

WHY THE INDUSTRIAL RATIO SHOULD BE MOVED TO 1.95

1. The enviro-nomics survey indicates that the public views the economy/unemployment as the most important local issue
2. Adjusting the Industrial property tax ratio is one of the most efficient and effective ways of addressing what has been viewed as the most important issue facing the City of London
3. The current property tax system has a negative bias against the Industrial property class compared to other property classes where ownership is commercial entities. The industrial tax ratio is the highest tax ratio in the City (The industrial tax ratio is 2.22 compared to 1.98 for commercial and multi-residential)
4. The Industrial property class is underdeveloped in London. The % composition that the industrial class is of the total assessment is 49% lower in London when compared to the average of other municipalities in the BMA study with populations greater than 100,000.
5. Every corporation that is considering locating in Ontario will do a detailed business plan including a cash flow analysis of the sites under consideration. One important component of that cash flow analysis will be the municipal property taxes at every site.
6. Some key comparable municipalities in southwestern Ontario have adopted lower tax ratios for the industrial class. The Region of Waterloo has had in place for several years a uniform ratio of 1.95 for its three major non-residential classes. The unemployment rate and industrial vacancy rate are significantly lower in the Waterloo region than in the London region.
7. There is no logical reason for having a higher tax ratio for the industrial class compared to other commercial classes. It is merely a matter of history and traditions. It should be viewed as an anachronism at this point in time.
8. The industrial class on average should provide higher quality jobs than other commercial sectors
9. Ontario's Industrial sector has been devastated by the last recession that began in 2008 and as indicated above London's industrial sector composition is well below the average in the BMA study
10. The timing of any adjustment is important. Now is the time that City should be ready to attract investment in the sector because of the decline in the Canadian currency and the price of oil and the apparent resurgence of growth in the US.
11. The Industrial Tax ratio reduction can be adjusted to an equalized 1.95 level while still maintaining a 2.5% increase in the residential class. There is no assurance that this can be done in future years.

WHY TO NOT MOVE THE MULTI-RESIDENTIAL TAX RATIO BELOW 1.95

1. The general multi-residential sector in London is not in need of a special incentive over other property classes owned by commercial entities
2. The multi-res sector in London is well developed. Its % composition of total City assessment is 38% higher than the average for municipalities in the BMA study with populations of more than 100,000
3. Ontario average residential rents in London are significantly below average for Ontario rents (CMHC reports)
4. Vacancy rates in London are significantly higher than Ontario averages (CMHC reports)
5. Growth in average residential rents is below average in Ontario (CMHC reports)
6. According to an Environics survey done in the fall of 2013 the general public in London identified the Economy and Unemployment as the most important local issue
7. Special incentives to the Multi-residential sector will not create long term job growth in the City
8. Under current legislation any multi-residential property can be converted to the residential tax rate by undergoing a condominium conversion. The property however must then accept a residential valuation which will significantly increase the value of the property and related taxes.
9. MPAC valuations in the commercial, industrial, and multi-residential property classes are determined by very different methods from the residential class and they trade in very different types of markets.
10. Empirical information indicates reductions in multi-residential tax ratios do not ultimately go to tenants in the form of lower rents and there is no correlation between tax ratios and residential rent levels. Rents are determined by local market conditions. (City of Hamilton study, BMA study tax ratios reports, CMHC reports)
11. Most other municipalities that have set a target for multi-res ratios have identified the commercial ratios as the target (City of Hamilton study). Thirty of the forty municipalities in the 2014 BMA study still have their multi-residential tax ratios above their commercial ratio. London does not.
12. The 1.95 ratio for multi-residential tax ratio in London puts all the major property classes owned by commercial enterprises in London at the same level for municipal taxes (equity)
13. The level of property taxation is a much more significant consideration than the % change from year to year.
14. Tax increases above 2.5% in the Multi-residential sector as a result of the reassessment process indicates affluence in the sector. Investors are bidding up prices in the property class above other classes because investments are profitable relative to other opportunities and yields.
15. Tax capping applies to the multi-residential, commercial and industrial property classes. This will limit any large increases at time of a reassessment in those property classes.
16. If council wished to consider lower tax ratios in the multi-residential property class we would recommend consideration be deferred to a future year and only after a comprehensive study of the current state of residential housing market in the City by City Housing Department staff or external consultants.

Excerpt from Future Tax Policy Report September 2011:

Principles of Property Taxation Policy in the City of London

All tax policy recommendations made by staff at the City of London are guided by four principles as follows:

1. Equity
2. Economic Development
3. Transparency
4. Administrative Efficiency

Excerpts from City of Hamilton report on Multi-residential tax ratios in February 2009

“◆ No documented evidence that a reduced multi-residential tax ratio equates to lower rents:

- ⌚ Municipalities who have reduced their multi-residential tax ratio have seen rent increases at the same rate or higher than those communities with minimal or no reduction to their multi-residential tax ratio (rents are market driven).
- ⌚ Although Hamilton has a high multi-residential tax ratio, the average rent for a two-bedroom apartment in Hamilton (CMA) continues to be among the lowest in Ontario, with average rent increases being one of the lowest (below the rent guideline). “

“Municipalities with significant reductions to their multi-residential tax ratios over this same time period have not seen corresponding significant reductions in the average rent. For example, as identified previously, Ottawa has reduced its multi-residential tax ratio -25% from 1998 to 2008; however the average rent for a two-bedroom apartment has increased 32% over this same time period. Similarly, Waterloo Region (Kitchener above) has reduced its multi-residential tax ratio -33% from 1998 to 2008, yet the average rent for a two-bedroom apartment has increased 32% as well.”

“Should Council want to consider a reduction in the multi-residential tax ratio, staff would suggest reducing it to a target of 1.99 (the current 2009 commercial tax ratio). Targeting the commercial ratio is consistent with most municipalities that have set a target for reduction. As well, staff would recommend that any reduction be phased-in to minimize the impact on the other property classes.”

Excerpt from the London Free Press – Saturday April 4, 2015

“The city’s overall industrial vacancy rate is high, about 13.5%, more than double the national average and that of nearby Kitchener-Waterloo.”

MULTI-RESIDENTIAL PROPERTY TAX RATIOS AND TAX POLICY

IMPORTANT INFORMATION RE: CITY OF LONDON

Notes re: presentation to Housing Advisory Committee - December 10, 2014

1/ the property tax calculation has two components – the tax rate and the property valuation

2/ there are several different property classes and values are determined quite differently in each property class.

Commercial – lease cash flow

Industrial – construction costs

Multi-res – cash flow based – sales in wholesale market – i.e. bulk sales of units

Residential – sales in a retail market – no cash flow considerations

Farmland – value for farm purposes only if used in farming

Pipelines - regulated

Managed Forests – based on current use or by regulation

All properties in the three main non-residential classes (i.e. Commercial, Industrial, and Multi-residential) are owned by commercial entities – i.e. corporations or individual carrying on a commercial activity. Properties in these classes sell in different types of markets from the residential class and their values are determined by MPAC using different methods which are dependent on the cash flow generated by the properties.

3/ an apartment unit valued in the multi-residential class will normally have a significantly lower taxable assessment value than a similar unit valued in the residential property class because of the different methods of valuation.

4/ any multi-res property in London can be converted to the residential property class by being turned into a condominium. When this happens however the method of valuation of the property is changed from a wholesale market to a retail market and there is a significant increase in the valuation of the property.

5/ In the reassessment that occurred in preparation for the taxation years 2013, 2014, 2015, and 2016 there was a significant increase in the valuation of properties in the multi-residential class relative to most other property classes. This has resulted in a significant level of interest in landlords deciding to move from the multi-residential property class to the residential property class. When they do this they obtain a lower tax rate but a higher valuation of their property consistent with the way other residential properties are valued.

6/ The City does permit certain multi-residential properties to have a residential tax rate and a multi-residential valuation method. This treatment, however, is confined only to affordable housing projects where the property owners have contracted with the City to provide affordable housing level rents. The special tax treatment is considered the City's contribution/subsidy to the affordable housing program.

7/ Deductibility for income tax purposes is different in different property classes. All property taxes in the commercial, industrial, and multi-res property classes are deductible in computing taxable income. This is not the case in the residential class.

8/ There is no legal obligation for any landlord to pass on property tax decreases to future tenants under the residential tenancies act. In the long run rents will always be determined by supply and demand not the residential tenancies act. Many other factors beyond property taxes will affect the supply and demand of rental accommodation.

9/ Tax provisions in the residential tenancies act do not apply to any property constructed after November 1, 1991.

10/ There does not appear to be any empirical evidence or study that indicates low tax ratios are associated with lower rents or higher vacancy rates or that property taxes are a primary consideration in the level of residential rents. Barrie and York region have significantly higher average rents and lower vacancy rates than London and they have the lowest multi-res tax ratios in the Province. The City of Hamilton apparently studied this issue in 2009 and could find no correlation between tax ratios and the level of rents. (See City of Hamilton report on this issue in 2009)

11/ The multi-res tax ratio cannot be considered in isolation from other tax policy and other tax ratios. Changes in the ratio of one property class affect the tax burden in all other property classes. In the 2014 draft BMA study the multi-res ratio in London is the only tax ratio for the City that is below the BMA average. The commercial and Industrial ratios are both above the BMA average.

12/ A copy of the page from the draft 2014 BMA report which compares tax ratios for the multi-residential, commercial and industrial property classes in various municipalities is attached.

13/ Once you move a tax ratio down in a non-residential class you cannot change your mind later and move it back up. Tax policy rules imposed by the Province prevent this from happening. Over time values of different types of properties will change in very different ways as a result of variations in market conditions including issues such as the changing demographics. It is very difficult to predict future valuation changes in property classes. Residential condominium values could increase faster than other property types as a result of future demographics and market trends.

14/ In dealing with tax policy there are always competing interests and competing property classes. In the end what has to be considered is what is in the best interests of the City as a whole and what best addresses the most important problems the City is confronting. In London there appears to general agreement that the most significant issue facing the City is unemployment and providing quality jobs for the citizens. In the area of tax policy the most effective action that the City can take to address its most important problem is to equalize its non-residential tax ratios in the same manner as was done in the Region of Waterloo. This means decreasing the industrial tax ratio to 1.95 from 2.22.

2014 Tax Ratios

Municipality	Multi-Residential	Commercial (Residual)	Industrial (Residual)
Barrie	1.0000	1.4331	1.5163
Belleville	2.5102	1.9191	2.4000
Brampton	1.7050	1.2971	1.4700
Brockville	1.7700	1.9482	2.6131
Caledon	1.6843	1.3124	1.5805
Central Elgin	2.3458	1.6376	2.2251
Dufferin	2.6802	1.2200	2.1984
Durham	1.8665	1.4500	2.2598
Essex	1.9554	1.0820	1.9425
Greater Sudbury	2.2294	2.1865	3.1780
Grey	1.4412	1.3069	1.8582
Guelph	2.0819	1.8400	2.4174
Halton	2.2619	1.4565	2.3599
Hamilton	2.7400	1.9800	3.1752
Kenora	1.6390	1.9835	2.1232
Kingston	2.2917	1.9800	2.6300
Lambton	2.4000	1.6942	2.0476
London	1.9800	1.9800	2.2200
Middlesex	1.7697	1.1449	1.7451
Mississauga	1.7788	1.4098	1.5708
Muskoka	1.0000	1.1000	1.1000
Niagara	2.0440	1.7586	2.6300
North Bay	2.2054	1.8822	1.4000
Ottawa	1.5316	1.9344	2.6288
Owen Sound	2.4002	1.9662	2.4496
Oxford	2.7400	1.9018	2.6300
Perth	2.1505	1.2469	1.9692
Peterborough (City)	1.9472	1.6202	1.9116
Prince Edward County	1.4402	1.1125	1.3895
Quinte West	2.1300	1.5385	2.4460
Sault Ste. Marie	1.2808	2.0936	2.8453
Simcoe	1.5385	1.2521	1.5385
St. Thomas	2.4987	1.9475	2.2281
Stratford	2.1539	1.9759	2.9005
Thunder Bay	2.6856	1.9800	2.5400
Timmins	1.7866	1.8525	2.2708
Toronto	3.1185	2.9218	3.1185
Waterloo	1.9500	1.9500	1.9500
Windsor	2.5403	2.0037	2.4200
York	1.0000	1.1172	1.3124
Average	2.0068	1.6854	2.1802
Median	2.0120	1.7993	2.2266
Minimum	1.0000	1.0820	1.1000
Maximum	3.1185	2.9218	3.1780
Provincial Threshold	2.7400	1.9800	2.6300