



# 2017 ONPHA Conference and Trade Show

Shaping  
OUR  
Future

## Session #205

### Mastering the mystery property taxes

#### PRESENTED BY:

Greg Baxter, Municipal Property Assessment Corporation (MPAC)

Geoff Watts, Altus Group Limited

Carrie Marcotte, Altus Group Limited

Ray Sullivan, Centretown Citizens Ottawa Corporation (Moderator)

# Learning goals

1. Explore the role of the Municipal Property Assessment Corporation (MPAC)
2. Understand how multi-residential properties are valued in Ontario
3. Understand how non-profit housing providers are impacted by Ontario's tax system
4. Explore how Altus Group Limited is assisting some non-profit housing providers in appealing property assessments



# Assessing Multi-Residential Properties in Ontario

**Greg Baxter**

Director, Valuation and Customer Relations

Ontario Non-Profit Housing Association Tradeshow and Conference

November 3, 2017



MUNICIPAL PROPERTY  
ASSESSMENT CORPORATION  
SOCIÉTÉ D'ÉVALUATION  
FONCIÈRE DES MUNICIPALITÉS

# Agenda

- Who is MPAC
- 2016 Assessment Update
- How we assess Multi-Residential Properties
- Sample Calculation
- Advanced Disclosure
- Questions

# Who is MPAC

# Who is MPAC?

## THE MUNICIPAL PROPERTY ASSESSMENT CORPORATION (MPAC)

is an independent, not-for-profit corporation funded by Ontario's municipalities

**OVER 1,700**

employees across  
the province

**OVERSIGHT**

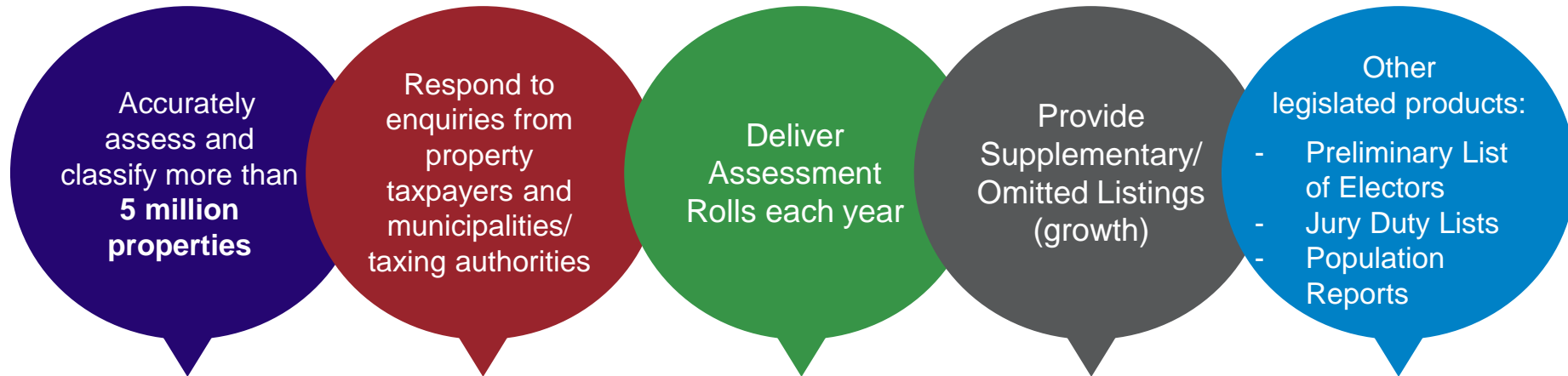
provided by the  
Ministry of Finance

**13-MEMBER**

Board of Directors  
Made up of municipal,  
Provincial and taxpayer  
representatives,  
appointed by the  
Ministry of Finance

MPAC is responsible for **assessing** and **classifying** all properties in Ontario in compliance with the *Assessment Act* and related regulations set by the Ontario Government.

# Our Role



# Ontario's Property Assessment System



**The Municipal Property Assessment Corporation** determines Current Value Assessments and classifications for all properties in Ontario.



**The Provincial Government** passes legislation, sets assessment policies and determines education tax rates. The Province also operates an independent assessment appeal tribunal – the Assessment Review Board (ARB).



**The Ontario Property Taxpayer**



**Municipalities** determine revenue requirements, set municipal tax rates and collect property taxes to pay for municipal services.\* These services may include:



Police and fire protection



Roads, sidewalks and public transit



Waste management



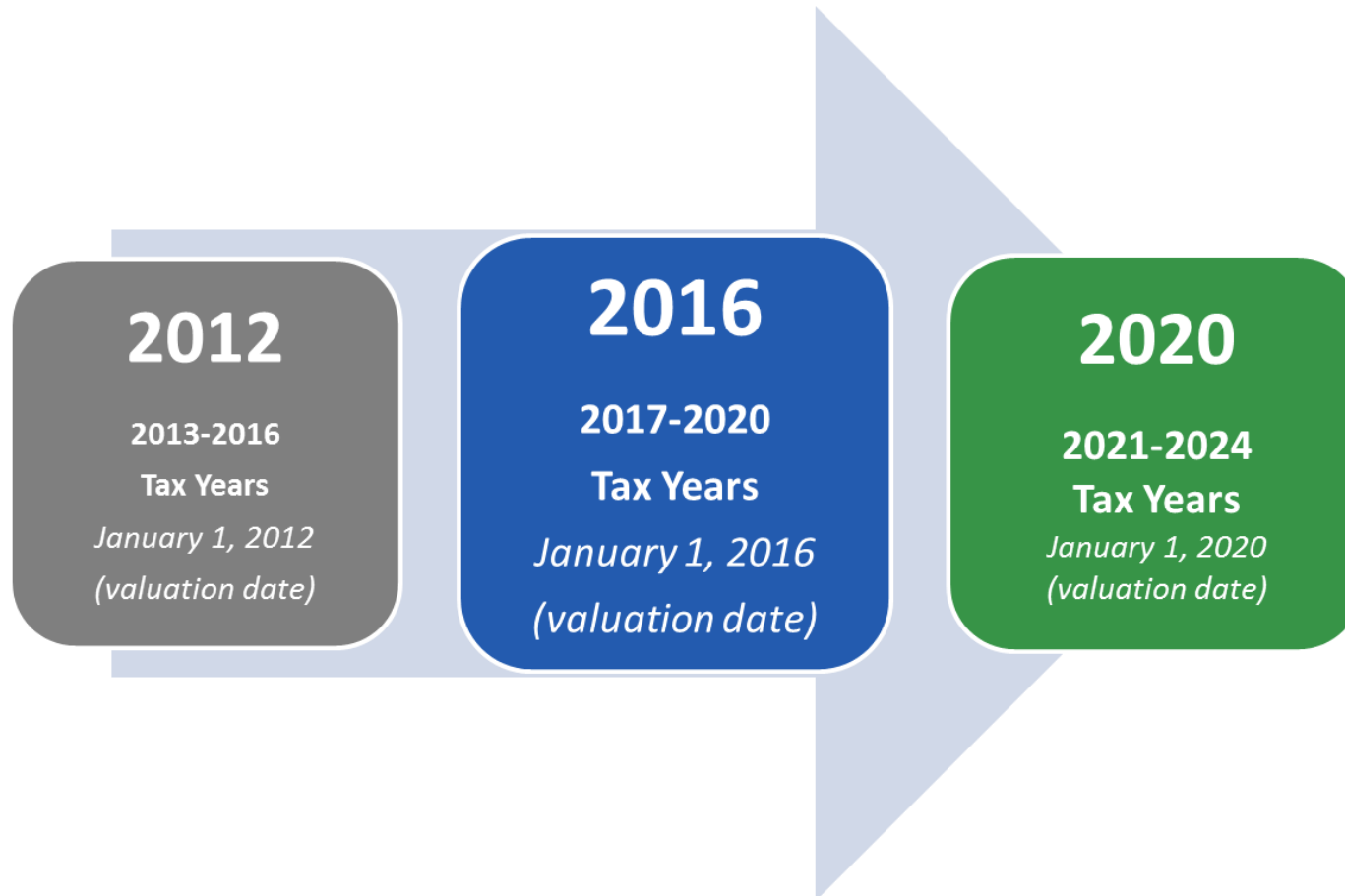
Parks and leisure facilities



# 2016 Assessment Update

# 2016 Assessment Update Delivery

In 2016, MPAC updated the values of Ontario's 5 million properties to reflect a valuation date of January 1, 2016.



# Assessment Methodology Change

- In late 2015, MPAC undertook consultation with provincial, municipal and industry representatives to discuss its approach to the assessment of multi-residential properties.
  - The consultations were undertaken as part of the new **Assessment Methodology Change Protocol** established by MPAC and the Ministry of Finance.
- MPAC also met with the Federation of Rental-Housing Providers of Ontario, the Co-operative Housing Federation of Canada (Ontario Region Office) and the Ontario Non-Profit Housing Association to walk through the proposed change in methodology.
- As a result of feedback received from consultations, MPAC valued multi-residential properties using the **Direct Capitalization** approach for the 2016 Assessment Update.

# How we assess Multi-Residential Properties

# The Assessment Act

- All real property in Ontario is liable to assessment and taxation, subject to certain exemptions.
- The assessment of land shall be based on its current value.
- Current value is a measure of market value:  
“the amount of money the fee simple, if unencumbered, would realize if sold at arm’s length by a willing seller to a willing buyer.”

# Assessing Multi-Residential Properties

The *Assessment Act* requires MPAC to classify properties for taxation purposes. There are 9 classes and several optional and sub-classes of property:

- Multi-Residential properties are classified in either the Multi-Residential or New Multi-Residential Property Class.

The New Multi-Residential Property Class was optional until this year:

- As such, all property that was in the optional class and all multi-residential property that was built or converted after April 20, 2017 is now classified in the New Multi-Residential Property Class.
- This change was announced as part of the province's *Fair Housing Plan*.

# Recent Legislative Changes

The province passed the *Promoting Affordable Housing Act* in December 2016, which includes the following key changes:

- Providing municipalities with the option to implement inclusionary zoning that requires affordable housing units to be included in residential developments; and
- Exempting secondary suites such as above-garage apartments or basement units from development charges.

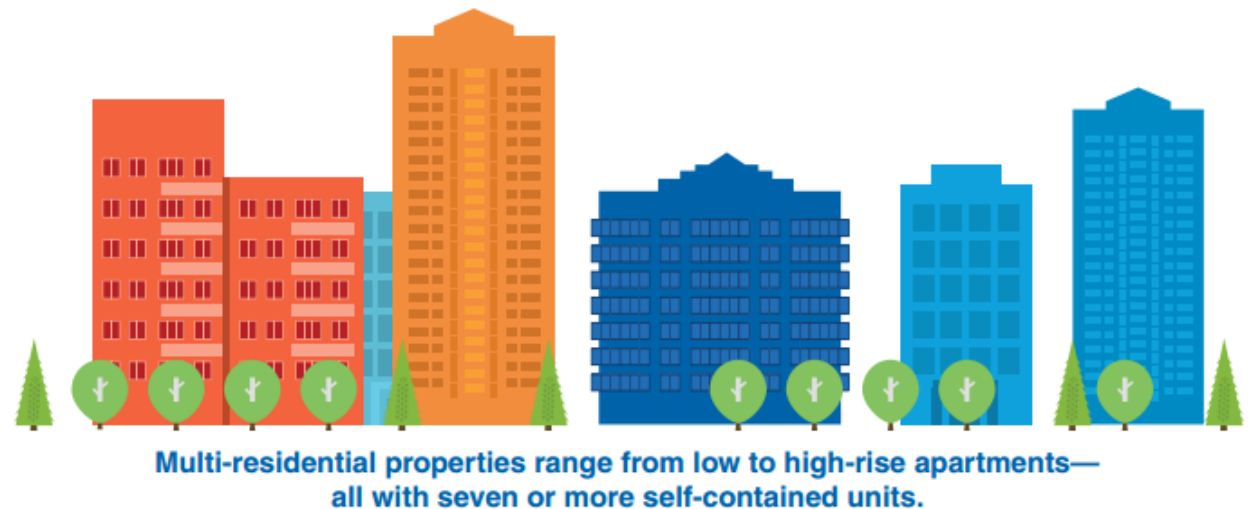
The 16-point *Fair Housing Plan* was introduced on April 20, 2017. The Plan includes several proposals related to multi-residential properties:

- As of April 20, 2017, **New Multi-Residential** is a mandatory property class
- Expanded use of rent controls for all private rental housing units. The rent increase guideline will be capped at 1.8 per cent in 2018.
- The introduction of a new \$125 million, five-year program to encourage construction of new rental apartment buildings by rebating a portion of development charges.

# Assessing Multi-Residential Properties

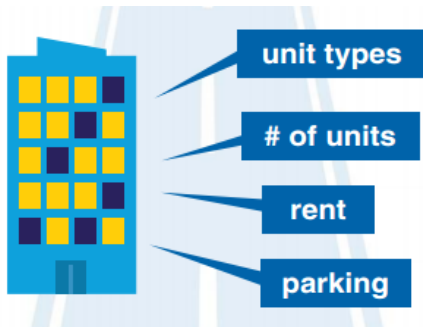
MPAC uses the **income approach** to value multi-residential properties. This approach looks at the annual market rental income and also considers other income that can be generated by the multi-residential property. A market analysis is completed to determine the capitalization rate, which is then applied to the net income to create a current value for the property.

MPAC uses the **direct capitalization method** of converting an expected stream of income into a current value.





# Determining Assessed Values



MPAC updates and collects data from various sources:

- Building Permits
- Sales Transactions
- Request for Reconsideration
- Appeals
- Tax Applications
- Land Severances
- On-site Property Inspections
- Rent Rolls (rental agreements)
- Income and Expense Reporting (PIER)
- Third party data:  
*Canada Mortgage and Housing, Farm Credit Canada, Federation of Rental Property Owners, etc.*

DATA COLLECTION & PREPARATION

+

MARKET ANALYSIS

+

PROPERTY VALUE REVIEW

=

**2016 VALUES**

January 1, 2016 Valuation Date

# Determining Assessed Values

## **MPAC reviews all sales to determine:**

- Conditions of Sale
- Chattels

## **MPAC reviews information to determine significant variables:**

- Location
- Building Design
- Classification
- Rental Income
- Vacancy Rates
- Operating Expenses

DATA COLLECTION & PREPARATION

+

MARKET ANALYSIS

+

PROPERTY VALUE REVIEW

=

**2016 VALUES**

January 1, 2016 Valuation Date

# Determining Assessed Values

- Fair Market Rents (FMR) are applied and reviewed
- Normalized Expense Ratios are applied
- Cap Rates are applied
- Preliminary values produced
- Fine-tuning & final property value review

DATA COLLECTION & PREPARATION

+

MARKET ANALYSIS

+

PROPERTY VALUE REVIEW

=

**2016 VALUES**

January 1, 2016 Valuation Date

# Sample Calculation

# Valuing Multi-Residential Properties



**Potential Gross Income**

— Vacancy and Collection Loss



**= Effective Gross Income**

— Operating Expenses



**= Net Operating Income**

÷ Capitalization Rate

**= Assessed Value**

We derive the capitalization rates by analyzing the relationship between the sale prices and the net incomes of relevant income-producing properties.

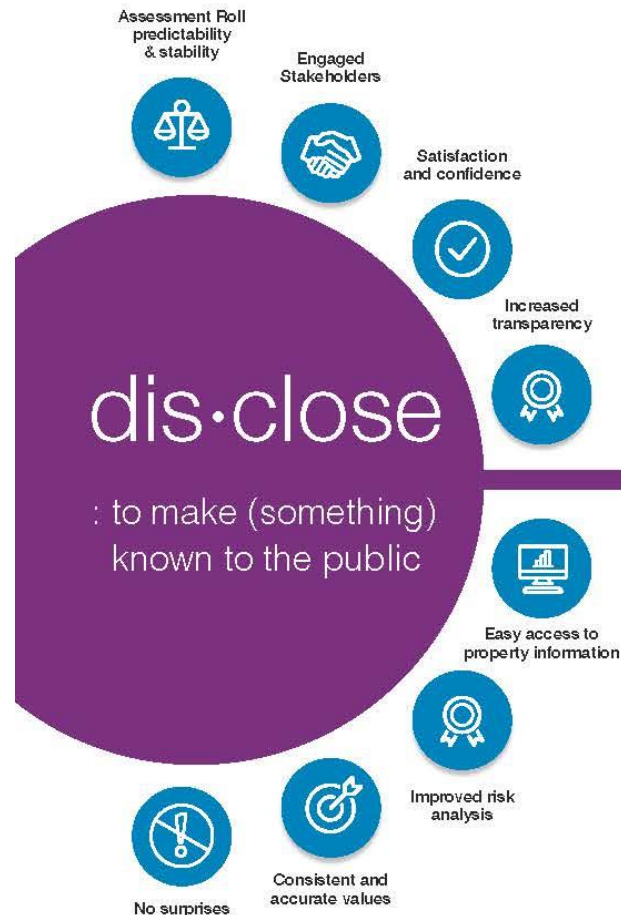
# Valuing Multi-Residential Properties – Sample Calculation

10 one bedroom units	10	
Market Rent	\$1,000	
<b>Potential Gross Income</b>	<b>\$120,000</b>	$(\$1,000 * 10) * 12 \text{ (months)} = \$120,000$
Vacancy and Collection Loss 2%	\$2,400	$(\$120,000 * 2\%) = \$2,400$
<b>Effective Gross Income</b>	<b>\$117,600</b>	$(\$120,000 - \$2,400) = \$117,600$
Operating Expense:		
Management 5%	\$5,880	$(\$117,600 * 5\%) = \$5,880$
Property Tax 15%	\$17,640	$(\$117,600 * 15\%) = \$17,640$
Building Insurance 1%	\$1,176	$(\$117,600 * 1\%) = \$1,176$
Administration 4%	\$4,704	$(\$117,600 * 4\%) = \$4,704$
Utilities 12%	\$14,112	$(\$117,600 * 12\%) = \$14,112$
Repairs and Maintenance 13%	\$15,288	$(\$117,600 * 13\%) = \$15,288$
<b>Total Operating Expenses</b>	<b>\$58,800</b>	
<b>Net Operating Income</b>	<b>\$58,800</b>	$(\$117,600 - \$58,800) = \$58,800$
<b>Cap Rate</b>	<b>5%</b>	Determined by market transactions (sales)
<b>Current Value Assessment</b>	<b>\$1,176,000</b>	$(\$58,800 / 5\%) = \$1,176,000$

# Advanced Disclosure

# Advanced Disclosure

## Advanced Disclosure 2016 Assessment Update



### MPAC's COMMITMENT TO YOU

MPAC's advanced disclosure activities include three levels of information that are being shared with taxpayers, municipalities and other stakeholders

—Early and Often

#### 1 Our Method



##### Methodology Guides

These comprehensive guides explain assessment methodology. Our assessors are trained experts in the field of valuation and apply appraisal industry standards and best practices.

#### 2 Our Analytics



##### Market Valuation Reports

These comprehensive reports explain how assessment methodology is applied to value properties, at the sector level, for the 2016 Assessment Update.

#### 3 Your Property



##### Property Specific Valuation Information

Detailed information is provided for over 5 million properties in Ontario, including 600,000+ farm and business properties.



# Access to Business Property Information



Your Property.  
Our Assessment.  
Know More About It.

[Home](#) | [Market Trends](#) | [Tutorials](#) | [How Assessment Works](#) | [Contact Us](#)

## QUESTIONS ABOUT PROPERTY ASSESSMENT?

[LEARN MORE](#)



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[Forgot User ID](#)

Password

[Forgot Your Password](#)

☐ I am not a robot

Login

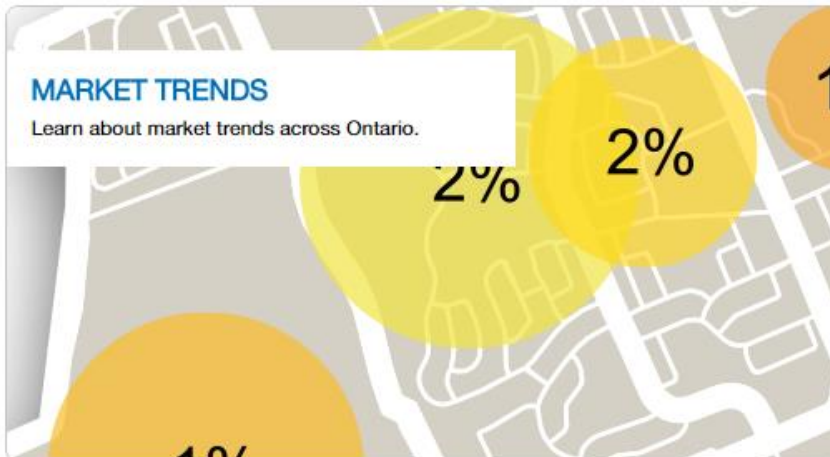
----- Or -----

New to the site? [Register Now](#)

You will need your Property Assessment Notice for the 2017 to 2020 property taxation years to register.

### MARKET TRENDS

Learn about market trends across Ontario.



### HOW ASSESSMENT WORKS

Interested in learning about how your property was assessed? Want to learn more about Ontario's property assessment system?



# How Assessment Works



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Our Assessment.  
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[My Property](#) [My Neighbourhood](#)

## How Assessment Works

How does MPAC  
assess my property?

How will my  
municipality use  
MPAC's property  
assessment?

Understanding your  
Property Assessment  
Notice

Ontario's property  
assessment system

Disagree with your  
assessment?

Frequently Asked  
Questions

### How does MPAC assess my multi-residential property?

Every four years, MPAC assesses your property's value. In 2016, MPAC will update the assessed values of every property in Ontario. All properties will have a legislated valuation date of January 1, 2016. Our assessors are trained experts in the field of valuation and apply appraisal industry standards and best practices.

Multi-residential properties can vary from bachelorettes and row houses to low, medium and high-rise apartments all with seven or more self-contained units.

MPAC uses the income approach to value multi-residential properties. This approach looks at the annual market rental income and also considers other income that can be generated by the multi-residential property. A market analysis is completed to determine the capitalization rate, which is then applied to the net income to create a current value for the property.

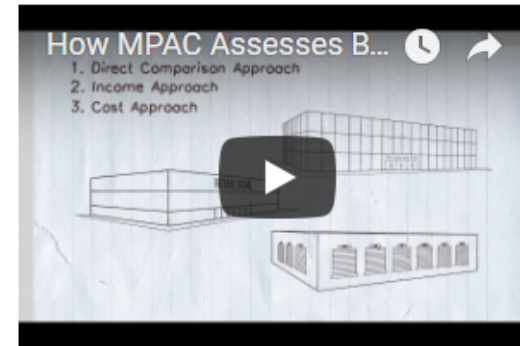
MPAC uses the direct capitalization method of converting an expected stream of income into a current value.

The direct capitalization method involves the following steps:

1. Determine potential gross income.
2. Establish effective gross income.
3. Establish normalized expense ratio.
4. Establish net operating income.
5. Capitalize the net operating income into value.

To see the Methodology Guide and Market Valuation Report for your property, log in to [aboutmyproperty.ca](#), choose My Property then select Reports.

MPAC's disclosure activities include three levels of information shared with taxpayers, municipalities and other stakeholders. [Learn more.](#)



Did you know financial  
institutions, the insurance  
industry and real estate  
boards **USE MPAC'S DATA?**

# My Property



Your Property.  
Our Assessment.  
Know More About It.

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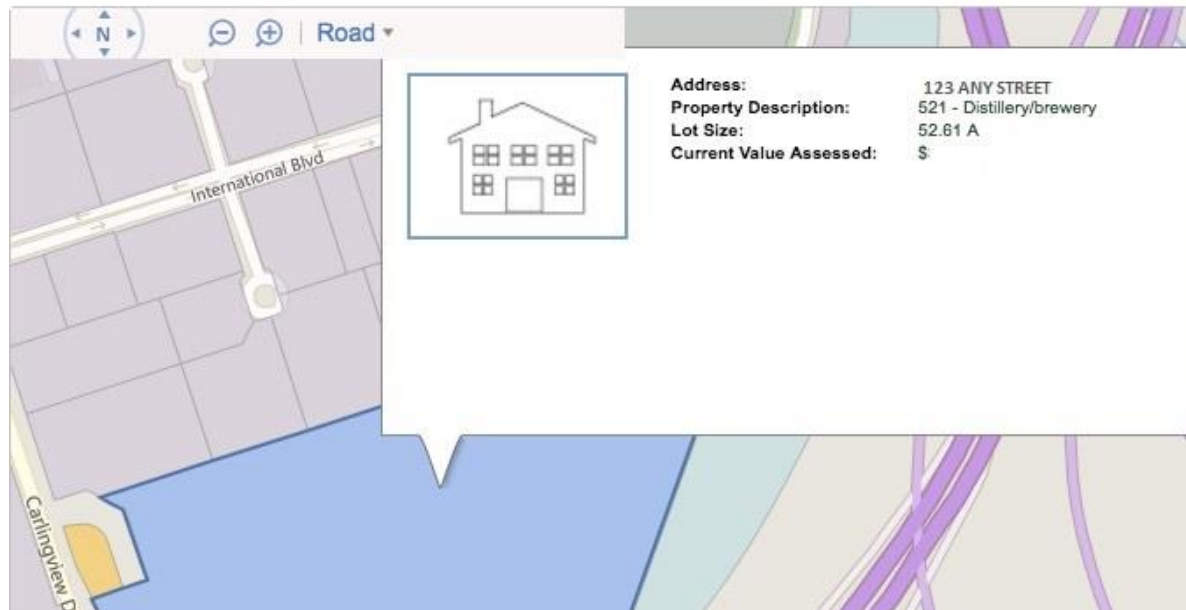
Welcome to your property.

MPAC establishes the current value of your property by following generally accepted appraisal standards and best practices. We start by determining the cost to replace the current structures on your property and then take into account all forms of depreciation resulting from such causes as wear and tear, functional deficiencies and any prevailing economic conditions as of the valuation date.

To learn more, read [How does MPAC assess my property?](#)

**My Property** **My Neighbourhood**

123 ANY STREET



**MY PROPERTY**

**MY NOTICE**

**REPORTS**

[Download Property Profile](#)

[ + ] EXPAND ALL

[ - ] PROPERTY INFORMATION

Roll Number	12 34 567 890 12345
Owner	804745 ONTARIO LTD
Property Address	123 ANY STREET
Municipality	CITY OF TORONTO
Property Description	521 - Distillery/brewery

[ - ] VALUATION

Current Value Assessment	\$00,000,000
Returned Base Year	2016

[ + ] SITE INFORMATION

[ + ] BUILDINGS

[ + ] YARDWORK

# Reports



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Welcome to your Reports.

Download and view your Methodology Guide and Market Valuation Report to learn more about how your property was assessed.

**My Property**

**My Neighbourhood**

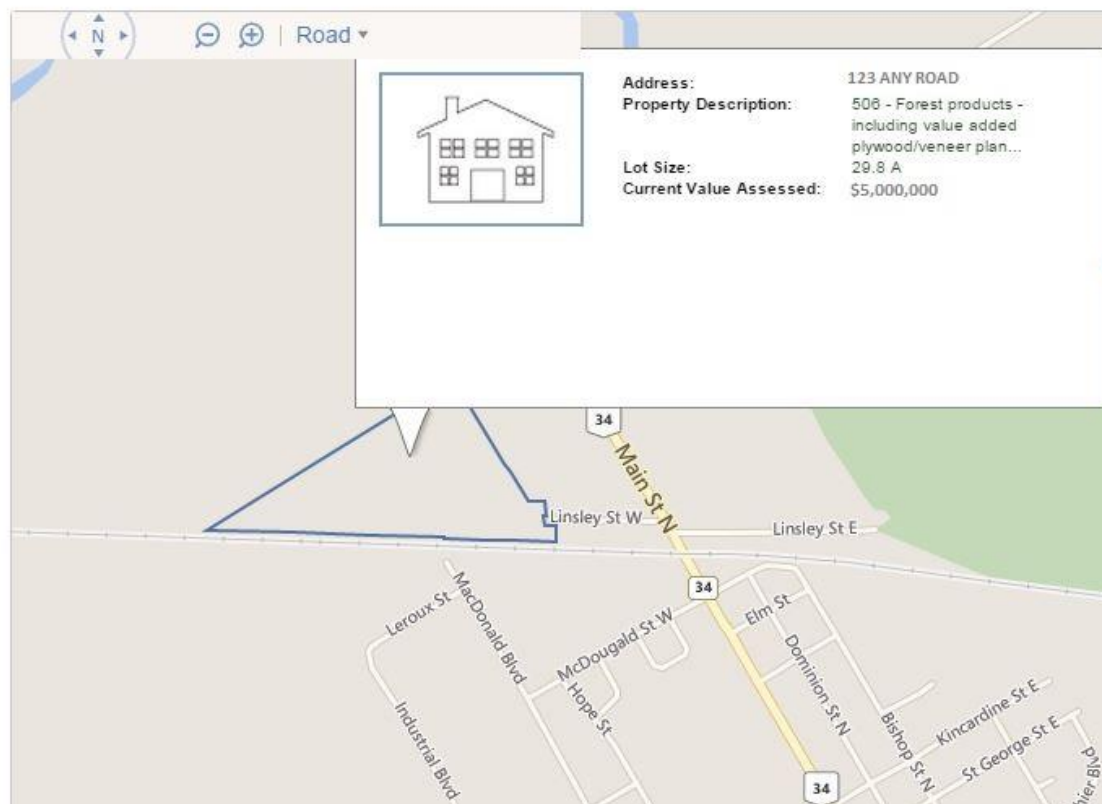
123 ANY RD



MY PROPERTY

MY NOTICE

**REPORTS**



Learn more about how your property was assessed:

## Methodology Guide

View the Methodology Guide(s) below that were shared as part of MPAC's advance disclosure consultation process. MPAC reserves the right to amend the guides as appropriate.

[Value-Added Wood Products Manufacturing Plants](#)

## Market Valuation Report

View the Market Valuation Report(s) below that were shared as part of MPAC's advance disclosure consultation process. MPAC reserves the right to amend the reports as appropriate.

[Value-Added Wood Products Manufacturing Plants in Ontario](#)

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# My Neighbourhood



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**My Property** **My Neighbourhood**

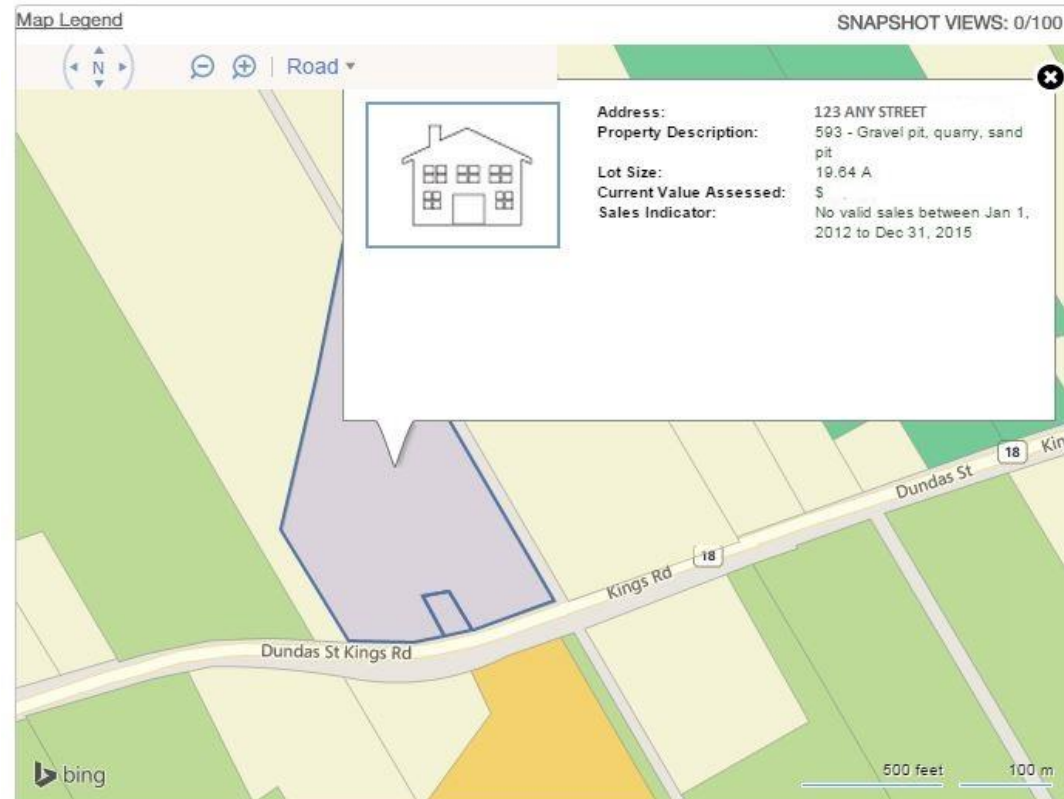
Welcome to your neighbourhood.

Use the map below to compare your assessment to similar properties. This will help you validate your assessment.

You can search for properties by clicking on the map or by using the Search tab.

[Get to know AboutMyProperty](#) [How do I read the map?](#)

[MAP VIEW](#) [DETAILS - FAVOURITES](#) [DOWNLOAD FAVOURITES REPORT](#)



123 ANY STREET

0/24 FAVOURITES

SEARCH

SEARCH:  
PROPERTY | RESIDENTIAL CONDO | BUSINESS | ROLL #

STREET # STREET NAME CITY

PROPERTY CODE

— NONE —  
105: VACANT COMMERCIAL LAND  
106: VACANT INDUSTRIAL LAND  
107: PROVINCIAL PARK  
108: FEDERAL PARK  
109: LARGE LAND HOLDINGS, GREATER THAN 1000 ACRE  
112: MULTI-RESIDENTIAL VACANT LOT  
113: CONDOMINIUM DEVELOPMENT LAND-RESIDENTIAL  
114: CONDOMINIUM DEVELOPMENT LAND-NON RESIDENTIAL  
115: PROPERTY IN PROCESS OF REDEVELOPMENT UTILIZATION  
125: RESIDENTIAL DEVELOPMENT LAND  
127: TOWNHOUSE BLOCK - FREEHOLD UNITS

# New for 2016: Market Trends



Your Property.  
Our Assessment.  
Know More About It.

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## Market Trends

Learn more about market trends in neighbourhoods and municipalities across Ontario. Market trend reports are available for the following property types:

- Residential Properties
- Farm Properties
- Multi-Residential Properties
- Industrial Properties
- Commercial Properties
  - Office Class A, Class AA, and Class AAA
  - Office Class B, Class C, and Class D
  - Neighbourhood Shopping Centres



# 2016 Multi-Residential Values Explained

## 1 Upward trends continue

Multi-residential property sales indicate that values have continued to increase provincially.

## 2 Interest rates are low

Historic low interest rates have fueled an active sales market for multi-residential properties.

## 3 Demand outweighs supply

Competition for apartment investment properties in large urban centres has resulted in premium pricing.

## 4 REITs and large portfolio holders invest

Real estate investment trusts and large institutional investors continue to invest in this stable asset class.

## 5 Rent vs. buy

Many young professionals are choosing to rent instead of buy due to strong home prices.

## 6 Province-wide effect

Sale prices have continued to climb across the province. Sault Ste. Marie, Thunder Bay, Barrie, Hamilton, Windsor and the Greater Toronto Area all show strengthening apartment markets.

# Mastering the Mystery of Property Taxes

## 2017-2020 Assessment Update, Altus Group

ONPHA Conference and Trade Show, November 3<sup>rd</sup>  
Scotiabank Convention Centre, Niagara Falls

**AltusExpertServices**

EXPERIENCE | INDEPENDENCE | INSIGHT

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Property Tax



**AltusGroup**



# 2012 to 2016 Current Value Assessment Impact for the GTA

Property Tax

Region	Municipalities	Class	2012 CVA	2017 CVA	Total Increase	% Change 2016/2017
9	City of Toronto	MT	\$30,554,655,413	\$46,968,968,553	54%	13%
		NT	\$1,464,780,718	\$1,996,275,891	35%	9%
13	Ajax, Brock, Clarington, Oshawa, Pickering, Scugog, Uxbridge, Whitby	MT	\$1,631,980,580	\$2,362,344,509	45%	10%
14	Newmarket, Richmond Hill, Vaughan, Whitchurch-Stouffville	MT	\$2,059,609,049	\$2,655,693,904	29%	7%
15	Brampton, Burlington, Caledon, Halton Hills, Mississauga, Oakville, Milton	MT	\$7,792,710,900	\$12,092,067,600	55%	13%
		NT	\$32,132,000	\$39,975,300	24%	2%

- Appeal and Request for Reconsideration deadlines for all properties in the multi-residential and new multi-residential tax class is March 31, 2018.
- Any appeals filed for 2018, would apply to the assessment applicable for taxation in 2018-2020. Appeals can no longer be filed for the 2017 tax year.
- As of January 1st 2017, the cost to file an appeal with the Assessment Review Board (ARB) is \$300 for multi-residential property with 7 units or more, and \$125 for those with 6 units or less.
- If the appeals are not resolved in the first year of appeal, the complaints for the following year would be deemed. The only time this does not apply is when we begin a new assessment cycle.

- Change of valuation model by MPAC;
- High increase in assessment year over year in the GTA and other areas of Ontario;
- Some cap rates not representative of the actual market, dependent on property age and location;
- Market expense ratios being applied by MPAC, may not be reflective of actual expenses for individual properties;
- Standard vacancy applied; does not account for properties with above average vacancy;
- Potential gross income calculated on “market” rents, does not take into consideration rent control.

- Property assessments have never been reviewed due to the property taxes being subsidized. Once the agreement no longer exists there could be many factual issues with the information on file with MPAC.
- Market rents disregard subsidized and below market rents because the Legislation instructs MPAC to value the property as “unencumbered”. This means that the market rents determined by MPAC for “not for profit” housing are calculated based on the market rents, typical expenses and capitalization rates of a typical “for profit” multi-residential dwelling.
- For the new cycle MPAC has classified multi-family dwelling into the four categories outlined below. Not for Profit housing could be incorrectly classed as an Average building, depending on the property location and condition.
  - A: High End/Luxury
  - B: Above Average
  - C: Average
  - D: Below Average
- Above average expenses. In some cases, above and beyond that of a typical multi-residential building, not for profit expenses fall into an above average range.
- Capitalization rates could require an adjustment to reflect the higher risk attributed with not-for-profit housing.

- As mentioned in ONPHA's QuickConnections, MPAC has not been consistent in the treatment of non-profit housing providers across the province.
- There are circumstances where housing providers have had their property changed from a taxable status to exempt through an assessment appeal or an application to court.
- Proceeding with the process in determining whether a property should be returned as exempt requires full disclosure to MPAC. The information required by MPAC would include in part;
  - Ownerships status – Not for Profit/Charity
  - Mission Statement
  - Affiliation to the community/church
  - Rent geared to income
  - Subsidy status
- The Assessment Review Board (ARB) will not hear matters related to whether a property should be exempt. However, MPAC has the ability to resolve tax class matters if they are in agreement that the property has been returned in the incorrect class. If MPAC is not in agreement, the matter must be pursued through an application to court.

- Under Section 131 of the Residential Tenancies Act, Municipalities are required to issue notices of rent reduction to landlords and tenants when property taxes decrease by 2.49% or more year-over-year.
- Landlords will receive notice between June 1st and September 15th, and tenants will receive notice between October 1st and December 15th.
- More notices have been issued in 2017 than prior years due to multiple factors:
  - Large swings in property assessments due to the reassessment and change in methodology;
  - For 2017, a tax freeze to the Multi-Residential tax class has been applied to Municipalities where the ratio between the multi-residential tax class and the residential tax class was 2.0 or greater. In these Municipalities, depending on the revised amount of both your assessment and the tax rate, rent reduction notices might be warranted.
- The Residential Tenancies Act Section 132 allows for a landlord to file an application for variance against the notice if it is not accurate.
- The deadline to file an application is the latter of 90 days or March 31st of the following year.

# Contact Us

*Altus Expert Services, Altus Group*

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Thank you.







# Thank you!

*ONPHA values your opinion. Please complete a session evaluation.*