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# *Realty Taxes: The Brownfield Challenge*

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**KILMER BROWNFIELD EQUITY FUND L.P.**

October 27, 2009



## **Kilmer Brownfield Equity Fund L.P.**

- \$100 million Canadian private equity fund
- Structured as a Limited Partnership, headquartered in Toronto
- Mix of Canadian institutional and private investors
- Experienced management team
- Well-regarded and experienced sponsor, Kilmer Van Nostrand Co. Limited
- First dedicated Canadian brownfield fund

## **The Fund's Focus**

- To generate attractive returns to investors through the redevelopment of Canadian brownfields:
  - ✓ Acquire, remediate and reposition land; sell “shovel-ready” for build-out
  - ✓ Manage risks to an acceptable level
- Deal size: \$5 million to \$15 million; Maximum \$20 million equity in any single project
- National mandate

**Realty Taxes During Redevelopment**

**“Greenfields”**

vs

**“Brownfields”**



## ***Two Variables in Calculating Realty Taxes***

### **1. Assessed Value**

- Determined by Municipal Property Assessment Corporation (Ont.) – varies by province
- Reflects the “market value” of the property
- Considers:
  - Land use
  - Condition of building/land
  - Type/size of building
  - Lease income
  - Comparable property sales in area

### **2. Tax Rate/Mill Rate**

- Determined by municipality
- Categorized into “Tax Classes” based on land use (Tax Class & definitions vary by province)
  - ie. Industrial (Occupied): **4.991702%**
  - Commercial (Occupied): **3.824951%**
  - Farmland: **0.262368%**
- Rate for vacant properties typically 30-35% less than occupied properties

**Assessment Process in Various Provinces**

	<b>Name</b>	<b>Tax Classes</b>
<b>Alberta</b>	- N/A - Provincial Assessment Services Branch oversees process	- <b>Four</b> - Residential; Non-Residential; Farmland; Machinery & Equipment
<b>BC</b>	- BC Assessment	- <b>Nine</b> - Residential; Utilities; Unmanaged Forest Land (Repealed); Major Industry; Light Industry; Business & Other; Managed Forest Land; Recreational Property/Non Profit; Farm
<b>Nova Scotia</b>	- Property Valuation Services Corp	- <b>Three</b> - Residential; Commercial; Resource
<b>Ontario</b>	- Municipal Property Assessment Corporation	- <b>Seven</b> - Residential; Multi-Residential; Commercial; Industrial; Pipeline; Farm; Managed Forests

***Realty Taxes – “Greenfield” vs. “Brownfield” Development***

**Greenfield Property Taxes**

- Assessed value is historically low for agricultural properties
- “Farmland” tax class amongst lowest rate of all tax classes

**Example**

- |                             |                         |                  |
|-----------------------------|-------------------------|------------------|
| 1. Assessed Value:          | 15 acres @ \$2,500/acre | \$37,500         |
| 2. Farmland Tax Class rate: |                         | <u>0.262368%</u> |

**Realty Taxes Owed (annual basis):** **\$98**

**Realty Taxes – “Greenfield” vs. “Brownfield” Development****Brownfield Property Taxes**

- “Brownfields” typically are industrial properties with buildings/improvements
- “Industrial” tax class is applied
- In Ontario, there are no policies on brownfield assessment valuation

**Example**

1. Assessed Value:	15 acres @ \$150,000/acre	\$2,250,000
	+ 200,000 sf building @ \$20/sf	<u>\$4,000,000</u>
		\$6,250,000
2. Industrial Vacant Tax Class rate:		<u>3.224607%</u>

**Realty Taxes Owed (annual basis):** **\$201,538**

### Realty Taxes – “Greenfield” vs. “Brownfield” Development

	Assessed Value	Tax Class	Tax Rate	Taxes Owed (annual basis)
<b>Brownfield</b>	\$6,250,000	Industrial Vacant	3.224607%	\$201,538
<b>Greenfield</b>	\$37,500	Farmland	0.262368%	\$98
<b>Difference</b>	<b>\$6,212,500</b>	---	<b>2.962239%</b>	<b>\$201,210</b>

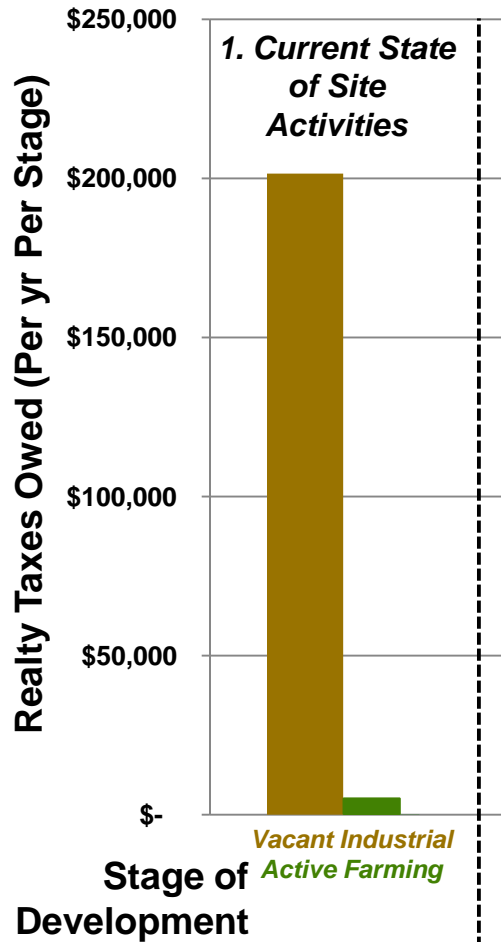
#### Assessed Property Value

Currently, MPCA has no specific procedure to determine impact of contamination on the assessed value (ad-hoc)

#### Tax Class

Industrial tax rates are substantially higher than Farmland

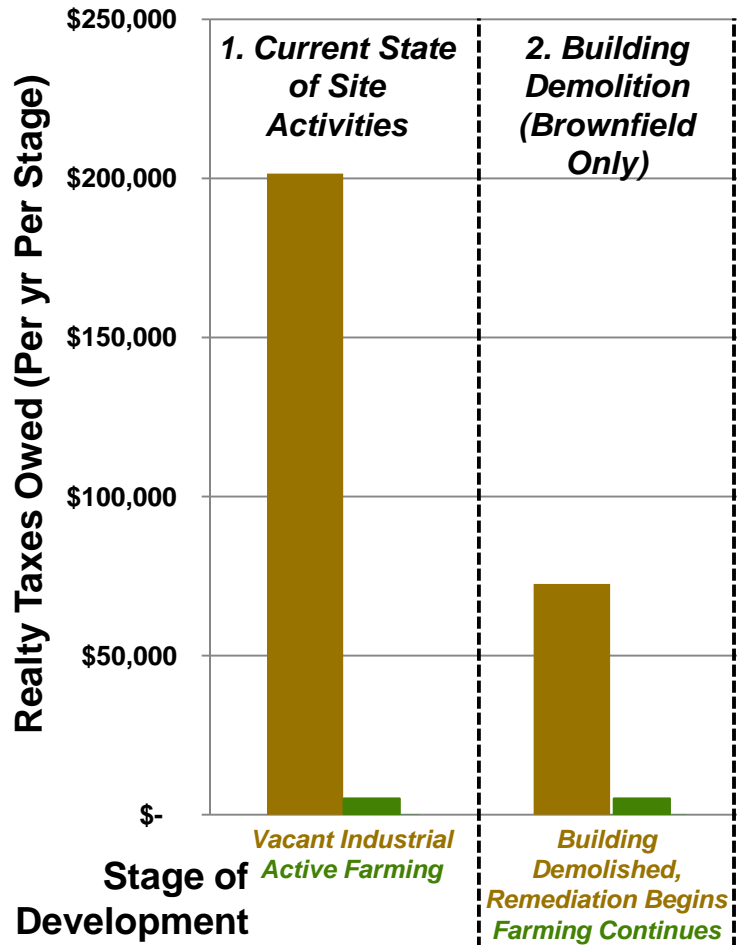
**“Greenfield” vs. “Brownfield” – Taxes During Development**



**Brownfield:** High assessed value due to building and land use; Industrial Vacant tax class

**Greenfield:** Low assessment and Farmland tax class

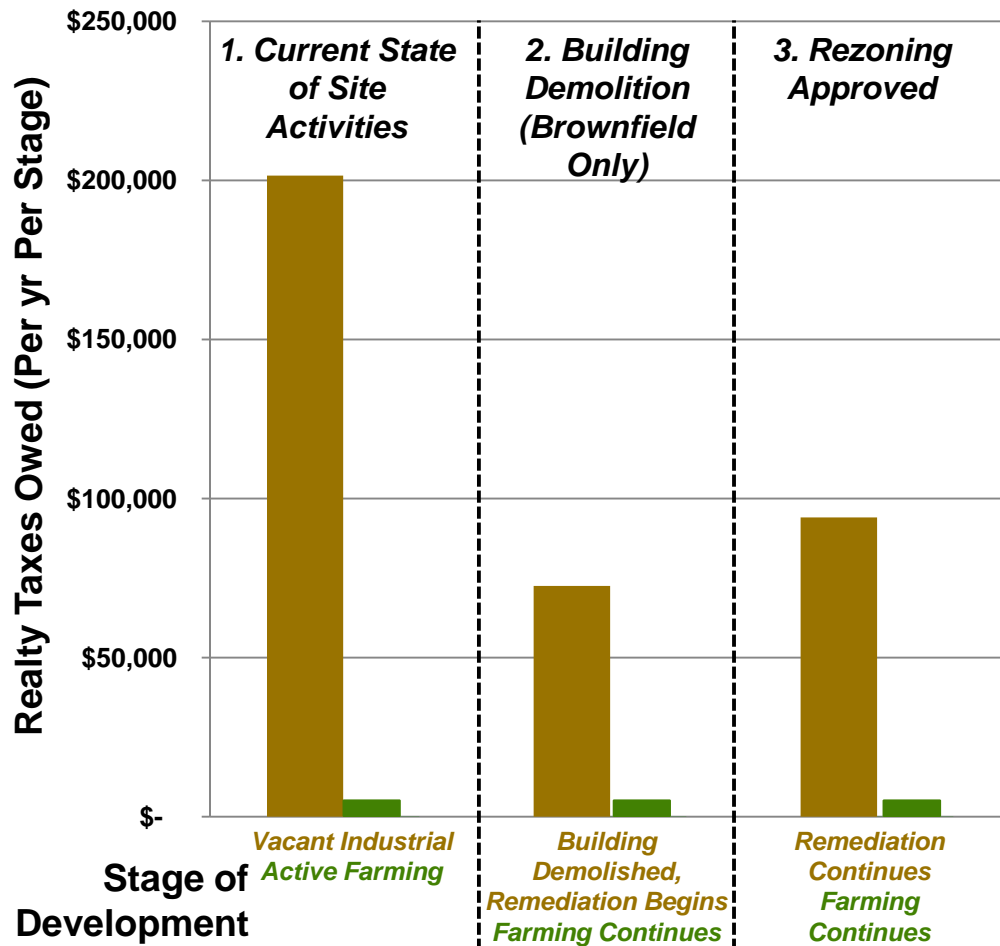
**“Greenfield” vs. “Brownfield” – Taxes During Development**



**Brownfield:** Assessed value reduced due to building demo; same tax class

**Greenfield:** Assessed value and tax rate remain constant

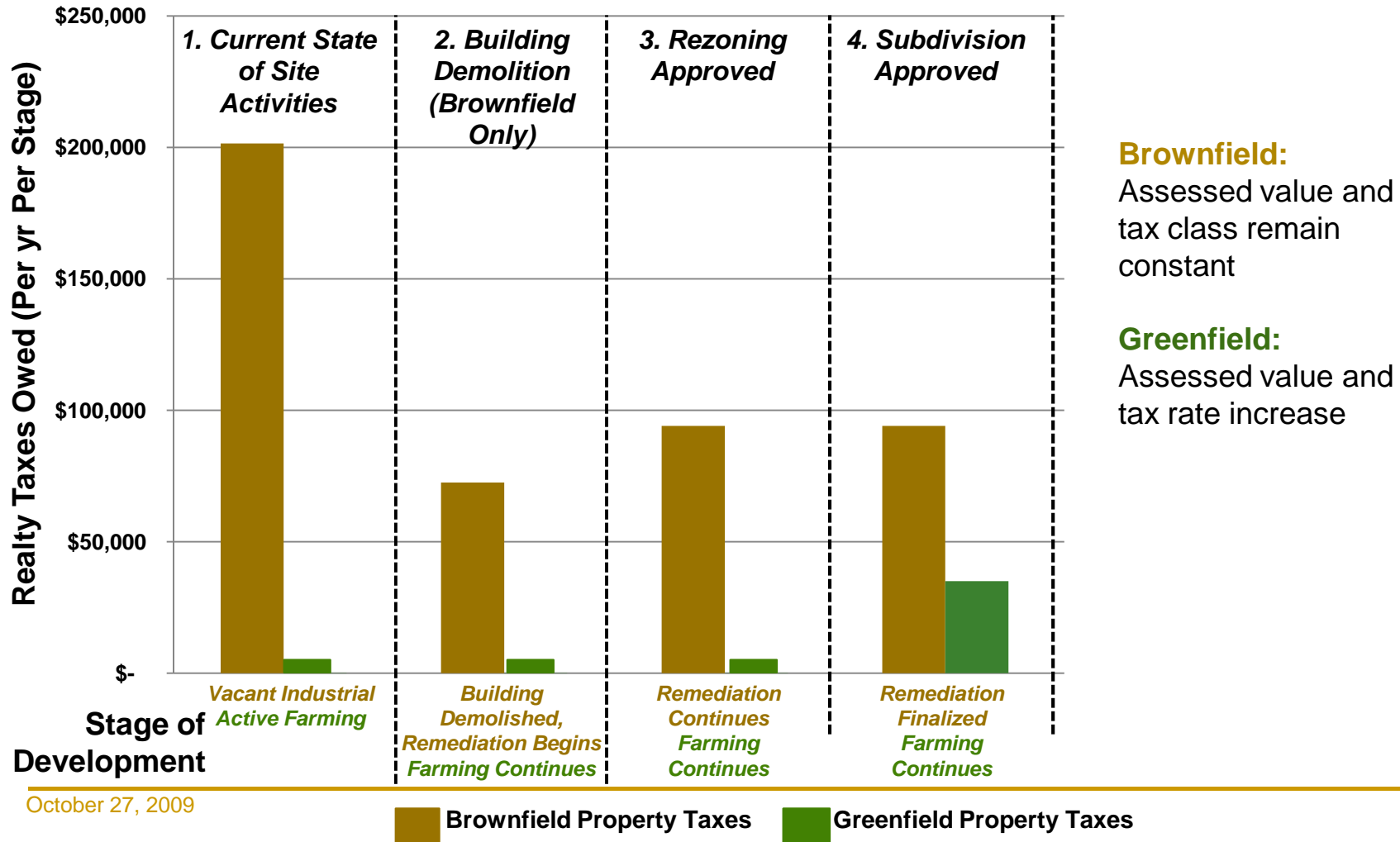
**“Greenfield” vs. “Brownfield” – Taxes During Development**



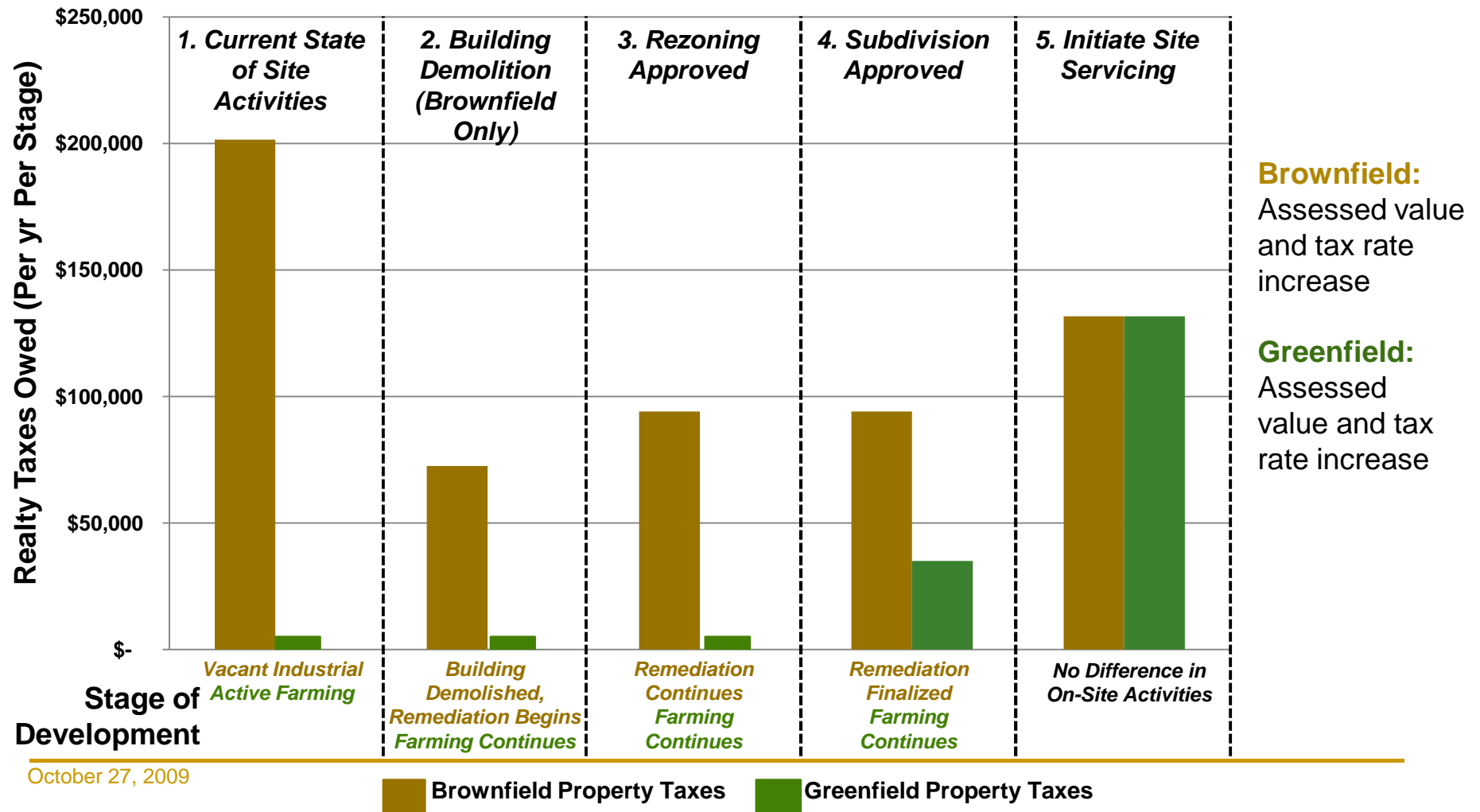
**Brownfield:**  
Assessed value and tax rate increase due to new uses permitted

**Greenfield:**  
Assessed value and tax rate remain constant

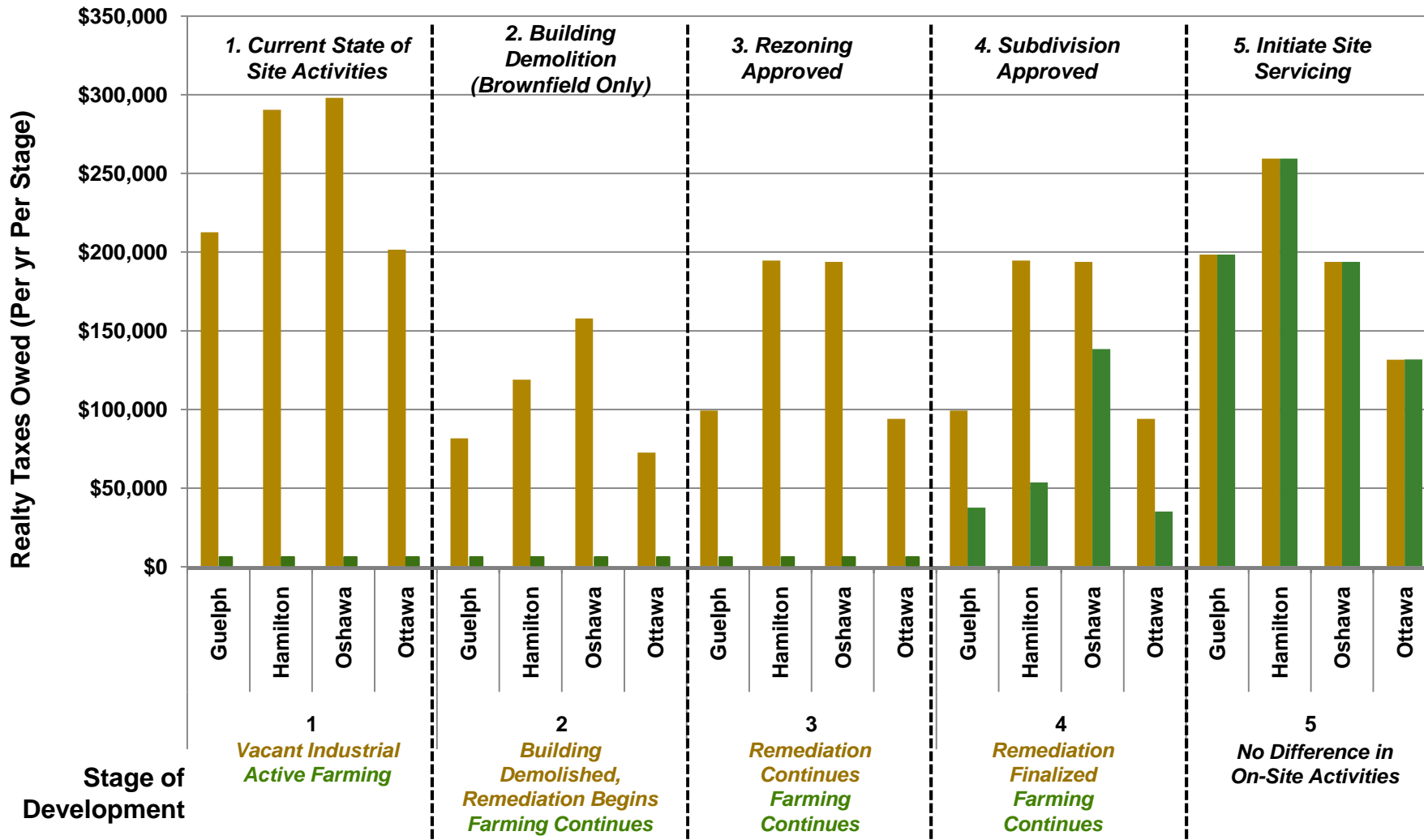
**“Greenfield” vs. “Brownfield” – Taxes During Development**



**“Greenfield” vs. “Brownfield” – Taxes During Development**



**“Greenfield” vs. “Brownfield” – Taxes During Development**



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**Brownfield Property Taxes**      **Greenfield Property Taxes**

**KILMER BROWNFIELD EQUITY FUND L.P.**

***Difference in Cumulative Taxes***

	Stage of Development/Redevelopment (Totals 3 Years)				Total Taxes Owed (End year 3)
	Current State of Site Activities (6 months)	Building Demo (Brownfield) (1 year)	Rezoning Approved (6 months)	Subdivision Approved (1 year)	
<b>Brownfield</b> (15ac; 200,000sf building to be demolished)	<b>\$100,769</b>	<b>\$72,554</b>	<b>\$47,032</b>	<b>\$94,063</b>	<b>\$314,418</b>
<b>Greenfield</b> (15 ac; actively farmed)	<b>\$49</b>	<b>\$98</b>	<b>\$49</b>	<b>\$35,038</b>	<b>\$35,234</b>
<b><i>Difference</i></b>					<b>\$279,184</b>

***Difference in Cumulative Taxes – Various Municipalities***

	Total Taxes Owed (End of Three Years)		<b><i>Difference</i></b>
	<b>Brownfield</b>	<b>Greenfield</b>	
<b>Guelph</b>	<b>\$336,729</b>	<b>\$37,840</b>	<b>\$298,889</b>
<b>Hamilton</b>	<b>\$556,051</b>	<b>\$54,117</b>	<b>\$501,933</b>
<b>Oshawa</b>	<b>\$597,448</b>	<b>\$138,668</b>	<b>\$458,780</b>
<b>Ottawa</b>	<b>\$314,417</b>	<b>\$35,234</b>	<b>\$279,183</b>

***Benefits of Brownfield Realty Tax Policy***

1. Will encourage brownfield redevelopment by reducing the 'realty tax barrier';
2. Will help to foster urban redevelopment/renewal;
3. Will align with existing provincial legislation (ie. Ontario Provincial Policy Statement; Places to Grow) which supports intensification;
4. Will improve the performance of existing municipal and Provincial incentives (ie. Tax Increment Equivalent Grants, TIEGs) which are provided by Community Improvement Plans (CIPs); and
5. Will establish a methodology for consistent valuation of brownfields.
  - Benefitting sites being remediated
  - Will not encourage contamination to reduce realty taxes

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