

# THE Clark Report

DECEMBER 2005



REGIONAL

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OF COMPANIES

Regional's Clark Report is published to provide information and provoke debate on property matters. In this edition, efficient public policy and fair assessment/tax regimes are discussed.

Efficient public policy is essential to effective use of real estate. Key policy areas that affect property are assessment and taxation. A great deal has been said recently on assessment policy, and this article attempts to highlight some policy alternatives that exist elsewhere in Canada.

While Ontario's Assessment policy is under review by the Ombudsman's Office, tax policy can not be ignored. Tax bills for capped non-residential classes are almost incomprehensible, creating added compliance costs for both tax payers and local government. Residential taxes can create a burden for some pensioners, but legislation is in place that can mitigate some of these major challenges. This article provides some examples of less expensive alternatives.

Look forward to February's issue of the Clark Report which will focus on some of the economics of Heritage properties.

Comments are welcome and can be addressed to:

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## Efficient Public Policy and Fair Assessment/Tax Regimes can Co-exist

by John Clark

Public policy can accelerate the efficient operation of real estate markets. It can also put on the brakes. Land markets are governed by many government policies; zoning, title registration, and property taxes are some factors that drive the use of real estate, and their competent delivery is a key to efficient markets.

Examples of innovations by government in Canada are on occasion truly remarkable property advances. Use of geographic information systems (GIS) can be, and is being engaged to deliver accurate real time information on zoning and land use policies. For both investors and local municipalities, GIS saves time—time is money.

Title registration and electronic document retrieval are other pioneering examples. These services are rapidly becoming effortlessly accessible. Pay-per-use access creates a reasonably priced and self-funding system. An informed market place is by definition more efficient and minimizes opportunities for investors and regulators to be caught off guard.

An area of clear shortcoming is tax and assessment policy. Particularly in Ontario, these policies seem designed to create inefficiency. For both local government and property owners, current policies should be re-written to encourage transparency, stability, predictability and fairness. These are not delivered in Ontario, resulting in increased compliance costs for both local government and taxpayers. It does not have to be this way.

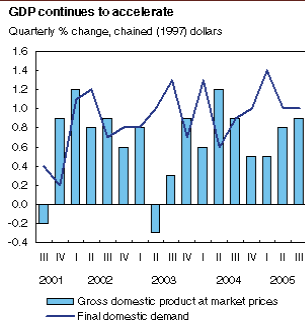
No one likes paying taxes, and few make the link between taxes paid and services received. While taxes of any kind are unpopular, property tax is an overall fair tax. It is generally progressive in relation to taxpayers' ability to pay and importantly, and, unlike consumption or income taxes, it is based on something that is hard to hide. Real property is easy to locate.

Property tax is for the most part a fair tax. Residential neighbourhoods are generally homogeneous in a socio/economic manner, and in most neighbourhoods, property values will lie within a reasonable range of each other. Value is driven by demand and

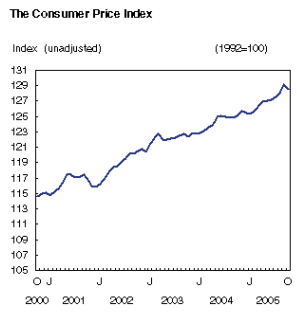
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## Snapshots

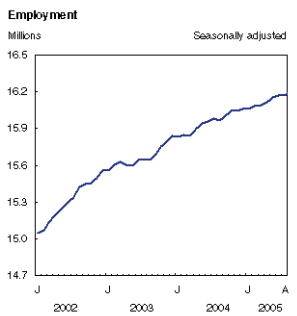
### Canadian Economics Accounts



### Consumer Price Index



### Labour Force Survey



## Regional Real Estate Consulting/Valuation

Practice areas include advisory services—development options; lease review—due diligence; valuation; and assessment and property tax administration. Value added benefits go to the bottom line. The Consulting and Valuation Division of Regional, through its due diligence work, has saved clients up to \$900,000 on single assets alone.

household income. So, with certain exceptions, most residents of most neighbourhoods will have similar household incomes and similar tax payment abilities.

Commercial and other non-residential real estate markets also behave in a generally consistent manner, and an understandable and fair assessment and tax system will result in owners of similar property in similar locations paying similar taxes. A competitive tax structure is essential to an efficient real estate marketplace.

If property tax is a good and generally progressive tax, why is it so misunderstood and unpopular? This flows from a lack of transparency in these areas: a) the impact of a reassessment and its impact on future taxes; b) market variables that lead to the assessor's opinion of value; and, c) assessment policy that underlies the process. These factors create skepticism, uncertainty, anxiety and lack of buy-in by taxpayers. A less confrontational and straightforward process could exist, and does in some jurisdictions.

**2005 PROPERTY ASSESSMENT NOTICE**  
 THE CITY OF CALGARY ASSESSMENT  
 This notice provides the property assessment on which your 2005 property taxes will be based.

**YOUR PROPERTY ASSESSMENT**  
**78,500**

Your property assessment is based on The City of Calgary's estimate of the market value of your property on July 1, 2004 and characteristics and physical condition on December 31, 2004.

Property Type	Taxation Status	Property Assessment Class	School Support
Land and Improvement(s)	Taxable	Non-Residential 78,500	Undeclared

**What is the effect of this year's Market Value Assessment on your property taxes?**  
 The table below shows how your property taxes have changed between 2004 and 2005, based on the reassessment. If council approves a tax rate increase for 2005, your 2005 tax bill will increase from the amount shown on this notice by the same percentage as the tax rate.

	PROPERTY ASSESSMENT	Property Tax Rate	Property Taxes
1	2004 Market Value Assessment 78,500 ✓	X 2004 Actual 0.02258560	= \$1,772.97
2	2005 Market Value Assessment 78,500	X 2005 Revenue Neutral 0.01994370	= \$1,565.58

1 Indicates your actual 2004 property assessment and taxes.  
 2 Indicates the effect of the 2005 reassessment on your property taxes.  
 The revenue neutral tax rate is calculated using a 0% change to education and municipal tax revenues.

Reassessment impact and the financial uncertainty it creates can be easily fixed. For example, in Calgary, assessment notices give both current and future assessments, plus current taxes and a revenue neutral projection of the tax impact of the new assessment. Right up front the taxpayer knows the impact. Residents still may not like reassessments, but at least they have the information.

Eliminating the mystery of assessment policy is harder, but assessment authorities could be open with the market data used in generating values. Why not disclose the basic data on transactions used in developing valuation models. Taxpayers can get this data, although with great difficulty, so why not be transparent with information that is in the public domain? More taxpayers could be informed and better understand the outcome of reassessments.

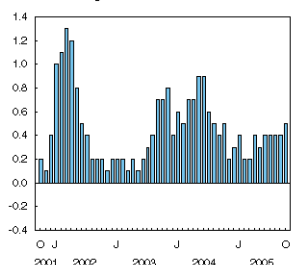
Significant shifts in assessment can lead to swings in tax burdens. This instability really frustrates taxpayers. Tax mitigating measures are available in some non-residential tax classes, however, Ontario's measures create enormous problems in the attempt to phase-in assessment driven tax changes, and lead to entrenching inequity.

Commercial property owners are faced with tax bills that generally do not contain enough information to allow the taxpayer to understand how the final tax bill is calculated. In addition to having above average commercial taxes, Ontario, in relation to other provinces, has elected to use a model that very few understand. Not only are we uncompetitive with total commercial property taxes, but also current phase-in policies create a climate of uncertainty.

## Snapshots

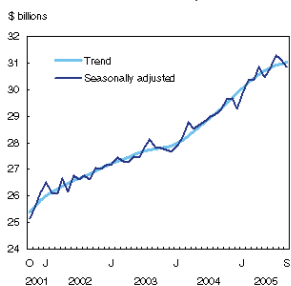
### Leading Indicators

Composite leading indicator  
Smoothed % change



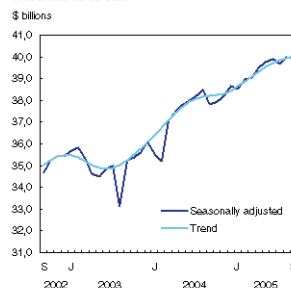
### Retail Trade

Autos drive down retail sales in September



### Wholesale Trade

Wholesale sales stall



Provinces like Quebec and Saskatchewan use a simple model with reassessments done more periodically, with values being held for 3 or 4 years. Changes in value resulting from reassessments can be divided by the number of years between reassessments, and each year the resulting portion is phased-in. Final taxes are based on a simple multiplication of the phased-in assessment and tax rates. Property owners could follow this logic.

Ontario's commercial tax system is almost incomprehensible. It can and also does create the situation where challenging incorrect assessments is not feasible, with the current system adding to an already uncompetitive tax structure.

Residential taxpayers can be the worst affected by assessment changes. In those occasions where an assessment may be incorrect, most homeowners are not in a position to hire consultants. The lack of transparency in the assessment process increases their difficulty, as it is challenging for most ratepayers to dissect the process and see if fairness in fact exists. Further, for older residents who are on fixed incomes, an added challenge is created when they live in neighbourhoods that have become increasingly popular with rapidly rising property values and assessments.

Senior's on fixed incomes may be potentially asset rich, but for them a market-based property tax system may not be progressive. In other provinces, BC being one example, residential tax deferrals are available. A senior's tax bill can be deferred until some future date when the property is sold. In the mean time, the owner is able to continue living in their long-time home and neighbourhood. Additionally, they win from the prospect of continuing increases in the value of their house, which may be important for them in their future. Local government wins politically in the short term, plus in the longer term deferred taxes are recovered when the affected house is eventually sold.

Legislation is in place to assist Ontario municipalities in providing fairer tax regimes. Section 365(1) of the *Municipal Act* reads:

*"The council of a local municipality may, in any year, pass a by-law to provide for the cancellation, reduction or refund of taxes levied for local municipal and school purposes in the year by the council in respect of an eligible property of any person who makes an application in that year to the municipality for that relief and whose taxes are considered by the council to be unduly burdensome, as defined in the by-law."*

Local government probably is in a position to pass by-laws that would allow the deferral of burdensome residential taxes. The incomprehensible nature of Ontario's commercial property taxation is not fixed as easily, and would depend on amendments to the Municipal Act. Continuation of the inequity that the current tax regime maintains is not the best option, and looking to other jurisdictions for solutions may provide the answers.

Property tax can be much more progressive, negative impacts from shifts in assessment can be mitigated, and tax policy can be easily understood.

*The assistance of staff from the City of Calgary and BC Assessment is gratefully acknowledged.*

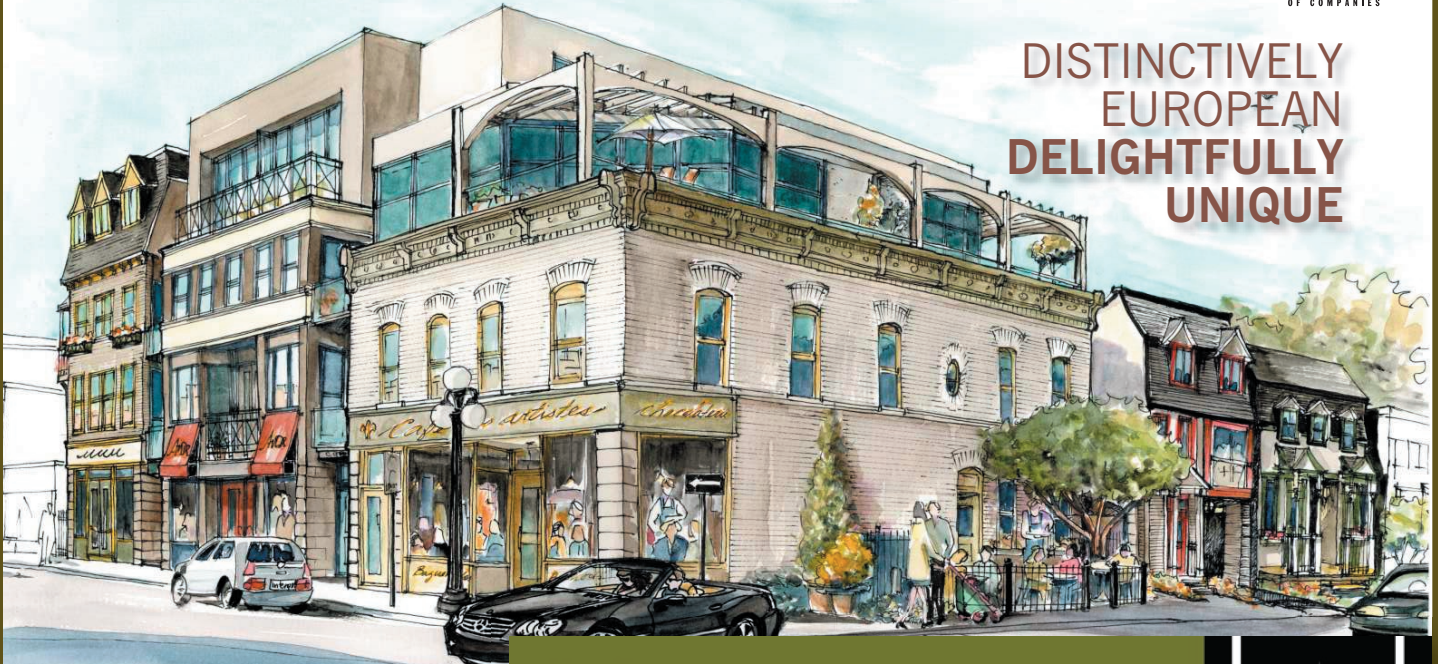


PHOTO: COUVRETE / OTTAWA

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John Clark, AACI, Vice President—Consulting/Valuation, is responsible for Regional's client advisory services. Mr. Clark is a published author on property matters and professional development, and is a Past President and Fellow of the Appraisal Institute of Canada.

*"Success comes from the right to make decisions tempered by the responsibility to respect the rights of others."*



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Spring 2006 Occupancy

## MONTMARTRE ON THE MARKET



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One storey and two storey Euro lofts are priced starting from \$240,000 including parking and locker. Heritage townhomes, flats and semi-detached homes are also available for sale—pricing and specifications have not been finalized. For priority registration call 562-4087.



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