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Heading into the Future

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Ontario's Realty Tax Revolution

The elimination of Business Taxes and the introduction of Current Value Assessment (CVA) is going to create some winners and losers.

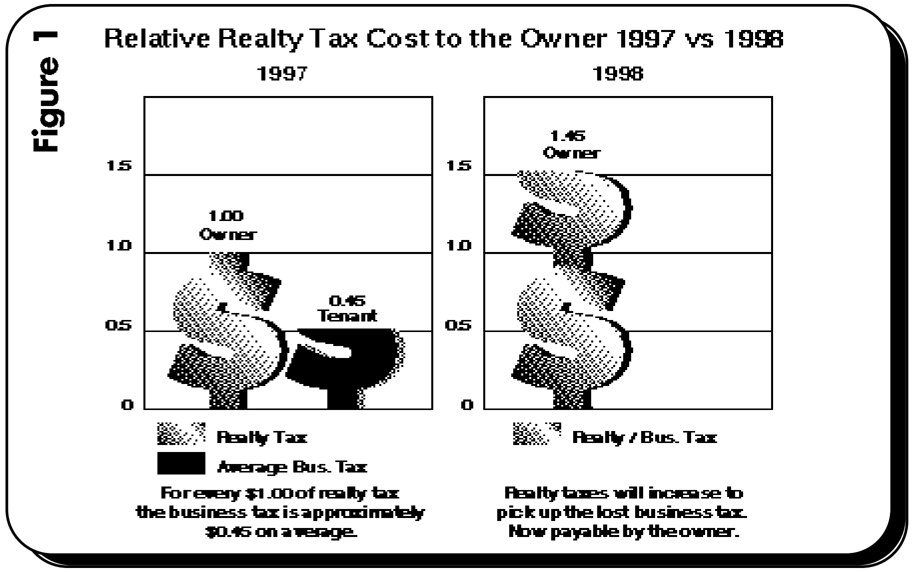
Properties that are most prone to property tax increases as a result of CVA are those that are in strong performing locations with relatively strong rental capability and low vacancies. Since municipalities must generate the same total amount of tax revenue after CVA as before, high grade investment properties that have been acquired are at risk, while inferior investment properties will most likely receive a reduced level of taxation.

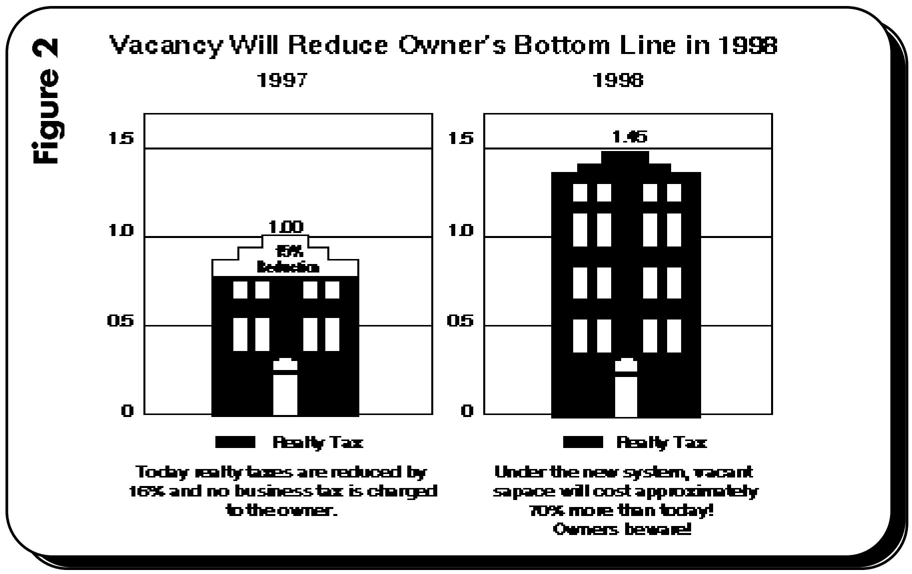
The class 'A' buildings that benefitted from the "flight to quality" in recent years may be saddled with an increased tax load that would be shifted from the more poorly performing buildings.

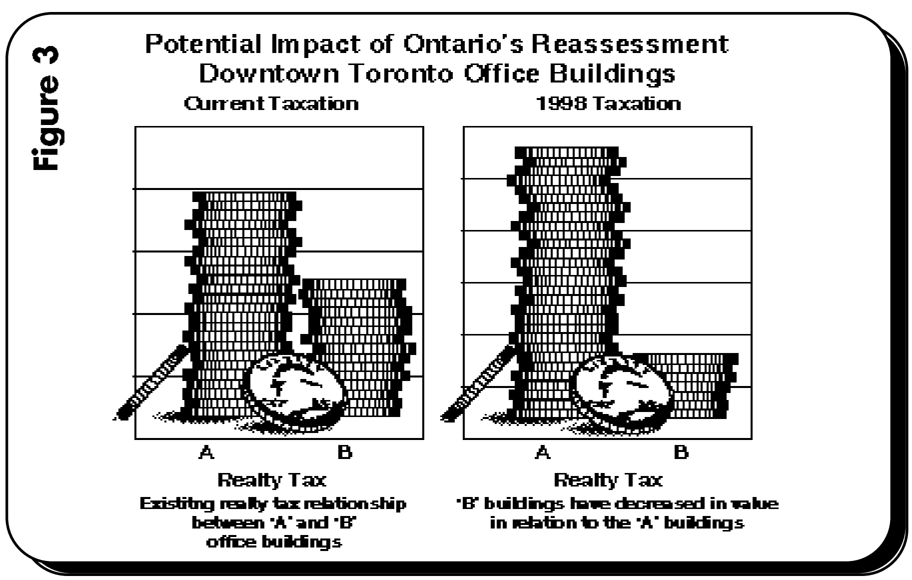
With the elimination of business tax, small retail and small businesses will see their taxes rise — and owners experiencing business vacancies could face significant tax increases!

In these charts, adapted from ones which appeared in the Spring 1997 edition of Coopers and Lyband's Real Estate Trends, Rae Buchan gives a quick overview of some of the most significant impacts.

Rae Buchan is principal in charge of property tax consulting and real estate valuation services across Canada for Coopers & Lybrand Consulting, Toronto.







What It Means To You!

by Rae Buchan, AACI, PLE

BUSINESS TAX ISSUES

Item	Impacts On	Remarks
Elimination of business tax	All businesses	• To make up for the lost revenue, realty taxes will increase by approximately 45%. (figure 1)
Businesses with a current rating of 75% and 60% will enjoy a relative decrease	Banks, Financial Institutions, Brewery, Warehousing, Distribution and Manufacturer s	• Those businesses which are rated at 60% and 75% for business tax purposes will enjoy a net reduction of the combined realty/business tax costs by approximately 10% and 20% respectively.
Businesses with a current rating of 30% will experience a relative increase	Franchises, Retail Stores with fewer than 5 locations	• Unfortunately, small independent businesses and retail chains with fewer than five stores as well as franchisees will see a relative increase of approximately 10%.
Vacant space will be taxed at a significantly higher rate	Building owners with significant vacancies	• Vacant space currently receives a 15% reduction in relation to occupied space. Business taxes are not charged under the current system. Owners watch out! Vacancy will be taxed at the full commercial level and no relief appears to be available. (figure 2) **Note to lenders, owners, investors — the net operating income of properties that are prone to vacancy will be significantly reduced in 1998.**

CURRENT VALUE REASSESSMENT

Item	Impacts On	Remarks
Current Value Reassessment using 1996 market values	High value residential	• The high value residential areas in the Central and North Toronto core, as well as other high value pockets throughout Metro, will now experience significant tax increases. • Using the last reassessment figures which are based on 1988 values and not endorsed by the Province, lawyer Edward Greenspan's $1.84 million home should have been paying $17,178 instead of $3,755 (source: Toronto Star). This represents a potential tax increase of five times.
	High value non-residential	• We appraised a hotel in the Niagara Region whose realty taxes are anticipated to increase nearly three times.
	High value office	• See figure 3 for relative value shift of class 'A' and 'B' buildings before and after reassessment.

Park Levies — not a level pl

by Fred Roth, BA, AACI, PLE

Enshrined in the Planning Act is a requirement to contribute land or money for parks whenever land is severed or developed. Differences in policy regarding calculations to satisfy the parks dedication requirements in new residential subdivisions cause large differences in the parks cost, from one municipality to another.

Under the current Planning Act, Section 42 and Section 51.1 both refer to the dedication of land for parks, or cash-in-lieu. Their respective application can produce very different results, however.

Section 42(1) applies to development or redevelopment of land:

> "As a condition of development or redevelopment of land, the council of a local municipality may ... require that land in an amount not exceeding, in the case of land proposed for development or redevelopment for commercial or industrial purposes, two per cent and in all other cases five per cent, of the land, be conveyed to the municipality for park or other public recreational uses."

An alternative under Section 42 allows for a requirement of one hectare of parkland for every 300 dwelling units proposed. A bylaw cannot be passed under this section except where the specific policies are set out in an Official Plan.

No specific reference appears to be made in Section 42 to distinguish individual development sites from formal plans of subdivision.

Section 42 provides for payment of cash (instead of dedicating land) based upon the value of the land on the day before a building permit is available.

Section 51.1 applies specifically to a plan of subdivision:

51.1 (1) The approving authority may impose as a condition to the approval of a plan of subdivision that land in an amount not exceeding, in the case of a subdivision proposed for commercial or industrial purposes, two per cent and in all other cases five per cent of the land included in the plan shall be conveyed to the local municipality for park or other public recreational purposes ..."

Section 51.1 bears many similarities to Section 42, the primary exception being that for cash-in-lieu purposes the value is to be determined the day before the date of Draft Approval, rather than the day before availability of a building permit.

Dedication of land can only be done if the land is acceptable to the municipality. Cash may otherwise be demanded.

Interpretation of these provisions in the Planning Act by municipalities has led to widely different parks dedication and cash-in-lieu requirements. We note the following issues that arise:

1) Section 42(1) and 51.1(1) are not specific as to the area to which the five per cent dedication is to be applied. Plans of subdivision which include large open space or valleyland areas fall victim, in some municipalities, to a parks dedication calculation of five per cent of the gross. The lands that may be conveyed for parks cannot comprise open space or valleyland areas. The result of this policy is a dedication often well in excess of five per cent of the buildable area.

   Other municipalities take the position that the five per cent calculation is based upon the usable area only. Others calculate the five per cent dedication of the gross area, but give credit for open space area, meaning that only buildable land can be dedicated.

2) Both sections 42(3) and 51.1(2) allow for alternative use of one hectare for every 300 dwelling units. The early attempts to implement this policy created a dilemma for municipalities since it is not stipulated in the Act what type of land the one hectare is to comprise.

   For instance, if there is a high density site of 300 units contained in a plan of subdivision, the Act is non-specific as to whether the owner is required to pay the cash-in-lieu equivalent value of one hectare of high density land. It became apparent that at high densities, the parks dedication requirement under this formula was so onerous that the cash-in-lieu payment could equate almost to site value. Application of the formula was not practical. Municipalities conceded by using values for low density land, citing that they were likely to acquire less expensive low density lands in the vicinity of the apartment sites, to

Extremes in Parks Dedications

Hypothetical single family subdivision

Gross area	30 ac
Developable area	20 ac
Open space	10 ac
Estimated Value one day before draft approval	$160,000/ac
Estimated value one day before building permit availability	$350,000/ac

	Municipality A (high)	**Municipality B (low)**
Land requirement (if acceptable)	5% x 30 ac = 1.5 acres (7.5% of developable area)	5% x 20 ac = 1.00 acre (5% of developable area)
Cash-in-lieu equivalent	20 ac x $350,000/ac = $7,000,000 x 5% * = $ 350,000	20 ac x $160,000/ac = $3,200,000 x 5% = $ 160,000

*A valid argument could be made for a 7.5% cash equivalent, or in this case, $535,000. However, municipalities are probably reluctant to apply this onerous demand.

laying field

Photo: Gerard Tardif

meet parks needs.

Most municipalities have nevertheless continued to apply the one hectare/300 units formula for medium density uses such as semi-detached and townhouse lands, since it yields a greater park requirement than the five per cent formula. A combination of the five per cent and one hectare/300 unit formulae is employed where mixed densities are proposed, in an effort to maximize the land or cash-in-lieu dedication.

3) Section 42 stipulates that the value of the land is to be determined as of the day before building permit, i.e. fully serviced and all levies, development charges, etc., paid. By contrast, Section 51.1(4) states that the value of the land is to be determined as of the day before draft approval of the plan of subdivision, i.e. raw unserviced land. These requirements generate very different cash-in-lieu payments.

4) Physically dedicating land for parks purposes generally involves providing a serviced block of land. This is tantamount to dedicating five per cent of the value of quasi-serviced building lots. Under Section 42, the cash-in-lieu payment equals five per cent of the value of fully serviced building lots.

The chart illustrates the extremes that the various policies could create, for a hypothetical single family subdivision:

The interpretations of the Planning Act by municipalities and policies for calculating parks dedications are many and varied. Some requirements may be construed by owners as incorrect interpretations of the Act, some simply unfair, and some nothing more than policies by municipalities to maximize revenue.

Whatever the view, the owner, appraiser and consultant processing residential land are well advised to contact the local municipality to ascertain the present policy prior to pro-forma projections of development costs. Calculating the most economical way to deal with park levies may suggest revising layouts to get the best deal: i.e., provide land or give cash.

Fred Roth is vice president of Bosley Farr & Associates Ltd., Toronto.

Annual General Meeting and Dinner

Royal Canadian Yacht Club
Toronto Islands
5:30 - 9:00 p.m.

Following dinner and the AGM, The Association of Ontario Land Economists' is pleased to welcome:

William W. Owens
Senior Vice President
Economic Research Associates

"Trends in Urban Entertainment"

With more than 20 years experience in concept development, feasibility analysis and strategic planning for a wide variety of commercial and public attractions, William Owens heads ERA's leisure/entertainment/recreation practice in the eastern United States. Clients have included the Six Flags Corp., LEGO World (theme parks), General Motors and Boeing Aircraft Company (visitor centres), the IWERKS and IMAX film companies, and numerous government entities.

To register, contact the OLE office at **(416) 340-7818**

If you can't attend the meeting, please remember to send in your proxies!

Seminar '97

Urban Engines of Growth – Where Does the Road Lead?

Overall Outlook

The early 1990s were hard on Ontario, but it has turned around dramatically, and should continue strong for the next few years. That was the consensus of speakers at the joint Association of Ontario Land Economists/Canadian Urban Institute seminar this May.

In 1995, the Royal Bank sponsored a report whose conclusions they considered too disheartening to release at that time, said John McCallum, senior vice president and chief economist, Royal Bank of Canada. It showed that the economy and employment in Ontario had dropped considerably, and the Greater Toronto Area had dropped a lot more than the rest of the country.

This situation resulted from the a combination of factors: the economic downturn, structural changes to industry, the real estate crash, the declining importance of Toronto as an east-west trading centre given the North American Free Trade Agreement, and the declining "Montreal effect" (where business and population move away from the growing separatist sentiments in that province).

However, in the last two years, McCullum said, the economy here has turned around dramatically and it will recover more sharply in the next two years.

Employment growth in the high tech sector (computer, film, aircraft, electronics and communications) was approximately 18% in the past decade, compared to about 3% overall GTA employment growth.

Resurgence in the automotive sector is key to the whole of southern Ontario. And the financial services sector is vital to Toronto. But all sectors are facing challenges, and cities around the world are competing for exactly the same kinds of jobs we want here.

Automotive Industry Faces Next Location Decisions

Auto manufacturing has been creating 1,000 jobs per month across Canada for four years running and there's no end in sight, says Dennis DesRosiers, president of DesRosiers Automotive Consultants Ltd. Spin off jobs represent approximately 3,000 jobs per month.

The industry includes four sectors: new vehicles, used vehicles, finance/insurance, and parts and service. Together, those sectors employ close to 600,000 workers – one in every seven jobs in Canada, and as high as one in four for some areas parts of southern Ontario.

The industry has a four- to five-year development cycle, Desrosiers said. "They're nailed for the next three to five years: they've been investing at record levels. But if you don't take the blinders off and look out beyond the borders, you could lose one seventh of the economy."

Everybody Wants Financial Sector Jobs

The GTA is in the secondary tier of financial centres around the world, says Dr. Warren Jestin, senior vice president and chief economist, Scotiabank. It has several advantages which should help keep it there: strong telecommunications, education, skilled labour force, an increasing number of internationally-focused firms (well over half of what we produce in the GTA is destined for international markets), the second largest stock exchange in north america, strength of business niches, etc.

North American Sales of Vehicle # Units (Includes Heavy Duty Truck)

Calendar Year	North America	Canada
1990 ACTUAL	16,005,452	8.2%
1991 ACTUAL	14,471,358	8.9%
1992 ACTUAL	15,052,601	8.2%
1993 ACTUAL	15,994,917	7.4%
1994 ACTUAL	17,262,721	7.2%
1995 ACTUAL	16,418,850	7.1%
1996 ACTUAL	16,913,117	7.1%
1996/1995	3.0%	
1997 FORECAST	16,956,251	7.4%
1997 TRACKING	**17,217,128**	**8.2%**
1998 FORECAST	17,200,345	7.7%
1999 FORECAST	17,341,612	8.0%
2000 FORECAST	17,386,193	8.4%

Source: DesRosiers Automotive Reports

But it also has several disadvantages: a secondary currency, high taxes (more than 20% higher than in the US), lower compensation and "buzz" than New York or London, no competitive derivatives market, an almost non-existent corporate bond market, and few large Canadian companies with extensive financial needs abroad.

And its jobs are no longer geographically fixed – 50% of the services done in the GTA could be done elsewhere. With technological change, phone banking, and so on, the industry may look very different ten years from now. And, Jestin said, if mergers are allowed, that will probably produce radical downsizing of employment in the Toronto core, to the extent that the banks here are the ones being taken over.

Bright Future For Film/TV

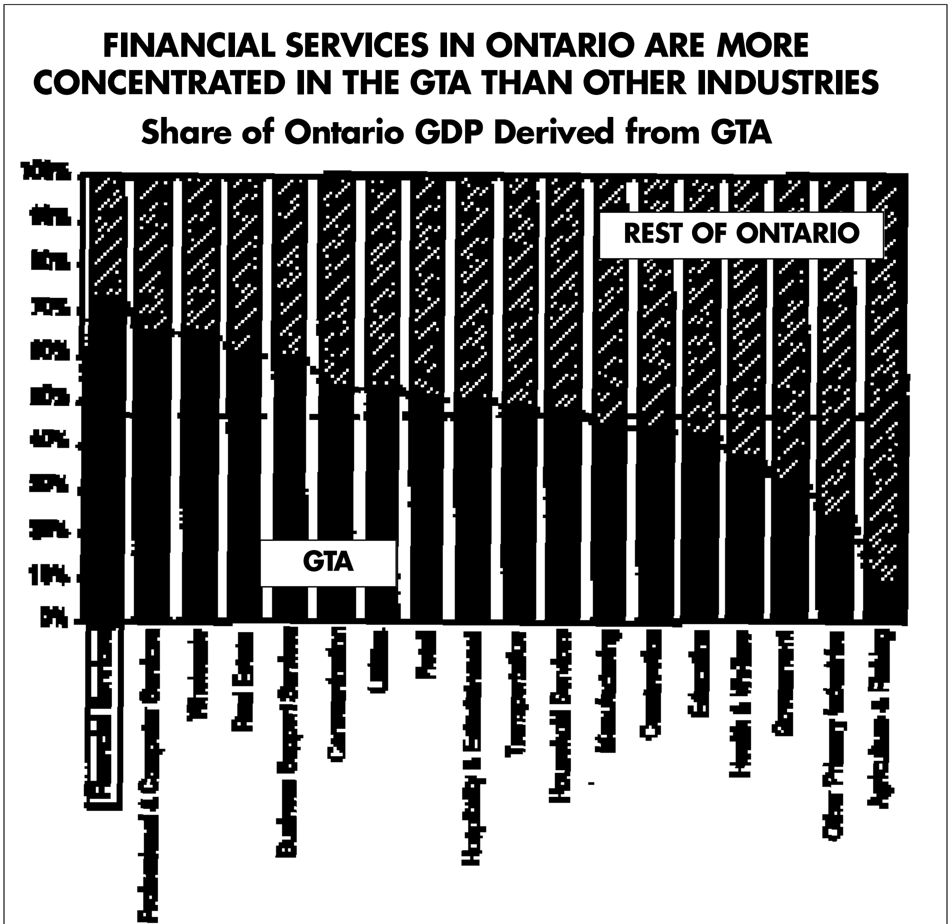
Toronto could "become to the film production industry what the Swiss have become to the banking industry," says David Plant, City of Toronto Film and TV Commissioner.

Torontonians "are uniquely positioned to speak to the world", Plant said. They have an interesting vantage point on the U.S. and on other cultures, excellent film education programs, and very well-regarded film festivals and production capabilities.

The city is already the third largest production centre in North America. Of the $20 billion spent in production globally each year, more than half is spent in California, $3 billion in New York, and $1.5 billion in Toronto. One third of that ($507 million) represents independent productions, $200 million is commercials, $300 million is broadcasting and the rest is animation, corporate, etc.

The jobs are highly skilled, creative and give a high level of job satisfaction. The entertainment industry is driving the technology revolution. But once again, these jobs are highly mobile.

One of the city's assets is its regulatory approach to film issues: years ago, it created the film development office to ensure approvals, permits, etc., and stated that any conflict between a municipal department and the office would go straight to council. Unless that policy is clearly continued, the amalgamation of Metro municipalities "has the potential to disrupt what today is essentially a very efficient machine," Plant said.



Source: The Boston Consulting Group analysis of Statistics Canada data / Scotiabank

Think Big for Distribution

The GTA is the third largest centre of industrial buildings in North America after Chicago and Los Angeles, says Ilya Bahar, senior consultant, Coopers & Lybrand Consulting. Between 70 and 80% of the 800 million square feet of industrial space is used for distribution/warehousing.

Demand is solid. In today's market, 22 industrial buildings were built on spec and 21 of them were leased before completion.

Consolidation by major companies is leading to fewer local distribution centres, but the GTA, Calgary and Moncton are emerging as the three major regional centres. At the same time, outsourcing by schools, hospitals, etc. is increasing consolidation. Canadian distribution management and software is being used in major U.S. companies.

Southern Ontario, especially near the GTA, should market itself as a distribution hub. It needs to offer distribution "campuses", Bahar said, for various manufacturers' distribution centres, so they can share space and facilities, and allow trucks pick up different products.

Responding to the Challenge

One of the main challenges is how to sustain social cohesion and help wealth creation -- especially when "there isn't a lot of money to throw around", says David Crane, economics editor, Toronto Star. One of southern Ontario's greatest attractions is its quality of life, he pointed out.

It is vital to pay attention to all the people who may be marginalized, and to creating communities in the city. This will include improving early childhood development, and structuring volunteer groups and social groups.

Crane's other policy recommendations included:

- get the educational community involved in economic development decisions
- prepare an annual report on the GTA with economic and sociological data, such as number of high school drop-outs, welfare cases, health care outcomes, etc.
- increase funding to technology diffusion programs such as the federal Industrial Research Assistance Program (IRAP)

Other speakers added more.

Gordon Gow, executive vice president of business development and governmental affairs, Health Streams Technologies Inc. (former deputy minister economic development and trade): redefine infrastructure to include new technology, telecommunications, labs, etc.; provide tax incentives for in-house training and human resources development

Dr. Alan Rugman, professor of international business, Joseph L. Rotman Faculty of Management, University of Toronto: recognize that services are usually clusters of people and businesses servicing manufacturers; recognize that social capital is important: "housing in the downtown, safety, waste disposal, etc. are all assets"; understand that there is no such thing as a Canadian company any more: they are all North American companies now.

Jestin: undertake sector marketing, starting with this sector and broadening into other sectors as well; benchmark our regulations against international ones, harmonize regulations across the country and make tax treatment is revenue-neutral

Desrosiers: recognize the strong bond between consumers and automobiles, keep market opportunities strong and continue to encourage training and education programs

McCullum: stop assuming strong sectors are geographically inert cash cows; strengthen amenities and quality of life

The Ontario Response

Ontario has taken major steps to provide the kind of environment business needs, says Hon. Bill Saunderson, Ontario's Minister of Economic Development, Trade and Tourism.

It conducted a study of senior executives in the US, Japan, Germany and England. Half of them said they had no knowledge of Ontario as a place to invest. Of the ones that had some knowledge, 36% continue to perceive Ontario as a high tax jurisdiction.

So the province has started a major marketing campaign. In addition, it is "on track to eliminate the deficit by year 2000," Saunderson said. And "after we're finished the cuts to personal tax rates, we'll have the lowest combined federal/provincial taxes in Canada".

The province no longer gives handouts to industry – which has caused no complaints at all, he said. The total corporate tax burden is lower than in neighbouring states. In addition, Ontario has one of the most competitive tax systems for research and development in the world.

Finally, the amalgamation of Metropolitan Toronto will help the region's growth, Saunderson predicted. "I personally feel very confident that one strong unified city will capture the interest of business and investors around the world."

The Legislative Beat

by Andy Manahan, PLE

Property Taxes (Bill 106)
The Fair Municipal Finance Act, which was passed on May 26, will result in a consistent, uniform property assessment system in Ontario. All properties will have the same assessment year (1996). Municipalities will have up to eight years to implement the new system.

While there has been some criticism that the reform is really market value assessment in disguise, the Province should be complimented for tackling an issue that previous governments have been too timid to address.

There might be difficulties in applying the "current value" concept equally across all non-residential properties because not all assessments are based on the capitalization of rental income. Small retail properties, for example, which are valued using arms-length sales data, could be influenced by speculative activity if the property is at less than highest and best use. Municipalities will be able to create additional property classes, which might be a way to protect small businesses.

Certain groups such as seniors and the disabled will be protected from huge tax hikes on their homes by being able to postpone payment until the sale of the property.

On April 30, the Ministry of Finance announced a Business Education Tax Review Panel to seek input on a fair method of determining the allocation of education taxes for commercial and industrial properties. The deadline for comments was May 30.

Provincial Budget
Finance Minister Ernie Eves announced the province's budget on May 6th. Highlights included:
- The projected deficit for 1997-98 is $6.6 billion.
- Consumer spending is predicted to increase because of tax cuts, rising wages, stronger job creation and low interest rates.
- Two personal income tax cuts will occur: on July 1, 1997, Ontario's rate will fall to 47% and on January 1, 1998, it will be 45% of the basic federal rate.

Municipal/Provincial Responsibilities
The Association of Municipalities of Ontario (AMO) has been successful in convincing the Province that its original downloading plan would prove to be too onerous. The Province has agreed that school property taxes should be maintained at 50%, with the Province responsible for setting the education tax rate on all classes of property. In return, the Province will pick up the entire tab for long term care for the disabled and elderly, will pay 80% for welfare and family child care benefits, and will contribute toward the repair of co-op and non-profit housing.

Discussions on the municipal role in social housing continue. Don't expect a quick resolution to this issue as the federal government has not been able to negotiate a satisfactory transfer of administrative responsibility to the Ontario government, due to lack of a stated Ontario framework.

Tenant Protection Act (Bill 96)
Minister of Municipal Affairs and Housing Al Leach introduced The Tenant Protection Act, 1996 last November. After second reading, it is expected to be sent for three weeks of committee hearings. The province has left it up to municipalities to implement a fairer assessment rate on apartment buildings.

Development Charges Act (Bill 98)
Committee hearings on The Development Charges Act, 1996 were held in late March and in April. In a curious twist in procedure, on the last day of the hearings some scheduled presentations were cancelled. Then, two days later, the Hon. Al Leach tabled amendments which represented a retreat by the provincial government in terms of the intention to improve accountability by requiring municipal co-payment for eligible services.

As introduced last November, the Bill would have required municipalities to contribute 10% of the cost of new roads, water and sewer systems, hydro, police and fire services, and 30% of the cost of other new facilities. The amendments removed the municipal contribution for hard services, and said municipalities would be required to discount by 10 per cent the costs they could recover for facilities such as transit, arenas, libraries and community centres. In an open letter to the Premier, the Greater Toronto Home Builders' Association, outlined how the party's election promise to use development charges to fund growth-related hard services only, eventually eroded to the point where "the government caved in to the wishes of municipalities, by reducing the discount for soft services from 30 per cent to 10 per cent."

Fortunately, the government has not changed its position that facilities used by the entire community, such as museums, city halls and art galleries, would no longer be funded through development charges.

Municipalities will have up to 18 months from the date of proclamation of the new Act to establish new Development Charge bylaws, otherwise the old bylaws will expire.

It should be noted that these revisions deal only with municipal development charges. Responsibility for Part III of the current Act will be transferred to the Ministry of Education and Training and will be renamed the Education Development Charges Act.

Land Transfer Tax Refund Extended
On March 31, the Ontario government announced an extension of the Land Transfer Tax refund for first-time buyers of newly built homes. Agreements of purchase and sale have to be completed by March 31, 1998, the purchaser must take possession of the house by December 31, 1998, and the transfer must be registered by December 31, 1999. Rebates have averaged just over $1,200 since the program's inception in May, 1996. The maximum rebate is $1,725. Almost 13,000 households have taken advantage of the plan in the past year.

In addition, the Land Transfer Tax Act has been amended by eliminating the 20% premium paid by non-residents. This will benefit both cottage buyers and foreign-owned developers.

Andy Manahan is director of industry relations for the Ontario Home Builders' Association.