If Cambie Street grows as hoped, City of Vancouver will lose big bucks

Canada Line corridor merchants can expect to get clobbered, again

By Don Cayo, Vancouver Sun June 18, 2010

The proposed rezoning of Cambie Street properties served by the new Canada Line may cause economic hardship that erodes or outweighs any potential benefits.

Because two likely results will be to undermine City Hall's finances while once again clobbering the merchants who took such a hit while their street was torn up for construction.

The story is complicated, especially because allowing greater density in areas served by better transit will create an initial surge in revenue for the city.

But this will come at the expense of existing businesses in existing premises along the Cambie corridor. And when new developments inevitably start to rise in response to proposed rezoning, City Hall's windfall will quickly turn into a loss.

To understand why, consider how differently business and residential properties affect the city's financial health.

About 92 per cent of assessed properties in Vancouver are residential, leaving just eight per cent commercial — a number that is steadily declining as the city increasingly becomes a place to live but not to work.

This relative handful of business properties pays half of the city's total property taxes. Yet the cost of services they use — streets, police, fire protection and such — adds up to only a quarter of City Hall spending.

Thus for every $2 businesses pay in property tax, the city spends just $1 in return, leaving a 50-per-cent "profit" the city can use to subsidize homeowners. And subsidize they do, spending about $1.50 on residential services for every $1 in residential property tax.

So what does this mean for Cambie Street redevelopment?

Peter Forward, an associate with the property tax consulting firm of Burgess Cawley and Sullivan, walked me through a detailed look at a representative sample — a cluster of seven buildings, mostly one-storey community retail blocks, just north of the Canada Line's King Edward station.

The city's annual "profit" from these buildings — the amount of money it can expect to have left over after all property taxes are collected and all services provided — will be:

- As things stand: $87,385

- With rezoning: $148,315

- With redevelopment: $41,974, or less than half as much as now.

Multiply these figures by the number of properties that will be similarly affected up and down the Cambie corridor, and the impact on civic finances is huge. Not to mention the impact on the tax bills of tenants in the Cambie buildings.

Here's how Forward arrived at his numbers (I've rounded them for ease of reading).

As things stand

The land on which the seven buildings sit is assessed at $15 million and the structures are pegged at $4 million, for a total of $19 million.

The business tax rate — which in Vancouver is five times higher than the residential rate — will generate tax bills totalling about $175,000.

Based on city-wide averages, the cost of services for these businesses is $87,500. This will leave an additional $87,500 to be spent on other things.

With rezoning

The maximum allowable height of buildings on each lot will rise to at least six stories. This means the maximum square footage of new buildings will be twice what's allowed now. Since assessments are based on "highest and best use" (what could be on each lot, rather than what's actually there), the assessed value of the land will double to $30 million. Even if the old buildings are treated as teardowns and assessed at nearly no value, the total of $30-plus million will be more than 50 per cent higher than the assessed value today.

The new assessments mean businesses in these same old buildings will see their tax bills soar, as will city revenue. The new total will be $296,000, up from $175,000.

Even though there's no logical reason for the cost of serving the same businesses in the same buildings to rise, Forward generously assumes the city will spend more to keep them happy. So he designates $148,000 of the new tax total as consumption cost. This leaves a surplus of $148,000, up from $87,000 now, that the city can spend on other things.

With redevelopment

If new buildings on each lot housed one floor of commercial tenants and five floors of residences, the total value of land and buildings would soar to $140 million — more than nine times what it is today.

But with only the commercial occupants paying the business rate, and with the residents paying just a fifth of that, the total tax revenue would rise to only about $550,000 — just over six times more than today. Of this, $317,000 would be paid by the ground-floor businesses and $233,000 by residents.

With businesses paying twice as much in tax as they consume in services, their portion of the tax bill would generate surplus revenue of $158,000 — a nice increase for the city. But with residents' tax bills adding up to only two-thirds of the cost of services they consume, they'd create a "loss" of $116,000.

This would leave a net surplus of $42,000 for the seven properties, or less than half of what's left over today.

In other words, a snazzy redevelopment project for this little bit of Cambie — just what the city is aiming for with its Canada Line-related plans — will cost the city tens of thousands a year in forgone revenue.

And as other parts of the street are similarly redeveloped, the annual losses will soar to hundreds of thousands, and then millions.

Not to mention the plight of those poor Cambie merchants — the very ones who went through hell and back during the Canada Line construction. They can look forward to sharply higher tax bills in the short-term, and the longer-term prospect that their premises will fall to the wrecker's ball.

Read more: http://www.vancouversun.com/business/Cambie+Street+grows+hoped+City+Vancou

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