The Land Economist

Fall 1999, Vol 29, No. 3

Which is the more powerful allegory — the mask or the man inside? Samuel E. Wright plays Mufasa in The Lion King, coming to the Royal Alexandra Theatre in April 2000. Photo: Joan Marcus

This Professional Journal is published by the

Association of Ontario Land Economists

Administrative Offices:
144 Front Street West, Suite 650
Toronto, Ontario M5J 1G2

Phone: (416) 340-7818
Fax: (416) 979-9159

Call before you dig!

by David Gibson and Michael Real

The effects of Ontario's new Current Value Assessment (CVA) system on realty taxes for commercial, industrial and multi-residential properties through 1998, 1999, and 2000, have been mitigated by various capping provisions throughout Ontario. Tax increases have effectively been capped over 1997 by 2.4% + 2.4% + 2.4% within the City of Toronto; and by 10% + 5% + 5% in the remainder of the Province.

However, all new construction which commenced after January 1, 1998, including any new renovations which add value to the CVA, is subject to a new, arbitrary set of rules.

Any new construction on vacant land will initially be assessed under normal appraisal practices with a June 30, 1996 market value. In order to attain a semblance of equity with similar real properties in the vicinity, notional class factors have been developed for purposes of realizing a 1997 assessment. Within the City of Toronto, these factors are as shown in the chart to the right.

The above factors, when applied to the 1996 market value, indicate the estimated 1997 realty assessment. In order to complete this process, however, an additional notional business rate is also applied (42.6654% for commercial, 56.008% for industrial properties in Toronto) to arrive at the estimated 1997 business assessment. Realty and business assessments are then added together and multiplied by the prevailing 1997 mill rates, the result of which indicates the gross 1997 taxes that would have been paid. It is this derived figure which serves as the basis for calculating taxes in 1998, 1999 and 2000.

For all renovations commencing after January 1, 1998, which add value greater than 50% of the existing 1996 CVA, the same process as above would apply. If, however, renovations resulted in less than a 50% increase in the CVA for the property, the process changes slightly.

The 1997 realty assessment is determined in the same manner as shown above. The business assessment is calculated by subtracting the original 1997 realty assessment from the newly estimated 1997 realty assessment, the result of which is multiplied by the notional business assessment rate, and then added to the original business assessment. The total (realty plus business) assessment is then multiplied by the existing mill rate to determine the gross taxes for 1997. Once again, it is this derived figure which serves as the basis for calculating taxes in 1998, 1999 and 2000.

Photo: City of Toronto Economic Development Division

As mentioned at the outset, the above mentioned procedures are very arbitrary and empirical in nature. The most important point to remember is that, while relative values may be similar, resulting taxes may be quite dissimilar. Further, the whole process is up for review and may be changed.

October 30 Deadline — Vacancies and Excess Land

Property owners seeking relief for vacancies or for excess land for taxation year 2000 will have to apply on or before October 30, 1999, to the appropriate Regional Assessment Commissioner.

To qualify for relief as a vacant unit, the property (or portion thereof) must be, among other things:

- vacant for the entire three month period prior to October 1 of the year previous to the year one seeks relief (i.e., all of July, August and September in 1999 for 2000 tax relief), and
- physically separated from occupied portions of a building, and
- offered for lease, or leased but not yet occupied

To qualify as excess land, the portion of the property must, among other things:

- not be developed in any way, other than for land servicing,
- not be used other than for farming, and
- be in excess of municipal zoning requirements.

David Gibson is manager and Michael Real is senior consultant in the realty tax services section of Colliers International.

Banking on the theatre crowds

Anyone who tries to evaluate a theatre property in a normal, sensible way is off track, says David Mirvish, Toronto's well known theatrical producer and owner of the Royal Alexandra and Princess of Wales theatres.

"A theatre's value is in direct relationship to its ability to be used," he told the Association of Ontario Land Economists' dinner meeting on September 15. Sometimes the best use is to stay closed.

"An average play runs four to six weeks, he explained. "If i'm closed, I lose $20,000. But if I'm open and I have the wrong show playing, I can lose $500,000. It's a lot like gambling — on your own plays' success. "You want to be closed when you will lose money, and open when you will win," he said.

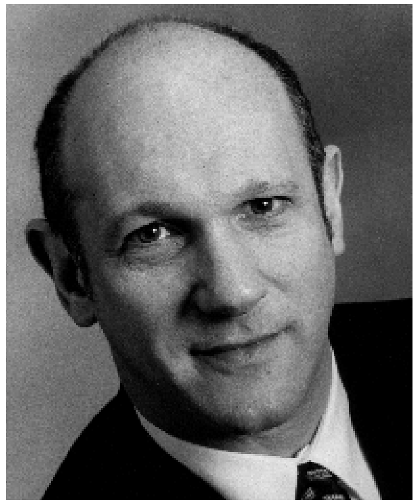
"If you know you can keep your building open all the time, its value increases dramatically. If you know it will be open part of the time, you can estimate the value. But if you don't know the programming — if it's just an empty theatre — what is the value then?"

Toronto is probably the second largest theatre centre in North America, and the third largest in the English speaking world, Mirvish said. The future "offers great potential, but also enormous risk". Toronto's nearest competitors — Boston and Chicago — have both been putting large sums of money into their downtowns. "Fifteen years ago, you wouldn't have wanted to go to Chicago, but now it's a great destination."

Pre-sales "take some of the risk out of the theatre — and give us the license to do creative work," he continued. For the Disney musical, The Lion King, which will play for 22 months at the Princess of Wales starting next April, tickets so far have only been available to season ticket subscribers. Sales are already 40 to 50% ahead of the very successful Les Miserables, for the same period. "This show has the potential to be as strong as Phantom," Mirvish said.

If it is, he will almost certainly take up his options to bring it back — options which can extend to 2007. And the deal says Lion King cannot play Chicago as long as Mirvish has unexpired options.

Theatre has a large, unrecognized economic impact, he said. A recent $10,000 ad in Buffalo offering packages in Toronto resulted in extensive spending locally — including 120 room nights at $175 a room. "We estimate the impact of that ad on this city is in the order of $400,000." Web sales can expand the market. In the first eight weeks, Mirvish's web site "went from 100 sales a week to 500." Future sales could include everything from postcards to sculpture.



David Mirvish

The Livent experience has had mixed impacts, he said. Whatever happens with Livent's former theatres "won't be any worse than having a competitor who can lose $19 million a year". But the level of spending and advertising did create a lot of buzz. "Theatre went to the front of the newspapers' Entertainment sections, before movies."

Mirvish speculated about possible future mixed use development centred on his theatres — and asked if anyone could give him a value for air rights over the Royal Alex and Princess of Wales.

Welcome New Members!

AOLE extends a warm welcome to the following people:

William A. Basztyk
Ph.D., MBA, FCIS, PLE
President
Glam Corporation
Toronto, Ont
416-299-5282

Michal Hasek
FRI, PLE
Owner/Broker
Michael Hasek Real Estate Ltd.
Toronto, Ont
416-487-8187

Craig R. Jamieson
MBA, PLE
Senior Consultant
Hemson Consulting
Toronto, Ont
416-593-5090 ext. 15

Douglas Lawson PLE
Property Management Officer
Aetna Life Insurance Company of Canada
Toronto, Ont
416-864-8489

Peter Norman
MA, PLE
Senior Associate
Clayton Research Associates Ltd.
Toronto, Ont
416-699-5645

Brian Dale Padfield
FRI, FPA, CMR, PLE
Manager
Coldwell Banker Padfield Realty
Mount Forest, Ont
519-323-3022

Michael J. Real
AIMA, PLE
Realty Tax Consultant
Colliers International Realty Advisors Inc.
Toronto, Ont
416-643-3472

Michael J. Skelly
MCIP, RPP, PLE
Consultant
Hemson Consulting
Toronto, Ont
416-593-5090 ext. 16

John I. Traitses
MIMA, PLE
Assessment
Hamilton-Wentworth Regional Assessment Office, OPAC
Hamilton Ont.
905-521-7226

Co-operation or crumbs?

by Rowena Moyes

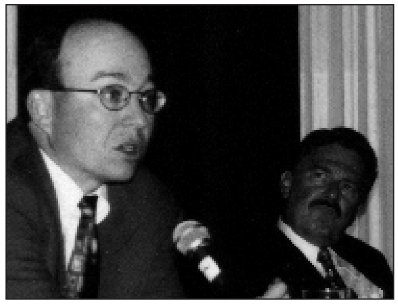
The two biggest challenges facing the Greater Toronto Area today are infrastructure funding and political co-operation. That theme recurred in speech after speech at the Association of Ontario Land Economists/Canadian Urban Institute joint seminar in June.

"Growth and Development in the GTA: Who pays? Who benefits?" started with a sobering assessment of the challenges.

Ray Simpson, partner in Hemson Consulting Ltd., pointed out that the population of the GTA is expected to reach 6.7 million by the year 2021, up from 4.7 million in 1996.

York is expected to add almost 650,000 people; Peel is next with almost 515,000; Durham will add just over 375,000; and Halton at almost 275,000 is still above Toronto's almost 270,000.

This growth "affects every aspect of our economy and our daily life," Simpson said. It is a tremendous opportunity — Toronto's economy is picking up again, and the outlook is bright. But it also brings massive new demands for infrastructure, particularly transportation. "There is no way current funding arrangements will come anywhere close to paying for what we need."



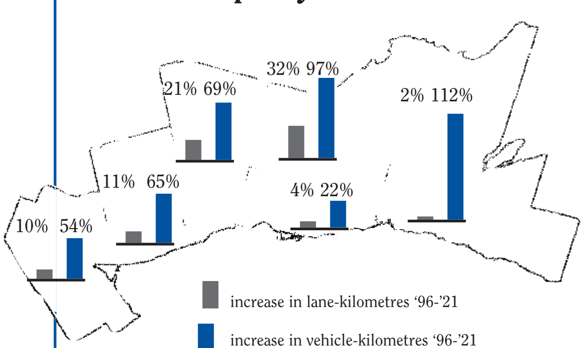
Terry Cooke, chair of Hamilton-Wentworth, outlines financial challenges as GTSB chair Allan Tonks looks on.

Already falling behind

Neal Irwin, managing director of the IBI Group, Toronto, reported that the GTA/Hamilton-Wentworth regions need to make capital investments of $935 million per year just to keep the road and transit systems workable — but they would be more congested than today because of population and employment increases.

"We're currently investing only $570 million a year — which means we have a shortfall of $365 million, even for a system which will fall further and further behind."

Projected increases in road usage significantly outstrip planned road capacity increases



Courtesy IBI Group

Expanding the capacity of the system so that it continues to perform about the same as today would take $1.15 billion a year, Irwin said, while expanding it quickly enough to reduce congestion would take $1.37 billion — almost two and a half times the current rate of investment.

Planned road expansions to 2021 will increase capacity by only 12%, while demand is expected to increase 59%. For transit, the figures are 9% and 28%, respectively. Roads alone cannot do the job, Irwin emphasized. Major transit improvements (including priority transit, with dedicated and "queue-jumper" lanes, and affordable rapid transit) will be needed as well.

"Soft governance"

Both men agreed senior levels of government must inject more money into the system — and politicians here must make the new Greater Toronto Services Board (GTSB) work.

GTSB Chair Allan Tonks didn't argue with that assessment. The GTSB is founded on "soft governance", he said — with no big sticks to enforce co-operation. But after a year and a half, the province will review the Board's progress. And if the experiment is judged a failure, the GTSB "will be replaced by a single service agency, or the province will step in to create entities or boards that are functionally integrated. That would be very much a retrograde step," Tonks said. "Whether we are up to the task of leaving our baggage at the door, or whether we end up fighting over crumbs — that is the basis on which we will be judged."

Provincial/Federal role

The province could do a lot to help, said Terry Cooke, Chair of Hamilton-Wentworth Region. For one thing, it could lay out time frames and minimum performance expectations for the GTSB. For another, it — and the federal government — could pass on more money.

But their record hasn't been great. Numerous reports have said putting social services onto the property tax base would be a mistake, Cooke said. "But for reasons of political expediency, the province has saddled regions with these responsibilities, which are a recipe for problems." When there is an economic downturn, demands for social services "will force upper tier municipalities to take funds out of other budgets — such as transportation."

Why Regions?

The GTSB has a role to fill, said Rob MacIssac, mayor of the City of

Burlington. But “it is probably a government-in-training”. And there are already too many levels of government in the area.

He questioned whether regions are really necessary. Halton, for example, “really only has discretion over about $11 million,” MacIssac said The rest of its budget consists of allocated funds. Deciding how to spend $11 million could be done through a co-operative services board, between Halton’s local municipalities.

Michael Fenn, the provincial deputy minister of Municipal Affairs, said the context has been changing for municipal financing: property tax reassessment, changing responsibilities, and changes to the Development Charges Act. Through the 1970s and 80s, high interest rates and heavy capital expenditure obligations caused municipalities to avoid debentures and local improvement area financing. Now that interest rates are low, municipalities should “consider whether there are advantages to tying financing to the useful life of the facilities”. Opening government services to competition, privatization, structured financing and re-use of brownfields can improve the municipal revenue picture, Fenn said.

More than roads

John Lattimer, president and CEO of Monarch Developments Ltd., added that building condominiums downtown “uses the existing infrastructure in the city, and it’s relatively inexpensive.” And there is certainly a demand for condominiums downtown.

But there’s also a demand in the 905 regions, he said. Also, opening the 407 highway to the east makes the old Pickering airport proposals look prescient.

Transportation from Toronto’s international airport is holding back the GTA’s economic development, suggested Ken Copeland, Chair of the Greater Toronto Marketing Alliance. The GTMA is a co-operative agency like the GTSB, but with private sector partners, provincial and federal government representatives.

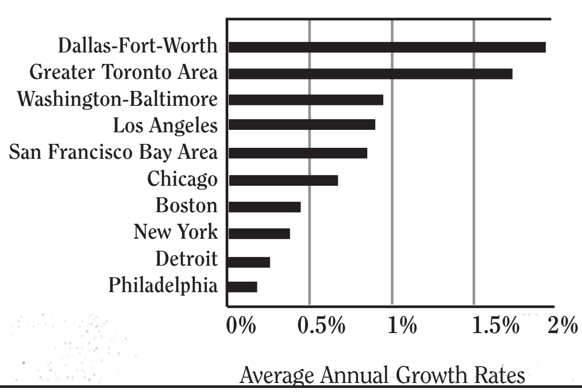
It has recently launched a $0.5 million international marketing package touting this area as “one of the most advanced, fibre-rich technological infrastructures and most highly skilled, diverse labour forces in North America”.

But companies who might be really interested in the GTA are starting to balk. “They’re saying: We’d love to but we’ve tried to get from your airport to the downtown,” Copeland explained. “It’s our job to take that information back to the municipalities, the province and the federal government.”

Toronto lawyer Bob Jarvis asks how the GTSB can build consensus without a "big stick".

Rowena Moyes is a Toronto-based writer and policy analyst, and editor of this Journal

GTA is among North America’s fastest growing city regions

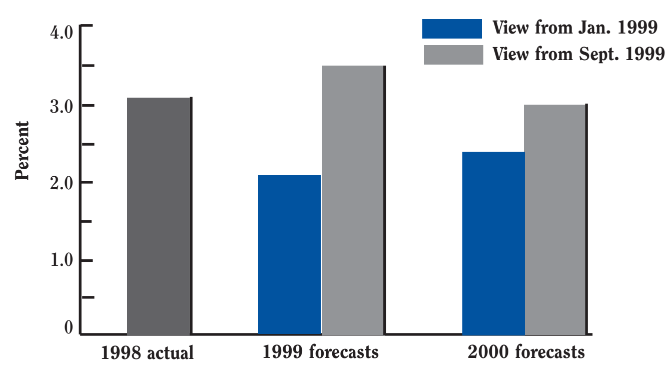


Courtesy Hemson Consulting Ltd.

Growth Forecasters

Getting a Better View

Percent change in real GDP Canada



Often the most telling characteristic of forecasts is how they change. The chart above shows the average of GDP growth forecasts by economists at four banks (Bank of Montreal, TD, Scotiabank, and CIBC) in January and September. This year has turned out to be a lot better than anybody thought at the outset. Even the view of 2000 is more rosy -- although in moderation! ***Peter Norman, Clayton Research***

Housing stays strong into 2000

By Gary McIlravey

Over the past three to four years, the new housing market in the Greater Toronto Area has undergone substantial growth. This article provides a brief illustration of changes to the market trend and some commentary on potential changes in demand levels over the next few years.

After the nation-wide recession of the 1991-92 period, total new housing sales have increased consistently in each year of the 1990's, moving from a low of 10,187 sales in 1992, to 28,020 sales in 1998.

The 1998 activity effectively represented a leveling off of demand, with similar totals to 1997. This led to some speculation of a slowing market in 1999.

However, sales so far in 1999 are at record levels for the decade. A total of 21,546 sales was recorded over the first seven months of 1999, for an average of 3,078 sales per month.

This pace is 21% higher than what was experienced over the same period in both 1998 and 1997. Assuming total market demand continues at the pace set over the first 7 months, total sales would reach almost 37,000 units by the end of 1999.

Total housing starts show a similar pattern as new housing sales, since 1996. However, over the first half of the 1990's, total starts exceeded total new home sales. This was largely because of the many non-profit, co-operative rental apartments started during this period.

The change to a PC government in 1995 led to the elimination of the non-profit program.

Since that time, there have been few rental starts of any kind. This has caused the pattern of total starts to virtually mirror that of sales in the ownership market, since this is virtually the only source of new residential construction, in the Greater Toronto Area.

The strong market demand experienced in the GTA since the mid-1990's is a result of the combined effect of a number of factors, including:

- continued recovery and expansion in the broader economy;
- high levels of housing affordability and price stability;
- continued strong in-migration to and population growth in the GTA;
- a shortfall of building activity over the first half of the 1990's;
- on-going tightening in the rental market, with virtually no new supply being built, a near-zero vacancy rate and higher rents occurring from the change to the Rental Housing Protection Act.

Initially, this renewal of housing demand was accommodated in the resale market. However, the expansion of demand created a shortage of available listings in the existing home market, which led to a increasing need for new housing, across most sectors of the market, in most locations.

Production shortfall

A key factor in the growth in demand has been a shortfall of new housing production prior to 1996, compared to underlying demographic growth. The GTA grew by a total of 127,798 new households, between 1991-96. However, over the same time period, just 99,463 units were started - a shortfall of 28,335 units, creating "pent-up" demand in the market.

Between the beginning of 1997 and the end of 1999, a total of some 94,500 units will have been started, compared to an average expected demand for 76,500 units over the same time period - a surplus of some 18,000 units. This means that while well over half of the 1991-96 "pent-up demand" will have been satisfied by the end of 1999, some 10,000 units will remain unsatisfied to start 2000.

With continued population growth and positive underlying economic fundamentals, this implies a potential starts target of some 35,000-36,000 units in the year 2000 - one more strong year for housing. Following this, a slowing of ownership-based demand seems likely, resulting from satisfaction of pent-up demand from the early 1990's, as well as a natural slowing of household growth.

Gary MacIlravey is Partner, Proof Positive Real Estate Research, in Georgetown.

President's message

The first thing I want to say is "Thank You". It is an honor to serve as your new president.

I would also like to take this opportunity to thank Bonnie Bowerman (our 1997-98 President), John Lang (our long-term Treasurer) and Michael Cane (now Immediate Past President) personally for all their efforts. Their contributions, both individually and together, have helped to really strengthen this Association.

We will miss Bonnie, who is retiring from Council. But I look forward to working closely with Michael and John over the coming year — as the AOLE moves forward with increasing strength in numbers and revenue.

GOOD NEWS! Over the past few months, our association has accepted 12 new members. You'll see a list of the most recent nine in this issue. We expect to see these numbers increase even further as our new marketing initiatives get under way.

Marketing for new memberships is just one of the avenues for growth which we will be pursuing in the coming year. Another is a broader presence in this high technology world within which we all now reside.

I am pleased to report that we have already had almost 9,000 hits recorded on the OLE website - from some 21 different countries. With the considerable investment we have made in developing this website, we are accomplishing our goal of increasing visibility and value.

In that same vein, it is with pleasure that I offer my appreciation and thanks to Allan Windrem for his efforts in developing our new membership directory. Alan has created both a complete membership listing, and, as the directory accepts advertising, a new source of revenue for the association. The new directory is presently being printed and will be circulated in the near future.

It is no secret to our members that our association has become a valuable resource over the past number of years. While we have avoided fee increases for a long time, we now face rising costs. In this regard, it was agreed at the Annual General Meeting that, as of April 1, 2000, our voting membership dues will increase by $15, to $175 a year.

In consideration of the quality of our speakers at annual and monthly meetings, as well as the overall standards we will maintain for all of our functions and gatherings and our informative Land Economist Journal, this increase is minimal and I believe will be supported by our membership at large.

Rest assured that, as your president, I will work diligently with the council to make this transition into the new millennium one that will strengthen our goals and objectives, enabling us to thrive for many years to come.

David P. Gibson

1999-2000 COUNCIL

President
DAVID P. GIBSON
Manager Realty Tax Services
Colliers International
416-643-3484 (O)
416-643-3470 (F)
David_Gibson@colliers.com

Past President and Nominating Committee Chair
MICHAEL CANE
Principal
Michael S. Cane Real Estate
Valuation Consulting
416-484-6906 (O)
416-919-2811 (M)
cane@istar.ca

Treasurer
EDWARD C. BRUCE
Vice President
Stewart, Young, Hillesheim
& Atlin Ltd.
416-979-2023 (O)
416-586-1828 (F)
edbruce@syha.com

JOHN BLACKBURN
CRU Communications Inc.
416-466-5816 (O)
416-465-6916 (F)
emma@istar.ca

Program Chair
IAN J. BROWN
Ian J. Brown Economic
Development
416-973-5081 (O)
416-203-9263 (F)
ianbrown@myna.com

Journal Chair
KEITH HOBCRAFT
President
Bosley Farr Associates Ltd.
416-486-9997 (O)
416-480-2589 (F)
hobcraft@ica.net

Internet Chair
KONRAD KOENIG
416-869-3600 ext. 5340 (O)
416-869-3525 (F)
kkoenig@sprint.ca

JOHN S. LANG
President
John Lang Appraisals Ltd.
416-225-2393 (O)
416-225-2394 (F)

Membership Chair
ALAN MOTT
416-368-6937
alanmott@istar.ca

Marketing/Membership
MICHAEL J. REAL
Realty Tax Consultant
Colliers International Realty
Advisors Inc.
416-643-3472 (O)
416-643-3470 (F)
michael_real@colliers.com

EDWARD SAJECKI
General Manager,
Development &
Infrastructure
City of Burlington
1-905-335-7883 (O)
1-905-632-9082 (F)
sajeckie@city.burlington.
on.ca

DAVID SANNA
Ontario Realty Corp.
416-327-2072 (O)
416-327-4194 (F)
sannad@idirect.com

Membership Directory
ALLAN WINDREM
Vice President, Development
G.M. Sernas Ltd.
416-213-7121 (O)
905-890-8499 (F)
anw@idirect.com

Noted with Regret

Robert "John" Bower, President of this Association 1970-71 and former Planning Commissioner of Metro Toronto 1974-88, passed away early this year. He is missed.

The Legislative Beat

by Andy Manahan

Election Results

On June 3, the Ontario electorate returned Mike Harris' Progressive Conservatives to Queen's Park with 59 seats. The Liberals received 35, and the NDP 9. The total number of seats was reduced to 103, from the previous 130.

The swearing in of the new Ontario Cabinet occurred on June 17, 1999. There are now 24 members of the Executive Council up one from the previous Cabinet. Twenty MPPs have been made Parliamentary Assistants.

The House will be reconvened around mid-October. Premier Harris' first major pre-election commitment was implemented on July 1 when the first phase of the 20% personal income tax cut was put in place. Ontario's income tax rate is now 38.5per cent of the basic federal rate.

Suggestions for Chretien

In July, two letters were sent to the Prime Minister of Canada. One urges Chretien to follow the lead of Ontario by easing the heavy federal tax burden, thereby creating jobs and spurring economic growth.

The second letter recommends that the Employment Insurance premiums be cut in order to create jobs. Premier Harris noted that Ontario contributed $7.8 billion to the EI system in 1998 but only received $3.1 billion in benefits. The cumulative EI surplus now sits at $25 billion.

Restructuring in Four Regions

The Municipal Affairs Minister has appointed special advisors to the Regional Municipalities of Haldimand-Norfolk, Hamilton-Wentworth, Ottawa-Carleton and Sudbury to assist in a 90-day consultation process to improve local government. This action is being taken to expedite the restructuring process that has resulted in savings elsewhere in the Province of $220 million annually.

The advisers must submit a written report to the Minister with recommendations on how to lower taxes, enhance or improve services, reduce the number of politicians and size of the bureaucracy and improve accountability at the local level.

Development Charge Credits

The Hon. Steve Gilchrist, Minister of Municipal Affairs & Housing has enabled landowners and developers to claim credits for lot levies paid under old municipal by-laws which were in effect prior to 1990 – 1991. Credit claims can be submitted to municipalities until October 31, 1999.

Tax Relief for Y2K Compliance

The deadline for small and medium-sized businesses' purchases qualifying for tax relief has been extended to October 31, 1999. Capital cost allowance deductions of up to $50,000 can be made in the year the purchase was made for eligible computer hardware and software, rather than over a period of years.

New Rent Guideline

The new guideline of 2.6 per cent is the lowest in the 25-year history of rent regulation. Additional increases can be applied for, however, under the *Tenant Protection Act*. Both vacated units and new buildings are exempt from these guidelines and there have been accusations that certain landlords are using pressure tactics to get rid of tenants in below-market rent structures.

Conversions

The Ontario Municipal Board has struck down a Toronto bylaw limiting the conversion of rental properties into condominium ownership. The OMB said the bylaw deals with topics which are already the subject of provincial legislation.

Environment Commissioner

Commissioner Eva Ligeti's four-year contract was not renewed by the Tories this summer. Her appointment had been made by an all-party committee of the Legislature. There is speculation that Ms. Ligeti was too critical of the program and staffing cuts made by the government.

Tax on Vacant Properties

The Ministry of Finance is asking interested parties to make submissions on how vacant business properties and seasonal residences should be treated for property tax purposes. The consultation process applies to year 2000 and future tax years. Contact Toni Skarica, MPP, Parliamentary Assistant to the Minister of Finance — phone: 416-325-6178; fax: 416-325-6428.

Condominium Regulations

A lot of the background work apparently has been done on regulations for reserve fund studies, performance audits and the registration systems. Performance audits are controversial: builders and developers feel these duplicate requirements already imposed by the Ontario New Home Warranty Program. Further consultations are expected this fall, with a "best guess" of introduction early in the new year.

Andy Manahan is Executive Vice President of the Council of Ontario Construction Associations.