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May 1, 2006

Ms. Linda Jeffery, MPP
Chair, Standing Committee on General Government
Room 1405, Whitney Block
Queen's Park, Ontario
M7A 1A2

Dear Ms. Jeffrey:

Re: Bill 53 – The Stronger City of Toronto for a Stronger Ontario Act

Thank you for inviting The Toronto Office Coalition to present its views on Bill 53 - The Stronger City of Toronto for a Stronger Ontario Act. This new Act is an historic document, and recalls some of the great legislation that once made Toronto the envy of the world in terms of urban governance and policy. One can only hope that Bill 53, as implied by its title, will lay the foundation for the resurgence of Toronto as the economic engine of Ontario and Canada, and once again make Toronto the envy of the world in terms of urban management. Unfortunately, this is unlikely to be the case because of a serious flaw in the proposed legislation. The Toronto Office Coalition is here today to address this serious flaw, and to request that this fatal flaw be eliminated before Bill 53 is proclaimed.

As you are aware, the Toronto Office Coalition represents the interests of 16 property companies that own 55 million square feet of office space in Toronto and serve 278,000 jobs, the majority in the downtown core. Our major concern is that the property taxes paid by these buildings are now the highest in North America: higher than Boston, New York or Chicago, and two to three times higher than the taxes paid by office buildings in the municipalities surrounding the City of Toronto. Our concern is two-fold: as owners, we feel that it is unfair for our buildings to be singled out this way, but more importantly, we feel that it is a *bad policy that is undermining the economic efficiency of the Greater Toronto Area as a whole. It is also contrary to many of the stated objectives of this Government.* It is the latter concern we want to address today.

The Toronto Office Coalition has been concerned about this dysfunctional property tax policy for some time, and about a year ago we commissioned the Canadian Urban Institute to carry out a study to examine the results of this dysfunction. That study was released in June, 2005, and was entitled "*Business Competitiveness in the GTA: Why Toronto is Losing Ground.*" As an aside, that study has been awarded the prestigious "Excellence in Planning" award by the Canadian Institute of Planners in the category of economic development, and the award will be presented at the World

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Planners Congress in Vancouver on June 19th. The Toronto Office Coalition is proud to be associated with this study, which drew one essential conclusion: the commercial tax imbalance in the Greater Toronto Area is one of the causes of urban sprawl, and is undermining “Smart Growth”. From 1999 to 2005, there were 89 new office buildings totalling 12.5 million square feet built in the 905 area, and only 7 buildings totalling 1.6 million square feet built in the City of Toronto. According to the *Toronto Star*, the transit-oriented City of Toronto has lost 100,000 jobs over the past 15 years while the auto-dependent surrounding area has gained 800,000 jobs. This is not Smart Growth.

The Canadian Urban Institute’s essential recommendation was very simple: “*The province should impose a single uniform commercial tax rate across the region in order to reduce current inequities that are distorting the office market in the GTA.*”

While this is a very simple, logical and straightforward proposition, its achievement in the foreseeable future is problematic due to a simple, straightforward and logical question: who would pay the resulting revenue shortfall if the dysfunctional commercial taxes in Toronto were indeed brought down to the level of the 905 region? In order to answer this question, the Toronto Office Coalition commissioned the prominent urban economist Dr. Peter Tomlinson to review the possible options from a professional point of view. His answers are incorporated into a report that he released in January of this year entitled “*A Level Playing Field by 2009: Achieving Property Tax Parity for Toronto Businesses.*” Both this report and the aforementioned Canadian Urban Institute report are available in full on the Toronto Office Coalition’s website at www.torontofficecoalition.com. Policy staff from both the Government and from Her Majesty’s Loyal Opposition have had the opportunity to read these reports and discuss them with the authors and with the Toronto Office Coalition. I hope that the members of this Committee have had a chance to review them, as we believe that these reports are very credible as policy documents.

Dr. Tomlinson’s report examined the magnitude of the GTA “tax gap”, and is one of the most thorough and current studies of the problem. He made three basic recommendations:

1. Financial responsibility for social assistance and social housing should be uploaded to the federal government.
2. The Ontario government should bring all provincial business property taxes for education down to the level currently paid by the 905 area – by 2009.
3. The Ontario government should insert a clause in the new City of Toronto Act limiting the annual increase in Toronto’s business property tax rates.

The three recommendations must be considered together, and would remove the dysfunctional tax inequity we’re addressing. It’s the third recommendation we’re

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here to address today, and it's a necessary but not a sufficient condition for achieving a level playing field on commercial taxes in the Greater Toronto Area. *To not include a clause limiting any further commercial tax increases - of any sort - in Toronto would leave a fatal flaw in the new Act.*

The current commercial real estate tax rates in Toronto are the highest in the Greater Toronto Area, and are five times Toronto's residential tax rates. On the other hand, the residential tax rates in Toronto are the *lowest* in the GTA. There is a very simple reason for this disparity: *office buildings don't vote*. It is far easier politically to increase commercial taxes than residential taxes. As the 905 belt matures over the next fifty years, it may well follow Toronto's historic path of gradually increasing commercial taxes more than residential taxes: increases of 2.5%, annually compounded, would bring them to Toronto's level of disparity. However, this would be a very slow and dysfunctional way of achieving commercial tax equity in the GTA. Moreover, the offices would probably all move to Calgary in the meantime.

The reality is that if Toronto's overall property tax burden were decreased through uploading to the senior levels of government, and if the government of Ontario were to follow Recommendation 2 above and reduce the education portion of the business tax to the 905 level, the Toronto Council would backfill the "tax room" created by this commercial tax reduction - by increasing their own taxes on business. This has been the historical trend and experience, and is not meant as a criticism. Office towers don't vote, while residents do, and that's simply a democratic reality in the short term. In the long term, it leads to a loss of jobs - and potentially a situation like New York in the 1970's, when it teetered close to bankruptcy and had to be rescued by the US federal government. Toronto is nowhere near that state yet, despite the loss of 100,000 jobs in 15 years. However, to guarantee that it does not happen, the Toronto Office Coalition has a very simple request: *this Committee should amend The Stronger City of Toronto for a Stronger Ontario Act to truly make both the City of Toronto and the Province of Ontario stronger **by including a clause that limits Toronto's total tax rate increases on commercial buildings - including any new taxes permitted by this Act - to zero until the total commercial tax rates in Toronto reach the average level in the surrounding 905 area.***

Juri Pill, Ph.D.
Chair, Toronto Office Coalition