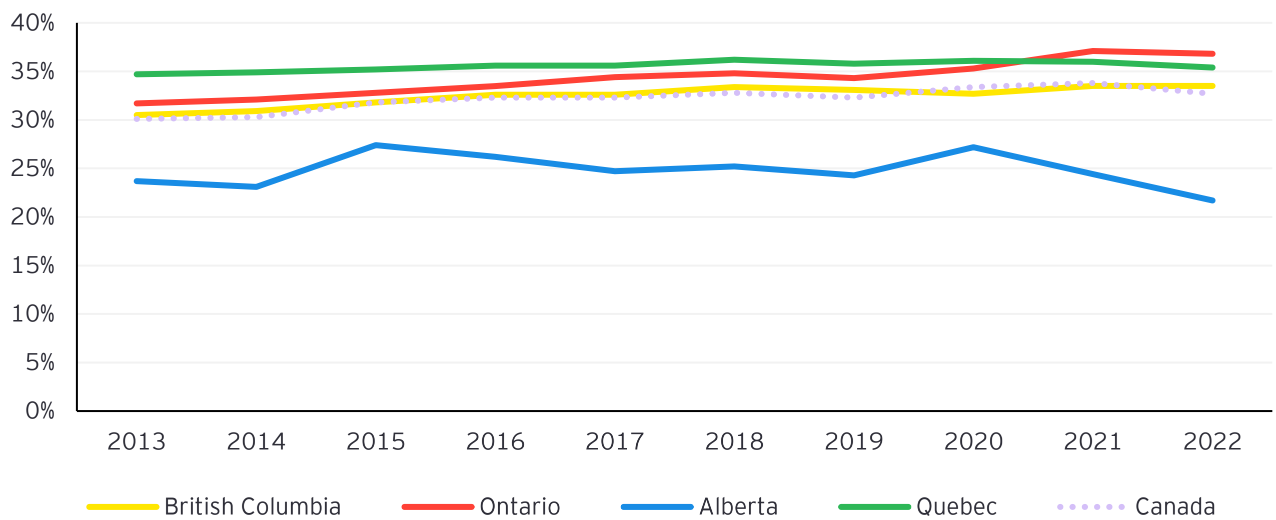
5. Appendices

5.1 Contextual metrics

5.1.1 Total tax revenue as a percentage of GDP (tax to GDP ratio)

Measures total federal, provincial and municipal taxation as a percentage of provincial gross domestic product (GDP). This ratio provides an indication of total municipal, provincial and federal tax levels in different provinces. Shifts in this ratio could be a result of enhancements in productivity, alterations in tax policy or other economic developments.

Figure 20: Provincial tax revenue as a percentage of provincial GDP



Observations:

- The ratio of tax revenue to GDP in BC aligns with the national average, but it's consistently lower than those in ON and QC.
- The tax-to-GDP ratios for BC, QC and ON have been showing an upward trend since 2013.
- AB has consistently had the lowest levels of taxation as a percentage of GDP due to lower personal income taxes, the absence of payroll and sales taxes and no health premium.

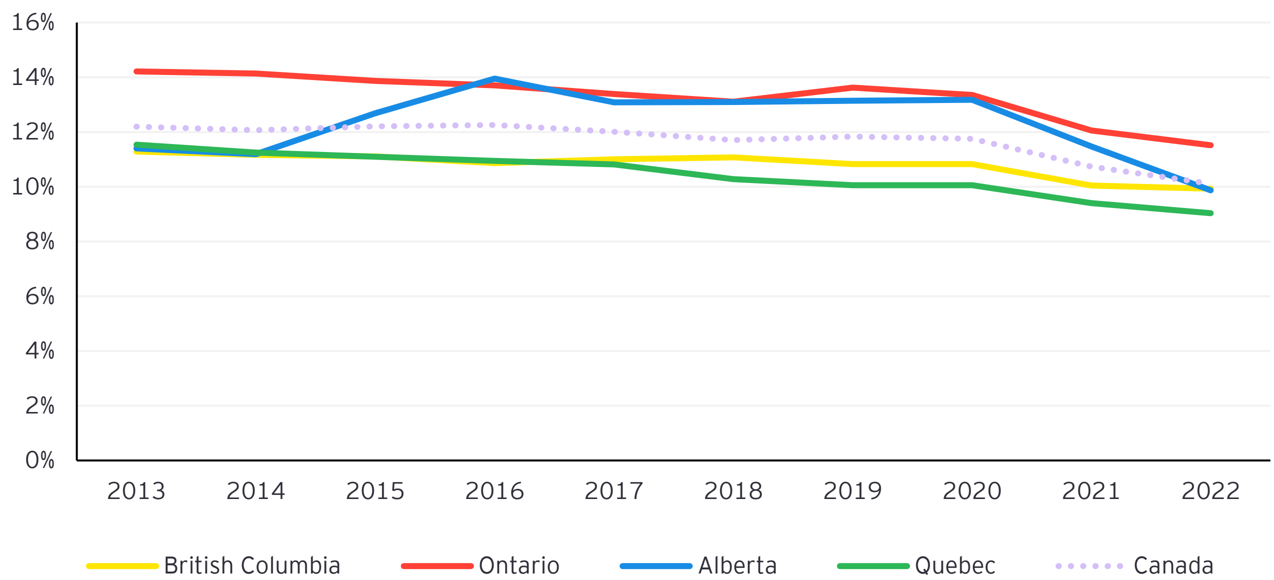
Limitations:

- It may be difficult to identify the cause of changes in this metric and interpret those changes.
- An alternative metric may be municipal taxation as a percentage of municipal GDP. However, this may not be able to be estimated due to data constraints and replicability concerns.

5.1.2 Municipal revenue as a percentage of total government revenue

These metric measures total municipality taxation as a percentage of total government revenue. This ratio provides an indication of total municipality tax levels in different provinces. Shifts in this ratio may be from a range of different sources such as changes in property taxation, or updates to licensing or permit fees, etc. A high municipal revenue as a percentage of total government revenue ratio may indicate a reliance on property taxes in the province.

Figure 21: Municipal revenue as a percentage of total government revenue



Observations:

- BC has consistently had a lower municipal revenue to total government revenue ratio than ON, which may be due to the latter providing additional services to those provided in BC municipalities.
- The ratios in BC, AB and QC align with the national average.
- Ratios have shown a downward trend over the 10-year period presented above.
- AB has consistently had a higher proportion of municipal revenue to total government revenue; however, this may be due to other provincial taxes being low, such as lower personal income taxes, the absence of payroll and sales taxes, and no health premium.

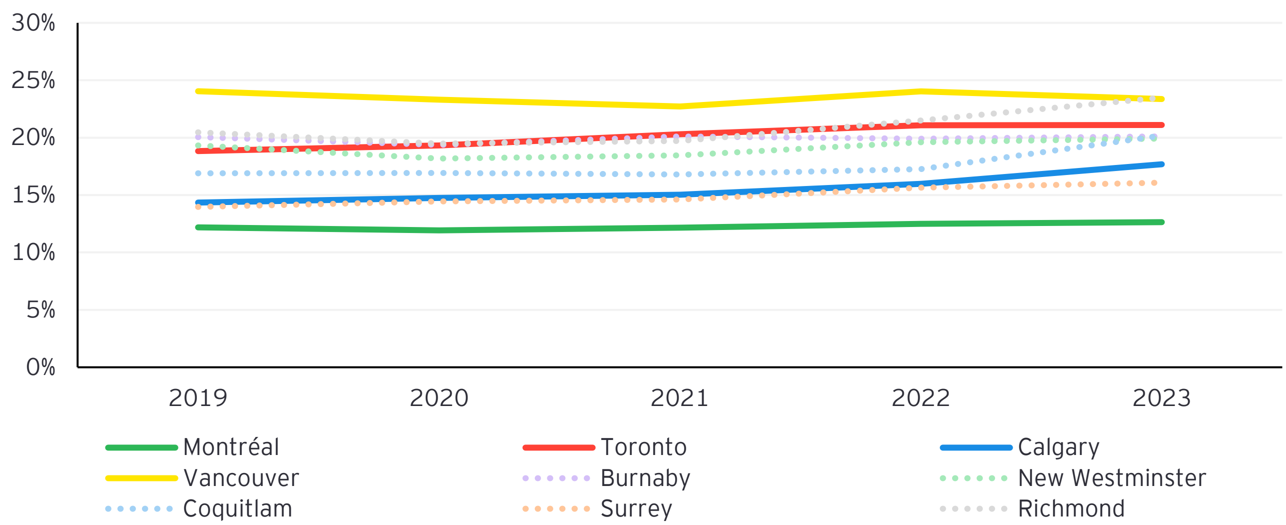
Limitations:

- Data is only available on a provincial level.
- Municipal revenue is not limited to only property taxes.

5.1.3 Rental payments to median after-tax household income

Compares rental payments for a two-bedroom apartment to median after-tax household income, providing an indication of household capacity to pay rental costs and rental affordability.

Figure 22: Rental payment to median after-tax household income
Median annual rent for a two-bedroom apartment



Observations:

- In addition to high mortgage costs, the City's rental households also face relatively high rental costs compared to other municipalities.
- High rental costs in the City may be the result of small geographical coverage rather than other metropolitan municipalities such as Toronto, Calgary and Montréal, which also include higher proportions of suburban areas.

Limitations:

- Median income data by housing tenure (e.g., owners, renters) may be difficult to collect at the municipal level. It may require extrapolation from other data sources, limiting its accuracy.
- Frequency of census data requires interpolation and extrapolation of median income for non-census years.

5.2 Stakeholder submissions

5.2.1 CFIB

- First, we'd like to see a metric that captures the difference between the number of commercial vs. residential properties and the property taxes they pay relative to their share of the assessment. For example, in BC's 20 largest municipalities, businesses contribute 28% of property tax revenue while only accounting for 13% of total assessment — resulting in an unbalanced property tax fairness ratio of 2.2.
- A top concern for Vancouver small businesses is how much value they receive in city services compared to the property taxes they pay. This report should include consumption studies showing how a commercial property's tax burdens ultimately offer value back to them via city services.
- The report focuses a lot on downtown office spaces but doesn't include data about brick-and-mortar store fronts. Since small businesses are more likely to have a physical store front than downtown office space, we'd like to see more data that accurately reflects this distinct difference. Also, business taxes per capita don't capture the full picture, and instead, we'd like to see a breakdown of business taxes per business.
- While there's a consistent focus on affordability for residents, we'd like to see this same perspective adopted for small businesses. While the residential metrics are valuable, the report doesn't offer the same depth/breadth of information about commercial property tax burdens.
- We noticed that this report uses other major Canadian municipalities as benchmarks, but doesn't clearly outline what the "gold standards" are for property tax distributions, etc. We want to see more clearly articulated goals for the City's property tax distribution rather than using other cities as moving goalposts, especially since they may have property tax structures that are not conducive to growth and investment. Comparing the tax fairness ratios of these cities would be a good place to start.

5.2.2 BOMA BC

Economic climate

- Recent data shows that Downtown Vancouver has still not recovered from the pandemic. Transit ridership and weekly workplace visits are still down, and downtown office vacancies are at 20-year highs.
- Colliers' Q3 2023 Office Market Report noted that Downtown Vancouver's office vacancy rate is 11.9% (2.6% pre-pandemic).
- Higher interest rates, inflation and an impending slowing economy are putting substantial pressure on small business. Increasing levels of remote work hurts small businesses, as there are fewer workers visiting restaurants and stores.
- Despite existing challenges, Vancouver small businesses are facing another 7.6% increase, after last year's 10.7% increase, on top of fee increases for licenses and permits.

Property tax ratio

- There is a well-documented property tax ratio imbalance in Vancouver between commercial and residential properties. Vancouver's commercial properties pay 40% of property taxes despite making up only 19% of the property value.
- In a recent study, 58% of business in BC said they've raised prices to offset rising property taxes.

- If we are going to continue seeing rising municipal property taxes, then the City of Vancouver needs to try to minimize the small business tax burden. This can be accomplished through a property tax shift, as was recently done in Calgary.
- A tax shift could offer substantial savings to small business, while adding only minimal cost increases on residences. According to the CFIB, a 2% tax shift over four years would save the average commercial property in Vancouver $4,687 compared to a cost increase of $334 for the average residential property.

Competitiveness

- Rising property taxes hurt competitiveness and encourage businesses to move to lower tax environments. In the same CFIB study, 21% of respondents noted that they are considering relocating their business due to rising property taxes.

Declining office asset values

- Rising office vacancies in the Lower Mainland and particularly in the downtown core following the pandemic have begun to take a toll on assessed values. 2024 BC Assessment data showed a 25% decline in office building values in the Lower Mainland. This will increase the tax burden on other non-office and non-residential properties to account for the lost revenue.
- With exponential growth of residential real estate, a moderate property tax shift to residential properties would have a minimal impact spread out over a growing residential base and is a prudent solution to a precarious office market.

Other taxing authorities

- BOMA BC recognizes that municipal property taxes also include taxes under provincial jurisdiction, such as the School Tax. We are actively encouraging the province to explore a reduction in the School Tax rate for commercial properties to play their role in reducing the property tax burden on small businesses.

5.2.3 BIA

Written feedback was requested but not received by EY. However, key points of discussion from consultations with BIA representatives have been considered in the report.

5.2.4 GVBOT

- The metrics presented in the brief were helpful holistically, but a crucial element is absent. There's no mention of the link between service usage and the corresponding tax paid. Understanding how the tax share correlates with the services received by businesses is important to assess tax fairness. Clarity on the City operations and services funded by the business tax bill would be helpful.
- It would be good to look at the METR of new investment into a region or location and see what role the property taxes would play in that from a competitive perspective.
- While metrics comparing jurisdictions are helpful, it's not only about the metric itself. The actual amount paid, changes from previous figures and overall taxation trends are crucial for a realistic assessment of competitiveness.
- The best look at the issue would be business tax share of total bill compared to services and noting the actual contribution to the overall tax bill. This perspective provides a more meaningful understanding of the impact of businesses on the city's tax landscape.

- We suggest exploring the tax responsibility across various business categories or tax classes. It has been noted that light industrial businesses have shouldered a disproportionately larger portion of the tax burden.
- When doing city-to-city comparisons, it may be useful to compare benchmarked locations with comparable value or similar characteristics. For instance, comparing high street areas to high street areas could provide more relevant and meaningful insights.
- Other metrics like total services received compared to paid for could demonstrate value. How many people and services are City businesses paying for compared to others?

5.3 Data sources and references

Median household after-tax income:

- **Sources:**
  - Statistics Canada. Table 98-10-0060-01. "Household income statistics by dwelling and household characteristics".
- **Notes:**
  - Values used in the analysis are for census families.
  - Values between 2015 and 2020 census years have been interpolated using compound annual growth rates.
  - Values have been extrapolated from the 2021 census using provincial wage growth rates published in Statistics Canada's Labour Force Survey – Table 14-10-0064-01. "Employee wages by industry, annual".

Property taxation and assessment data (Toronto):

- **Sources:**
  - **Property assessment values:**
    - 2023 and 2022 custom assessment data by property class from Municipal Property Assessment Corporation.
    - City of Toronto. "Annual Reports". Supplemental financial and statistical information. Retrieved from: https://www.toronto.ca/city-government/budget-finances/city-finance/annual-financial-report/
  - **Tax rates:**
    - City of Toronto. "Property Tax Rates and Related Matters". Retrieved individually for each year. 2023 retrieved from https://www.toronto.ca/legdocs/mmis/2023/cc/bgrd/backgroundfile-234150.pdf
    - City of Toronto. "2021 Education Property Tax Levy and Clawback Rate By-Law". Retrieved individually for each year. 2021 retrieved from https://www.toronto.ca/legdocs/mmis/2021/ex/bgrd/backgroundfile-165882.pdf
- **Notes:**
  - Annual reports contain total property assessments for previous years. Since the city has not conducted a new assessment since 2016, share of individual property classes in annual total assessments has been assumed to be the same as 2023 for 2020, 2021 and 2022.
  - All property taxes include city tax, education tax, and City Building Fund tax.

Property taxation and assessment data (Montréal):

- **Sources:**
  - **Property assessment values:**
    - Partenariat Données Québec. "Profil financier des municipalités locales". Retrieved individually for each year. 2023 retrieved from https://www.donneesquebec.ca/recherche/dataset/profil-financier-des-municipalites-locales-edition-2023
  - **Tax rates:**
    - Montréal Données ouvertes. "Imposition annuelle de taxes municipales". (2021-2023). Retrieved and aggregated from https://donnees.montreal.ca/dataset/taxes-municipales
    - Montréal Données ouvertes. "Taux de taxation et tarification". (2019-2020). Retrieved from https://donnees.montreal.ca/dataset/taux-de-taxation-et-tarification
- **Notes:**
  - All property taxes include the general property tax, special tax concerning Autorité Régionale de Transport Métropolitain (ARTM) and roads, historic debt tax, water tax, and borough taxes concerning services and capital expenditures for Montréal.
  - Non-residential water tax rates are assumed to be unmetered.

- Non-residential properties above a certain threshold are taxed differently. Due to data limitations, a weighted average of these tax rates is used for years prior to 2021.

Property taxation and assessment data (Calgary):

- **Sources:**
  - **Property assessment values:**
    - Alberta Government Open Data. "Property assessments by municipality". (1997-2023). Retrieved from https://open.alberta.ca/opendata/total-equalized-assessment-by-municipality
  - **Tax rates:**
    - City of Calgary. "Historical residential and non-residential tax rates". (2016-2023). Retrieved from https://www.calgary.ca/property-owners/taxes/historical-rates.html
- **Notes:**
  - All property taxes include city tax and provincial tax.

Property taxation and assessment data (Metro Vancouver):

- **Sources:**
  - City of Vancouver. Internal datasets.
  - Government of British Columbia. "Municipal tax rates and tax burden". Assessed values (Schedule 701) and tax rates (Schedule 702). (2005-2023). Retrieved from https://www2.gov.bc.ca/gov/content/governments/local-governments/facts-framework/statistics/tax-rates-tax-burden
- **Notes**:
  - All property taxes for the Metro Vancouver municipalities include general levy tax, provincial school tax, and taxes by the BC Assessment Authority, GVRD, Municipal Finance Authority and TransLink.

- **Median house prices**:
  - **Sources:**
    - Canada Mortgage and Housing Corporation. "Absorbed Units by Price Range". Retrieved individual for each year. 2023 retrieved from https://assets.cmhc-schl.gc.ca/sites/cmhc/professional/housing-markets-data-and-research/housing-data-tables/housing-market-data/absorbed-units-price-range/2023/absorbed-units-price-range-cma-all-dwelling-types-2023-en.xlsx?rev=f997e0b8-bcea-4da6-89c4-4494c438563f&_gl=1*13p2wwl*_ga*ODc5NzYyNTE0LjE3MDY2NjA4MDQ.*_ga_CY7T7RT5C4*MTcxMDUyODc0OS4zMy4xLjE3MTA1Mjg5OTYuNjAuMC4w*_gcl_au*MTI5MjExNDI1NC4xNzA2NjYwODAz
  - **Notes:**
    - Median prices were imputed from the price range and frequency tables for each respective municipality.

- **Rental payments:**
  - **Source:**
    - Canada Mortgage and Housing Corporation. "Housing Market Information Portal – Primary Rental Market". (2019-2023). Retrieved from https://www03.cmhc-schl.gc.ca/hmip-pimh/en/TableMapChart/Table?TableId=2.1.31.3&GeographyId=2410&GeographyTypeId=3&DisplayAs=Table&GeograghyName=Vancouver#2%20Bedroom

- **Vacancy rates and net asking rent for downtown office properties:**
  - **Source:**
    - Colliers International. Quarterly Office Market Reports. Retrieved individually for each year and municipality from https://www.collierscanada.com/en-ca/research#sort=%40datez32xpublished%20descending&f:ResearchType=[Local%20Market%20Report]&f:propertytype=[Office]

- **Average price per square foot:**
  - **Source:**
    - Altus Group Data Studio (proprietary access).
  - **Notes:**
    - Data for Montréal is not reported by Altus Group Data Studio.
    - Average (10-year) number of office real estate transactions for each considered municipality:
      - Toronto (102)
      - Calgary (34)
      - Vancouver (37)
      - Burnaby (10)
      - New Westminster (3)
      - Coquitlam (2)
      - Surrey (21)
      - Richmond (9)
    - Coquitlam and New Westminster were observed to have fewer than 5 transactions and were therefore excluded from metrics which utilized this data.
- **Tax and municipal revenue as a percentage of GDP:**
  - **Source:**
    - Statistics Canada. Table 36-10-0450-01. "Revenue, expenditure and budgetary balance - General governments, provincial and territorial economic accounts (x 1,000,000)".
    - Statistics Canada. Table 36-10-0221-01. "Gross domestic product, income-based, provincial and territorial, annual (x 1,000,000)".
- **Building permits**
  - **Source:**
    - Statistics Canada. Building Permit Custom Request, census sub-division, value, type of structure and work, 2000-2023, unadjusted – current.
    - Government of British Columbia. "Building Permits, Housing Starts & Sales". (2003-2023) Monthly Building Permits. Retrieved from https://www2.gov.bc.ca/gov/content/data/statistics/economy/building-permits-housing-starts-sales
- **Population:**
  - **Source:**
    - Statistics Canada. Table 17-10-0142-01. "Population estimates, July 1, by census subdivision, 2016 boundaries".
  - **Notes:**
    - Population figures from 2023 have been extrapolated based on historical growth rates.
- **Rent control and other protections:**
  - **Sources:**
    - Government of British Columbia. "Commercial Tenancy Act". Accessed at https://www.bclaws.gov.bc.ca/civix/document/id/complete/statreg/96057_01#section16
    - Government of British Columbia. "Residential Tenancy Act". Accessed at Government of British Columbia. "Commercial Tenancy Act". Accessed at https://www.bclaws.gov.bc.ca/civix/document/id/complete/statreg/02078_01
    - Government of British Columbia. "Residential Tenancy Regulations". Accessed at https://www.bclaws.gov.bc.ca/civix/document/id/complete/statreg/10_477_2003#section23
    - Ontario.ca. "Commercial Tenancies Act, R.S.O. 1990, c. L.7". Accessed at https://www.ontario.ca/laws/statute/90l07

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- Tribunal administratif du logement. "Renewal of the lease and fixing of rent". Accessed at https://www.tal.gouv.qc.ca/en/renewal-of-the-lease-and-fixing-of-rent/changing-a-condition-of-the-lease
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- Province of Alberta. "Commercial Tenancies Protection Act". Accessed at https://kings-printer.alberta.ca/1266.cfm?page=c19p5.cfm&leg_type=Acts&isbncln=9780779825301
- Province of Alberta. "Residential Tenancies Protection Act". Accessed at https://kings-printer.alberta.ca/1266.cfm?page=R17P1.cfm&leg_type=Acts&isbncln=9780779844135

[1] Apartments refer to dwellings with one of the following structural types: an apartment in a building with fewer than five stories, an apartment in a building with five or more storeys, or an apartment in a duplex.

[2] City of Vancouver – Financial Planning and Strategy Office

[3] City of Vancouver. "Property Tax Policy Review Commission 2014 Report". (2014). Accessed at https://council.vancouver.ca/20140218/documents/rr1colour.pdf

[4] City of Vancouver. "Property Tax Policy Review Commission 2014 Report". (2014). Accessed at https://council.vancouver.ca/20140218/documents/rr1colour.pdf

[5] City of Vancouver. "2023 Property Tax Policy Review – Revised Terms of Reference". (2023). Accessed at https://council.vancouver.ca/20231115/documents/cfsc4.pdf

[6] Tassony & Conger. "An Exploration Into the Municipal Capacity To Finance Capital Infrastructure". (2007). Accessed at https://www.policyschool.ca/wp-content/uploads/2016/03/municipal-capital-infrastructure-tassonyi-conger.pdf. Table adapted from Slack, Enid, Harry Kitchen, Melville McMillan and François Vaillancourt. "Roles, Responsibilities, Resources and Relationships" Report to the Provincial and Territorial Municipal Association.

[7] City of Vancouver. "Development Potential Relief Program". Accessed at https://vancouver.ca/home-property-development/development-potential-relief-program.aspx

[8] City of Vancouver. "Land Assessment Averaging". Accessed at https://vancouver.ca/home-property-development/land-assessment-averaging.aspx

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