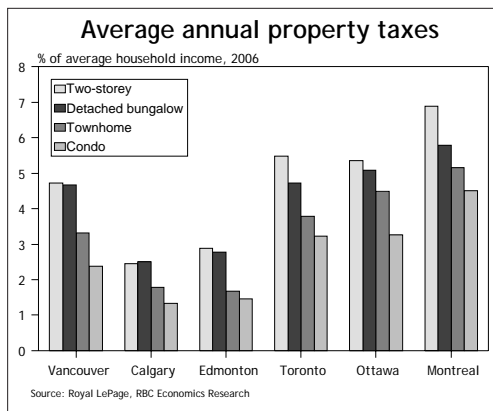
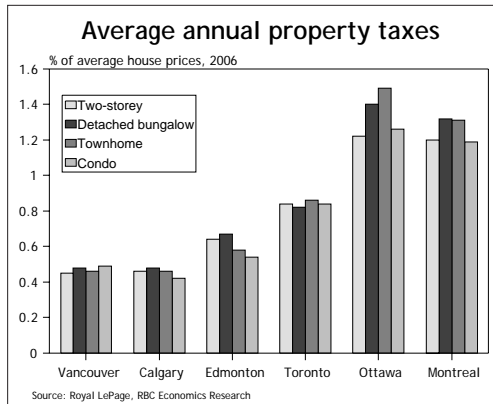


## TORONTO'S PROPERTY TAXES MIDDLE-OF-THE-PACK

April 2007



Property tax increases were a hot-button issue in the City of Toronto's recommended spring operating budget. A proposed 3.8% increase in property taxes combined with rising assessment values as a result of the strong real estate market have ignited some worry about whether Toronto's property taxes are out whack with other comparable jurisdictions. Ontario's budget also addressed the property tax issue with a multi-pronged proposal to improve the transparency and predictability of the system. An evaluation of the recent proposals helps clarify how the city compares on property tax rates and the risks that lie ahead once the current freeze on property assessment values is lifted in 2008.

Do Toronto taxpayers pay disproportionately high property taxes compared to both home values and household income? Comparisons with other major Canadian cities show that, on average, Toronto's homeowners are middle-of-the pack in terms of annual property taxes paid as a share of house prices. Average annual property taxes in Toronto account for roughly 0.8% of home value and between 3%-6% of household income depending on housing class. In comparison, both Vancouver and Calgary are in the lower range of taxes as a share of house prices and household income, while both Ottawa and Montreal are in the higher range.

### Proposed one-time 3.8% hike not the big threat

The proposed 3.8% hike in residential property taxes this year would be the largest increase in five years and would affect near-term affordability conditions in the city. However, it is a one-time hike and still remains within the realm of rates applied in other jurisdictions. The larger risk from higher property taxes emerges towards the end of the decade after the current freeze on property value assessments is lifted in 2008. The combination of higher city tax rates and a jump in property assessment levels through higher market values of homes could pose a more significant challenge to housing affordability conditions from 2009 onward.

### Property assessments still frozen at 2005 levels

Prior to the introduction of the Current Value Assessment (CVA) approach in 1998, Toronto's property assessment system was seriously out-of-date with properties having last been assessed in 1940. Ontario adopted the Current Value Assessment (CVA) approach to bring property values up to their market value. The Municipal Property Assessment Corporation (MPAC) is responsible for providing assessed values using the CVA approach on all properties in Ontario. The CVA represents an estimated market value (the amount the property would sell for in an open market) or the amount that the property would sell for in an arm's length sale between a willing seller and a willing buyer at a fixed assessment date.

From 1998 to 2004, homeowners experienced sizeable gains in the value of their residential properties. The average resale price of a Toronto home rose by roughly 65% during this six-year span. The rising market value of homes resulted in rising CVAs. Since the implementation of the CVA approach in 1998, home values have

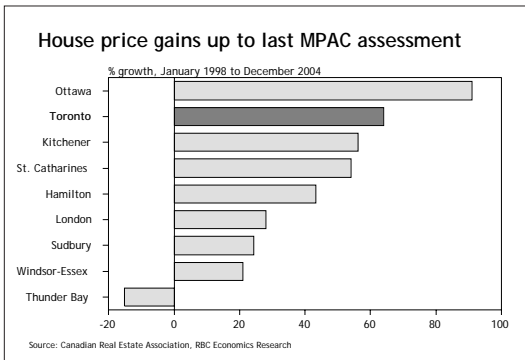
**Amy Goldbloom**

Economist

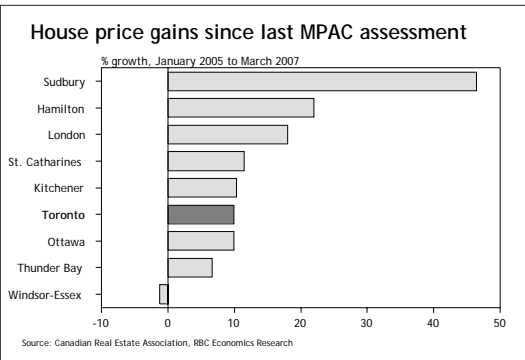
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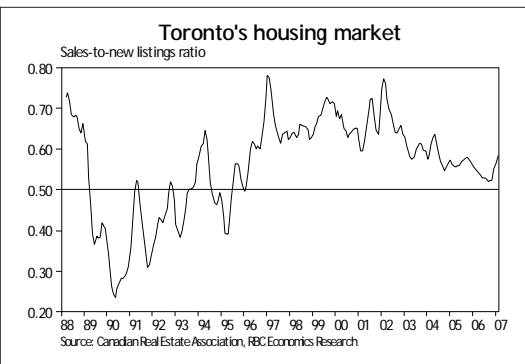
**HOUSE PRICES ROSE RAPIDLY IN THE EARLY PART OF THE DECADE...**



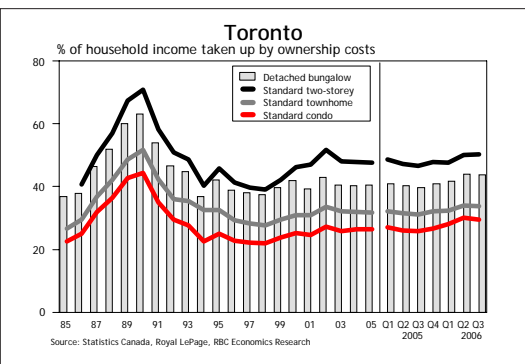
**...BUT THE PACE HAS MODERATED RECENTLY AS...**



**...TORONTO'S MARKET REGAINS SOME BALANCE...**



**...WHICH TRIGGERS AFFORDABILITY IMPROVEMENTS.**



been assessed four times — in 1999, 2001, 2003 and 2005. With each reassessment, tax rates are adjusted accordingly depending on the city's current financial needs. From 1998 up to 2006, the average two-storey homeowner witnessed an increase in annual property taxes from \$2970 up to \$3716 — an average annual increase of 3.1%.

Concern about the method of property assessment caused the government to freeze assessment values for a two-year period (2006-2007) while MPAC worked to improve the CVA system. Due to the province-wide assessment freeze, municipalities will use the January 2005 estimates to calculate property taxes for the 2006, 2007 and 2008 taxation years.

**Assessment values to play catch-up in 2009**

The two-year freeze on property values has helped shelter homeowners from the more recent rise in the market value of homes in Toronto. Since the last assessment date (January 2005), house prices in Toronto have increased by roughly 10%. If prices continue to grow at an annual 4%-5% pace during the remainder of 2007, there should be a cumulative increase of roughly 12% by the next assessment date.

The estimated 12% cumulative increase in average house prices from 2005 to 2007 is significantly less than the prior three-year period from 2002 to 2004 when the cumulative price gain was 22%. Toronto's housing market has had a solid run since the early part of the decade with a disproportionate amount of the appreciation accounted for prior to 2005. So, while there are still risks of upcoming rises in property assessments, the increase is expected to be more muted now that Toronto's housing market has entered a softer period with price growth and resale activity both continuing to moderate from elevated levels. With most of Ontario also in the midst of a moderating housing market, softer price gains throughout the province should continue.

**Ontario budget proposes measures to improve property tax stability and predictability**

A proposal in Ontario's 2007 budget delivered last month introduced some important measures to help mitigate the shock of the rising property assessments scheduled to occur in January 2008. The proposed revisions to the current assessment procedure include:

- ▲ Move to a four-year reassessment cycle;
- ▲ Mandatory phase-in of assessment increases;
- ▲ Enhancements to the assessment appeal system.

Under the new system, the next reassessment is scheduled to take place for the 2009 taxation year based on property values as of January 2008 and the cycle would be ongoing every four years. The increased value of property assessments would be phased-in over four years in four equal increments. For example, an estimated 12% assessment increase would be phased in gradually in increments of 3% over four years. The phase-in feature will be particularly beneficial to help offset the shock for those homeowners who experience significant increases in their property assessments. The program would not apply to assessment decreases.

## Affordability conditions remain stable

While rising property values may weigh on affordability conditions more heavily in the later part of the decade, the provincial budget measures will help ease the transition to higher assessment values. Furthermore, Toronto's affordability conditions have been well-behaved since the housing market crash in the early 1990s. Affordability underwent a mild deterioration through the first half of 2006 but began to improve toward the end of the year. In fact, Ontario reported an across-the-board improvement in affordability in the final quarter of 2006 driven mostly by a rebalancing of markets from a situa-

tion of excess demand to more neutral territory. This year is likely to bring continued improvements in affordability conditions as annual house price gains remain restrained to the 3%-5% range. A softer market ahead will ultimately help limit the risk of sizeable property assessment increases when properties are re-valued next year.

## Current economic indicators

As of April 2007 — Latest month available, year-over-year % change unless otherwise indicated

Cities are ranked in descending order by population size

Census metropolitan area	Job growth Mar-07	Jobless rate Mar-07	Res. permits <sup>1</sup> Feb-07	Non-res. permits <sup>1</sup> Feb-07	MLS prices Mar-07	MLS sales Mar-07	Housing starts Feb-07	Downtown office vac (%) Q4 2006	CPI Mar-07	Consumer bnkrpts <sup>1</sup> Jan-07	Business bnkrpts <sup>1</sup> Jan-07	Retail sales Jan-07
Toronto	3.1	6.7	-30.8	48.6	4.6	-0.8	-21.6	8.0	1.7	-3.2	4.7	3.9
Montréal	2.5	7.8	-0.8	16.6	7.3	10.6	-11.7	10.9	1.9	1.0	13.3	5.0
Vancouver	5.4	3.7	20.4	32.2	14.6	-7.1	-37.2	3.8	2.5	-9.5	-25.7	8.2
Ottawa-Gatineau	-2.2	5.5	26.5	79.0	4.9	3.2	-12.1	4.1	2.0	9.8	17.8	na
Calgary	5.2	3.5	-14.5	86.0	27.1	14.4	-32.7	0.6	6.5	-29.7	-55.3	na
Edmonton	8.4	3.5	16.9	39.0	49.7	20.8	-5.7	6.4	4.6	-38.3	-60.0	na
Quebec	-0.4	6.0	-19.0	47.0	10.5	0.8	0.0	na	1.6	-1.1	3.3	na
Hamilton	-2.4	6.9	17.3	-48.8	5.4	-3.8	0.0	na	na	5.4	-18.4	na
Winnipeg	2.0	4.9	29.5	7.5	na	na	-42.8	na	2.6	-19.1	31.8	na
London	3.2	5.8	0.9	28.2	6.7	0.0	-73.8	na	na	-3.1	-2.5	na
Kitchener	0.0	5.8	-33.0	-40.4	5.3	10.2	4.7	na	na	2.5	na	na
St. Catharines-Niagar	2.9	7.5	-13.0	7.2	-1.8	-9.5	-47.9	na	na	2.9	0.0	na
Halifax	2.7	4.9	29.2	25.6	5.1	7.1	32.4	7.4	2.2	-10.9	-49.0	na
Windsor	-4.9	10.6	-77.3	-51.9	-2.7	-12.7	-68.4	na	na	20.0	21.4	na
Victoria	2.3	3.1	7.9	127.4	2.4	2.2	48.7	2.9	1.9	-32.7	-45.5	na
Oshawa	1.8	6.6	-56.3	203.8	na	na	-74.2	na	na	-11.4	0.0	na
Saskatoon	8.8	4.0	143.6	-49.1	24.2	43.1	60.7	7.1	2.5	-13.8	-17.2	na
Regina	5.7	4.3	50.8	4.7	9.3	50.2	23.3	3.8	2.6	-25.0	17.6	na
St. John's	-0.2	7.8	7.7	43.4	-4.8	38.8	-11.6	na	2.0	-0.5	0.0	na
Sherbrooke	1.1	7.7	-43.0	-1.6	-1.9*	-8*	107.1	na	na	21.5	42.9	na
Greater Sudbury	4.7	5.8	-8.9	2951.9	27.6	16.6	0.0	na	na	-9.1	na	na
Abbotsford	1.7	4.8	86.9	19.5	na	na	117.0	na	na	na	na	na
Kingston	2.5	5.6	-40.6	560.4	-8.7*	-7.5*	-95.2	na	na	-6.7	37.5	na
Saguenay	-4.8	11.0	-3.6	11.8	na	na	0.0	na	na	na	na	na
Trois-Rivières	2.7	8.6	-13.8	122.3	8.8	11.0	-25.7	na	na	1.9	-33.3	na
Saint John	0.3	5.1	65.3	26.7	14.1	25.5	-38.1	na	1.4	-1.4	-60.0	na
Thunder Bay	0.3	7.5	40.6	50.4	18.6	32.0	0.0	na	1.1	88.2	15.4	na
<b>Canada</b>	<b>2.4</b>	<b>6.1</b>	<b>-6.4</b>	<b>40.4</b>	<b>10.6*</b>	<b>3.4*</b>	<b>-14.8**</b>	<b>na</b>	<b>2.3</b>	<b>-5.5</b>	<b>-10.5</b>	<b>4.9</b>

\* As of February 2007 \*\* As of March 2007

<sup>1</sup> Three-month trend

Source: Statistics Canada, Industry Canada, Canada Mortgage and Housing Corporation, Colliers International, Canadian Real Estate Association

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