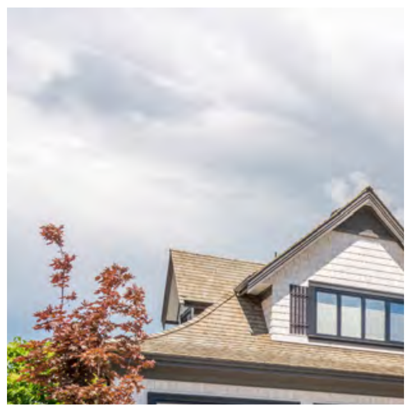
CANADIAN PROPERTY TAX RATE BENCHMARK REPORT

2019



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ABOUT THE REPORT

Over the last 16 years, we have benchmarked and analyzed property tax rates of major urban centres across Canada to identify the ratios of tax rates between commercial and residential properties.

Property tax is the main source of revenue for Canadian municipalities and is used to fund services such as road repair, education, recreational programs and public transit. Both residents and business owners pay property taxes, but the rate they pay varies depending on whether the property type is commercial or residential – taxing authorities set these rates at their discretion.

The issue and subsequent argument that arises is the perceived fairness of the different property tax rates paid between commercial and residential taxpayers, and who should proportionally fund more, or less for municipal services – businesses or residents.

The findings of this report are used by Altus Group and REALPAC to create dialogue with taxing authorities about tax fairness, influence public policy and promote a healthy business environment for the real estate sector.

Competitive property tax rates contribute to healthy local economies. Canada's commercial and investment property industry is working with governments across the country to ensure that tax rates and ratios support some of our commonly shared objectives: to attract jobs, ensure stable jobs, small business success, retirement and investment income, and provide homes for all Canadians. Meeting these objectives will require governments to lower and maintain tax rates at a reasonable level.

– Michael Brooks, CEO, REALPAC

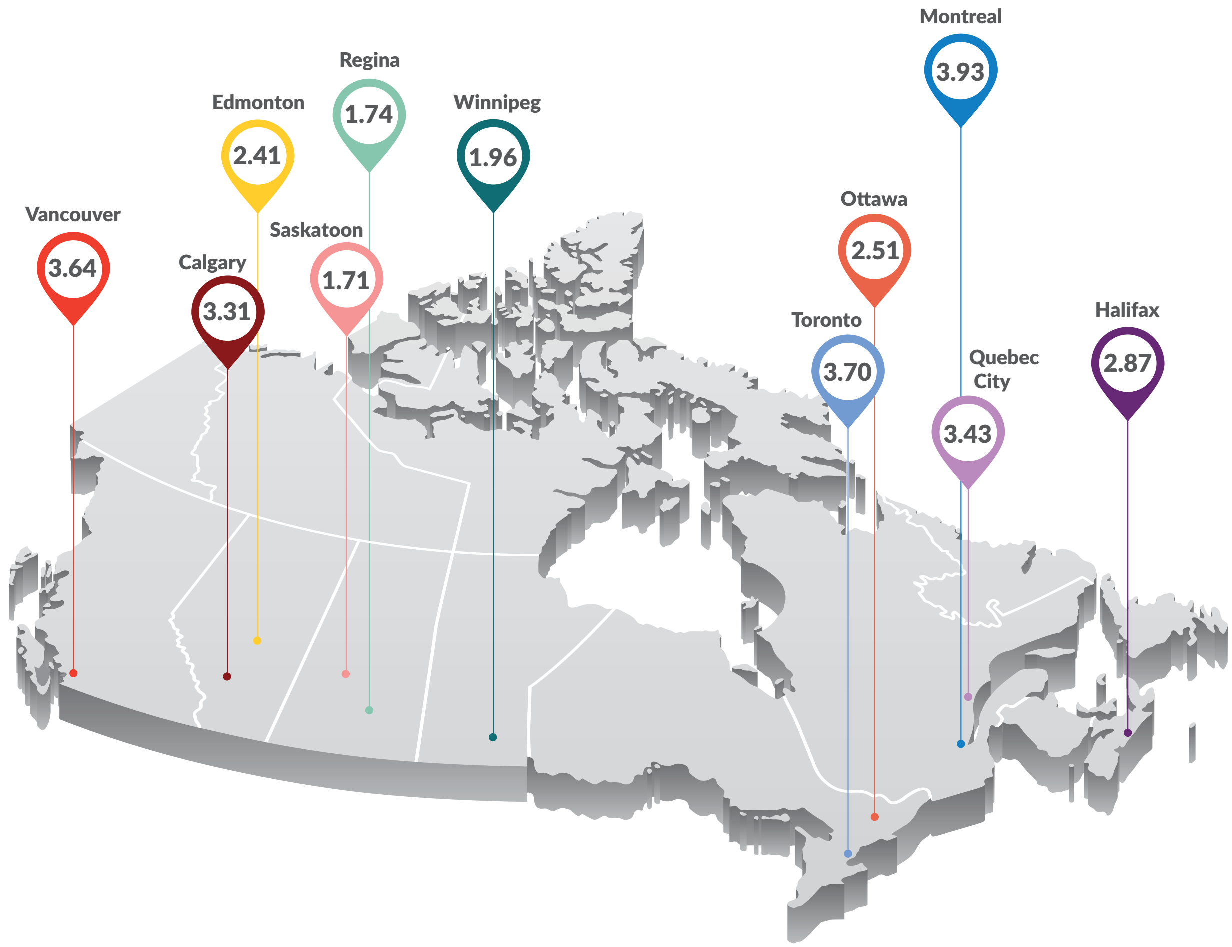
"WHAT'S FAIR?"

The case for lower commercial property tax rates

High commercial property taxes place a greater weight on businesses to contribute an unequitable share of municipal budgets. While every homeowner would appreciate paying less property tax, it is important to balance the burden paid by businesses in each city. Lower commercial property taxes help make cities more competitive, promote job growth and investment, and subsequently generate more stable and sustainable revenue.

2019 COMMERCIAL-TO-RESIDENTIAL TAX RATIOS OF MAJOR URBAN CENTRES ACROSS CANADA

The map below shows the 11 cities surveyed and their respective commercial-to-residential ratios. In 7 out of 11 municipalities across Canada, commercial tax rates are at least 2.5 times greater than residential tax rates.



About commercial-to-residential tax ratios

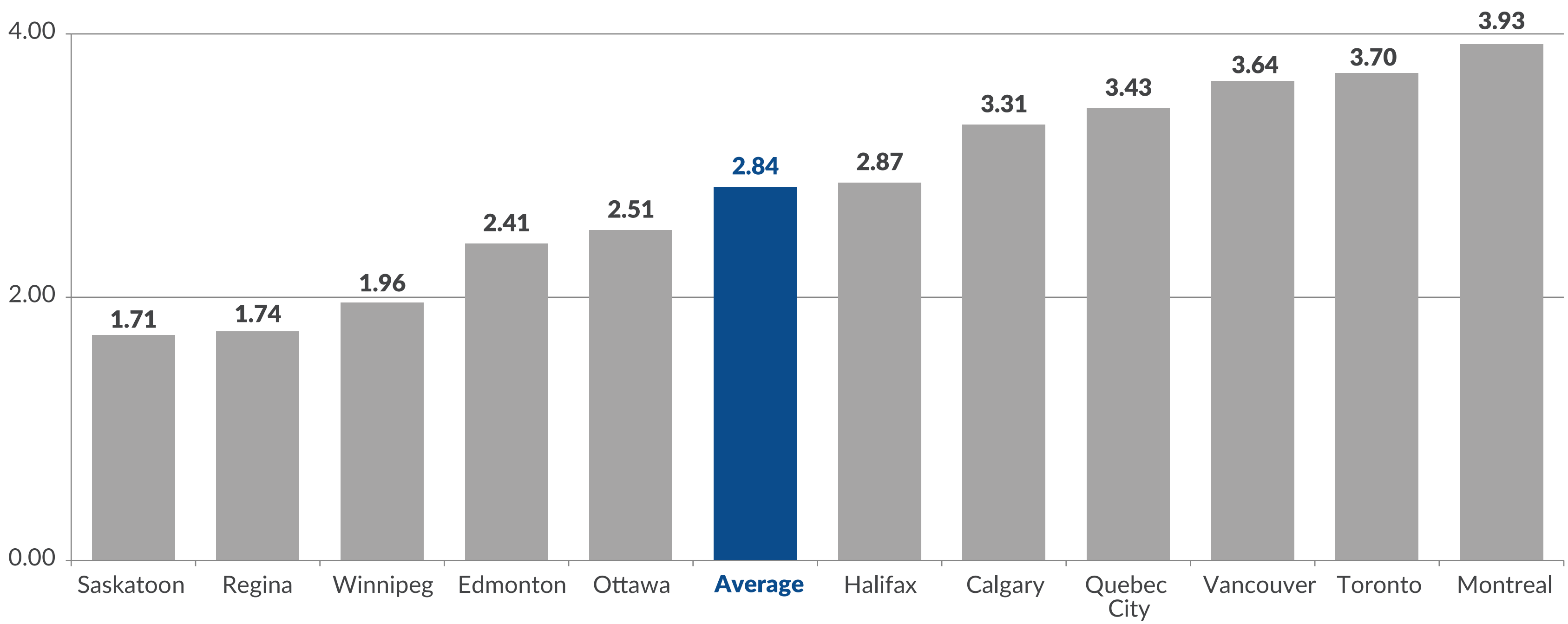
Commercial-to-residential property tax ratios compare the commercial tax rate versus the residential tax rate. For example, if the ratio is 2.50, this means that the commercial tax rate is two-and-a-half times (2.5x) the residential tax rate. Therefore, a commercial property valued at $1 million dollars would incur property taxes 2.5x times higher than an equally valued residential property.

2019 COMMERCIAL-TO-RESIDENTIAL TAX RATIOS

The average commercial-to-residential tax ratio for all municipalities surveyed in 2019 was 2.84 as compared to 2.90 in 2018. This minor decrease is the result of eight cities lowering their ratio in 2019 as opposed to five cities lowering their ratio in 2018. Most significantly, for the first time in at least 20 years, Vancouver's ratio dropped below 4.0, with a decrease of 17.17%.

While Montreal, Toronto and Vancouver continue to post the highest commercial-to-residential ratios, Montreal has now taken the top spot for highest commercial-to-residential property tax ratio, reaching 3.93. Additionally, Calgary saw the largest increase in the survey for the second year in a row with a jump of 8.31% to 3.31. For the first time in six years, Halifax now sits slightly above average with a ratio of 2.87.

2019 Commercial–to–residential tax ratios



Figures in this chart are calculated by dividing the commercial tax rate by the residential tax rate to obtain a ratio. Where mill rates are applicable, the mill rate is multiplied by the mill rate factor before calculating the ratio.

YEAR-OVER-YEAR COMMERCIAL AND RESIDENTIAL TAX RATE ACTIVITY

	COMMERCIAL/RESIDENTIAL RATIO				COMMERCIAL				RESIDENTIAL			
CITY	2018	2019	Change in Ratio	% Change	2018	2019	$ Change	% Change	2018	2019	$ Change	% Change
Vancouver	4.398	3.643	(0.755)	-17.166%	$10.854	$9.329	$(1.525)	-14.049%	$2.468	$2.561	$0.093	3.764%
Calgary	3.056	3.310	0.254	8.305%	$19.426	$22.022	$2.595	13.360%	$6.357	$6.654	$0.297	4.667%
Edmonton	2.443	2.406	(0.036)	-1.491%	$21.219	$21.850	$0.631	2.973%	$8.687	$9.081	$0.394	4.532%
Saskatoon	1.722	1.713	(0.010)	-0.576%	$14.910	$15.251	$0.341	2.286%	$8.656	$8.905	$0.249	2.878%
Regina	1.744	1.742	(0.002)	-0.126%	$16.548	$16.971	$0.423	2.556%	$9.488	$9.743	$0.255	2.686%
Winnipeg	1.985	1.962	(0.023)	-1.143%	$24.052	$24.196	$0.144	0.598%	$12.119	$12.332	$0.213	1.761%
Toronto	3.783	3.703	(0.079)	-2.093%	$24.039	$22.768	$(1.271)	-5.287%	$6.355	$6.148	$(0.207)	-3.263%
Ottawa	2.595	2.509	(0.086)	-3.322%	$27.724	$27.010	$(0.714)	-2.575%	$10.684	$10.767	$0.083	0.773%
Montreal	3.782	3.931	0.149	3.942%	$37.764	$37.977	$0.212	0.562%	$9.986	$9.662	$(0.325)	-3.251%
Quebec City	3.568	3.434	(0.134)	-3.749%	$36.087	$34.823	$(1.264)	-3.503%	$10.114	$10.140	$0.026	0.256%
Halifax	2.798	2.870	0.071	2.542%	$33.735	$34.320	$0.585	1.734%	$12.055	$11.960	$(0.095)	-0.788%
AVERAGE	**2.898**	**2.838**	**(0.059)**	**-1.353%**	**$24.214**	**$24.229**	**$0.014**	**-0.122%**	**$8.815**	**$8.905**	**$0.089**	**1.274%**

Figures in this chart are calculated by multiplying the tax rate by 1000 to give the taxes paid per $1,000 of assessment.

COMMERCIAL RATES

The average estimated commercial property taxes per $1,000 of assessment among the cities surveyed was $24.23, representing a minor decrease of 0.12% between 2018 and 2019.

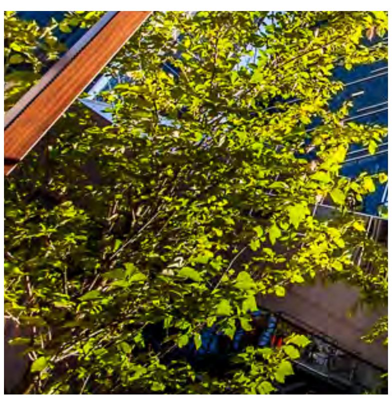
For the ninth consecutive year, Montreal, Quebec City and Halifax posted the highest estimated commercial taxes per $1,000 of assessment. The commercial tax in Montreal and Quebec remains significantly higher than the other regions. Despite commercial values rising in Montreal, the commercial tax rate has continued to increase in 2019.

Calgary saw the largest increase in commercial tax rates for the fourth year in a row, jumping by 9.48% in 2018 and again in 2019 by 13.36%. This represents an overall increase of 55% in Calgary's commercial tax rate since 2015. The downtown office market continues to struggle due to high rates of vacancy and declining lease rates which are driving down office assessment values. Ultimately, the result is a shrinking overall non-residential assessment base.

Edmonton, Regina and Saskatoon saw increases of 2.97%, 2.56% and 2.29%, respectively. Commercial rates fell in Ottawa by 2.58%.

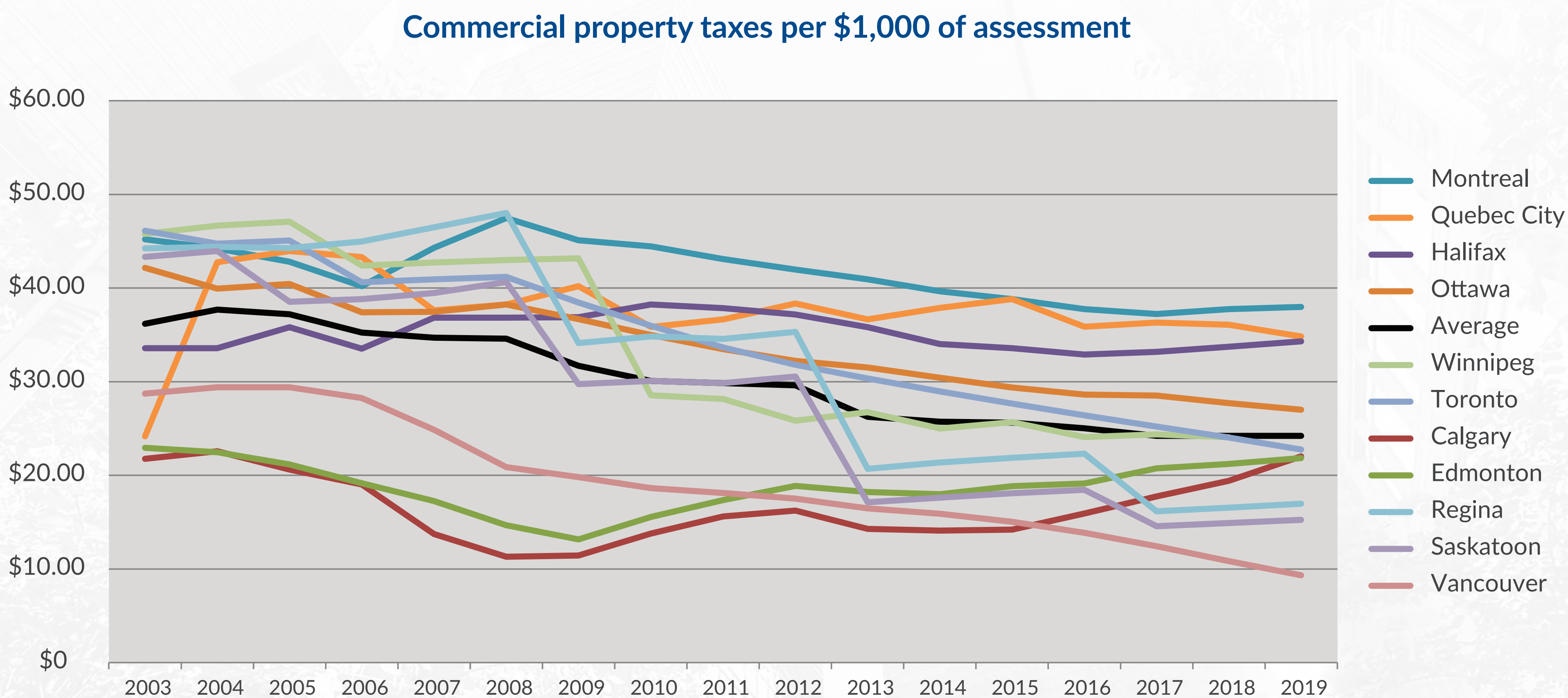
Vancouver's commercial rates saw the largest drop of the cities surveyed for the second year in a row, decreasing by 14.05%. This is the fourteenth year in a row that Vancouver's commercial rates have gone down. Toronto also continued its eleven-year trend of lowering commercial rates with a decrease of 5.29%.

It is worth noting that every city east of Toronto in the survey lies on the higher end of the commercial tax rate spectrum, all sitting above the average.



2019 Estimated commercial property taxes per $1,000 of assessment

Figures in this chart are calculated by multiplying the commercial tax rate by 1000 to give the taxes paid per $1,000 of assessment. Where mill rates are applicable, the mill rate is multiplied by the mill rate factor before calculating the ratio.



Figures in this chart are calculated by multiplying the commercial tax rate by 1000 to give the taxes paid per $1,000 of assessment. Where mill rates are applicable, the mill rate is multiplied by the mill rate factor before calculating the ratio.

RESIDENTIAL RATES

The average estimated residential property taxes per $1,000 of assessment among the cities surveyed was $8.91, representing an increase of 1.27% year-over-year.

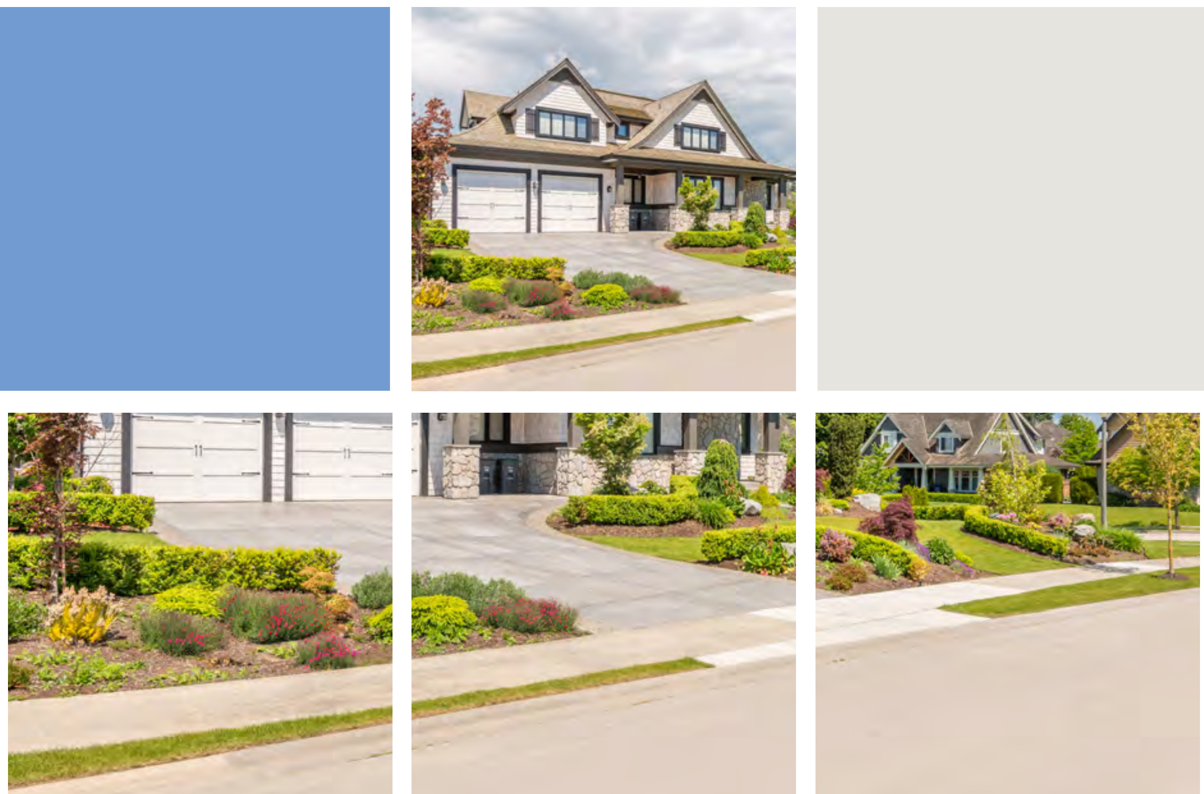
Residential rates increased across the board in Western Canada. Calgary, Edmonton and Vancouver saw increases of 4.67%, 4.53% and 3.76%, respectively.

This marks the first time in 16 years that Vancouver's residential rate has increased. According to BC Assessment, the taxable residential assessment base in Vancouver decreased by $1.95 billion, or 0.56%, between 2018 and 2019. This illustrates the inverse relationship between changes in tax rates and the assessment base. As assessments decrease, the tax rate needs to increase in order to maintain levels of taxation necessary for city operations.

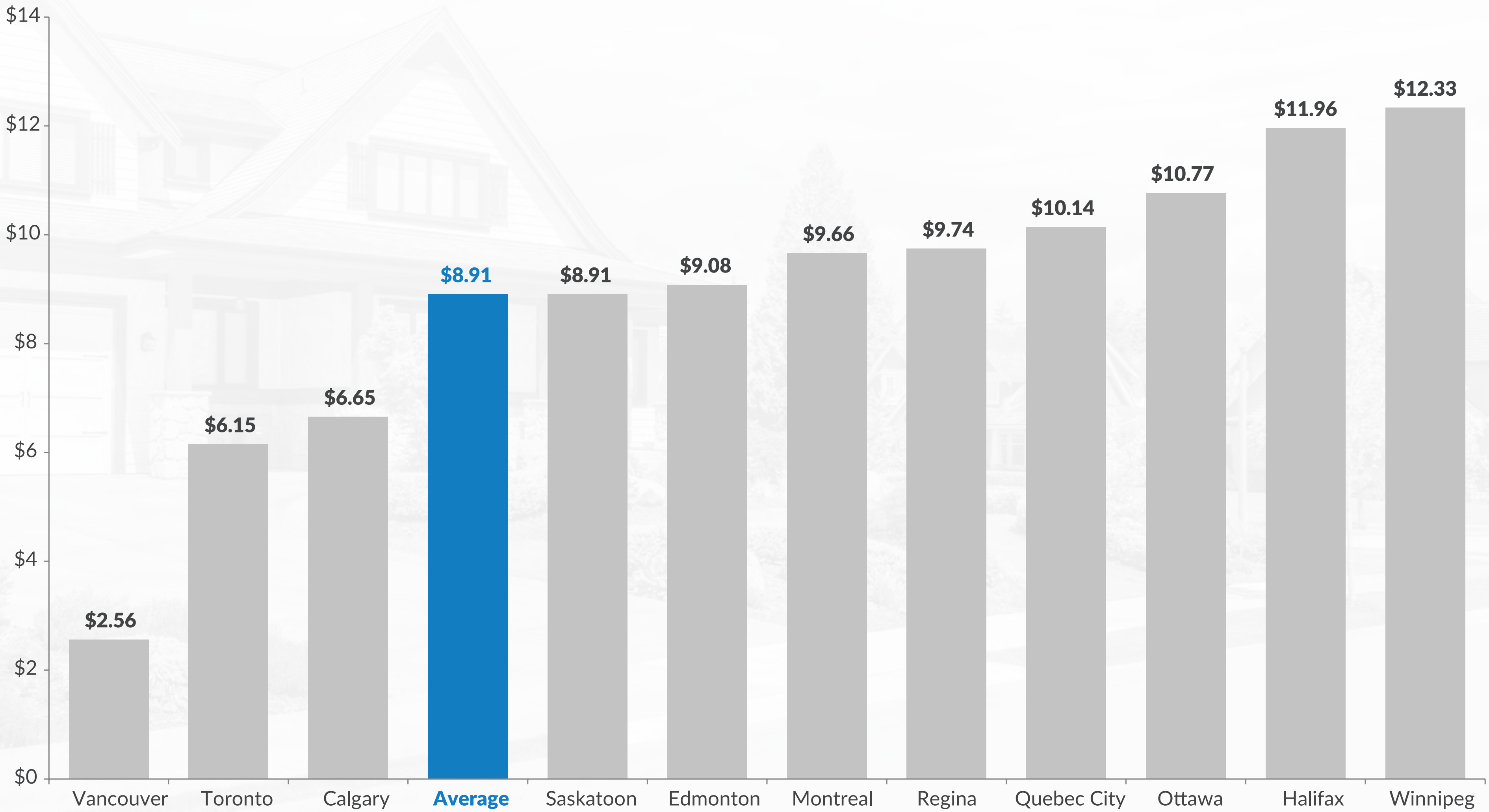
Saskatoon, Regina and Winnipeg also saw increases ranging from 1.76% to 2.88%.

Meanwhile, Toronto and Montreal experienced the largest drops in residential rates at 3.26% and 3.25%, respectively. Larger assessment bases allowed Toronto to decrease residential tax rates for the eleventh consecutive year.

Overall, Winnipeg, Halifax, Ottawa and Quebec City posted the highest 2019 residential rates per $1,000 of assessment.

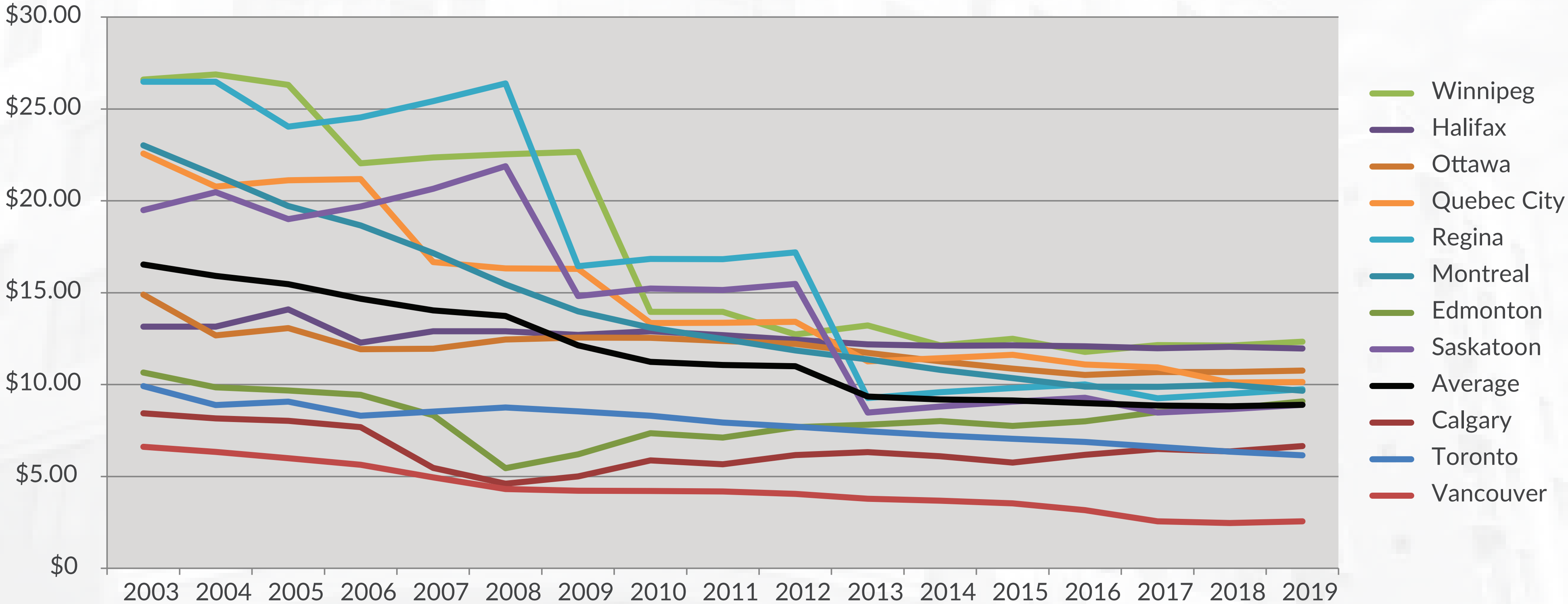


2019 Estimated residential property taxes per $1,000 of assessment



Figures in this chart are calculated by multiplying the residential tax rate by 1000 to give the taxes paid per $1,000 of assessment. Where mill rates are applicable, the mill rate is multiplied by the mill rate factor before calculating the ratio.

Residential property taxes per $1,000 of assessment



Figures in this chart are calculated by multiplying the residential tax rate by 1000 to give the taxes paid per $1,000 of assessment. Where mill rates are applicable, the mill rate is multiplied by the mill rate factor before calculating the ratio.

2003 - 2019 TREND ANALYSIS

Vancouver – the ratio has dropped below 4.0 for the first time in 20 years. With a decrease of 17.17%, the city experienced the largest drop of all the regions surveyed. A substantial decrease in commercial rates combined with a simultaneous increase in residential rates precipitated such a pronounced drop in the city's ratio. Since 2017, Vancouver's ratio has declined a total of 25.2%, from 4.87 to 3.64.

Calgary – the commercial-to-residential ratio has trended upwards for six consecutive years, this year experiencing the largest increase of all the regions surveyed. This is the second year in a row that Calgary has seen the largest increase in the study, with a jump of 8.31%. These increases can be attributed to a rapidly rising commercial tax rate caused by three main factors - a shrinking commercial assessment base, consolidation of the business tax into commercial taxes and higher municipal funding requirements.

Edmonton – has remained relatively stable since 2015, posting a ratio of 2.41.

Winnipeg, Regina and Saskatoon – ratios have all remained stable since 2017, posting ratios of 1.96, 1.74 and 1.71, respectively.

Toronto – continued its 15-year trend of decreasing ratios in line with its stated goal of a target ratio of 2.5 by 2023. However, commercial rates will need to come down more if Toronto is to meet this goal ratio.

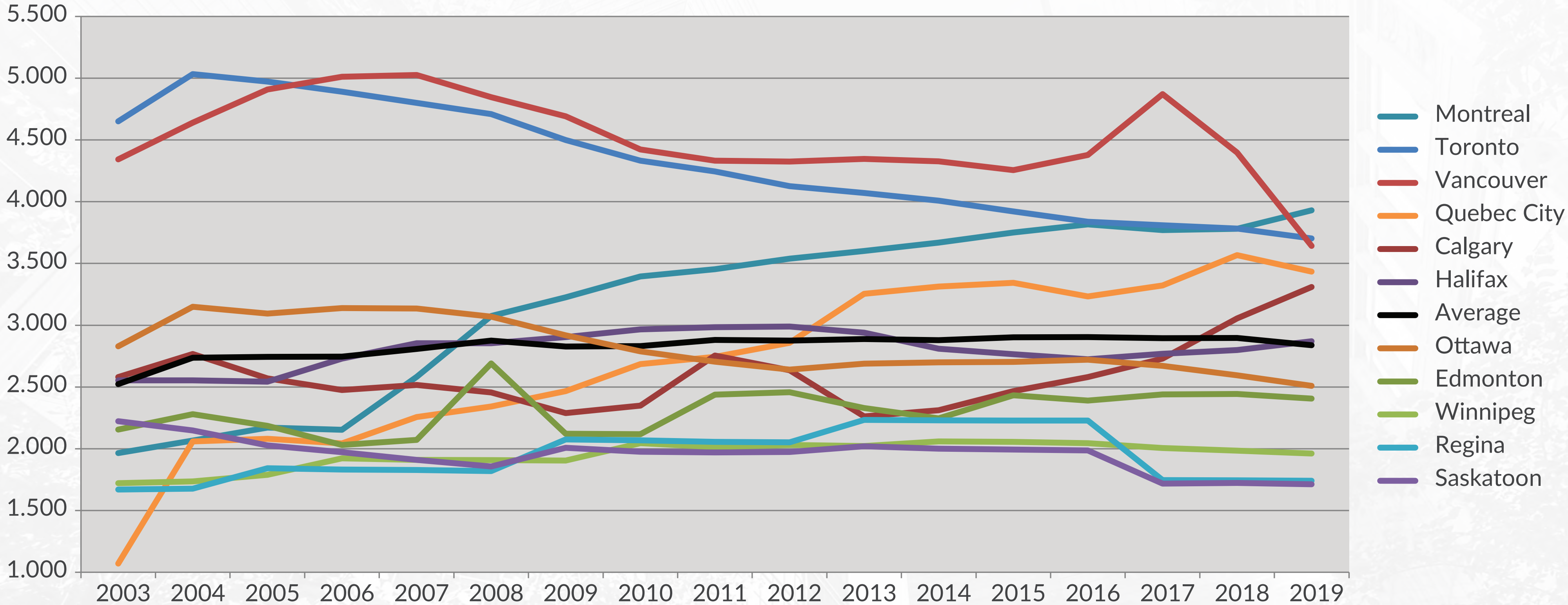
Ottawa – has remained relatively stable since 2010 but has slowly been decreasing since 2017 and now posts a ratio of 2.51.

Montreal – the ratio first rose above the average in 2008 and has been steadily climbing since, now sitting at the top of the cities surveyed with a ratio of 3.93.

Quebec City – the ratio has also been steadily climbing between 2003 and 2018. In 2019, the ratio has slightly dropped by 3.75% at 3.43, which remains in the higher range.

Halifax – the ratio has remained relatively stable since 2006 but has slowly been increasing over the past few years and now sits above the average for the first time in six years.

Commercial-to-residential tax ratios 2003 - 2019



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SPOTLIGHT

ARE PROPERTY TAXES KILLING SMALL BUSINESS RETAIL?

The rising valuations on commercial properties in Vancouver, Toronto and Montreal has put pressure on the sustainability of small commercial businesses operating in urban environments.

These small commercial properties, which not too long ago were valued based on the capitalized value of their net rents, are now valued much higher because of their future development potential (also known as air rights). As a result, their assessed value has risen more dramatically in comparison to other properties making it no longer financially feasible for some businesses to continue operating.

Several commercial properties along the Marine Drive corridor in North Vancouver witnessed assessment increases of 50% this year and some properties on Yonge Street in Toronto saw their assessments increase by well over 100% on the last reassessment.

This is now starting to become an issue in Montreal as property taxes paid by retailers located on Montreal's main streets have grown much faster than inflation in recent years. The most affected street remains Sainte-Catherine, where taxes have increased by 10% on average each of the last three years. The new triennial assessment roll for the 2020 tax year in Montreal is showing assessed values on Sainte-Catherine street to be up another 15% on average, compared to an increase of approximately 10% on the overall commercial assessment base, indicating further significant tax increases are likely to come.

While small retail in Toronto, Vancouver and Montreal is being impacted by rising values, Calgary retailers are being equally impacted, but by declining values.

In Calgary, the rapid decline of values of downtown core office buildings has caused a similar redistribution of taxes to small commercial properties which have not declined in value at the same rate. The City's retail and entertainment districts, such as 17th Ave (Red Mile), Inglewood and Kensington, have been hit particularly hard. These areas have seen large increases in assessed values, partly due to demand for mixed-use residential projects and speculative investment in select sites. Sharp increases in assessments combined with a huge increase in the tax rate have caused the doubling and tripling of taxes for many of these retailers.

While each city is addressing this issue with their own unique approach, unfortunately these solutions will compound the problem of inequities in commercial property taxes and create further disparities in commercial tax rates.

What's Being Done?

MONTREAL

In its 2019 budget, Montreal introduced a reduced tax rate for commercial properties on their first $500K of value in an attempt to address the increasing pressure of tax burdens on small businesses. This rate is 15% lower than the general commercial rate. However, the average building value on Sainte-Catherine street is approximately $26M, therefore the impact of the reduced tax rate on the first $500K of assessment is not significant. In addition, the tax rate above $500K of assessment went up from 3.19% to 3.20% between 2018 and 2019. The properties with assessments well above $10M are, to an extent, financing this measure.

In addition, Montreal has adopted a strategy that will see tax expense growth for commercial buildings grow 25% slower than for residential buildings until 2023. This measure is intended to rebalance the weight of property taxes and reduce the gap between commercial and residential tax rates.

CALGARY

After tax bills had been mailed in June 2019, Calgary city council approved a $131M rebate program to mitigate huge increases in 2019 tax bills for businesses. In the two previous years the City implemented similar one-time rebate programs to the tune of $45M each year. While these programs have been noted as effective in providing temporary relief to struggling businesses, there has been criticism that they are only a "band-aid" solution to a systemic issue and have contributed to the drain of the City's reserve funds. The temporary rebates only defer the problem and create a "bow wave" effect that will see businesses faced with even larger increases the following year. The rebate programs also come with a set of complex qualifying criteria based on previous year's taxes and exclusionary factors. In implementation, the rebate creates systemic inequities as it provides different tax rates for all properties, leaves many businesses ineligible for the relief and rewards better performing real estate assets with lower tax rates.

VANCOUVER

Faced with mounting pressure from business groups, the City of Vancouver has approved a 2% shift in tax burden from commercial to residential taxpayers. This move is a positive step in reducing the City's high commercial tax ratio, which will provide some relief to all commercial properties in the city.

Vancouver is also looking at other options targeted more at the issues facing small businesses, including a proposed new approach to taxing commercial properties with redevelopment potential. The proposal being considered is to have a split assessment in which there is a separation of classification of the existing commercial use of the property and the commercial development potential. The aim would be to add a new sub-class of business property for the portion of the assessment attributed to the redevelopment rights, which would then be taxed at a different rate than the existing commercial property.

The tax rate applied to this new sub-class would either be equal to the residential rate or a rate somewhere between the residential and commercial rates. This could then ultimately lower the total property tax owed for the property and ideally lead to a decrease in the squeezing out of small businesses due to property tax issues. However, these measures, which may or may not be implemented, would apply to a broad class of properties and would not be targeted to the issue facing small business.

TORONTO

The City of Toronto approved a cap on tax increases of 10% for the 2018 tax year, applying to all properties in the commercial, industrial and multi-residential tax classes. This move represented a change in direction, as the city had been working to phase out tax capping which was first introduced in 1998 as a short-term measure to mitigate tax shifts caused by the province's move to market value assessment. The reintroduction of tax capping was implemented in part to address the tax shifts caused by large assessment increases to small businesses that derived from the update of assessment values in 2017.

Unlike Vancouver and Calgary which update assessment values annually, the City of Toronto only updates its assessed values every four years. This compounds the effect of tax shifting caused by changing property values. Assessment increases in Toronto are phased-in over the four-year period. The combination of tax capping and phased-in assessment increases creates additional inequities in the tax ratios and doesn't address the underlying issue of longer-term sustainability for small businesses.

City council also directed staff to engage in broad public consultation to consider other options for 2019 and beyond to address the underlying tax issues facing businesses. The staff report "Additional Property Tax and Legislative Change Options to Support Business" considered several options including the continuation of its policy to reduce the commercial tax ratio, targeting tax protection to small businesses by introducing a small business tax class, and considering changes to how properties with redevelopment potential are assessed. To date no actions have been implemented on these additional considerations.

How could this be resolved?

Cities continue to struggle with balancing their operational and program funding requirements against shifting assessment bases. Expecting businesses to shoulder the same burden while values decline, or taxes increase beyond business growth, is unsustainable. Measures that compress the gap between residential and commercial tax rates are positive steps that can help the viability of all businesses. Assessment phase-ins and tax mitigation measures such as capping, rebate programs and graduated tax rates, only serve to compound the existing inequities in taxation and prolong the inevitable.

Targeting tax relief to sectors under pressure requires a thorough understanding of the root cause of the problem. In the case of small businesses under pressure from changing land uses and the demand for redevelopment lands, consideration needs to be given to both the approach in assessing these lands as well as how they are taxed.

Available assessment options include continuing to value the lands for assessment purposes based on their current use or separating the tax class and rates applicable to the current use value and the additional redevelopment value. Doing so allows for tax policy decisions to be made to improve the sustainability of small businesses and address the carrying costs for future development lands which ultimately has a direct impact on the availability of affordable housing which has become an issue across the country.

NOTES

The property tax rates in this report are comprised of the general provincial, municipal and education portions as posted by the cities surveyed, including provincial assessment value percentages:

• Montreal 2019 – CGTSIM Municipal School Tax, (Comité de gestion de la taxe scolaire de l'île de Montréal)

• Saskatoon and Regina 2019 – Saskatchewan Residential Provincial Percentage (taxes are calculated based on 80% of a residential property's value)

Business levies, tax assistance programs and other considerations are not reflected in the rate calculations, including but not limited to:

• Municipal business improvement areas

• Winnipeg 2019 – Municipal business occupancy taxes and one-time "Phased Tax Credits"

• Manitoba 2019 – Manitoba's Provincial Education Property Tax Credit (EPTC)

• Winnipeg frontage taxes (charged separately and apart from property taxes; applies to residential and commercial properties)
  – Based on a property fronting on a street that contains a sewer main or water main (2019 - $5.45 per frontage foot)

DISCLAIMER

SOURCE DATA

Source data was retrieved from the municipal websites below:

Vancouver
https://vancouver.ca/home-property-development/tax-rates.aspx

Calgary
https://www.calgary.ca/cfod/finance/Pages/Property-Tax/Tax-Bill-and-Tax-Rate-Calculation/Current-Property-Tax-Rates.aspx

Edmonton
https://www.edmonton.ca/residential_neighbourhoods/property_tax assessment/tax-rates.aspx

Saskatoon
https://www.saskatoon.ca/services-residents/property-tax-assessments/tax-rates-mill-rates

Regina
https://www.regina.ca/home-property/residential-property-tax/property-tax/

Winnipeg
http://www.winnipegassessment.com/AsmtTax/English/Property/TaxRates.stm

Toronto
https://www.toronto.ca/services-payments/property-taxes-utilities/property-tax/property-tax-rates-and-fees/

Ottawa
https://ottawa.ca/cgi-bin/tax/tax.pl?lang=en

Montreal
http://ville.montreal.qc.ca/portal/page?_pageid=44,14111603&_dad=portal&_schema=PORTAL

Quebec City
https://www.ville.quebec.qc.ca/apropos/profil-financier/taux-taxation.aspx

Halifax
https://www.halifax.ca/home-property/property-taxes/tax-rates

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Founded in 1970, REALPAC is the national leadership association dedicated to advancing the long term vitality of Canada's real property sector. Its membership includes chief executives and the vanguard of real estate investment.

REALPAC:

- Connects senior Canadian real estate executives to help build new relationships, identify opportunities, access and build markets, and grow companies and investments
- Advocates nationally directly with government at all levels to achieve the most desirable business, environmental, tax, infrastructure and capital market conditions
- Supports the industry by providing smart tools, meaningful data services and benchmarks, best practice guides and practical voluntary standards to enhance management practices and results
- Educates the industry by providing events, conferences, training, research reports, education and educational resources to senior real estate professionals. REALPAC and Ted Rogers School of Management at Ryerson University, partners in Executive Education, are proud to offer the Real Property Investment Certificate Program.
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