

The word "HALIFAX" in a bold, white, sans-serif font, set against a dark blue background. The background of the entire slide features a large, abstract geometric design with overlapping triangles in various shades of blue and white.

Condo Assessments and Tax Incentives for Density

**Committee of the Whole
July 21, 2015**

Outline

- Council Request
- Overview
- Assessment
- Incentives for Density
- Conclusions on Assessment and Incentives
- Methods used in other Canadian Municipalities
- Options
- Recommendation

Council Request

- analyze why condos generally have higher assessments than apartments equal in size, quality and other factors
- consider methods used in other Canadian Municipalities
 - including a reduced tax rate and/or
 - other incentives to increase density
- review with Property Valuations Services Corporation
- bring back Recommendations

Overview

- Housing density important to the Regional Plan
- Density includes such housing forms as:
 - row houses, mobile homes, apartments, 80% of condominiums (ie over 4 units).
- This report focuses on:
 - multi-unit dwellings and their relationship to the property tax system

Overview of Condos

- Roughly 10,000 condo units (2,000 buildings) in Halifax
 - Condos are a form of ownership
 - 20% of condo are single family homes
 - Frequently Owner-occupied
 - Income 80% higher than renters
- Unlike Apartments, Condo Owners:
 - Eligible for low income relief
 - Eligible for Assessment Cap
 - Receive solid waste collection

Overview of Assessment

- **Municipal Property Tax system based on assessment**
 - Properties are given an Assessed Value by the Property Valuation Services Corporation (PVSC), Not by HRM
 - The intent is that the assessed value of a property is a proxy for wealth
- **Assessed values are not intended to directly reflect:**
 - municipal services
 - density

Assessment Cap

- Most homes have their Assessment capped at the Consumer Price Index (CPI).
- Assessed values are higher for any of the exceptions to the Cap:
 - Condos that are rented
 - Apartments with more than three units
 - Properties in the year they sell or are built
 - Non-residents
- Condos sell more frequently and are newer
 - Only 61% of Condos are Capped.

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Municipal Property Tax calculation

Example for 2014

Assessed Value of \$215,000

Capped Assessment– from PVSC

Times

Municipal Property Tax Rate of 1.211%

(set by Municipality)

Equals

Municipal Property Tax bill of \$2,600

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Property Tax Rates

Condos and Apartments both have the exact same HRM property tax rate.

- There is no separate condo or apartment property tax rate in Halifax.
- Staff were unable to find any examples of Condo Property Tax rates in Canada.

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Average Assessed Values of Condos are Higher

Average Assessment

2015 - Capped

Single Family Homes	223,600
Condominiums	225,700
Apartments	86,700

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Condo Values are Higher than Apartment Values

- Most apartments are not comparable to most condos (eg age, condition). However:
 - Condos buildings are worth more than newer “condo quality” apartments.
 - In some cases there are identical condo and apartment buildings. In these instances, the Condo building is still worth more.
 - Condos are worth almost as much as single family homes (“market value”). Their “Capped value” is higher.

Why are Condos Assessed for more than Apartments?

- Condos and Apartments are both assessed at the “market value”. Market Value principles and practices are similar across Canada.
 - The “Income” and “Comparative Approach” methods are simply different methods to arrive at market value.
- Condos are assessed for more because they are worth more. Condos are worth more because they are bought and sold in a different segment of the real estate market:
 - Apartment Buildings are typically bought and sold by businesses. There are fewer buyers and sellers. Renters have no equity in their apartments.
 - Condos have a potential large number of buyers and sellers. Purchasers are willing to pay more for the equity in their home.

Condo Sale Prices Compared to Assessed Values

Condo Sale Price vs Assessed Values

2013 Sales vs 2013 Market Value (2011 Base Date)

Sale price within 10% of Assessed Value	57%
Sale price 10%+ higher than Assessed Value	33%
Sale price 10% lower than Assessed Value	10%

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Can Incentives encourage additional Density?

- Multi-unit buildings are more efficient to service and can help keep municipal expenditures lower. Property Tax rates do not recognize this.
- Demand for Housing, however, is driven by:
 - Mortgage Rates
 - Employment
 - Income
 - Migration into and out of Municipality
 - Population increases
 - Resale Market

Does Property Tax Influence Property Sales?

- Assessment Cap Survey (August 2014) found:
 - 20% said paying **higher property taxes on a new home** prevented them from considering selling their current home and purchasing a new one.
 - 13% said the prospect of **losing their assessment CAP** prevented them from selling their home and purchasing a new one.

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Conclusions on Assessment

- **Assessment system functions as intended:**
 - Condos value should be higher than apartment values due to real estate market.
 - System is intended as a proxy for wealth, by using real estate values. Not designed to encourage density.
 - Assessment Cap, however, does introduce a bias against apartments, condo sales and construction. Condos sell more often than homes, leading to higher capped assessments.

Conclusions on Incentives

- **Incentives for Density would not significantly change the demand for housing units:**
 - Individuals move primarily for lifestyle and financial reasons, not for tax reasons
 - An incentive could impact some situations where homeowners are hesitant of losing assessment cap and otherwise do not have to move.
 - Incentive would be provided to all, including those who would move regardless.
- **Provincial Assessment Cap discourages home sales and new construction**
 - Best incentive may be to modify a disincentive
 - Impact may still not be significant

What is being done in other cities?

- No specific condo rates.
 - In some cities, the apartment rate is higher than the single-family home/condo rate
- Regina & Saskatoon have incentive programs for construction of new housing units – often multi-unit condos to support housing affordability.

Options not currently allowed under Provincial law

- Condo Tax Rate
- Multi-unit Tax Rate (multi-unit condos and apartments)
- Tax Credit for Investment
- Maximum Tax on Multi-Unit Properties
 - Eg limit tax to \$3,500 per unit (up to \$1M assessment)
- Reduced Deed Transfer Tax rate for Multi-units
- Provincial Modification of Assessment Cap
 - ask Province to fully cap rented condos, apartments and multi-unit homes that sell

Options allowed under Provincial law

- Limit Tax Increase on Multi-unit Properties
 - Limit annual property tax increases to percent increase
 - Removes assessment cap bias on homes that sell but does not affect the bias on new construction
 - Requires administrative order with properties listed
- Frontage Charge for Road Costs replaces portion of General Tax Rate
 - Provides lower taxes for higher density

Conclusions on Options

- **Legislative changes** required to Charter for most options
- Any significant reduction in taxes means a **shift in taxes** to another group of properties
- Incentives for density **may not be cost-effective**
- Issues identified by Condo owners are not unique to Condos. **Comparable changes would be expected by other homeowners.**
- **Additional complexity** in Property Tax system

Recommendation

- Direct staff to prepare the 2016-17 budgets using the current tax structure, without any specific changes for multi-unit properties.