

Skewed assessment undermines tax break

BY DON CAYO, VANCOUVER SUN SEPTEMBER 13, 2012

Incentives for heritage restorations in Gastown are working out well for the city, with the old commercial neighbourhood transforming far beyond a few touristy trinket shops to include quality retail, restaurants and pubs, plus a funky range of other businesses.

But for the first guy to sign on to spend mega-bucks on a once-shabby Gastown structure, it's a bust. Niels Bendtsen, owner of Inform Interiors and the lovely old building that houses its showroom at 50 Water St., feels cheated out of six figures worth of tax breaks by an assessment error no one in officialdom seems willing to admit to or fix.

Quality heritage restorations often cost more than the completed building is worth. The city recognized this and responded early in this decade by offering two incentives for Gastown building owners who agree to meet high standards for their renovations.

The first was approval to sell unused density. Because Bendtsen wasn't adding three stories to his building, which Gastown zoning technically allows, he could sell the right to add three more stories to another developer elsewhere in the city. This netted about \$2.5 million - slightly more than he paid for the property in 2002.

But Bendtsen spent another \$7.5 million - a total of \$10 million - on a property that, according to the 2012 assessment, is now worth only \$6.5 million. So the city also offered him about \$400,000 in property tax forgiveness spread over as long as 10 years.

The new program is complex, and it took two years to get approval.

By 2007, the renovations - to my eye, first-class work - were complete, and he opened the showroom. This both created 30 jobs and set the tone for a spate of other highend renovations that greatly enhance Gastown.

His 2007 assessment jumped in value from just under \$3.2 million to just over \$7.6 million - as he expected. And his tax bill - nil - was also as expected thanks to the tax holiday he'd negotiated.

But there was a twist he didn't notice - and surely didn't expect.

Although he spent \$7.5 million on the building, its assessed value went up only from \$155,000 (what it was deemed to be worth when derelict) to \$218,000 now that it's a showplace. The rest of the increase - \$4.2 million - was added to the land.

You might think this wouldn't matter as long as the total is right. But it matters a lot.

BC Assessment won't concede it was wrong to add so much value to the land and so little to the building, but I can't imagine it is anything but an error. And the assessors did correct the numbers as quickly as they could. Yet because of someone else's error - the province's ill-conceived property

assessment freeze in 2008 - the erroneous assessment stayed on the books for two years, not just one. Once again, the problem wasn't obvious to Bendtsen as his tax bill remained at zero.

In each of the next three years, how-ever, BC Assessment reduced the land assessment hugely - to where it should have been all along - and it added dramatically to the building's value, which is also justified by the quality of the restoration. (BC Assessment says this was part of a reassessment of heritage properties in 2009 and 2010. I asked for, but didn't receive, examples of other property values that changed so sharply in a year when no renovations were done.)

Now, let me explain why this matters. The tax rate is applied in two ways to each property - to the actual value of buildings, as well as to the average of the last three years' value for land. With the 2007 and 2008 figures boosted by an error, the average value of the land in 2009 and 2010 shot up to roughly double what it should have been, and this drove up Bendtsen's theoretical tax liability. He calculates the excess tax to be \$110,000.

True, he was exempt from paying these unjustified amounts in those years. But they ate away at the total exemption he'd been promised. Now it's all used up. He'll get no more tax breaks, yet he's \$110,000 short of the relief he was promised.

No question Bendtsen erred in not parsing his tax bills more carefully and appealing at the time. But bear in mind this was a brand new pro-gram, and it took city bureaucrats - people paid to do this stuff - two years to bumble through their own red tape.

Also recall that others made errors, too. The assessors added the enhanced value to the land, not the building. The city maintains its deeply flawed land-averaging policy, and it also adopted an incentive program that appears to offer no graceful way to address unanticipated errors that create unintended outcomes. And the province meddled in the well-functioning assessment process back in 2008.

So that's four who erred - but just one suffering consequences.

There's still a chance Bendtsen might get relief. He tells me he'll appeal to city council, which has the rarely used authority to sit in judgment on disputes of this type.

I await the outcome with interest. Bendtsen isn't just a businessman, but also "a bit of a perfectionist" with a soft spot for Gastown's heritage. He considers himself lucky to be doing well enough to pursue his passion - for example, recently spending, with no expectation of an economic return, \$300,000 on an ornate copper cornice for a building he owns across the street from his showroom.

So it's sobering to hear him say that if he knew then what he knows now, he wouldn't have done this renovation. If council ignores his plea, my fear - and my expectation - is that other businesspeople will listen to his warning. Interest in heritage restoration could fade fast if errors that inevitably happen from time to time aren't fairly addressed and fixed.

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