Property tax bite will be savage

Businesses in some areas will likely be hard hit after valuations released this week

BY DON CAYO, VANCOUVER SUN JANUARY 8, 2013

Businesses trying to save a buck by setting up shop in well-located, but less-than-prime real estate in Vancouver can expect to be hit hardest by property tax increases this year. And for some, the blow will be brutal.

This is the story that unfolds when you delve into details of the 2013 property valuations released this week by the B.C. Assessment Authority.

Because while the average value of business properties in the city rose about 7.5 per cent last year, the actual property tax bills that will be based on these assessments can vary wildly.

Paul Sullivan, a partner in the property tax consulting firm of Burgess Cawley Sullivan, helped me analyze several specific properties, and a pattern emerged.

The short story his calculations told is that this year's "winners" will include neighbourhood businesses on some of the city's secondary business blocks. The 2013 assessment found little or no change in the value of many of these premises. Thus, as long as city council holds its spending increase to about two per cent as expected, they will see little or no change in their tax bills, and perhaps even a small reduction.

At the other end of the spectrum are tenants in secondary office buildings, especially those near the city core. Some will see the assessed value of their premises soar 30 or even 40 per cent.

In a world of perfect tax policy, tax bills would fluctuate in lockstep with the economy. They'd rise higher at the top of the business cycle when companies could afford it, and ease off when they can't.

Yet it's today's fragile economy that is driving, at least indirectly, this year's huge property tax hit. What's happening is that investors, spooked by stock market instability, have turned to commercial real estate in a big way. And in Vancouver, because the city has proportionately little first-class office space and what we do have is hardly ever sold, investors focus on secondary office buildings. They have rapidly bid up the prices to the point where some have doubled in just a few years.

Some street-front retailers - those in prime locations renting older buildings ripe for redevelopment - will also be hit hard by property tax increases, probably in the 10-to-20-per-cent range.

What's driving these increases in low-density retail districts is not so much the market, as is the case with office properties, but rather tax policy. The assessments are based not on what the properties are used for, but what they could be used for if they were redeveloped. Thus stores must pay the business tax rate on the value of land that could be - and, no doubt, one day soon will be - used for a mix of retail and residential.

The full impact of a double-digit percentage increase in property value can be hard for a homeowner, accustomed to dealing with much smaller numbers, to readily grasp.

Sullivan offered the example of two properties, one a business and the other a residence, that both were previously valued at $1 million and that both went up 10 per cent. If the tax rate stays the same, and with a modest spending increase offset by revenue from new construction, the odds are it will - the homeowner would pay an additional $405 this year. If you think that's enough, I agree. But the business owner would pay an additional $1,750.

Of course, most homes didn't go up anywhere close to 10 per cent - the average is just 2.3 per cent, which should mean a tax increase of roughly $100 on a million-dollar home. Meanwhile, the unluckiest of the businesses with million-dollar premises will face tax increases based on a 40-per-cent jump, not 10 per cent as in Sullivan's hypothetical case. So their tax bills will shoot up about $7,000 this year.

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