Ryerson University

Ryerson City Building Institute

TAXED OUT

A special presentation of the Ryerson City Building Institute
September to December 2018

Digital Exhibition


Urbanspace
Gallery
TAXED OUT
TAXED OUT
Can Toronto's retail main streets survive?
OPENING: Wed. Sept. 12, 6-8pm

Foreword

"Intense, rapid development in Toronto has led to massive hikes in commercial property values and taxes. Independent businesses are feeling the crunch. Many have closed, and more are threatened by rising space costs. TAXED OUT illustrates the very real impact of tax policy on the main streets we love."

Can our main streets survive? This was the question we asked in our first gallery exhibition, TAXED OUT, which ran from September to December, 2018.

When I learned that "highest and best use" commercial property tax was threatening the fabric that makes Toronto's neighbourhood main streets distinct, I wanted to take action.

But none of us at the City Building Institute is a tax expert, and I knew a written report was not the best way to tell the stories of the restaurateurs, shop owners and music venues threatened by or shuttering from wrong-headed tax policy.

So I thought: why not illustrate the issue in a gallery exhibition using photos, storytelling and infographics? That's how TAXED OUT came to be.

My colleague Claire Nelischer and I toured the Queen West, Downtown Yonge Street and King-Spadina areas. We interviewed small business owners and tax policy experts, and Claire pored over tax data.

We then spent hours at a whiteboard curating a narrative and designing each frame. Talented photographer Vik Pahwa captured the places and people, and Julie Fish and Matt Blackett at Spacing crafted our mock-ups into an eye-catching presentation for the gallery.

Our launch of TAXED OUT on September 12 included a panel of BIA leaders and tax experts to talk about the problem and solutions with an audience of city builders and small business owners.

A couple of months later, CBI partnered with the Toronto Region Board of Trade and the Toronto Association of Business Improvement Areas to host a networking event, “Beer and Taxes,” which packed Urbanspace Gallery with BIA reps, decision makers and thought leaders.

This “Digital Exhibition” captures TAXED OUT to reach a broader audience and bring more attention to the issue.

We wish to thank everyone who participated in our research, our panel of experts at the launch (Councillor Kristyn Wong-Tam, Peter Tomlinson, Lori-Ann Girvan, Mark Garner and Rob Sysak), our partners for “Beer and Taxes” (Brian Kelcey and John Kiru). Our special thanks to Margie Zeidler and Vicki Rodgers of Urbanspace for their generous support of TAXED OUT.

Cherise Burda
@cheriseburda
Executive Director
Ryerson City Building Institute

Exhibition photos pages 2–5 by Tomasz Adamski. Event photo on page 5 by Dominic Ali.

TAXED

Can Toronto's reta

Toronto's recent intensive growth has reshaped the skyline. It has also ushered in a new and perverse system of property tax assessment known as "highest and best use."

What does this mean? In high-growth areas, the Municipal Property Assessment Corporation (MPAC) assesses a commercial property's value according to what it could be, rather than what it is. As a result, property values have been skyrocketing in Toronto, and with them, commercial property tax bills.

This system has put enormous financial pressure on the diverse businesses and organizations responsible for paying these escalating bills, forcing cutbacks and sometimes, full closures.

OUT

il main streets survive?

If we don’t find solutions, the result may be the wholesale hollowing out of independent culture, heritage, local entrepreneurship and small business across the city.

TAXED OUT put this policy issue on display, to illustrate the vitality on our streets we’re at risk of losing, and have already lost, and raise a call to action.

A Neighbourhood Institution

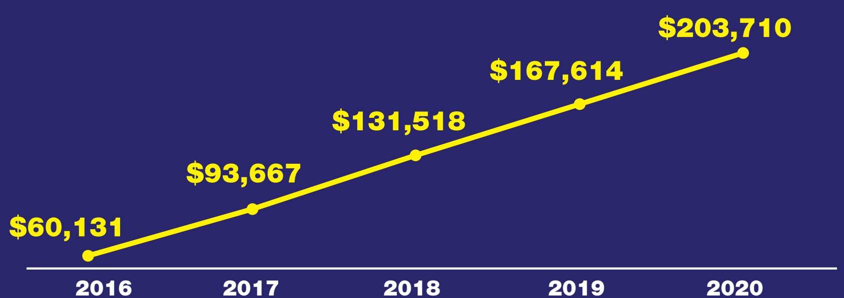
Le Sélect Bistro provides strong, stable employment to a staff of 80 people — of whom approximately 25% are over the age of 50. Some of the longest-serving employees have worked with Le Sélect for 30 and 40 years.

Le Sélect Bistro has been a downtown institution for 41 years. In 2006, the restaurant moved from its original Queen West location to its new home at 432 Wellington St. W., in Toronto's historic garment district.

Wellington Street's high development potential brings two related challenges for small businesses: skyrocketing taxes and a construction boom that brings noise, dust, and access restrictions. Major construction on a site directly south of Le Sélect coincided with a 14% decrease in guests from 2016 to 2018.

Following a 2016 property reassessment, Le Sélect Bistro faced a tax increase of 239% from 2016-2020. Such dramatic tax increases prompted the City to introduce a 10% cap on commercial increases in 2018, while it evaluates longer-term solutions.

PROJECTED PROPERTY TAXES FOR LE SÉLECT BISTRO, FOLLOWING 2016 REASSESSMENT



Top: Construction on Wellington Street West. Bottom: Staff at Le Sélect Bistro.

Proposed development and construction on Wellington Street West.

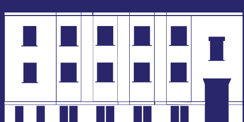
Highest and Best Use?

MPAC assesses commercial properties downtown using a direct comparison approach based on potential value, neighbouring properties, and “highest and best use.” Le Sélect’s assessed property value is not based on its current use or form — a two-storey restaurant with offices — but on its hypothetical future as a tall condo or office tower.

Le Sélect Bistro’s building is assessed and taxed on its hypothetical redevelopment value — “highest and best use.” But its owners have no intention to sell, and will not realize this value. An assessment system based on current use would could more accurately reflect the value of a property and the owner’s capacity to pay taxes.

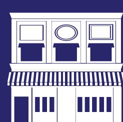
Amidst rapid neighbourhood development, Le Sélect’s 2016 Current Value Assessment was set at over $8,000,000 — a 243% increase from its 2012 CVA.

CURRENT VALUE ASSESSMENTS ON WELLINGTON STREET WEST



2016
$16,568,000
112% increase
2012
$7,826,000

420 Wellington St. W.
17,440 sq/ft lot



2016
$8,083,000
243% increase
2012
$2,354,000

432 Wellington St. W.
8,510 sq/ft lot

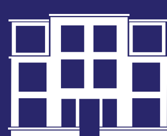
2016
$14,564,000
30% increase
2012
$11,165,000

460 Wellington St. W.
25,110 sq/ft lot

2016
$7,534,000
85% increase
2012
$4,073,000

2016
$10,447,000
87% increase
2012
$5,602,000

488 and 482 Wellington St. W.
10,991 sq/ft lot & 9,056 sq/ft lot



2016
$5,049,000
51% increase
2012
$3,339,000

504 Wellington St. W.
7,242 sq/ft lot

Storefronts along downtown Yonge Street.

Yonge Street Tax Revolt

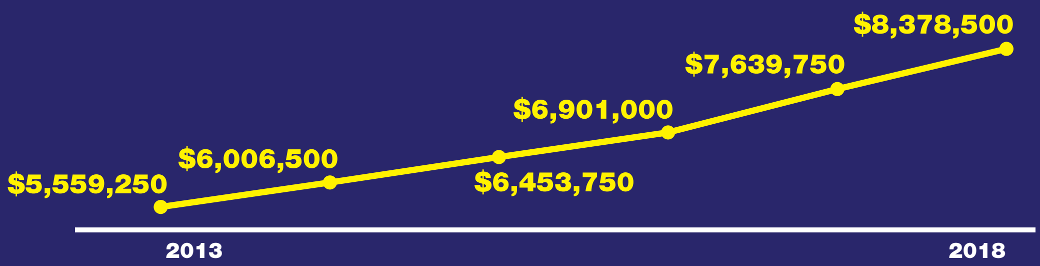
Following a 2016 property reassessment, businesses on Yonge Street between Bloor and College rose up together to fight dramatic tax increases upwards of 100%.

Facing sudden, steep tax increases, Yonge Street small businesses and the local councillor advocated for solutions. In response, MPAC reduced assessed values for many properties along Yonge, in recognition of the area's recent designation as a Heritage Conservation District. A small measure of additional relief came when the City reinstated a tax cap, limiting tax increases for commercial properties to 10% per year. Despite these measures, the future remains uncertain for many small businesses.

Taxes vs. Services

While property taxes increased on Yonge Street, the services to these businesses did not improve — for example improved street lighting or street sweeping in the laneways. The stretch of Yonge Street from Bloor to Alexander Street has no BIA to supplement these services.

ASSESSED PROPERTY VALUE, 619-623 YONGE STREET, HOME OF MORNINGSTAR TRADING



Richard and Mark are the proprietors of Cat's Cradle, a women's fashion boutique on Yonge Street near Wellesley.

They recently closed the family-run shop after 98 years in business, but haven't lost their connection to the neighbourhood; they still love to engage with passerby on the street.


OLE
LifeMed Integrative
Healthcare & Rehab Centre
Perfume
600 Yonge Street
Retail & Wholesale
(416) 929-7710
KAZA CELLPHONE
All Kinds of Cellphone - Accessories Wholesale & Retail
PERFUMES
Lowest Prices On Yonge Str.
SALE
80% OFF

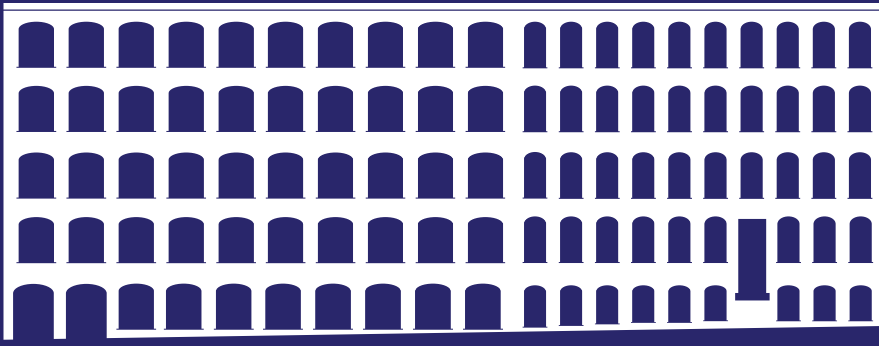
Creative Class

Following a 2016 property reassessment, 401 Richmond faced a tax increase of 84% from 2016 to 2020.

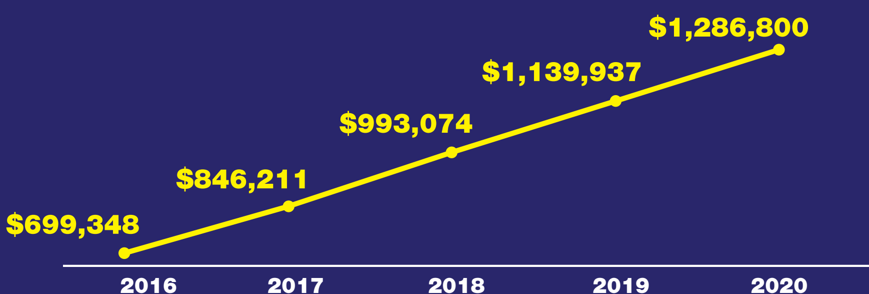
401 Richmond is a hub for creativity in downtown Toronto, offering below-market rents to support artists, social entrepreneurs, and small businesses. This historic warehouse building has been a thriving cultural and commercial centre since the 1990s, and is now home to over 100 artist-run centres, studios, galleries, and non-profit groups.

Creative Co-Location Tax Class

In 2017, facing the threat of a massive tax increase, 401's tenants organized to fight for a solution, along with other stakeholders like Artscape. Relief came in February 2018, when City Council approved a new Creative Co-Location Property Tax Subclass and a 50% tax reduction for a small group of cultural hubs in the city. Fewer than 20 properties, including 401 Richmond, will be introduced into this tax class in 2018.



PROJECTED PROPERTY TAXES FOR 401 RICHMOND, FOLLOWING 2016 ASSESSMENT



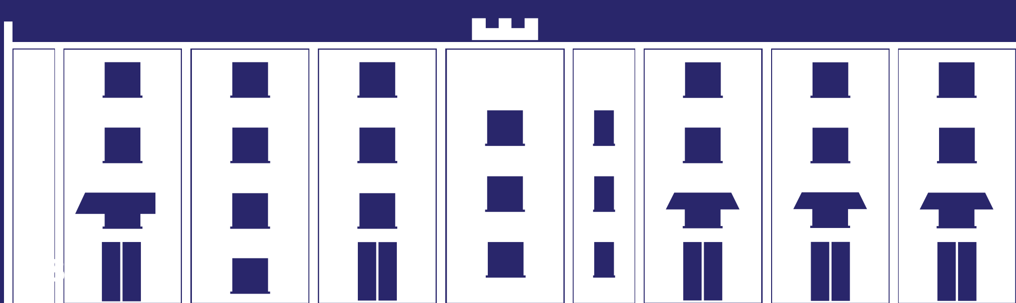
Golden Goose

Artscape demonstrates how arts and cultural activity can catlyze neighbourhood regeneration. But today, dramatic property tax increases threaten to push Artscape and its tenants out of the communities to which they bring so much life.

Artscape is a not-for-profit urban development organization whose portfolio of cultural facilities provides affordable, sustainable space to thousands of creative people across Toronto.

Artscape was the Distillery Historic District's first anchor tenant in 2003, and its critical mass of 300 artists helped shape a new identity for the area — now an acclaimed shopping and entertainment destination. Today, the Artscape Distillery Studios struggle with property taxes that continue to rise as the neighbourhood grows — increasing 106% over five years.

PROPERTY TAXES BEFORE AND AFTER 2016 REASSESSMENT, ARTSCAPE DISTILLERY STUDIOS



Artscape Distillery Studios

Comment

"TAXED OUT isn't just the clearest explanation of a property tax issue that I've seen; it's an intriguing use of space, style and visuals to talk about public policy issues."

Market-value property taxation has destabilized neighborhoods in cities in North America for decades. This taxation model is volatile and unpredictable, shifting millions or even billions of dollars in tax costs unexpectedly from one neighbourhood to the next—with no regard for anyone's ability to pay them.

Radical tax shifts can happen for many reasons, under any circumstance. They can happen when average property values are going up, or down. In the worst cases, "tax spikes" can double, or even triple property tax costs, and not result in a dime in additional revenue for cities (as they're offset by relative tax reductions elsewhere).

Market-value property tax truly is "the rocket fuel of gentrification."

Here in Toronto, two vibrant small business areas recently faced crisis-level tax hikes after they were reassessed by the province as if their whole neighborhood had already been redeveloped. Grassroots protests, city councillor interventions and stop-gap tax policies helped control the rate of increase, but only barely. In the late 1990s, a different series of tax spikes put dozens of Toronto small business areas at risk. Restaurateurs and retailers took to the streets in protest. It took several pieces of provincial legislation to contain the damage.

We could easily see a repeat of these earlier episodes in Toronto and across the region if policymakers don't make a few simple, effective policy changes before the next planned reassessment in 2020.

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When I first saw TAXED OUT, I said, “wow.” The exhibition was a big morale boost for the people who had been busy working to solve this complicated issue. **The Toronto Region Board of Trade was proud to partner with the Ryerson CBI and TABIA** to bring a crowd to see TAXED OUT in November 2018. I’m hoping you find the digital version as interesting as the gallery-sized version that Ryerson CBI created for so many visitors this fall.

Brian F. Kelcey
@stateofthecity
VP Public Affairs
Toronto Region Board of Trade


glad day bookshop
CRADLE
LifeMed Integrative
Perfume
CELLPHONES
PERFUMES
SALE
80% OFF
Lowest Prices On Yonge St.
RAND SHOP
TATTOO

What Are We Losing?

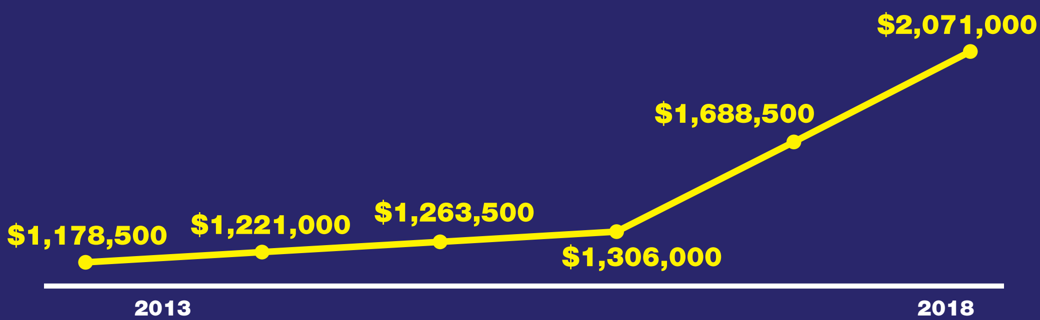
Independent retailers support neighbourhood connections, enliven street life, and add character to our main streets. What are we losing when these businesses are taxed out?

Cat's Cradle wanted to stay in business but the cumulative pressures added up. Yonge Street shifted away from fashion retail, losing the critical clustering effect. Online shopping, changing consumer habits, and increasing operating costs exacerbated challenges. A 117% increase in Current Value Assessment from 2012 to 2016 was the nail in the coffin.

Stay and Pay or Cash Out?

Some owners of low-rise main street buildings in high growth areas take the opportunity to sell to developers. But it's not always an easy choice in a competitive, speculative market: timing is critical, and selling requires paying Land Transfer and Capital Gains taxes plus the balance of the mortgage. Those who sell are often priced out of operating elsewhere.

ASSESSED PROPERTY VALUE, CAT'S CRADLE AT 596 YONGE STREET



What Do We Want To Preserve?

Toronto is a city of neighbourhoods.

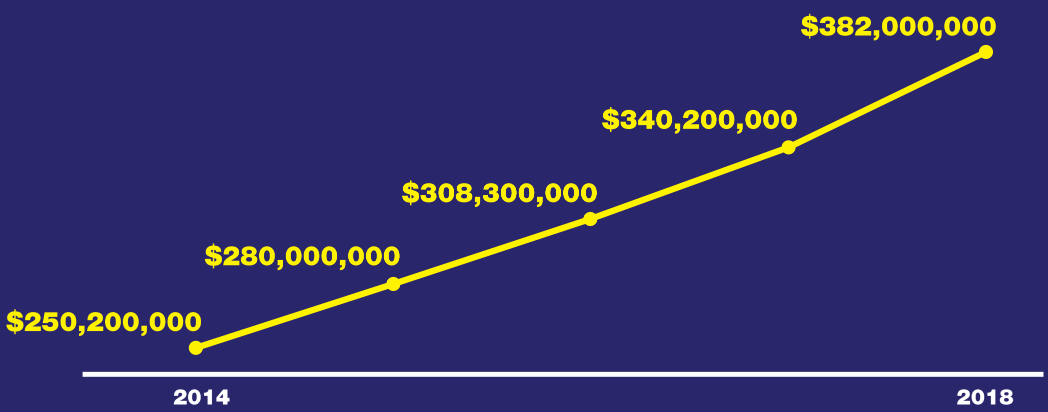
Independent businesses build neighbourhood character.

The City and the Province can deploy fiscal tools to support different outcomes. The question is: what are we trying to preserve or achieve on our main streets?

What is a small business?

If the goal includes preserving small business, how is this defined? Does this include only businesses on street level? What about franchises? Is small business defined by area, function, or income? Changes to tax policy or the creation a new tax class for small business will need to consider these questions.

TOTAL ASSESSED VALUE OF COMMERCIAL AND INDUSTRIAL PROPERTIES IN WEST QUEEN WEST BIA



Storefronts along West Queen West.


KOLWEAR
MOVING SALE
DOC'S LEATHERS
A TORONTO TRADITION
726
ANTIQUES

Stretching from Bathurst to Gladstone, the West Queen West BIA is home to a diverse mix of independent restaurants, boutiques and galleries. Between 2014 and 2018, the assessed value of commercial properties in the area increased by 52%.

Storefronts along West Queen West.

Discussion & Dialogue

Our municipal tax has gone up in a way where the restaurant becomes unprofitable. I'm being taxed on the hypothetical value of a building that I don't control, and that I'm not selling.

Frédéric Geisweiller, Owner, Le Sélect Bistro, as quoted by CBC

The magic of Toronto is that it is a city of neighbourhoods, each with its own flavour, thanks in part to small brick and mortar shops, which act as neighbourhood anchors. MPAC and its unfair practices threaten the future of these shops, and thus the neighbourhoods that make Toronto so special and also successful.

Rob Sysak, Executive Director, West Queen West BIA

Ontario municipalities were rebating commercial landlords 30% of their property taxes when their place was vacant for 3+ months. Our "neighbourhood lab" along the Danforth East let us explore local economic development at street-level and then leverage those learnings for a big policy impact at the provincial and municipal levels.

Diane Dyson, Director, Research & Public Policy, WoodGreen, on ending the Vacant Unit Rebate Program (see page 32)

Toronto is a city of unique neighbourhoods; however with our ongoing residential, commercial real estate growth and a strong tech startup market, new issues arise around healthy communities.

At the forefront is taxation policy.

We are losing small independent business, those mom and pop shops which make up our great neighbourhoods based on the current highest and base use taxation policies.

We need to work together as a community to define a tax solution which preserves the uniqueness of what has made Toronto a great city.

Mark Garner, Executive Director, Downtown Yonge BIA

To launch TAXED OUT, Ryerson CBI hosted an event featuring discussion from an expert panel composed of Kristyn Wong-Tam (Toronto City Council), LoriAnn Girvan (Chief Operating Officer, Artscape), Mark Garner (Executive Director, Downtown Yonge BIA), Peter Tomlinson (sessional lecturer, University of Toronto) and Rob Sysak (Executive Director, West Queen West BIA), moderated by Cherise Burda (Executive Director, Ryerson CBI). *Photos by Sarah Climenhaga, Tristan Downe Dewdney (Source: Twitter)*

The Band's Last Stand

Across Toronto, taxes for small-scale commercial properties are increasing as a result of rapid redevelopment that pushes up the assessed value of neighbouring properties.

The Silver Dollar Room, an iconic Toronto music venue, closed in 2017 to make way for a 15-storey residence. The developer is required to conserve the Silver Dollar Room in its original location as a new entertainment space, and also preserve some of its heritage features, including the bar, stage, and terrazzo floor.

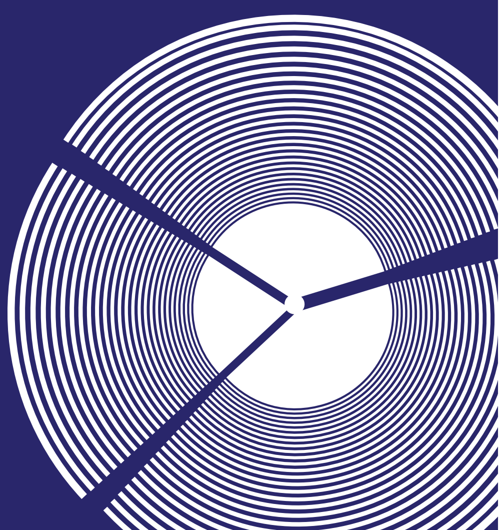
Pay to Play

As nearby properties are sold and redeveloped into taller, denser, and more valuable uses (like condos), MPAC reassesses neighbouring properties in direct comparison. Is it fair to tax properties based on what they could be, rather than what they actually are? For example, does the Canada Revenue Agency tax you on your earning potential, or on your actual paycheque?

The Sound of Silence

Over 28 music venues have closed in downtown Toronto since 2012.

- 43% closed after less than five years
- 21% closed after 5-9 years
- 36% closed after 10+ years



New development along downtown Yonge Street.

Outliers

On Par

1952 legislation designed to protect green space from development has frozen property taxes at mid-century levels for nine private golf courses in Toronto. These courses pay only a portion of their taxes so long as they remain undeveloped; it's estimated that the City has forgone over $40 million in tax revenue as a result. These clubs have high membership fees and the majority do not permit any public access.

No Vacancy

Until July 2018, Toronto's Vacant Unit Rebate Program provided full tax rebates for any vacant commercial or industrial unit that remained vacant for more than 90 days. Between 2001 and 2015, the City issued $460 million in rebates through the program. After much debate, City Council voted to eliminate the program to stimulate economic development.

Space for Culture

Ethno-cultural centres — publicly-accessible community spaces that promote understanding of culture and the arts — are exempt municipal property taxes in the city of Toronto. Qualified properties receive a 100% property tax rebate under the City's Property Tax Rebate Program for Ethno-cultural Centres.

Big Business

For large sports stadiums, MPAC assesses property values using an income approach, in which the property's revenue-earning power is directly tied to its market value. This is unlike commercial properties in Toronto, which are assessed through a direct comparison approach that compares recent sales of nearby properties and "highest and best use."

The Ryerson City Building Institute combines leading-edge research with broad public engagement to advance progressive city building in the GTHA and beyond.

"We need to work together as a community to define a tax solution which preserves the uniqueness of what has made Toronto a great city."

– Mark Garner, Downtown Yonge BIA