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Newsletter

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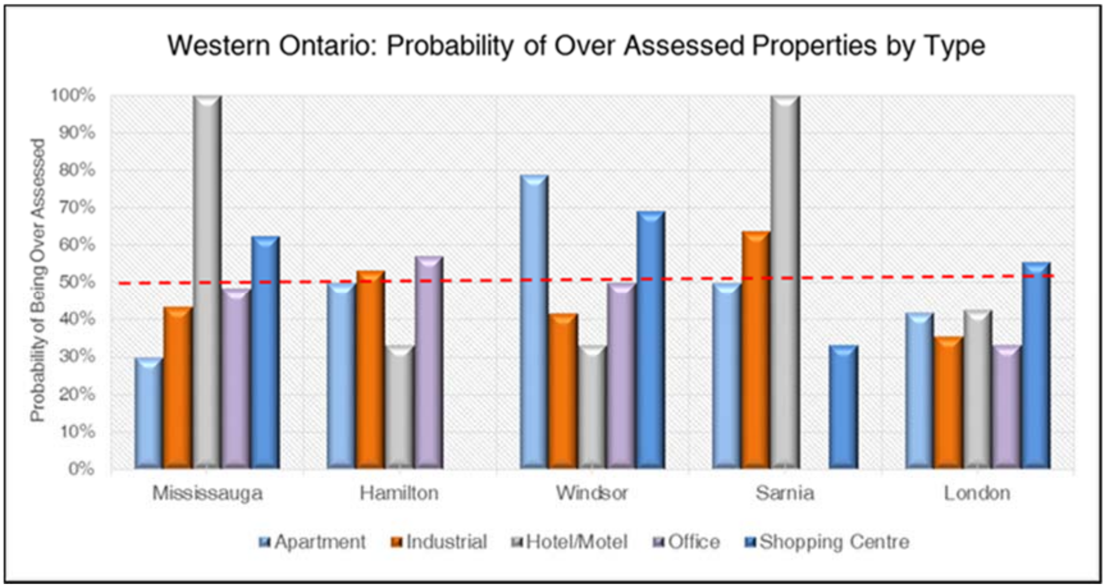
ALL HALLOWS' EVE



Source: TDP CompuVal® Knowledge Base, MPAC and RealTrack Inc..

As day surrenders to night, a tendril of cloud massages the tired eye of the moon. Along the highways and byways of Ontario, dark coated scavengers with bandit masks scuttle on their purposeful way. Witches, ghosts and goblins haunt the twilight, threatening dire deeds unless their rapacious demands are met. A wolf howls its mournful protest. As darkness deepens, cold tentacles of mist steal across the land and the awful realisation dawns … it's tax time again, MPAC, the provincial assessment authority, have just released the roll! Not that they are about to spoil the moment by advising you of the fact unless your property assessment has changed from last year. It is up to you, the property owner, to keep the evil spirits at bay. This is how it works: every four years the Municipal Property Assessment Corporation (MPAC) re-assesses your real estate for tax purposes. Each municipality then base the taxes you pay on that assessment. Every year you have the opportunity to challenge the assessment and lower your tax bill for the remaining years of the assessment cycle. This year that window of opportunity opened the morning after Halloween. It slams shut on March 31st 2019. There are currently two years remaining in the assessment cycle so any annual tax savings you achieve this appeal period will be doubled. Unfortunately MPAC only notifies property owners of their opportunity to appeal at the start of the four year assessment cycle, unless they alter the assessment, so most property owners are unaware there is an opportunity to appeal every year. However this has to be balanced against reality: there is no point in appealing your property's assessment unless there are grounds for doing so. We have just completed a comprehensive analysis of property assessments in Western Ontario and most of Metro Toronto, to assist clients identify where opportunities exist to lower their tax load. First though, a primer on the basis for most property assessments.

Property Assessment

The Municipal Property Assessment Corporation (MPAC), the government corporation responsible for assessing property in Ontario, is required to comply with the Assessment Act when determining assessed values. Your property's assessment has to be based on its "current value" i.e. "the amount of money the fee simple, if unencumbered, would realise if sold at arms length by a willing seller to a willing buyer." ("Current value" doesn't actually mean current value, it refers to a Valuation Date of January 1st 2016 for the present assessment cycle). The property has to be valued at its Highest and Best Use unless the Minister decrees otherwise by regulation. So if your property has redevelopment potential, such that its value for another use is greater than its value in its existing use, the assessment has to be predicated on the higher value. This is unusual and in our humble opinion unfair, since the present use may not be capable of sustaining a realty tax based on the higher value. C'est la vie! For most properties the assessment has to

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be based on its Market Value, in its Highest and Best Use, as of January 1st 2016. (If your social life is lacking, or you have masochistic leanings, the Assessment Act is available for your reading pleasure at https://www.ontario.ca/laws/statute/90a31/v33. Like most Acts it appears to have been drafted in the haze of a hangover). And here's the rub: although most provincial Assessment Acts contain the "mark to market" provision the majority of assessment authorities don't abide by it. They assess property at less than its Market Value to discourage appeals. Based on our analysis, MPAC does a better job than most of its contemporaries. We have selected five municipalities on the basis of their geographic distribution in Western Ontario and have listed the Assessment: Sale Price Ratio in the table below:

ASSESSMENT:SALE PRICE RATIO					
Municipality	**Property Type**	**Median**	**Average**	**Standard Deviation**	**Inter Quartile Range**
Mississauga	Apartment	0.84	0.92	0.36	0.49
	Industrial	0.98	1.02	0.25	0.23
	Hotel/Motel	1.17	1.17	0.09	0.11
	Office	1.00	1.00	0.26	0.17
	Shopping Centre	1.05	1.14	0.25	0.37
	Overall	1.01	1.05	0.24	0.28
Hamilton	Apartment	1.00	0.91	0.40	0.38
	Industrial	1.13	1.04	0.49	0.58
	Hotel/Motel	0.93	0.77	0.45	0.53
	Office	1.07	1.04	0.25	0.50
	Shopping Centre	0.88	0.84	0.13	0.16
	Overall	1.00	0.92	0.35	0.43
Windsor	Apartment	1.15	1.20	0.34	0.29
	Industrial	0.89	0.94	0.37	0.48
	Hotel/Motel	0.84	0.83	0.36	0.45
	Office	1.00	0.99	0.33	0.35
	Shopping Centre	1.17	1.09	0.45	0.85
	Overall	1.01	1.01	0.37	0.48
Sarnia	Apartment	1.00	1.20	0.66	0.54
	Industrial	1.18	1.13	0.42	0.36
	Hotel/Motel	1.33	1.33	0.23	0.23
	Office	0.93	0.93	0.00	0.00
	Shopping Centre	0.94	0.99	0.37	0.45
	Overall	1.07	1.12	0.34	0.32
London	Apartment	0.92	0.89	0.44	0.59
	Industrial	0.86	0.83	0.45	0.56
	Hotel/Motel	1.00	1.06	0.42	0.54
	Office	0.75	0.81	0.45	0.86
	Shopping Centre	1.15	1.12	0.54	0.83
	Overall	0.94	0.94	0.46	0.68

Source: TDP CompuVal® Knowledge Base, MPAC and RealTrack Inc.

The Assessment : Sale Price Ratio (ASP ratio) is based on a comparison of property sales occurring within 12 months of the January 1st 2016 Valuation Date, with those properties' assessed values. An ASP Ratio of 1.0 denotes an assessed value equal to the property's market value (sale price), the mark to market criteria specified in the Assessment Act. The "Median" (the number in the middle of the array of ASPs) is probably the most telling measure since it is not affected by outliers. By this measure, Hamilton hits the bulls eye: Mississauga and Windsor are close. However there is a wide variation between property types. In Hamilton for example, shopping centres are under assessed by 12% while industrial properties are over assessed by 13% (as measured by the median). On a property by property basis the variation is much greater. Windsor takes the prize when the "Average" (Mean) is adopted as the measure of central tendency, indicating that property is assessed "on average" very close to the mandated market value benchmark. *However there is wide variability in the individual property Assessment : Sale Price Ratios: many properties are assessed at 50% of Market Value, many at 50% more than Market Value.* (Medians and averages hide many inequities: a person with one foot encased in ice and the other in a fire is very comfortable "on average"). Fortunately, buried within the bowels of the Assessment Act (Section 44[3]) lies a provision which potentially addresses the problem. It requires that the Assessment Review Board consider the assessments of similar properties when assessing property so long as this results in a *reduction* in the assessment. Technically this only requires the Board to do so as part of an appeal … but implicitly MPAC is similarly constrained. It is also asymmetrical: it can only be applied to *reduce* the assessment, not to increase it. If your property is part of a "low assessment" group, you can benefit by using the provision to reduce the assessment even if the "similar properties" are assessed at less than market value. On the other hand MPAC cannot use the provision to increase your assessment even if your property is the low man on the totem pole in its peer group. Unfortunately, it does not address the situation where a particular property type e.g. hotel/ motel, industrial, etc. is assessed at a higher rate than the hoi polloi unless the assessments are higher than market value. However we are confident that any MPAC assessor worth his/her salt would recognise the inequity of that situation and would address it, particularly because the injustice could be compounded by the different property "classifications" utilised by the municipality. And that allows us to segue into a further opportunity for appeal. Municipalities deploy different mill rates depending on the property classification, e.g. residential, apartments, commercial, industrial, etc. The moral justification for so doing appears to lie in assumption that business has a greater capacity to carry the tax burden than residential property owners … the real explanation probably lies in voter distribution: there are many more residential property owners than entrepreneurs. Note that Mill Rate x Property Assessment = Annual Tax Liability. "Classification" is determined by the property use on June 30th preceding the taxation year i.e.

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June 30th 2018 for the current appeal period. If incorrect, property classification is an additional avenue for appeal.

Successfully Appeal!

The following avenues are available to successfully appeal and reduce your tax burden. You must establish that:

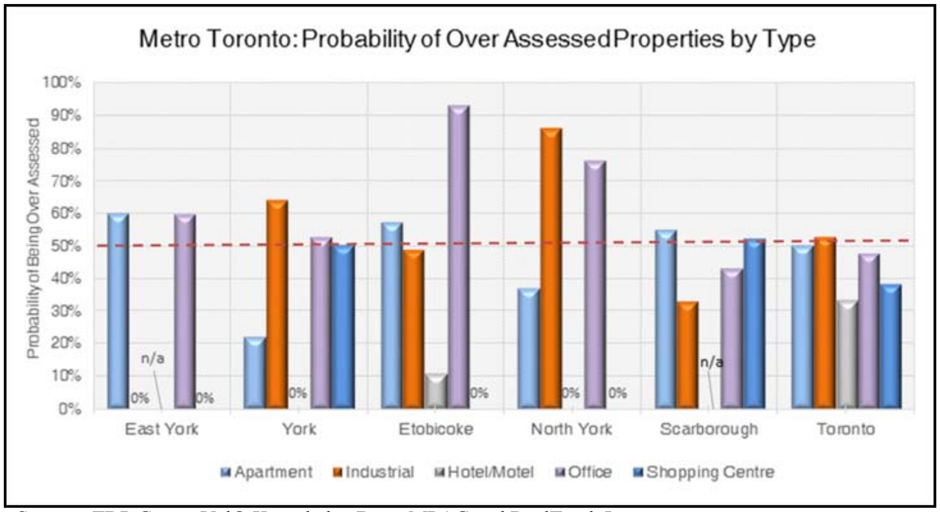
(a) Your property's assessment is higher than its market value on January 1st 2016; **or**

(b) Your property's assessment is higher than that of similar properties; **or**

(c) Your property is incorrectly classified in a class subject to a higher mill rate.

Is Your Property Over-assessed?

We have analysed most municipalities in Western Ontario and Metro Toronto by property type, to calculate the proportion that are probably over-assessed utilising the following methodology. We calculated the Assessment : Sale Price Ratio (ASP) for all properties, other than residences, that had sold within twelve months of the January 1st 2016 Valuation Date. We then cleaned the data by discarding outliers that were due to data entry errors. We calculated the measures of central tendency (median, mean, standard deviation, inter-quartile range) for each municipality as shown in the Assessment : Sale Price Ratio table on Page 2 for our five "sample" communities. The "overall" municipal median ASP is the significant benchmark: individual properties with ASP ratios above this figure are over-assessed, those below it are under-assessed. It is then simply a matter of counting the number of properties that are over-assessed and expressing them as a percentage of the total in each property type group to determine the probability of them being over-assessed. The results for a sample of five municipalities (Mississauga, Hamilton, Windsor, Sarnia, London) are shown on the "Western Ontario: Probability of Over-Assessed Properties By Type" graph on Page 1. The reliability of the result is dependent on the amount of sales data but there is a very strong possibility that hotel/motel property in Mississauga and Sarnia is over-assessed, and a greater than 50% probability that industrial real estate in Hamilton and Sarnia, shopping centres in Mississauga, Windsor and London, and apartments in Windsor are similarly blessed.



Source: TDP CompuVal® Knowledge Base, MPAC and RealTrack Inc.

We have also analysed the five wards encompassed by Metropolitan Toronto (East York, Etobicoke, York, North York, Scarborough, Toronto) to determine the probability of being over-assessed by property type. The results are shown in the "Metro Toronto: Probability of Overassessed Properties By Type" graph above. There is a high probability that office buildings in Etobicoke and North York are over-assessed and a more than 50% probability that apartments in East York, Etobicoke and Scarborough are so blessed. Industrial properties located in York, North York and Toronto have a greater than 50% probability of being too highly assessed.

We have created individual graphs for most of the municipalities in Western Ontario (including most of Metro Toronto) on our Corporate web site at www.turnerdrake.com/newsresearch/research.asp → Western Ontario Assessments

Property Tax Checkup

If you wish to leave the driving to us feel free to use the Tax Checkup page of our Property Tax web site at www.turnerdrake.net/TaxCheckup. There is no charge and the service is available for Western Ontario including most of Metro Toronto. If you prefer the personal touch, contact Rick Escott or Chris Jobe of our Property Tax Division at 416-504-1811 (GTA) or 1-800-567-3033 (toll free). This is not a call centre, nor will you have to troll through an automated switchboard offering a variety of inexplicable choices. Because your business is important to us your call will never be recorded for training purposes. Instead, between the hours of 8:00 am and 4:00 pm each workday you will be greeted by our very pleasant and helpful receptionist. Outside these hours you do have to brave our automated switchboard but the menu is so simple even our company Chairman professes little difficulty with it. Or you can email Rick or Chris at rescott@turnerdrake.com and cjobe@turnerdrake.com.

Chen Shi of our Economic Intelligence Unit crunched the figures and undertook the data analysis for this project. Chen holds graduate and post grad degrees from Shanghai, Tasmania and Dalhousie Universities; as well as Nova Scotia's renowned Centre of Geographic Sciences (COGS). She is currently working her way through the University of British Columbia's Diploma in Urban Land Economics (DULE) and Bachelor of Business in Real Estate (BBRE) degree as part of our seven year training program. Chen and her colleagues on our geographic information systems team provide market surveys, site selection, trade area analysis, supply and demand analysis and demographic reports to clients countrywide. For more information on our Economic Intelligence Unit, visit our Corporate web site www.turnerdrake.com → Corporate Site → Economic

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Intelligence Unit. If you would like to keep up to date on your changing world, visit www.turnerdrake.com → News & Research → TDP Trends.

Our Property Tax Division has helped clients keep their property tax burden down to a dull roar for almost thirty years. Our goal, when we commenced business in 1976, was to provide the business community in Atlantic Canada with real estate valuation services of a quality not available elsewhere. We hire business graduates direct from university and put them through our seven year program which melds our own training modules, the University of British Columbia's Bachelor of Business in Real Estate (BBRE) degree, and mentored practical experience. Since Atlantic Canada is the most data deprived environment in Canada it forces us to innovate. We have built CompuVal® a leading edge IT platform capable of acquiring, integrating and analysing sales, assessment, rental, revenue and operating expense data from multiple sources, flexible enough to operate in any province. In 1980 we launched our Property Tax Division initially focusing on Atlantic Canada but later expanding it to cover the remainder of the country in response to clients who owned property outside the region. For more information, please visit our Property Tax web site www.turnerdrake.net.

LASERCAD DIVISION

Quelle Différence: Retail or Office!

The Building Owners and Managers Association (BOMA) publishes measurement standards for office, industrial, retail, and mixed use spaces. These measurement standards provide guidelines for measuring the area occupied by each tenant within a building and, when appropriate, allocating common spaces.

BOMA states that if a building contains a single occupancy type comprising 51% or more of the total building area, the corresponding standard should be used. In other words, the building owner does not have the right to simply choose the standard that best serves their interests. Given the ubiquity of commercial buildings that can be used for both office and retail uses, particularly in suburban and rural areas, it is critical to understand the differences between these standards.

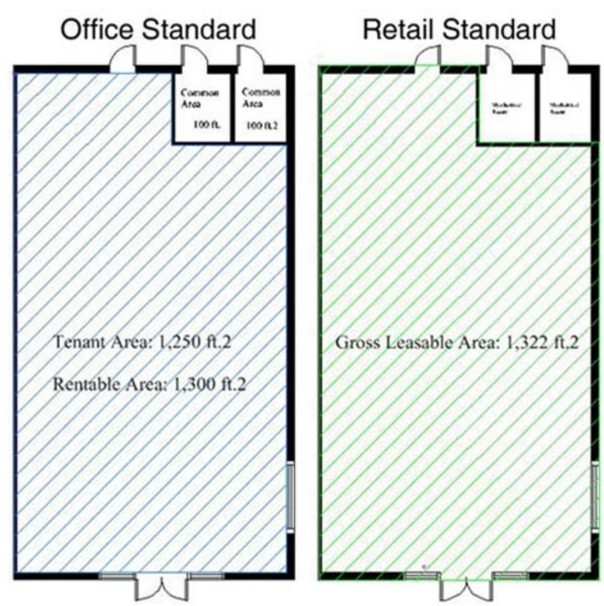
Boundary Condition

Where does my measure line extend to? One of the most important differences between the Retail and Office Standards is how the measure line differs for exterior enclosures. The Gross Leasable Area of a retail building is measured to the *outside face* of the exterior walls. Under the Office Standard the measure line for the exterior enclosure is the dominant portion of the *inside finished surface*. The dominant portion is the finished surface that comprises over 50% of the vertical height, measured from floor to ceiling (not exceeding 8 ft.). This difference can be significant. The illustration below shows how a unit measured to the Retail Standard (right) captures more area than a unit measured to the Office Standard (left) based on this condition:

Allocation of Common Area

Under the Office Standard, building owners can allocate to each tenant their proportionate share of common area. This process of "grossing-up" the tenant's space means each unit has two areas: a *Tenant Area* (the space physically occupied by the tenant), as well as a *Rentable Area* (the Tenant Area plus a proportionate share of common space). In a retail building this is not the case, as this Standard does not allow for the grossing up of common areas. Under the Retail Standard, Gross Leasable Area is simply the area designed for the exclusive use of an occupant with no share of common area.

Consider a hypothetical office unit with a Tenant Area of 1,250 ft.^{2} located within a building that contains three additional units of the same size and 200 ft.^{2} of common area. Each unit comprises ¼ of the total Tenant Area, and is allocated 25% of the common area (25% x 200 ft.^{2} = 50 ft.^{2}) making the Rentable Area of the unit 1,300 ft.^{2} (blue overlay on left side graphic below). If this were a retail building the Gross Leasable Area would be 1,322 ft.^{2} as this unit would simply be measured to the exterior face of all exterior walls, and would exclude any allocation of building common areas (green overlay on right side graphic below).



These are just two of the many differences between the Retail and Office Standards. With a total of six BOMA Measurement Standards it is critical to verify that the

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correct standard has been applied to your building, and that your space has been certified to verify its accuracy.

Mitchell Jones splits his time between our Lasercad® and Valuation Divisions. For further information feel free to reach out to him, or any one of our space measurement experts at (902)429-1811 or toll free at 1-800-567-3033 (this is ***not*** *a call centre).*

PLANNING DIVISION

The Dangers of Knowing the Price of Everything and the Value of Nothing

(Image via Wikimedia Commons)

"I think we're confusing heritage with nostalgia"
"Not every old building is a heritage building"
"I respect the past, but we are not living in it"
"I drive by that building every day and I think it's an eyesore"

Just a few quotes from the latest proposal to demolish an iconic century-old building and make room for progress. What cabal of money-grubbing developers would, without a hint of shame, so plainly offer their own decades-long neglect of a historic building as justification for its demolition? Why, a good number of Halifax's own elected councillors of course!

Having proved their bonafides with a unanimous approval of a new Heritage Conservation District the month prior, councillors, in fresh receipt of a building condition report for one of their own registered buildings, wasted no time debasing themselves with all manner of excuses as to why the Halifax Forum deserves the dynamite treatment. "A modern building for a modern city" offered one, espousing a viewpoint decidedly more mid-century modern, than modern-day. Bravely willing to take costless (to them) actions in fulfilling their duty to the public realm, it seems once the chips are down some find it quite easy to shift from clucking tongues to copping out.

The intrepid, if outgunned, heritage planning staff managed to get an admonishing squeak into the staff report, "as the building owner, it is incumbent upon the Municipality to exhibit stewardship in this area by investing in the Forum's heritage preservation". Atlas shrugged.

Unfortunately for the top minds on council, that pesky Heritage Property Act does apply after all. Combined with a few other staff reports, they will at least have to pay some further lip service to the issue before they can vote to do what they've so clearly already decided. A forthcoming Heritage Impact Statement will further spell out the historic and architectural merit of the building and provide conservation guidance, however the future of the Forum has much broader implications. The North End is changing. Market forces and planning policy are driving new development to the area. Within a scant few blocks of the Forum a bevy of development projects mean more than 2,000 new residents will soon call the area home. All of this is to say nothing of the further density that will be driven to the area under the incoming (…hopefully) Centre Plan, wherein it is designated as the largest "Growth Centre" in the urban core.

All of this can be good. All of this can be bad. For more than a decade now the municipality has been making the case for more urban densification and its role in the social and economic health of the city; infrastructure efficiency, public health, climate impact mitigation, traffic management, the higher quality of services and amenities it can justify. Yet all of this high-minded ambition hits the ground somewhere. Achieving these goals is a long, incremental process, and along the way will be many points where the public gets to evaluate actual outcomes. Will HRM's performance stall the progress, or add to its momentum?

The Halifax Forum is a heritage arena, unique in the city for its history and form. It is one of the largest heritage buildings left, enabling a broad range of adaptive reuse options compared to the typical Georgian and Victorian stock. It is also unique in its use. Unlike most heritage buildings, which are often private, it continues to play an active role in the life of the North End neighbourhood. It is therefore a pillar of the community's identity, visually and socially. This is a building known and loved by far more than architectural aficionados; previous rumblings of its demolition have elicited swift public outcry.

So what message might Council's treatment of the Forum send? Will it shine as an example of how existing neighbourhoods can densify and change while retaining and enhancing the elements they already love? Or is development only for the benefit of newcomers, a spectre to be opposed like the barbarians at the gate? Will the municipality show how the enlightened treatment of built heritage adds value to the overall quality of place in a way that exceeds the potential of new development alone? Or will its pound-

Restored 1928 arena in Michigan: Rosetti Architecture

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foolishness produce only lingering regret, and a list of self-serving excuses to be eagerly wielded by similarly unscrupulous property owners?

New HRM municipal rink: Hello Halifax

Neil Lovitt is the Senior Manager of our Planning and Economic Intelligence Unit Divisions. For more information on those Divisions visit our corporate web site www.turnerdrake.com → Corporate Site →Planning or →Economic Intelligence Unit.

VALUATION DIVISION

Which Value?

It is a common misconception that a piece of real estate has a single value. This is simply not true. Determining which value is appropriate, likely has the biggest impact on property value.

The Royal Institution of Chartered Surveyors' Global Valuation Standards, specify *six types of real estate value* (Market, Rental, Equitable, Investment, Synergistic, and Liquidation). The Appraisal Institute (of America) has identified *ten distinct, and valid, property valuation bases* in common use in North America. Legislation, case law, and the purpose of the real estate assignment, result in many variations of these property valuation bases. Any conversation about valuing your property has to start therefore with an understanding of the purpose of the valuation assignment or you can end up with a conclusion which is worthless at best, or seriously misleading at worst.

Let's discuss the two most common types of value.

Market Value (Highest and Best Use) is typically quoted and understood by many (including appraisers) to be the only type of value. It is the highest price you would get for your property on a specific date, if it was offered for sale, properly marketed, and exposed for a sufficient period of time to alert and allow all potential purchasers to submit offers. It assumes that both seller and buyer are knowledgeable of property values, that neither are under pressure to sell or buy, are typically motivated, and are each acting in their best interest. It assumes a cash purchase, or typical mortgage financing, in Canadian dollars. It also anticipates that the purchaser will be able to put the property to its "Highest and Best" use, which may for example, include redevelopment, if this will create a higher value than the existing use of the property.

But beware, *Market Value is **not** the price you could expect to get if the purchaser (1) was an adjoining owner, (2) was undertaking a land assembly, (3) was a relative or business associate, (4) knew something that the vendor should have known but did not, (5) did not know something known to the vendor of which the purchaser should have been aware, (6) wanted a "vendor take back" mortgage, (7) intended to lease back the property to the vendor, (8) enjoyed a negotiating advantage because, for example, the vendor was in dire financial straits, … and so on.*

We were recently contacted by an existing client looking to secure financing for their property located in a Central Business District. Their property was improved with an older, single storey commercial building. The underlying land was worth considerably more than the building and property under its current use. After discussing the purpose of the assignment with the client and their bank, it became clear that the bank was interested in more than just the **Market Value (Highest and Best Use)** of the property in this instance. The bank's goal was to determine if the income generated by the property, under its current use, was sufficient to keep the lights on and pay the existing mortgage. However, the bank also wanted to know what they could expect to sell the property for if they ended up taking possession of it and selling it on the open market. Effectively, the bank had two different goals which gave rise to two different values.

We completed a thorough analysis of the property and provided the owner, and their bank with two values (1) Market Value (Highest and Best Use), which in this case was for redevelopment of the property, and (2) Market Value (Value in Use) as it currently exists without regard to redevelopment potential. Market Value (Value in Use) is similar to Market Value (Highest and Best Use) but is based on the assumption that your property could only be utilised for its existing purpose.

Difference in Value

In this instance the difference in value was significant: $1.5 million (Market Value - Value in Use) versus $2.3 million (Market Value – Highest and Best Use). Both values were included and supported in the report, allowing the bank to make an informed decision on their lending.

Looking for explanations on the different types of values listed above? Visit our Valuation and Advisory Services site https://www.turnerdrake.org→WhichValue for more information on the various types of values.

*Nigel Turner, Vice President of our Valuation Division, can be reached through any of our offices in Halifax, St. John's, Charlottetown, Saint John and Toronto or by calling 1-800-567-3033 Ext. 330 (this is **not** a call centre).*

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