

MPAC Update

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CPTA Ontario Chapter Virtual Symposium

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Agenda

- Ontario's Assessment Cycle
- COVID-19 Operating Framework
- 2021 Focus Areas
- Industry Engagement
- Valuation Documentation
- Looking Ahead

Ontario's Assessment Cycle

Changed

- 2020 Assessment Update postponed
- Property assessments for the 2021 and 2022 taxation years will be based on fully phased-in January 1, 2016 valuations

Unchanged

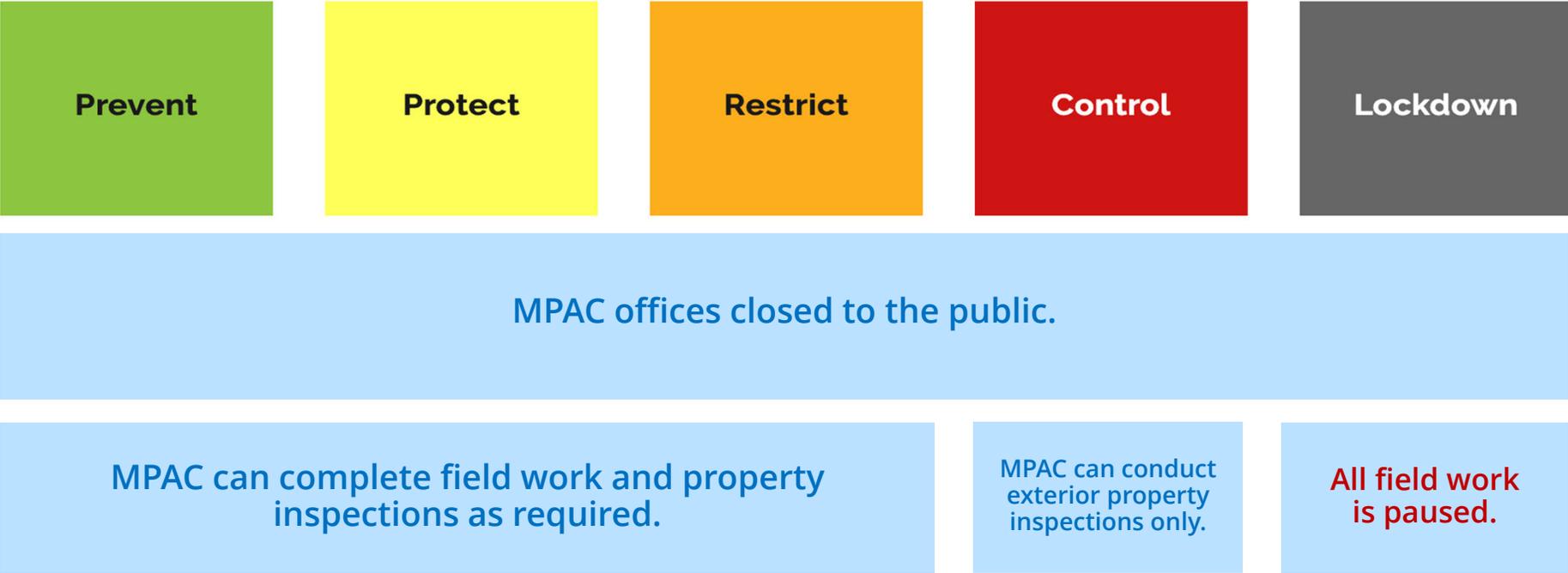
- MPAC maintains an up-to-date assessment database

Unknown

- Timing of next Assessment Update
- Legislated Valuation Date and impacts to four-year assessment cycle

COVID-19 Operating Framework

We are aligned with the province's COVID-19 Response Framework



2021 Focus Areas

- Despite the continued postponement of the Assessment Update and restrictions around completing field work we are continuing to focus on maintaining an up-to-date property database by conducting ongoing data readiness activities:
 - sales reviews
 - inventory updates
 - reviewing building permits and plans, and
 - responding to Requests for Reconsideration and appeals.
- We are also monitoring market sentiments and trends to ensure we have a strong understanding of the pandemic impacts on property sectors.
- This includes ongoing dialogue with Industry and leveraging key stakeholders to gain additional market insights.

Targeted Sector Level Engagement

- In late 2020, we established new industry subcommittees to facilitate the collection of market insights.
- Prioritization of subcommittees was based on those income and expense producing properties normally subject to PIER and those sectors experiencing significant impact to their operations as a result of the pandemic and/or emergency orders.
 - November 2020: Launch of Retail, Hospitality subcommittees
 - January 2021: Launch of Office Buildings, Multi-Residential subcommittees
 - March/April 2021: Sharing findings with participants
- We partnered with the International Property Tax Institute (IPTI) to support outreach

Industry Subcommittee Goals and Objectives

- ✓ Discuss the challenges COVID-19 is having on certain sectors to support MPAC's understanding of how the pandemic is impacting the market.
- ✓ Collect quantitative and qualitative information to support MPAC's ongoing market research and analysis.
- ✓ Gather stakeholder perspective and sentiment on the evolution of their respective sector to support MPAC plan for future engagement activities and data collection programs.

Overview of Subcommittee Activities

RETAIL

- Discussions commenced November 2020.
- Stakeholders included: SmartCentres, Oxford Retail, RioCan, Ivanhoe Cambridge Inc., Orlando Corporation, Walmart, Hudson's Bay, TJX and McDonalds.
- 20 follow up targeted stakeholder interviews were conducted.
- A summary of data collected and general sector observations was shared with members March 2021.

HOSPITALITY

- Discussions commenced November 2020.
- Stakeholders included: Niagara Falls Canada Hotel Association, Ottawa Gatineau Hotel Association, Ontario Restaurant Hotel & Motel Association, Diamond Hotels and Easton's Group of Hotels.
- 10 follow up targeted stakeholder interviews were conducted.
- A summary of data collected and general sector observations was shared with members in March 2021.

OFFICE

- Discussions commenced January 2021.
- Stakeholders included: Building Owners and Managers Association (BOMA) (both Toronto & Ottawa), Infrastructure Ontario, RIOCAN, Bank of Nova Scotia and Altus Group.
- 8 follow up targeted stakeholder interviews were conducted.
- A summary of data collected and general sector observations was shared with members in April 2021.

MULTI-RESIDENTIAL

- Discussions commenced January 2021.
- Stakeholders included: Federation of Rental-Housing Providers of Ontario (FRPO), Hamilton and District Apartment Association, Greater Toronto Apartment Association, RIOCAN and Equitable Value.
- 8 follow up targeted stakeholder interviews were conducted.
- A summary of data collected and general sector observations was shared with members in April 2021.

Stakeholder Sentiment & Challenges

- Participants were appreciative of the opportunity to meet directly with MPAC.
- Concerns were raised about the legislated valuation date and current assessment cycle (i.e., 2016 and 2019 CVAs) and MPAC's ability to reflect the impact of the pandemic on assessments.
- Stakeholders in the retail and hospitality sectors are feeling a great deal of pressure to adapt to the new challenges brought on by the pandemic.
- Given the continued economic uncertainty and the 'wait and see' approach investors are taking, the full affect of the pandemic on real estate values for these sectors is unclear.

General Observations

- Lockdowns imposed to limit the spread of COVID-19, and restrictions on movement and travel, have had a major adverse impact on both the retail and hospitality sector.
- Retail sales revenue for shopping centres declined by 40-50% in 2020. Many leases are tied to sales revenue which has produced reduced income for both tenants and landlords.
- Shopping Centers are facing a number of challenges as well. Management costs have increased by as much as 40% and the shift to online shopping has accelerated.
- Hotel demand is down across all geographic locations, with downtown hotels experiencing the greatest decline in occupancy demand on a year-over-year basis.
- According to an industry survey, 35% of respondents indicated that they are not current with mortgage payments on hotel properties and 25% of respondents are behind in their property tax payments.

General Observations

- For the office sector, additional cleaning and installation of various social distancing measures have increased expenses during the pandemic.
- The key issues include: work from home, safety of employees upon return to work and overall space requirements
- Landlords are collecting 85% of rents and the prediction is that revenue will drop by 12% in 2021.
- Vacancy rates for multi-residential properties have increased to varying degrees across the province. In some cases, owners (primarily in metropolitan areas) are offering incentives – such as 2-3 months free rent – to maintain face rent.
- Depending on the type of lease, owners are experiencing increased utility costs as people are home all day. Insurance has drastically increased as well – was typically around 1.5% of PGI and is now 2.5% of PGI. It is noted that property taxes make up, on average, 15% to 20% of expenses.

Valuation Documentation

Level 1 – Methodology Guides

- Comprehensive guides that explain the appraisal industry standards MPAC applied.

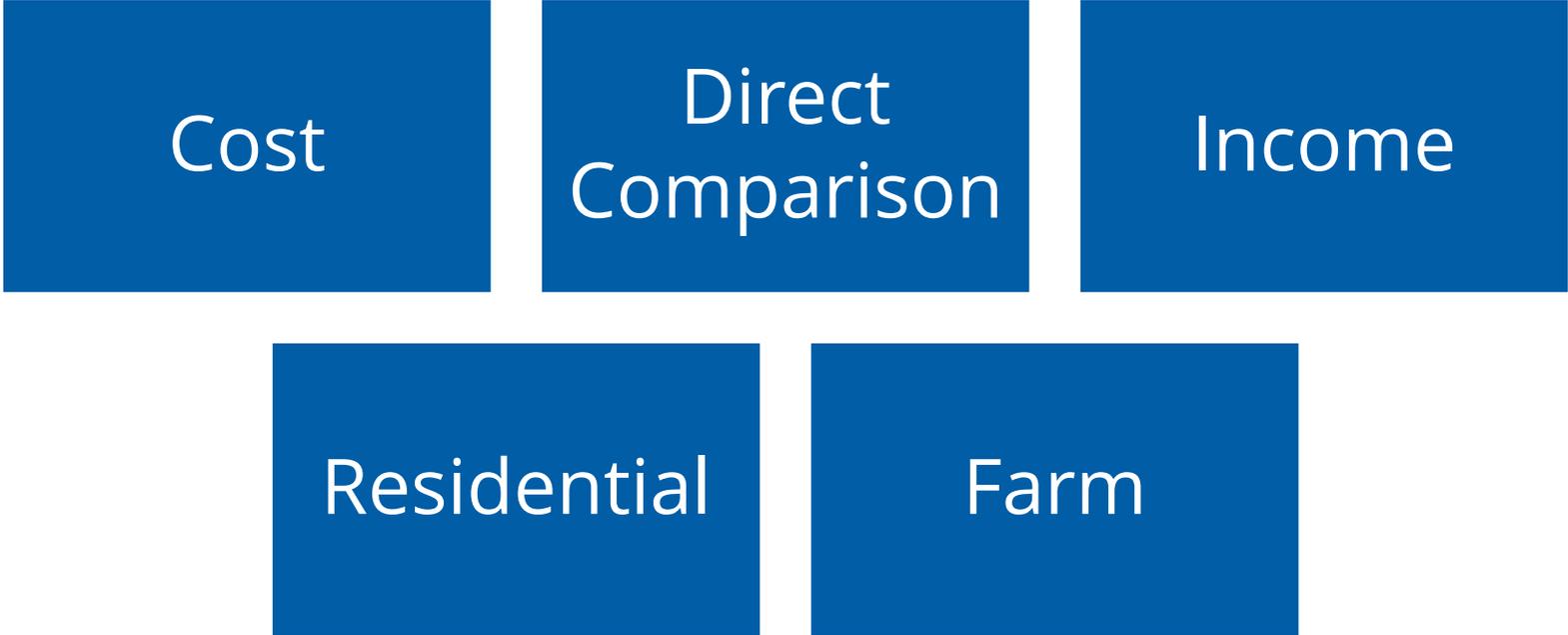
Level 2 – Market Valuation Reports

- Reports explaining how MPAC applied the methodology to value properties.

Level 3 – Property Specific Valuation Information

- Detailed property information available through secure access or upon written request.

Methodology Guides



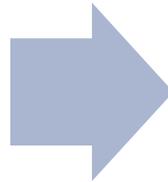
Large & Special Purpose Methodology Guides

Aerospace Manufacturing Plants	Automotive Assembly Plants	Automotive Parts Manufacturing Plants	Chemical Manufacturing Plants
Food Processing Plants	Mining Properties	Oil Refineries	Pharmaceutical Manufacturing Plants
Pulp & Paper Mills	Sawmills	Steel Manufacturing Plants	Value-Added Wood Products Manufacturing Plants

Looking Ahead

- Review the findings and observations provided through IPTI for all sectors within the context of a future valuation date.
- Continue our industry engagement, including meetings to discuss valuation matters as required.
- Hold our wider Industry Advisory Group meeting later this spring/summer
- Commence the mailing of **Property Income and Expense Return program this May.**

Request Date: May 14



Submission Deadline: July 16

Thank You

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MUNICIPAL
PROPERTY
ASSESSMENT
CORPORATION