Don Cayo: Huge tax hike looms for West Side businesses; province open to providing relief (with video)

Property tax hotspots occur most years, usually driven by changes in zoning

BY DON CAYO, VANCOUVER SUN OCTOBER 3, 2014

VANCOUVER — Judging from the prices of properties that changed hands during the past year, businesses in several West Side commercial/residential neighbourhoods should brace for huge increases in their property assessments, which will be in the mail soon.

The question is, how will this affect their tax bills next spring?

Well, tax bills are a multiple of the property tax rate times the property value. The former will be set by the city council members that Vancouverites elect this fall; the latter is determined by a provincial agency, BC Assessment, based on market conditions.

If everybody's property value were to change by an equal percentage, then everybody's tax bill would rise or fall in lockstep. But when land values in some neighbourhoods outstrip the average, as they will this year in West Side business districts, then their tax bills will rise more — possibly much more — than those in other parts of the city.

Property tax hotspots occur most years, usually driven by changes in zoning. The value of land isn't based on the actual square footage of the lot, but rather "buildable square feet." In other words, the amount of floor space a developer can create on a given lot. So if zoning allows taller buildings, the number of buildable square feet increases — and so does the price.

When zoning changes also allow a greater mix of residential, which is more valuable than commercial, then prices rise a lot.

This is what has happened on the West Side. Land in these neighbourhoods was going for about $185 per buildable square foot in 2012-13, but last winter and spring the city — to cite specific examples — paid $269 and $220 respectively for two properties that could be potential sites for transit stations. Other sales were also well over $200, and one was $305.

So market value — BC Assessment' benchmark for determining assessed value — has gone up a minimum of 20 to 30 per cent, and as much as 60-plus per cent.

Nor should business owners who paid attention to the Amacon assessment appeal, which this column outlined last week, expect any relief thanks to the precedent this decision set, says Paul Sullivan, the property tax consultant and fair tax advocate who successfully argued Amacon's case. The big Vancouver development company won a major victory when the appeals board ruled it could pay a much lower residential property tax rate rather than the commercial rate on two-thirds of the value of its unused or under-used land in the downtown core.

The basis of the win, Sullivan noted, is that the zoning for Amacon's land specifies that new development must be one-third commercial, two-thirds residential. In the West Side neighbourhoods, zoning doesn't spell out the split — a new development could be all commercial, all residential, or a mix of the two. Thus the Amacon precedent won't automatically apply, and the full value of the land will be taxed at the commercial rate, which is 4.2 times the residential rate.

The Amacon decision underlined the unfairness of valuing land as if it were all high-priced residential, yet taxing it as if it were all commercial. Earlier this year, a city-appointed tax commission made the same point, and recommended the city ask the province for authority to implement split assessments across the board. So far, it hasn't done so.

But the province has signalled it recognizes the problem and is open to solutions. A letter to Vancouver Fair Tax Coalition from Coralee Oakes, the minister of community, sport and cultural development, acknowledges the problem and even suggests a solution — one modelled on Richmond's policy of providing transitional relief to businesses hit by major assessment increases.

"If the City of Vancouver were to request that the same option be extended to it," Oakes wrote, "I am confident the government would be open to considering it."

The Richmond solution, which this column discussed in detail last year, isn't a bad one, but split assessments would be better.

It is worth noting that Oakes's letter was written a couple of weeks before the Amacon decision. So now that the appeals board has spelled out a logical and legal basis for split assessments, it is reasonable to assume she might be open to this solution, as well.

Split assessments would cost the city nothing in lost revenue. A relative handful of businesses would be spared a debilitating spike in their taxes, but the portion of city operating costs paid for by business taxes wouldn't change. It would simply be spread more fairly among all businesses.

So with Oakes inviting the city to ask for a solution, it is time it did.

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