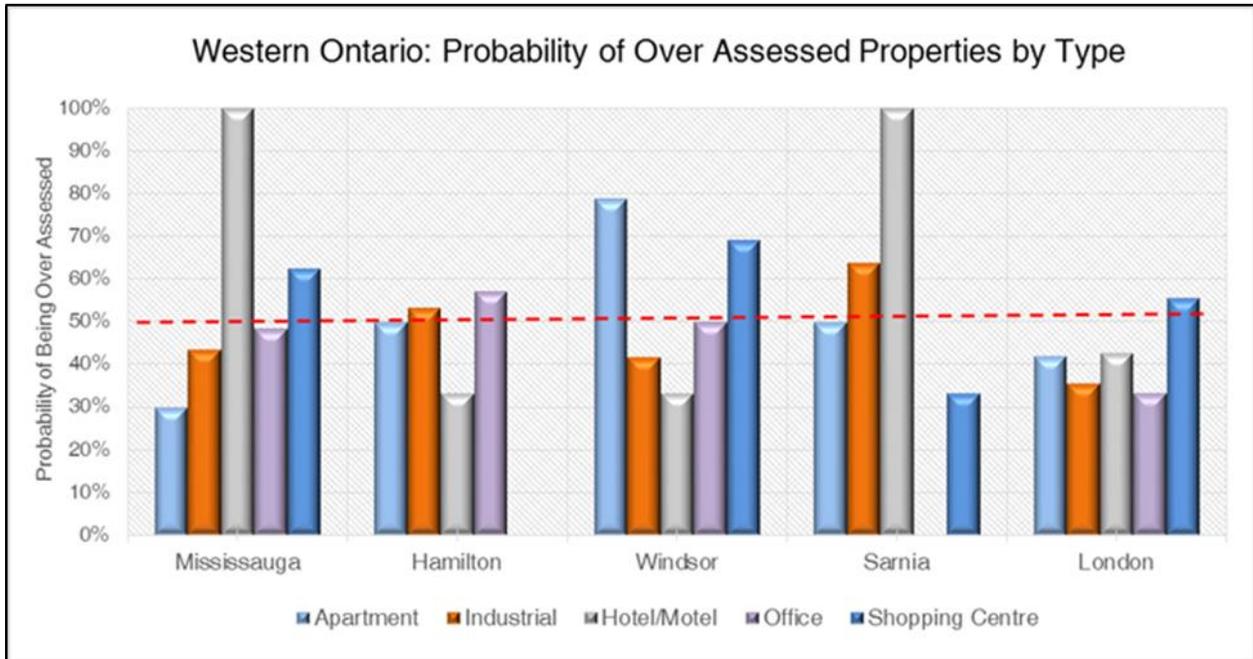


## PROPERTY ASSESSMENTS IN ONTARIO



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 31<sup>st</sup> 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 1<sup>st</sup> 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 be based on its Market Value, in its Highest and Best Use, as of January 1<sup>st</sup> 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 1<sup>st</sup> 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  $\text{Mill Rate} \times \text{Property Assessment} = \text{Annual Tax Liability}$ . “Classification” is determined by the property use on June 30<sup>th</sup> preceding the taxation year i.e. June 30<sup>th</sup> 2018 for the current appeal period. If incorrect, property classification is an additional avenue for appeal.

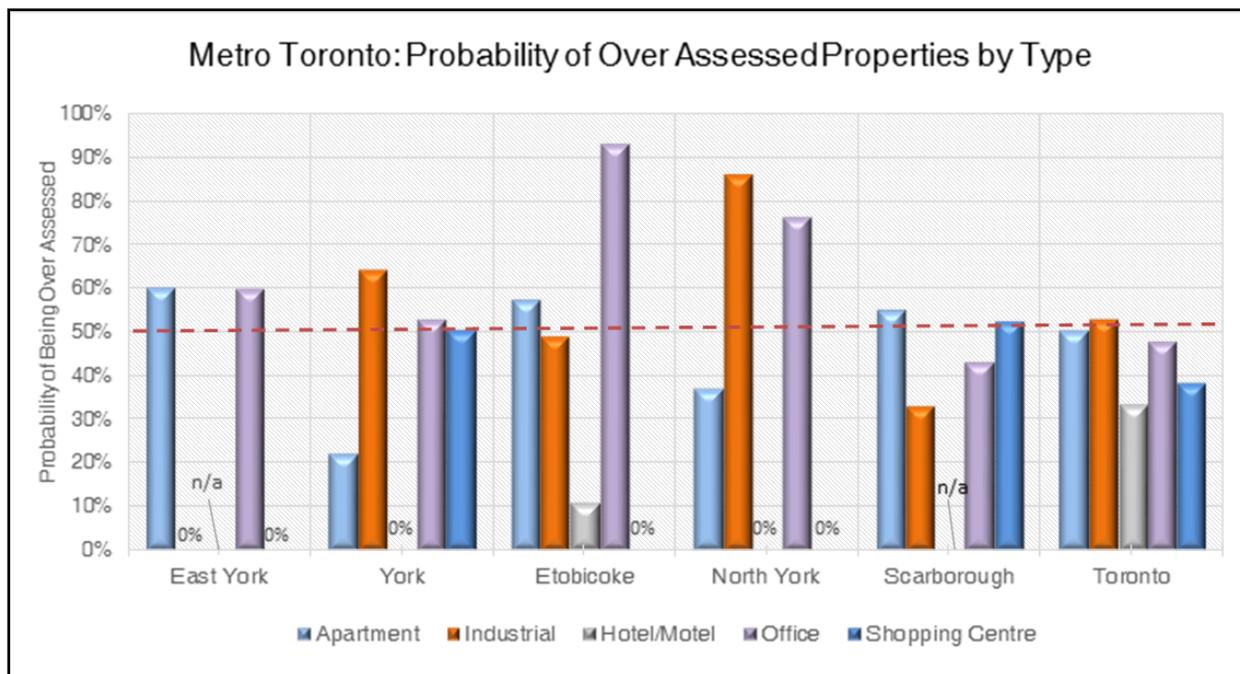
### **Successfully Appeal!**

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 1<sup>st</sup> 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 1<sup>st</sup> 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](http://www.turnerdrake.com/newsresearch/research.asp) → Western Ontario Assessments