Taking Care of Business: Preserving Independent Small Businesses in Vancouver

by

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Project Submitted in Partial Fulfillment of the Requirements for the Degree of Master of Public Policy in the School of Public Policy Faculty of Arts and Social Sciences

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SIMON FRASER UNIVERSITY
Spring 2019

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## Approval

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Ethics Statement

The author, whose name appears on the title page of this work, has obtained, for the research described in this work, either:

a. human research ethics approval from the Simon Fraser University Office of Research Ethics

or

b. advance approval of the animal care protocol from the University Animal Care Committee of Simon Fraser University

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Abstract

Independent small businesses make essential contributions to the economic and social wellbeing of their communities. In Vancouver, BC, a number of factors, including rising property taxes and rents, property redevelopment, labour shortage, and changing retail market trends, have contributed to a high number of independent businesses closing in recent years. This study uses available data to examine the rate of closure of these businesses across Vancouver, and the extent to which various factors contribute to their closure. Three policy options are considered to address independent small business closure: strengthening development requirements to increase the supply of affordable retail spaces; a municipal revitalization tax exemption to offer property tax relief to independent small businesses; and the creation of a small business assistance office. All of these options have the potential to address the policy problem, and some variant of each should be explored by the City of Vancouver.

Keywords: Independent business; small business; neighborhood retail; property tax; commercial gentrification; business closure; redevelopment; tax policy; urban policy;
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To all the interview participants of this project, thank you for generously contributing your time and insights to this project, and for your dedication to maintaining a vibrant independent business community in Vancouver. To Josh Gordon and Doug McArthur, thank you for your support and feedback on this project. To all my colleagues and professors in the MPP program, thank you for making past two years a formative and enjoyable experience. Finally, thanks to all my wonderful friends and family for all your support.
# Table of Contents

Approval.............................................................................................................. ii
Ethics Statement................................................................................................. iii
Abstract................................................................................................................ iv
Acknowledgements.............................................................................................. v
Table of Contents................................................................................................. vi
List of Tables......................................................................................................... ix
List of Figures........................................................................................................ x
List of Acronyms..................................................................................................... xi
Executive Summary .............................................................................................. xii

## Chapter 1. Introduction ...................................................................................... 1
  1.1. Overview ...................................................................................................... 1
  1.2. Policy Problem and Study Objectives ....................................................... 2

## Chapter 2. Background ...................................................................................... 4
  2.1. Overview ...................................................................................................... 4
  2.2. Small Businesses and Independent Businesses in British Columbia and
      Vancouver ..................................................................................................... 4
    2.2.1. Economic and Social Contributions of Independent Small Businesses .... 6
  2.3. Existing Supports for Independent Small Businesses in Vancouver .......... 8
    2.3.1. Changes to Commercial Property Tax Rates ....................................... 8
    2.3.2. Targeted Land Averaging .................................................................... 8
    2.3.3. Business Improvement Areas ............................................................... 9
    2.3.4. Zoning and Development Standards that support Independent Small
           Businesses .............................................................................................. 10
    2.3.5. Other supports for Independent Small Businesses ............................. 11

## Chapter 3. Analysis of the Policy Problem ....................................................... 13
  3.1. Measuring Displacement of Vancouver’s Independent Small Businesses .... 13
    3.1.1. Existing Studies ................................................................................ 13
    3.1.2. Analysis of City of Vancouver Opendata Business Licence Records .... 14
    3.1.3. Vacancy Rates ................................................................................ 15
  3.2. Factors contributing to displacement of Vancouver’s Independent Small
      Businesses .................................................................................................. 16
    3.2.1. Rental/Lease Rates .............................................................................. 16
    3.2.2. Triple-Net Leases .............................................................................. 16
    3.2.3. Rising Property Tax Rates .................................................................. 17
    3.2.4. Analysis of Opendata Property Tax Assessments ............................... 19
    3.2.5. Highest and Best Use ....................................................................... 20
    3.2.6. Commercial Property Sales and Redevelopment, and the role of Chain
           Stores ................................................................................................. 21
    3.2.7. Lack of Specificity of Development Potential .................................... 23
    3.2.8. The Effect of Zoning Changes on Land Value Assessments .............. 24
3.3. Other factors impacting the viability of independent small businesses in Vancouver

3.3.1. Changing Business Models ................................................................. 25
3.3.2. Labour Shortage and Affordability....................................................... 25

3.4. Summary and Rationale for Policy Intervention .................................. 26

Chapter 4. Research Objectives.................................................................. 27
4.1. Objectives of Research........................................................................ 27

Chapter 5. Methodology.............................................................................. 28
5.1. Overview: ............................................................................................. 28
5.2. Methods ................................................................................................. 28
5.2.1. Literature Analysis ........................................................................... 28
5.2.2. Analysis of Vancouver Opendata Business Licence and Property Tax Records 28
5.2.3. Case Studies...................................................................................... 29
5.2.4. Expert/Stakeholder Interviews ............................................................ 29

Chapter 6. Case Study Analysis................................................................. 31
6.1. Case Study Selection and Methodology .............................................. 31
6.2. Case Study 1- New York ..................................................................... 32
6.2.1. Overview ......................................................................................... 32
6.2.2. Property Tax Credits for Landlords – Commercial Revitalization Program and Commercial Rent Tax Special Reduction.................................................. 32
6.2.3. Zoning and Development to support Independent Small Businesses.. 33
6.2.4. Commercial Revitalization and Business Support Services ............. 34
6.3. Case Study 2- San Francisco ................................................................. 34
6.3.1. Overview ......................................................................................... 34
6.3.2. Tax Exemptions for Independent Businesses .................................... 35
6.3.3. Commercial Vacancy Tax ................................................................. 35
6.3.4. Formula Business Ordinance............................................................ 35
6.3.5. Legacy Business Historic Preservation Program ............................. 36
6.3.6. Business Assistance and Commercial Revitalization ..................... 37
6.4. Case Study Key Findings ..................................................................... 37

Chapter 7. Policy Options Targeted towards Independent Business Retention.. 41
7.1. Strengthen Zoning and Development Requirements ...................... 41
7.2. Municipal Revitalization Tax Exemption (RTE) ................................... 42
7.3. Create a Small Business Assistance Office ........................................ 44

Chapter 8. Policy Objectives, Criteria, Measures........................................ 45
8.1. Societal Objectives .............................................................................. 45
8.1.1. Effectiveness ..................................................................................... 45
8.1.2. Equity ............................................................................................... 45
8.2. Governmental Objectives ................................................................. 46
8.2.1. Cost.................................................................................................. 46
8.2.2. Ease of Implementation ..............................................................................46
8.2.3. Stakeholder Acceptance ..............................................................................46
8.3. Criteria and Measures Table .........................................................................47

Chapter 9. Evaluation of Policy Options .................................................................49
9.1. Strengthen Zoning and Development Requirements to better support Independent Small Businesses .................................................................49
9.2. Municipal Revitalization Tax Exemption (RTE) ..............................................51
9.3. Small Business Assistance Office ...................................................................54
9.4. Evaluation Criteria and Measures Table .........................................................57

Chapter 10. Recommendations ..............................................................................58

Chapter 11. Additional considerations for the CoV: Property Taxation Rates and Changes to Specificity in Zoning Guidelines ..................................................60
11.1. Creating Specificity in Zoning Guidelines ......................................................60
11.2. Five Year Targeted Land Averaging ................................................................61
11.3. Shift Tax Burden from Commercial to Residential ......................................62
11.4. Further Considerations .................................................................................63

Chapter 12: Limitations and Conclusions ...............................................................65

References ..............................................................................................................67

Appendix A. City of Vancouver Opendata Business Licence Records-Methodology and Analysis .................................................................78

Appendix B. Interview Themes and Questions .......................................................84
List of Tables

Table 1. Vancouver Business License Opendata- Number of Retail/Restaurant businesses by neighborhood, 2008 and 2018. ......................................................... 15
Table 2. Property Tax Increases, Select Retail Streets, 2014-2018 ...................... 20
Table 3: Case Study Jurisdiction Comparative Table ................................................. 37
Table 4. Criteria and Measures Table ...................................................................... 47
List of Figures

Figure 1. Share of Market captured by Independent Businesses- 2010..................5
Figure 2. Light Industrial & Business Properties experiencing an increase in value of greater than 36.6%, 2017.................................................................9
Figure 3. Business Improvement Areas (BIA’s) in Vancouver ..........................10
Figure 4. Commercial (Class 6) and Residential (Class 1) Tax rates and ratio. 2010-2018........................................................................................................18
Figure 5. 2017 Commercial to Residential Tax Ratios, Major Canadian Cities .....19
Figure 6: Evaluation Criteria and Measures Table.............................................57
# List of Acronyms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>BC</td>
<td>British Columbia</td>
</tr>
<tr>
<td>BIA</td>
<td>Business Improvement Association</td>
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<tr>
<td>CAC</td>
<td>Community Amenity Contribution</td>
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<td>CoV</td>
<td>City of Vancouver</td>
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<tr>
<td>CRP</td>
<td>Commercial Revitalization Program (New York City)</td>
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<td>CRT</td>
<td>Commercial Rent Tax (New York City)</td>
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<tr>
<td>ISB</td>
<td>Independent Small Business</td>
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<tr>
<td>NYC</td>
<td>New York City</td>
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<tr>
<td>RTE</td>
<td>Revitalization Tax Exemption</td>
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<td>SF</td>
<td>San Francisco</td>
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Executive Summary

Independent small businesses bring a number of benefits to the communities they inhabit. Spending at independent and local businesses is retained in the community at greater rates than spending at chain businesses. Further, independent small businesses are an integral part of a healthy retail mix, and support municipal goals of creating walkable, sustainable, and complete communities. In Vancouver, British Columbia, rapid increases in commercial property value, and high levels of property redevelopment, have created substantial challenges for independent small businesses, including escalating rents, limited affordable space, lease insecurity and displacement due to development rates, property tax burden on commercial tenants, and increased costs of living for employees and owners (City of Vancouver, 2018g).

This study uses available data to investigate trends in closure rates of independent small businesses in Vancouver, and the extent to which different factors play a role in business closure. A literature review, interviews with various experts and stakeholders, and an analysis of Vancouver’s Opendata property tax data from 2014-2018, show that the challenges facing independent small businesses are more pronounced in some neighborhoods than others.

This study then examines a range of policies which could promote greater retention and survival rates of small businesses in Vancouver. The literature analysis, expert interviews, and a case study analysis of policies employed in San Francisco, California and New York City, elicit a number of potential policy options. These include: Strengthening zoning and development requirements to increase the number of retail spaces compatible with small businesses; Introducing a revitalization tax exemption policy for properties where independent small businesses are located; and the creation of a Small Business Assistance Office, to offer a range of supports to independent small businesses in Vancouver.

Several criteria are developed to analyze the strengths and limitations of these policy options: effectiveness the policy in reducing independent small business closure in Vancouver, both in the short and long terms; equity of the policy in supporting businesses in need; cost of the policy, including the costs to the CoV (City of Vancouver) of foregone tax revenue; administrative feasibility of the policy; and stakeholder
acceptance of independent small businesses, chain retailers, property developers, and residential property owners.

This study recommends that in the short term, the CoV implement a Municipal Revitalization Tax Exemption program for businesses in several of the city’s retail neighborhoods. The CoV should determine an appropriate exemption amount, criteria surrounding eligibility for the exemption, and measures to ensure that the exemption is passed on from property owners to tenants. This study further recommends that the CoV establish a Small Business Assistance Office, to offer several types of services and supports to independent small businesses. In the long term, this report recommends that the CoV work to strengthen zoning and development standards, to ensure that as high levels of property redevelopment continue to occur in Vancouver, the stock of retail spaces that are compatible and affordable for ISBs will not diminish. Finally, this study briefly discusses several additional policy changes which could be considered further by the CoV, but which were outside of the scope of analysis of this study.
Chapter 1.

Introduction

1.1. Overview

Independent small businesses (ISBs) add tangible and intangible value to the communities they inhabit. Independent small businesses are shown to contribute more economic value and be more resilient than larger, chain businesses. In British Columbia (BC), independent retailers and restaurants recirculate more than 2.6 times as much wealth in the local economy compared to chain competitors of the same size (CUPE & Civic Economics, 2013), and contribute to the unique identity and history of their community. Moreover, ISBs are an integral part of a healthy retail mix, and support municipal goals of creating complete, walkable communities. These contributions demonstrate the rationale for local governments to take policy action to support the wellbeing of independent businesses.

The City of Vancouver (CoV) notes that the city’s independent businesses face a range of challenges, including escalating rents, limited affordable space, lease insecurity and displacement due to development rates, property tax burden on commercial tenants, and increased costs of living for employees and owners (CoV, 2018g). From 2016 to 2018, Vancouver’s commercial real estate market has experienced unprecedented momentum, with retail property “in extraordinarily high demand in core and suburban markets alike” (O’Brien, 2017). This has resulted in hundreds of so-called commercial “hot spot” properties, which have seen their assessed values increase by up to 200% in recent years.

The dramatic rise in commercial property values has resulted in a high number of businesses being forced to close in several Vancouver neighborhoods, many of these being ISBs (Regan, 2017; Gold, 2017b). Most of Vancouver’s ISBs use a triple-net lease, which requires lease-holders to pay rent, property taxes, and maintenance fees on the property on which they operate. Triple-net leases result in business owners assuming the majority of costs when rents and property taxes increase. When land values and tax assessments rise, tenants are either not able to absorb increases in rent
or property taxes. Further, these increases often induce property owners to redevelop or sell a property, forcing businesses to move locations or close (Townshend, 2017). Often, they are replaced by chain retailers or franchises, as they are more attractive tenants for property owners, and are better able to manage the increased costs of business of the neighborhood (ILSR, 2016; Regan, 2017).

The loss of longstanding businesses is an issue felt in cities across North America, as urban revitalization and gentrification policies lead to income and demographic shifts in neighborhoods (Meligrana and Skaburskis, 2005). While Canadian retailers have largely avoided the “retail apocalypse” seen in recent years in the US, Canada’s retail industry is going through a period of rapid change, as technological disruption, e-commerce, rising wages, and increasing costs of doing business create challenges for ISBs (BDO, 2018).

The impacts felt from increased commercial property values, and the high numbers of ISB closures in several Vancouver neighborhoods have led to calls from CoV staff and council, small business associations, as well as non-profit advocacy groups, for the CoV to enact policy to better protect independent businesses in Vancouver. City staff have noted that commercial affordability is as important an issue as residential affordability, and that while the city has started to address residential affordability, it needs to catch up to addressing commercial affordability issues (CoV Staff, personal communication, January 19 2019; City of Vancouver Planner, personal communication, January 29 2019; CoV, 2018g).

1.2. Policy Problem and Study Objectives

The dramatic rise in commercial and residential land values in Vancouver in recent years has created challenges for independent businesses, including increases in property taxes, rental rates, and risk of displacement. This has resulted in a high number of ISBs closing in recent years in several neighborhoods (Regan, 2017; Gold, 2017b). The demonstrated economic and social value of independent businesses warrants greater efforts from policymakers to preserve and support them. This study attempts to examine the extent of ISB closures in several Vancouver neighborhoods, and examines some of the factors contributing to this issue. This study then analyzes several policy tools, elicited through research interviews and a case-study analysis, which could
support greater retention of ISBs in Vancouver, and assesses the strengths, limitations, and other impacts of these policy tools.
Chapter 2.

Background

2.1. Overview

This chapter provides background to the various pressures facing ISBs in Vancouver in order to provide a better understanding of the policy problem. First, it will discuss some economic indicators of the prevailing business climate in BC and Vancouver. Second, it will discuss the economic, social and cultural contributions that ISBs bring to their neighborhood and city, in order to highlight the importance of preserving these businesses. Third, it will discuss several indicators of neighborhood change in Vancouver, including evidence of closures of ISBs, vacancy rates, and tax pressures in several neighborhoods. Fourth, it will examine several challenges to ISBs in Vancouver that are linked to increased commercial property values: evidence of increases in commercial property taxes, rents, and commercial property redevelopment rates. Finally, it will discuss some of the other challenges that ISBs in Vancouver face in 2018, including shortages of labor, the rise of e-commerce, and changing customer preferences.

2.2. Small Businesses and Independent Businesses in British Columbia and Vancouver

The economies of both BC and Vancouver have been historically structured around small businesses (ISED, 2016). As of 2017, businesses of 50 employees or fewer accounted for 98% of all businesses in the province (Small Business B.C., 2018). Small businesses were responsible for 35% of BC’s GDP in 2017, more than in any other province (Small Business B.C., 2018). Within Vancouver, approximately 80% of businesses, or about 30,000 businesses, have fewer than 20 employees, the vast majority of these having between 1-4 employees (CoV, 2018g). Several indicators point to strong growth and a positive business climate for small business. The number of small businesses in B.C. climbed by 7.7% between 2014 and 2017, more than double the national average of 3.2%. Similarly, BC experienced record levels of retail sales growth in 2017, with a 9.7% increase over 2016 (CBRE, 2018).
As of 2010 in BC, the total market share captured by independent retailers is 35%, which is substantially lower than the Canadian average of 42% (CUPE & Civic Economics, 2013). Further, the market share of independent retailers in B.C. dropped slightly between 2008-2010, with chain retailers capturing more of the market (CUPE & Civic Economics, 2013). The market share of independent retailers varies between types of store. For example, in 2010 in BC, 86% of health and personal care stores were independent businesses, while only 28% of clothing stores, and 27% of food and beverage stores were independent businesses (CUPE & Civic Economics, 2013).

Figure 1. Share of Market captured by Independent Businesses- 2010
Source: CUPE and Civic Economics, 2013 (data from Statistics Canada)

The natural rate of business closure is a key concept in understanding business closures and the factors contributing to it. As of 2014, the average rate of closure across all industries in Canada was 1.3 per 1,000 businesses. Indicators from BC point to a healthy business climate when compared to the national average, with 0.2 bankruptcies per 1,000 businesses in 2017 (Small Business B.C., 2018). Importantly, small neighbourhood businesses in the retail, food, and accommodation sectors have higher natural closure rates, due to the highly competitive nature of these businesses (ISED 2016). From 2002 to 2014, the average number of insolvency or bankruptcy cases per 1,000 businesses was 2.0 for retail trade, and 5.8 for Accommodation and Food Services (ISED 2016).
2.2.1. **Economic and Social Contributions of Independent Small Businesses**

ISBs contribute to the economic and social wellbeing of their community in several ways: They recirculate money in the local economy at far greater rates than non-local businesses, and contribute to sense of place, culture, and history. Moreover, small businesses are more adaptive and responsive to local community conditions than large businesses, and often better serve the needs of the community (Urban Designer #1, personal communication, February 19, 2019). A strong, directly measurable economic rationale for supporting independent businesses is the local economic multiplier they create. Local businesses have been shown to keep far more wealth in the community, and contribute to stronger job growth, compared to chain stores or franchises (AMIBA, 2015). The local economic multiplier keeps wealth within the community through a business’ direct spending in the community to operate, and through the higher levels of spending that employees and managers of independent businesses do in their own communities (AMIBA, 2015). In a study of ten metropolitan regions in the US found that spending at independent businesses generates on average 3.7 times more direct local economic benefit than spending at chains (AMIBA, 2012). A similar study found that in British Columbia, independent retailers recirculate 2.6 times as much revenue locally compared to chain retailers (45% compared to 17%) (Civic Economics, 2013).

At the same time, a local and provincial business environment should support larger firms, and the scaling up of smaller firms, for the benefits they bring in terms of productivity, wages, and potential for job growth (Business Council of BC, 2017).

ISBs have also been shown to bring numerous other economic and social benefits compared to large businesses. For example, in a study of five countries including Canada, Mostarini and Postel-Vinay found that during the recession of 2008-2009, employment levels of large businesses fell 1.65% more than those of small businesses in the U.S, and that job growth in of small firms recovered more quickly than in large firms (Mostarini & Postel-Vinay, 2012). Other studies have argued that small businesses were key to Canada’s quick recovery from the 2008-2009 financial crisis, due to their flexible and adaptive business practices (Office of Consumer Affairs, 2013). Studies have found that compared to chain stores, ISBs provide higher wages, and have
been linked to lower levels of poverty in neighborhoods where they are prevalent, compared to neighborhoods where chain stores are more prevalent (Rupasingha, 2013).

The findings discussed above focus on the benefits that independent retail-oriented businesses bring to a community compared to chain stores in a community. However, the contributions of large businesses (in retail and other sectors) to local economies should not be overlooked. Large, high-growth companies have been shown to account for a disproportionately large share of new job growth, with US studies estimating the fastest growing 5% of firms to be responsible for up to two-thirds of new net job creation. Further, they have been shown to pay higher wages, are able to penetrate international markets better, and contribute greater amounts to research and development than small businesses (BC Business Council, 2017).

Finally, ISBs bring numerous social and cultural benefits to their communities. Independent businesses are also an integral part of Vancouver’s multiculturalism. In culturally diverse neighborhoods such as Chinatown, Commercial Drive, and South Fraser/Main, independent small businesses offer essential cultural services and products, and contribute to a sense of community for residents (Heritage B.C., 2015). Several of Vancouver’s neighborhoods, including Gastown and Main Street, have become major tourist attractions largely due to the arts and restaurant culture that is created by independent businesses in these neighborhoods (Lazaruk, 2016). Maintaining a strong neighborhood retail mix contributes to the CoV’s goal to create complete communities, and by improving walkability, aligns with other city goals such as improving residents’ health, and reducing greenhouse gas emissions, found in under Vancouver’s Greenest City and Healthy City Strategy.

While supporting existing ISBs should be a policy goal for a variety of reasons, a business environment in which new businesses can be established and can thrive is equally important to maintain. In recent years, young firms are responsible for nearly all net new job creation, and almost 20% of gross job creation in the United States, and are therefore integral to economic growth (Wiens & Jackson, 2015). This is an important consideration for policymakers, as policies to support longstanding business should not hamper newly established businesses from succeeding. At the same time, a local and provincial business environment should support larger firms, and the scaling up of
smaller firms, for the benefits they bring in terms of productivity, wages, and potential for job growth.

### 2.3. Existing Supports for Independent Small Businesses in Vancouver

The CoV makes efforts to promote a healthy business environment. These efforts, discussed in this section, include changes in property taxation policies and rates, zoning and development standards to promote small retail; facilitating the operation of BIs; and strategies to support small business permitting and licensing.

#### 2.3.1. Changes to Commercial Property Tax Rates

High property taxes can cause significant financial burden for small businesses, and can contribute to reduced business and economic development (CoV, 2018g; Altus Group, 2017). In alignment with the recommendations from independently commissioned reports, over the past ten years the CoV has lowered the business property tax share from 52% to 43% of the City’s general purpose tax levy, substantially improving the business tax rate ratio (the commercial tax rate divided by the residential tax rate) (CoV, 2017a). In 2019, the median business property in Vancouver was assessed at $855,300, which would incur a commercial tax bill of $4,124, for an increase of $178 from the 2018 median property tax bill (CoV, 2019b).

#### 2.3.2. Targeted Land Averaging

The CoV uses several tools to mitigate the negative impacts of large year-over-year property tax increases on both residential and commercial property owners. Three-year targeted averaging was introduced by the CoV in 2015 (CoV, 2017a). Targeted averaging is used to mitigate the impact of significant increases in property tax on “hot spot” properties, by allowing tax payments to be spread over the course of three years, and “gives property owners temporary tax relief by phasing in tax increases due to changes in land values set by BC Assessment” (CoV, 2018k). In 2016, targeted averaging was used for approximately 15,800 residential properties (about 8.5% of total) and 2,800 commercial/light industrial properties (about 19% of total) (CoV, 2017a).
Moreover, in 2017, the CoV estimated that 19,500 (10.3%) of residential properties and 3,300 (22%) industrial and business properties benefitted from the program.

In 2016, light industrial or business properties where the assessed value has increased more than 36.6% over the past year were eligible for targeted land averaging, with the threshold increased to 40.2% in 2017 (CoV, 2018a; 2018k). Figure 2 shows light industrial and business 'hot spot' properties that were eligible for targeted averaging in 2017.

![Figure 2. Light Industrial & Business Properties experiencing an increase in value of greater than 36.6%, 2017](image)

Source: City of Vancouver, 2017 Property Taxation: Targeted Land Assessment Averaging. Reproduced in accordance with City of Vancouver Terms of Use.

2.3.3. **Business Improvement Areas**

The majority of independent local businesses in Vancouver receive some support through their participation in Business Improvement Areas (BIAs). Vancouver has 22 BIAs which work to promote business, tourism, safety, and street beautification in their
area (CoV, 2018f). Together, Vancouver’s BIA’s represent over 20,000 businesses on 7,195 properties, and over $39 billion in taxable property value (Laroye and Townshend, 2018). BIAs are entirely self-funded, with revenue coming from a special property levy paid by member businesses of a BIA. The CoV plays an ongoing role of facilitating the annual funding process and remitting money collected to the BIA board annually (South Granville BIA, 2018). The CoV returns these funds to each BIA to put towards promoting business, tourism, safety, street beautification, and conservation of heritage property (CoV, 2018f). In the 2018-2019 fiscal year, the City of Vancouver collected and returned $12.5 million to the city’s BIA’s (CoV, 2018f). This represented an increase of 7% between 2017-18 and 2018-19, and 5% the previous year (CoV, 2018f; 2017b).

**Figure 3.** Business Improvement Areas (BIA’s) in Vancouver
Source: City of Vancouver, Business Improvement Areas (2018). Reproduced in accordance with City of Vancouver Terms of Use.

2.3.4. **Zoning and Development Standards that support Independent Small Businesses**

Development standards that promote neighborhood serving retail and pedestrian oriented streetscapes have been an integral part of creating a strong independent business community in Vancouver. The city’s unique development culture of participatory planning, where the public is consulted and involved in the development
planning process, has helped Vancouver to consistently be a leader in North America in terms of building contemporary pedestrian-oriented streetscapes where independent businesses can thrive (Urban Designer #1, personal communication, February 19, 2019). Further, the Vancouver Charter allows the city to be highly discretionary in granting development permits, which has been highly beneficial and contributed to the city’s renowned livability and the creation of “Vancouverism” (Urban Designer #2, personal communication, February 21 2019). According to one interview participant, there are approximately 120 retail street clusters in Vancouver (Urban Designer #2, personal communication, February 21 2019). Most retail streets in Vancouver fall under C-2 district zoning schedules, and must follow development guidelines which encourage a pedestrian friendly streetscape and neighborhood-serving retail at the street level (City of Vancouver, 2018n). Certain C-2 district guidelines, such as the Commercial Broadway zoning schedule, recommend that storefronts have a maximum frontage of 25 feet. Other C-2 district schedules require a maximum frontage of 50 feet, however, these requirements are negotiable. Most development in Vancouver is “meritorious”, meaning developers must meet certain conditions or provide community amenities. For example, developers often must meet standards for pedestrian-oriented streetscapes, provide affordable housing, jobs, and more. While zoning and development guidelines and a supportive development culture has supported the success of many independent businesses, increasing rates of land assembly and mixed-use development in Vancouver have created new challenges for maintaining the city’s strong independent business culture.

2.3.5. Other supports for Independent Small Businesses

The CoV supports small businesses in several other ways. The city has established a Small Business Commercial Renovation Centre, which offers support to support small businesses who are moving or starting in a new location. The program is intended to offer hands-on support to reduce the difficulties of an onerous permitting process associated with moving to, and making tenant improvements on a new location (CoV, 2018m). Last, while not explicitly a means of support for independent businesses, businesses that are located in a Heritage District or one of the city’s 2,200 registered Heritage buildings, are shielded from redevelopment, and may be at lower risk of
displacement due to incentives from the CoV such as tax exemption and repair subsidies (CoV, 2018c).

Corporate income taxes are a cost that impacts the viability of a business. At both the provincial and federal level, small businesses in BC are taxed at lower corporate income tax rates compared to larger businesses. The first $500,000 of corporate earnings are eligible for the federal small business deduction, which effectively taxes this income at a rate of 9%. Income above $500,000 is taxed at a federal income tax rate of 28% (Canada Revenue Agency, 2019). Similarly in BC, income up to $500,000 is taxed at the Small Business Corporate Income Tax Rate of 2.0%, with income above $500,000 taxed at the General Corporate Income Tax Rate of 12% (Government of B.C., 2019).
Chapter 3.

Analysis of the Policy Problem

The following sections discuss the challenges in measuring displacement of independent small businesses in Vancouver. They discuss trends in retail vacancy rates, commercial property rents, property values, sales, and redevelopment in recent years, and analyze the impacts of triple-net leases, property tax structures, zoning changes, and redevelopment, on Vancouver’s independent small businesses.

3.1. Measuring Displacement of Vancouver’s Independent Small Businesses

3.1.1. Existing Studies

The exact extent of ISB displacement in Vancouver remains difficult to measure. The majority of data available on the issue comes from media reports on individual small business closures, rather than through comprehensive measurement and analysis. Among numerous other media reports from 2016 to 2019, in December 2017, the Georgia Straight published a list of over thirty well-established Vancouver businesses that had closed in 2017 (Takeuchi, 2017). Patterns and impacts of increased property taxes, rents, and redevelopment vary greatly between neighborhoods in Vancouver, as was found by a study conducted by Andy Yan and Mark Heeney (Gold, 2017b). Between 2011 and 2016, the number of businesses in Dunbar and West Broadway decreased by 8% and 10% respectively (Gold, 2017b). The study found that increased property taxes, rents, and redevelopment pressures were responsible for the decrease in the number of businesses in these neighborhoods. At the same time, other reports estimate that the number of businesses along the Cambie corridor and Hastings Street (East of Nanaimo) both increased, by 11% and 13%, respectively (Gold, 2017b). As of 2019, the CoV had initiated a local retail study to inform the city’s local retail strategy (CoV, 2019b).
3.1.2. Analysis of City of Vancouver Opendata Business Licence Records

The CoV publishes annual business license datasets as part of its OpenData Catalogue. This study conducts a preliminary analysis of this data, comparing the number of issued (active) restaurant and retail type business licenses in the City of Vancouver and several selected neighborhoods, over the period 2008-2018. This preliminary analysis does not address business turnover rates, closure of longstanding businesses, or rates of replacement of ISBs by chain businesses. Further, the findings are inconclusive, and demonstrate the need for a more comprehensive study of retail and restaurant health in Vancouver’s neighborhoods.

The preliminary analysis finds that over the period, the number of issued retail business licenses declined by approximately 23%, from 4096 to 3163. With the decline being more severe in some neighborhoods. A different trend is seen in the number of restaurant business licenses over the same period, with the number of issued licenses for restaurants in Vancouver increasing by approximately 12%, from 1537 to 1720 licenses. Again, a variety of trends are seen among Vancouver neighborhoods.

The retail and restaurant businesses analyzed represent approximately 6500 of the more than 20,000 businesses that belong to Vancouver’s 22 BIAs. The data which was analyzed was part of a larger dataset, which showed 30,721 active business licences registered to addresses in Vancouver in 2018. Total active business licences (including business types not necessarily requiring a physical location) in the City of Vancouver follow a modest growth trend, growing from 29,068 in 2008 to 30,721 in 2018, an increase of 5.6%. The substantial decline seen in the analysis of the number of retail business licences in Vancouver is implausible, and definitive conclusions cannot be drawn from this analysis. More information on the methodology used by this study to analyze Opendata Business Licence records can be found in Appendix 3 of this report.
### Table 1. Vancouver Business License Opendata- Number of Retail/Restaurant businesses by neighborhood, 2008 and 2018.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>West End</td>
<td>283</td>
<td>214</td>
<td>-24%</td>
<td>209</td>
<td>213</td>
<td>+2%</td>
</tr>
<tr>
<td>Downtown</td>
<td>908</td>
<td>769</td>
<td>-15%</td>
<td>407</td>
<td>482</td>
<td>+18%</td>
</tr>
<tr>
<td>Hastings-Sunrise</td>
<td>137</td>
<td>100</td>
<td>-27%</td>
<td>38</td>
<td>34</td>
<td>-11%</td>
</tr>
<tr>
<td>West Point Grey</td>
<td>64</td>
<td>46</td>
<td>-28%</td>
<td>26</td>
<td>27</td>
<td>+4%</td>
</tr>
<tr>
<td>Kitsilano</td>
<td>379</td>
<td>269</td>
<td>-29%</td>
<td>143</td>
<td>140</td>
<td>-2%</td>
</tr>
<tr>
<td>Fairview</td>
<td>450</td>
<td>384</td>
<td>-15%</td>
<td>149</td>
<td>138</td>
<td>-7%</td>
</tr>
<tr>
<td>Mount Pleasant</td>
<td>262</td>
<td>181</td>
<td>-31%</td>
<td>97</td>
<td>121</td>
<td>+25%</td>
</tr>
<tr>
<td>Vancouver</td>
<td>4096</td>
<td>3163</td>
<td>-23%</td>
<td>1537</td>
<td>1720</td>
<td>+12%</td>
</tr>
</tbody>
</table>


### 3.1.3. Vacancy Rates

Vacancy rates are one indicator of neighborhood change, and while can help identify retail districts which are undergoing change. A vacancy rate of between 5-10% is generally understood as healthy (Savitch-Lew, 2017), and while a low vacancy rate may indicate a thriving retail environment, it may impede small businesses from entering the area, or impair the ability of a business to relocate if their existing location undergoes redevelopment (BIA Representative #3, personal communication, January 23). Average vacancy rates for retail space in Greater Vancouver have decreased in recent years, from nearly 4% in 2015 to under 2.5% in 2018. However, at the same time, several business districts experienced a contradictory trend: reported retail vacancy rates were 6-8% in the South Granville BIA (Froese, 2017), and 11% in the West End BIA (McLachlan, 2017). Indeed, many of the city’s business districts are revitalizing, but at the same time losing legacy businesses (Gold, 2016). This trend is seen in Vancouver’s Chinatown, where from 2011 to 2016, the number of business licensees rose from 405 to 429 (Gold, 2016).
3.2. Factors contributing to displacement of Vancouver’s Independent Small Businesses

3.2.1. Rental/Lease Rates

Rising commercial rents pose a direct challenge to local businesses, and are a major factor in increased closures of independent small businesses in some Vancouver neighborhoods. A second-half 2018 study reported that retail rents in Vancouver increased on average by 14.1% in 2017, and 15.4% in 2018, to an average of $32.45 per square foot in the second half of 2018 (Marcus and Millichap, 2018). Several Vancouver neighborhoods saw greater average rent increases, including Denman Street, where minimum average retail rents increased from $35 to $60/square foot between 2013 and 2018; and West 4th Avenue, where minimum average retail rents increased from $35 to $50 per square foot over the same period (CBRE, 2013-2018). However, some Vancouver retail streets experienced a different trend, with the net retail rental range on streets such as Granville Street (Broadway to West 15th Ave), and Robson Street (Hornby to Bute) increasing and then decreasing over the 2013-2018 period (CBRE, 2013-2018). Further detail and graphs can be found in Appendix 2 of this report.

3.2.2. Triple-Net Leases

Commercial leases in B.C. are typically “net” or “care-free” leases, meaning that the tenant pays annual rent per-square-foot, as well as an additional per-square-foot amount for the portion of the overall property taxes, insurance, and maintenance fees of the property (Hamilton, 2017), giving this type of lease agreement the “triple-net” moniker. In these agreements, landlords have the right to increase the triple-net fee based on increases to the property tax, insurance, and maintenance costs, even if rental rates for the term of the lease have been set already (Hamilton, 2017). When a property’s assessed value increases, landlords are able to pass the associated property tax costs on to commercial tenants through the triple-net system. Unlike the B.C. Residential tenancy Act, the Commercial Tenancy Act does not afford the same protections to commercial tenants from maximum rent increases (Hamilton, 2017). This lack of protection for commercial tenants is another factor in the increased displacement of ISBs in Vancouver.
3.2.3. Rising Property Tax Rates

Due to the aforementioned “triple-net” lease system, which is prevalent across commercial leases in Vancouver, business owners assume the burden of a property tax increase, even if they do not own the property themselves. Understanding the way commercial properties are taxed in Vancouver is thus essential to understanding the impacts of the tax structure on the survival and success of businesses. Both municipal governments and the provincial government play a role in property taxation. Land values in BC are assessed by BC Assessment, an independent provincial crown corporation. BC Assessment also determines which class/classes (of nine total) a property falls into. Municipalities, whose principal source of revenue comes from property taxes, have broad authority to set and adjust property tax rates for different classes of property (BC Assessment, 2018b). The CoV sets the required general purpose tax levy according to its need for tax revenue to meet the annual budget (CoV 2018i). Property tax rates are set using the mill rate, which is the amount of tax payable per $1,000 of assessed property value. In 2018, the CoV taxed commercial properties (Class 6) at $10.85 per $1000 of assessed value, and residential properties (Class 1) at $2.47 per $1000 of assessed value.

The CoV changes property tax rates to collect the specified amount set in the budget, and to maintain relative year-by-year consistency in the amount of property taxes collected (CoV 2018i). For example, from 2010 to 2018, the commercial property tax rate declined from $18.64 to $10.85 per $1000 of assessed value (CoV, 2018b). Average assessed values for commercial and light industrial properties) increased by 21.2 % in 2016 and 30.12% in 2017 (CoV, 2017a). For the majority of businesses, this increase in assessed property value does not translate to an increase in property taxes. However, properties where the assessed value increases at a rate greater than the average of other properties of the same class will see an increase in annual property tax payments (CoV, 2017a). For example, in 2017 an estimated 3,300 (22%) of industrial and business properties had assessment increases of 40.2% or more (CoV, 2017a). The greater-than-average assessment increases on these properties result in greater property tax bills, a burden which falls directly on businesses who are generally responsible for property tax payments.
The CoV notes that it has taken some efforts to reduce the tax burden on businesses, and between 2007 and 2017 it lowered the business property tax share from 52% to 43% of the CoV’s general purpose tax levy, improving the commercial tax rate ratio (the commercial tax rate divided by residential tax rate) from 6:1 to a ratio closer to 4:1 (CoV, 2017a). Despite this, Vancouver still stands out as having the highest commercial-to-residential tax rate ratio of any major city in Canada: In 2017, Vancouver’s commercial to residential ratio was 4.87:1, compared to the Canadian average of 2.85:1 and the average across southern BC of 3.88:1. (Altus Group, 2017a; 2017b). In 2018, the business tax rate ratio in Vancouver was 4.39, reflecting a decrease in the commercial tax rate from $12.44 per $1000 of taxable value, to $10.85 per $1000 of taxable value. Many in the small business community see the high commercial-to-residential tax ratio as a fairness issue which needs to be addressed. Moreover, a lower commercial property tax ratio should increase competitiveness, job growth, and can help generate more stable revenue (Altus Group, 2017c).
3.2.4. Analysis of Opendata Property Tax Assessments

A preliminary analysis of CoV Property Tax Opendata Catalogue was conducted, examining average property tax assessments for commercial retail properties (C2-C5) along several retail streets over a five-year period (2014-2018). Of 2770 retail-type properties in Vancouver, average tax assessments increased by 29% over the 5 year period. Within the neighborhoods surveyed, a variety of different trends are apparent. Notably, average assessments along Denman street increased by only 3%. This is likely due to the introduction of the West End Community Plan in 2013, which would have greatly increased property values and tax assessments in this year. However, tax assessment data for 2013 or earlier was not available.
<table>
<thead>
<tr>
<th>Street</th>
<th>number of properties</th>
<th>zoning schedule</th>
<th>2014 average tax assessment</th>
<th>2018 average tax assessment</th>
<th>% increase in tax bill, 2014-2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>West Broadway (Alma to Ontario)</td>
<td>290</td>
<td>C2, C2C, C2C1, C3A</td>
<td>112,798</td>
<td>$140,418</td>
<td>24%</td>
</tr>
<tr>
<td>Denman Street</td>
<td>30</td>
<td>C-5</td>
<td>74,530</td>
<td>76,400</td>
<td>3%</td>
</tr>
<tr>
<td>Main Street (Kingsway to 33rd)</td>
<td>210</td>
<td>C2, C2C, C3A</td>
<td>31,284</td>
<td>43,430</td>
<td>39%</td>
</tr>
<tr>
<td>Commercial Dr (Venables to 15th)</td>
<td>145</td>
<td>C2C, C2C1, C3A</td>
<td>33,750</td>
<td>39,096</td>
<td>16%</td>
</tr>
<tr>
<td>Hastings (Victoria to Renfrew)</td>
<td>86</td>
<td>C2C, C2C1</td>
<td>33,676</td>
<td>46,692</td>
<td>39%</td>
</tr>
<tr>
<td>West 4th (Alma to Granville)</td>
<td>178</td>
<td>C2, C2B, C3A</td>
<td>49,908</td>
<td>58,326</td>
<td>17%</td>
</tr>
<tr>
<td>Vancouver</td>
<td>2770</td>
<td>C1-C5</td>
<td>52,971</td>
<td>68,208</td>
<td>29%</td>
</tr>
</tbody>
</table>

Source: City of Vancouver Property Tax Opendata Catalogue, 2014; 2018.

### 3.2.5. Highest and Best Use

The assessed value of many commercial properties in Vancouver rises year over year, even when use of the property and those surrounding it has not changed substantially. Commercial properties are assessed by BC Assessment based on the value of the property at its “highest and best use”, rather than the value of the property at its current use (BC Assessment Act, 2009). BC Assessment, defines highest and best use as “an economic concept that measures the interaction of four criteria: legal permissibility, physical possibility, financial feasibility, and maximum profitability.” (BC Assessment Act, 2009). When a zoning change takes place, often as part of a Community Plan, it typically will allow for greater density to be built on a property. Properties that are deemed to be underdeveloped can see great increases in land value assessment, at rates far higher than the average, which greatly increases the tax burden on those properties.

The increased burden of property taxes has been cited as a primary factor in the high rate of businesses closing in the Robson, Denman, and West 4th Avenue retail districts in Vancouver in recent years (Fumano, 2017b, Gold, 2017b). The impacts of assessment increases are being felt not only by the retail sector, but have also resulted
in a growing number of businesses located on light industrial land to close (Property Tax expert, personal communication, March 8 2019). The city collects roughly the same amount of revenue each year, meaning the increased taxation on some properties leads to a corresponding reduction of taxation on other properties. On a citywide scale, this can lead to the majority of properties in certain neighborhoods seeing tax increases, with many properties in other neighborhoods seeing tax decreases. Several interview participants viewed this as a fairness issue, as businesses in downtown Vancouver (where development is already at highest and best use) have seen reduced taxes in recent years, while taxes for businesses along many of Vancouver’s neighborhood retail streets have gone up as a result of development pressures (BIA Representative #2, personal communication, January 14, 2019; CoV Staff, personal communication, January 19, 2019; City of Vancouver Planner, personal communication, January 28, 2019).

3.2.6. Commercial Property Sales and Redevelopment, and the role of Chain Stores

Property redevelopment has been identified as a major contributor to business displacement in Vancouver, being cited as one of the causes in the 8% drop in the number of businesses in Dunbar and the 10% drop along West Broadway between Alma and Macdonald Street (Gold, 2017b). Property redevelopment and densification are necessary processes which support a wide variety of city goals, and redevelopment inevitably results in some displacement of independent small businesses. However, a failure to address the impacts of redevelopment on ISBs can result in higher levels of independent small businesses closure.

Property redevelopment creates numerous challenges for independent small businesses. First when a property undergoes redevelopment, businesses incur additional costs whether they choose to relocate, or to close for up to several years before returning to a redeveloped space (BIA representative #4, personal communication, January 29 2019). The low storefront vacancy rates in some Vancouver neighborhoods gives businesses few suitable options to choose from when looking to relocate (CoV Staff, personal communication, January 19 2019). Further, when trying to secure a commercial lease in a newly redeveloped space, ISBs are often at a severe disadvantage compared to national chains. Typically, developers will purchase and
Develop multiple adjacent properties in what is known as land assembly, which not only results in fewer retail units in the new development, but in retail units that are more expensive and more compatible with larger chain businesses than they are with independent retailers (ILSR, 2016; City of Vancouver Staff, personal communication, January 19 2019; Urban Designer #2, personal communication, January 21 2019). For example, retail units may have too much floorspace for small businesses, or they may require tenant improvements (Regan, 2017; City of Vancouver Staff, personal communication, January 19 2019).

Developers and building owners are incentivized towards land assembly, and towards developing spaces that are compatible with national chain tenants for several reasons: Landlords are more likely to choose a formula business as a new tenant, as they are more likely to be able to manage increased rents, and are often willing to sign longer leases and corporate covenants to guarantee them. Moreover, securing leases with national chains often allows building owners to receive lower interest rates on financing the building (Nuttall-Smith, 2015; ILSR, 2016; New York Urban Policy Researcher, personal communication, February 22, 2019). Development resulting from land assembly often has additional negative impacts on streetscapes, reducing architectural diversity, walkability and pedestrian friendliness (Urban Designer #1, personal communication, January 19, 2019; Urban Designer #2, personal communication, January 21 2019).

Growing redevelopment potential can have negative impacts on ISBs. In Vancouver, independent businesses located in older buildings with high redevelopment potential are often subject to shorter lengths of leases, or leases which are accompanied by a demolition clause requiring commercial tenants to move out within 6 months or one year if the property owner decides to redevelop, creating uncertainty for these businesses (Commercial Property Manager, personal communication, February 7 2019; BIA representative #4, personal communication, January 29, 2019; Bruineman, 2017).

The increasing rate of commercial property redevelopment in Vancouver is evidenced by the increase in commercial property development permits issued by the city. The value of commercial property development permits in Vancouver far exceeds that of other Metro Vancouver municipalities, having increased in value by 253% from 1998 to 2017 (City of Vancouver, 2019b). In Vancouver, 1.5 million square feet of new
retail space was added in 2017, and 2.5 million square feet was added in 2018, increasing the total retail space in the city by about 2.4% (Dijk, 2018). However, it is unknown whether these new additions replaced formerly occupied retail spaces, or what portion of this space is suitable for independent small retailers.

### 3.2.7. Lack of Specificity of Development Potential

The tax impacts that are created through the *highest and best use* assessment structure are magnified by the lack of specificity of allowable commercial and residential development potential in many of the city’s zoning guidelines. For the vast majority of properties that have development potential that is greater than currently being realized, future development would likely include 1-2 floors of commercial development, with higher floors used for residential development.

As the CoV subjects each property class to a different tax rate, the property’s assessed use plays a large part in determining the tax bill. Under the current assessment regime, when a property has development potential, the airspace above the existing building representing the development potential of the property is taxed to reflect the assessed value at the property’s highest and best use. Without specificity in allowable commercial and residential development potential, the entire development potential is assessed at the commercial rate ($10.85 per $1000 of assessed value) rather than a portion of development potential being assessed at the residential rate ($2.47 per $1000 of assessed value) (BIA Representative #1, personal communication, January 14, 2019; Property Tax Agent #1, personal communication, March 8 2019). As the commercial rate is currently 4.3 times higher than the residential rate, the resulting tax assessment without the use of split classification can reflect a value that is nearly four times higher than what it would be under the likely development, which would be mostly residential.

When specificity in the allowable residential and commercial development does exist, a *split class assessment* can be used, often allowing much of the development potential to be taxed at the residential rate rather than the higher commercial rate (CoV, 2018b; 2018). The objective of a split class assessment is therefore to achieve a valuation of the redevelopment potential that more accurately reflects the likely mix of commercial and residential uses of the property. There is growing acknowledgement,
both from local government and those in the business community, of fairness issues associated with the tax assessment structure, particularly when split classification is not used on mixed-use properties, and residential development potential is taxed at a commercial rate (Hamilton et. al, 2014; CoV 2018g; BIA Representative #1, personal communication, January 14, 2019). Greater specificity in the CoV’s zoning plans would allow for split class assessments to be used on more properties, which would ensure development potential is taxed according to the properties likely future use, and would result in lower, fairer taxation of development potential (Hamilton et. al, 2014; Property Tax Expert #2, personal communication, March 8 2019).

The ability to use split-classification assessment is a result of the Amacon development group winning an assessment appeal in the BC Supreme Court, which set a precedent for the growing use of split-classification assessment (CoV, 2018p). In 2018, 124 properties in Vancouver received split assessments (CoV, 2018g). An issue with the use of this tools is that properties that receive split-class assessment are not eligible for 3 year targeted land averaging for a number of reasons (CoV, 2018g), so although they may gain by paying lower taxes, they are unable to receive the immediate relief that targeted land averaging offers.

3.2.8. The Effect of Zoning Changes on Land Value Assessments

Rezoning in Vancouver has exposed independent businesses in several Vancouver neighborhoods to increases in property assessments, and therefore to increases in taxation (Urban Designer #2, personal communication, February 21 2019). Between 2016 and 2017, total property values for commercial and light industrial properties in Vancouver increased by $12.3 billion, or 25.5%. Of this, $11.8 billion (24.5%) came from increases in market value, and $0.5 billion (1.1%) came from non-market changes, including new construction, inter-class transfers, and rezonings (CoV, 2017a). The lack of specificity around the commercial and residential portions of development potential in the West End Community Plan has led to dramatic property tax increases in that neighborhood (Property Tax Expert #1, personal communication, March 8 2019), where several property assessments saw increases of as much as 268% (Zeschky, 2017; Gold, 2017). Both the Grandview-Woodland Community Plan and the West End Community Plan include zoning changes to allow for increased density,
including 5,750 and 7,500 new housing units respectively, as well as increased density for mixed-use properties along retail streets (CoV 2018h; 2018i).

3.3. Other factors impacting the viability of independent small businesses in Vancouver

3.3.1. Changing Business Models

The continued shift in Canada from brick-and-mortar shopping to online shopping contributes greatly to the challenges of operating a successful physical business. In the United States, online sales for department and specialty stores grew from around 10% of total sales in 2011 to around 20% in 2016 (HRC, 2017). In Canada, estimates of e-commerce shares of retail sales range from 2.6% to 9% of total retail sales, with online sales growing by nearly 30% in 2017 (BDO, 2018). While total location-based retail sales, as well as mall sales in Canada, have increased since 2015, this growth has been modest, and is impacted by online retail (BDO, 2018). Moreover, the growth of food-delivery apps may create both opportunities and challenges for restaurants. While these apps can increase a restaurant’s customer base and thus increase sales volume, they often charge restaurants a commission fee or fees for using their service, eating into the already slim profit margins of restaurants (Sagan, 2018).

3.3.2. Labour Shortage and Affordability

Difficulty attracting and retaining labor was cited by both BIA and city staff interview participants as a major barrier to the success of independent small businesses in Vancouver (CoV Staff, personal communication, January 19, 2019; City of Vancouver Planner, January 28, 2019; BDC, 2018). Statistics Canada and survey data further support these arguments. In 2018, unemployment in BC was at 4.4%, and was below all other provinces by more than 1% (Sherlock, 2019). Across Canada, the labor shortage is felt most acutely in BC, with 45% of entrepreneurs having trouble finding new employees in 2018 (BDC, 2018.) Finally, A 2018 report published by the BC Chamber of Commerce and the Ministry of Advanced Education, Skills and Training concluded that BC is suffering from severe labour shortages, as well as significant skill mismatch (BC Business, 2018).
The labor shortage in the service sector in Vancouver is largely attributed to housing affordability issues in the region, where high housing costs and a rental housing vacancy rate of around 1% (CMHC, 2018) create a challenge for attracting workers from other jurisdictions, and have pushed those currently working in Vancouver to move to more affordable parts of the province and country (Sherlock, 2019; CoV Staff, personal communication, January 29, 2019). Recent changes, such as the increase in the minimum wage in BC by $1.30 to $12.35 (as of 2019) may help attract more workers to the service sector, however they can also impact the bottom lines of small businesses, many of which have slim profit margins (Sherlock, 2019).

### 3.4. Summary and Rationale for Policy Intervention

ISBs play an important role in contributing to Vancouver’s economy and highly livability. Supporting and encouraging ISBs in Vancouver aligns with other policy ambitions, and can help the city meet its goals for developing healthy, complete communities, and its goals for reducing carbon emissions. Vancouver’s independent businesses are also an important source of tax revenue for the city, contributing to services enjoyed by all. However, taxation and assessment structures set by the province of British Columbia and the CoV create challenges for many independent small businesses in Vancouver, which are exacerbated during times of increased growth in the real estate market. At the same time, other city goals such as densification and affordable housing often require property development, and can lead to displacement of ISBs. A comprehensive understanding of independent small business displacement is needed, as well as an understanding of how taxation, development, and other factors contribute to ISB displacement. Moreover, a citywide strategy that balances preservation and support to Vancouver’s independent business community, while also allowing for densification and growth of the city, is needed.
Chapter 4.

Research Objectives

4.1. Objectives of Research

The objectives of my research are to:

1) Identify the incidence of independent small business closure in Vancouver and within several Vancouver neighborhoods, and trends of business closure over time.

2) Identify factors that contribute to independent small business closure in Vancouver.

3) Identify policies in other cities which can effectively support the survival and success of independent small businesses.

4) Identify potential policy solutions which could be feasibly implemented in Vancouver’s context.

5) Assess the views of small businesses, developers, policy experts, and local government towards different policy options.

6) Assess the costs, benefits, potential barriers and indirect consequences of policy options by evaluating them according to established criteria.
Chapter 5. **Methodology**

5.1. **Overview:**

The study has a 5 month duration from November 2017, to March 2018, and focuses on the jurisdiction of the City of Vancouver, British Columbia. The study reviews academic literature, reports from government and non-profit organizations, and news sources. A case study analysis is then conducted to elicit policy strategies in two case study jurisdictions, which are analyzed for their effectiveness and other impacts where data is available. Approximately 15 semi-structured expert interviews are conducted with representatives of the local business community, local government, property developers, and experts from case study jurisdictions, to understand their perspectives on the challenges facing independent small businesses, as well as the feasibility and tradeoffs involved with various policy options. Interviews will take place either in person, or by phone or Skype.

5.2. **Methods**

5.2.1. **Literature Analysis**

The literature review is used to define the extent of the problem and the the factors that contribute to ISB displacement in Vancouver. Further, it reviews past and present policy mechanisms intended to support small businesses in Vancouver, and elicits further options that may be available. The literature review uses academic literature, reports and data from government (for example, CoV Reports, Commissioned reports) non-government (for example, Business Improvement Areas, business advocacy groups, real estate market reports), as well as news sources. Data is gathered through online searches and in-person requests.

5.2.2. **Analysis of Vancouver Opendata Business Licence and Property Tax Records**

Using the City of Vancouver’s Opendata Business Licence records, an analysis of business licences from 2008-2018 was conducted for retail and restaurant businesses. Data was analyzed to elicit trends in the number of retail and restaurant
business licences with ‘issued’ status during each year of the 10 year time period. Findings from this analysis are discussed in section 3.1. of this report, and further information on methodology and results of this analysis can be found in Appendix 2 of this report. A similar preliminary analysis of Opendata property tax records was conducted, to identify trends in property tax increases along several Vancouver retail streets from 2014-2018. The findings of this analysis are discussed in section 3.2.4 of this report.

5.2.3. Case Studies

This study uses a case study analysis to examine the policy strategies to address ISB closure in two jurisdictions, San Francisco and New York. Several policy measures used in each city, including tax exemptions, development standards to promote more independent businesses moving into redeveloped space, and business assistance programs, will be examined for evidence of their effectiveness in supporting independent small businesses retention. The case study analysis is informed by published reports by government and non-profits, as well as information gleaned from expert interviews.

5.2.4. Expert/Stakeholder Interviews

17 expert and stakeholder interviews were conducted to help inform all aspects of this study. Interviews were semi-structured, allowing the researcher the freedom to ask relevant questions about the policy issue and options, while also allowing interview subjects to contribute new ideas to the conversation. Expert interview findings were used to define the extent and impacts of the policy problem, to evaluate the effectiveness of policy strategies taken in case-study jurisdictions, and finally to evaluate the policy options presented by this study for addressing the issue in Vancouver. The recommendations made by this report were informed by the interviews, however these recommendations do not necessarily reflect the views of interview participants. Interview participants are referred to by job affiliation throughout this report, so as to protect their personal details. Detailed interview questions and themes can be found in Appendix 3 of this report.

Interview Participants came from the following backgrounds:
1) City of Vancouver Staff

2) Representatives from 4 Vancouver Business Improvement Associations

3) Commercial property developers/managers in Vancouver

4) Local government representatives, small business experts, and urban policy researchers from case study jurisdictions

5) Representatives from independent business advocacy associations

6) Urban Designers and City Planners in Vancouver and Metro Vancouver

7) Tax experts/ tax agents in Vancouver
Chapter 6.

Case Study Analysis

6.1. Case Study Selection and Methodology

The case study analysis serves to identify local level policies which reinforce a strong independent business environment, both preserving existing independent businesses, and creating the conditions to support the establishment of new ones. The case study analysis further examines the strengths, weaknesses, effectiveness and unintended impacts of policies enacted in each city to support independent and local businesses, to better inform a discussion of policy options which could be successfully applied in Vancouver.

The case study analysis focuses on policies in two U.S. cities: New York and San Francisco. Like Vancouver, ISBs in both New York and San Francisco face the challenges of high property values, high cost of living, rapid gentrification, and geographic factors. Further, both cities have enacted local policies directly intended to support the preservation of independent small businesses. ISBs have strong political representation in both cities, with 76 Business Improvement Districts in New York, and 16 Community Benefit Districts in San Francisco being funded similarly to Vancouver’s BIA’s. Both city governments offer similar supports to their business communities (New York City Small Business Services, 2019; San Francisco Office of Economic and Workforce Development, 2018b). Strong small business advocacy networks have also helped support and advance policy change to support small business in both New York and San Francisco. While fundamental differences exist in terms of pressures on business and the general business climate in each city, the types of policies employed in each city to support the retention of ISBs are comparable and replicable in Vancouver. The case study discussion and evaluation uses publicly available data, such as government and independent reports, legislative documents, and news articles.

The case study analysis examines policies in each jurisdiction for their effectiveness at supporting independent business retention, as well as for costs and administrative complexity associated with implementing the policy. The analysis will be
used to highlight types of policies which could be applied or strengthened in the CoV to address the issue of small business displacement.

6.2. Case Study 1- New York

6.2.1. Overview

In recent years, a combination of factors, including high rents and property taxes, has led to rapid retail gentrification and small business displacement in New York (Kilgannon, 2018; Helmore, 2017). The number of chain stores in New York has rapidly increased, with 2018 being the first year in over ten years where the number of chain stores decreased (Center for an Urban Future, 2018). Vacancy rates have increased in numerous retail neighborhoods, reaching up to 20% in certain areas (Kilgannon, 2018). Further, in 2017, a reported 1,200 small businesses were closing every month in New York City (Loew, 2017). Challenges faced by ISBs in New York include availability of ground-floor retail, new developments which cater to larger retail tenants, and other challenges similar to Vancouver’s, such as high property taxes, rents and rapidly shifting demographics and business models (New York Urban Policy Researcher, personal communication, February 22 2019). The property tax burden between commercial and residential in New York is comparable to that of Vancouver: As of 2017, New York City’s commercial to homestead property tax ratio was 3.97, and the commercial to apartment property tax ratio was 4.80 (Lincoln Institute of Land Policy, 2018). Numerous polices and programs have been enacted in New York City to address various affordability pressures on ISBs, some applying citywide and some focused on particular boroughs or retail districts.

6.2.2. Property Tax Credits for Landlords – Commercial Revitalization Program and Commercial Rent Tax Special Reduction

Since 1995, New York City has used the Lower Manhattan Commercial Revitalization Program (CRP) to encourage investment in building improvements in older retail spaces, supporting local ISBs by expanding their options for affordable and appropriately-sized retail spaces (ILSR, 2016). This program, which requires landlords and tenants to apply together, offers property tax rebates of up to $2.50 per square foot to the landlord, which is then passed to the tenant (ILSR, 2016). Further, commercial
property owners in Central and South Manhattan who have tenants with an annual lease under $200,000 qualify for the Commercial Rent Tax (CRT) Special Reduction, which exempts them from paying New York City’s 3.9% tax on commercial rent (NYC Department of Finance, 2018). Like the CRP, this program is designed to alleviate some of the costs that are passed on to commercial tenants. The cost of the CRP in 2017 (in terms of foregone revenue by the city) was $24.7 million USD (NYC Independent Budget Office, 2017).

6.2.3. Zoning and Development to support Independent Small Businesses

New York City has taken efforts to regulate new developments so as to be more compatible with ISBs. These include zoning changes which limit storefronts to 40 feet along certain corridors, and specifically limiting bank storefronts to 25 feet. (ILSR, 2016; New York, 2012). One such policy enacted in the Upper West Side Enhanced Commercial District requires new buildings to have a minimum number of storefront establishments, or to build store units that do not exceed 2,000 square feet (New York City Planning, 2012). These policies are meant to limit the proliferation of chain stores and banks with large frontages, and create development that is more compatible with the needs of ISBs (ILSR, 2016; New York Planning, 2012). While development guidelines and regulations have been enacted in multiple neighborhoods across the city, there are calls from business advocacy groups for such policies to be expanded and enacted across the city (Brewer, 2015).

Another program, the Neighborhood Retail Preservation Program, is being piloted as part of the East New York Neighborhood Plan. The program requires mixed-use affordable housing developments that receive $2 million or more in subsidies (as part of the city’s 10 year housing plan) and that have more than 10,000 square feet of ground floor retail space, to reserve at least 20% of retail space for local retailers, and to set initial rents at 30% below market rates (LaVecchia, 2018). This type of policy directly addresses some of the challenges ISBs face of competing with chain tenants who are able to sign longer leases and afford higher rents.
6.2.4. Commercial Revitalization and Business Support Services

The East New York Neighborhood Plan also includes supports to ISBs through funding for commercial revitalization services, including business development workshops, street beautification, and shop local events. It also provides commercial lease-negotiation support for businesses (New York City, 2017).

6.3. Case Study 2 - San Francisco

6.3.1. Overview

San Francisco’s dramatic economic growth has been accompanied by rapid gentrification, putting numerous pressures on the city’s independent businesses. The city’s budget office estimated that between 1999 and 2013, commercial property values increased by 256 percent (Stephens, 2015). The city has seen average asking retail rents increase from $32.79 in 2010 to $43.89 in 2017 (Kidder Matthews, 2017). As a result of gentrification and rising rents, the number of businesses in several neighborhoods has dropped substantially (Zuk and Chapple, 2015; SF Office of Small Business Representative, personal communication, March 21 2019), and vacancy rates of up to 14% have been observed in certain retail areas (San Francisco Office of Economic and Workforce Development, 2018a). An increase in closures and relocations of established businesses has taken place, with business closures and location changes rising from 518 in 1992 to 3,657 in 2011, and 4,378 in 2014 (Stephens, 2015; San Francisco Board of Supervisors, 2014).

Since 2007, San Francisco has introduced several policies directly intended to support independent retailers and to preserve the character of the city’s historic retail neighborhoods. The city has introduced several tax exemption policies to retain local businesses. Other policies are targeted directly at independent business retention, such as a local ordinance restricting the number of formula or chain businesses, as well as the development of a legacy business program to offer targeted support and protections for culturally significant businesses.
6.3.2. **Tax Exemptions for Independent Businesses**

Several tax exemption policies exclusively for independent retailers exist in San Francisco. Citywide, independent retailers are exempted from the 0.4% Commercial Rents Tax, as well as from the Commercial Rent Tax for Childcare and Early Education, which applies a tax of 3.5% on rentals of commercial space in the city (PWC, 2018). Other tax exemptions have been created to target business retention in specific neighborhoods. In an effort to increase business retention in the Central Market and Tenderloin districts, in 2011 the city enacted a Payroll Tax Exclusion for businesses in these areas, exempting them from all payroll taxes above those in the base year of the program (2011). This exemption has been cited by the city as the ‘primary reason’ for the relatively greater growth of small businesses in the area compared to other areas. In 2013 there were 61 more businesses in the area, which was 32 more than would have been expected at growth rates experienced in similar neighborhoods that did not have the exemption (San Francisco Office of the Controller, 2014).

6.3.3. **Commercial Vacancy Tax**

San Francisco enacted a commercial vacancy tax in 2009, strengthening the tax in 2014 to apply to any vacant commercial storefront, even if other parts of the building are occupied. The ordinance requires owners of buildings with storefronts that are vacant for more than 270 days to pay an annual fee (ILSR, 2016). The ordinance has been criticized for being ineffective, with landlords reportedly charging only $700 annually for vacant storefronts (Vazquez. 2018).

6.3.4. **Formula Business Ordinance**

Since 2004, San Francisco has limited the number of formula or “chain” retailers and restaurants by requiring formula businesses to apply for a special use permit to locate in one of the city’s neighborhood commercial districts (ILSR, 2016). To approve such a permit, the city’s planning commission considers, on a case by case basis, how the business contributes to a set of factors such as the existing concentration of other formula businesses, the compatibility of the business with existing neighborhood character, retail vacancy rates in the area, whether similar goods are already available in the area, and the balance of neighborhood-serving versus citywide or regional serving.
businesses (SF Planning Department, 2014). While approximately 75% of applications are approved, (with 72 of 104 applications from 2004-2014 approved) the formula retail conditional use authorization allows the planning department discretion to reject applications on a case-by-case basis where it is clear the community is against the retailer moving in, or whether other criteria are not met by the retailer (SF Planning Department, 2014). As a direct result of the policy, the neighborhoods under the formula business ordinance have a larger share of independent businesses compared to most other large cities (ILSR, 2016). The formula retail ordinance creates disincentives for chain stores to locate within one of the neighborhood commercial districts, as the process takes between 6 to 12 months and can cost tens of thousands of dollars (SF Planning Department, 2014).

6.3.5. Legacy Business Historic Preservation Program

By 2014, record numbers of ISBs were closing in San Francisco as a result of rising rents (San Francisco Office of Small Business, 2019), leading the city to create the Legacy Business registry. In 2015, the city enacted the Legacy Business Historic Preservation Fund, which recognizes notable small businesses and incentivizes their preservation through grants to businesses and property owners (San Francisco Heritage, 2019). Businesses that qualify for the Legacy Business Registry need to have been in operation for at least 30 years, and must meet a set of criteria to demonstrate their contributions to the history or culture of the neighborhood. Grants are available to 300 businesses each year, which comes out of the city’s general revenue. Businesses are eligible for annual grants of $500 per full-time employee, up to $50,000. Additionally, under the Rent Stabilization Grant program, property owners who agree to 10-year leases with legacy business tenants are eligible for payments of $4.50 per square foot, up to $22,500 annually, with grants adjusted to inflation (SF Office of Small Business, 2019; ILSR, 2016). In 2016-2017, the first year of the program, $399,000 was awarded to 51 businesses. The average amount awarded was $7,824, with 74% of businesses proposing to use the funds for rent or tenant improvements (City of Seattle, 2017). In 2017-2018, 72 of 111 eligible businesses were awarded grants, for a total of $625,000 of funding. The Legacy Business Historic Preservation Fund has approximately 3 staff members and is funded through the city’s general revenues, which currently contributes
a maximum of $1 million to the two grant programs annually (SF Office of Small Business Representative, personal communication, March 21 2019).

6.3.6. Business Assistance and Commercial Revitalization

The City of San Francisco has created a Small Business Assistance Centre within the Office of Small Business, operated by approximately 4 staff, which provides support with business registration requirements, permitting and licencing, legal resources for entrepreneurs, small business loans, business development classes and workshops, lease negotiation assistance, and more (SF Office of Small Business Representative, personal communication, March 21 2019). The Office of Small Business also maintains the San Francisco Business Portal, an online tool to support local entrepreneurs in starting, managing, and growing their business, and provides some of the services of the Small Business Assistance Centre (City and County of San Francisco, 2019).

6.4. Case Study Key Findings

The following table gives a summary of municipal and neighborhood level policies in Vancouver and the case-study jurisdictions which were discussed. This table is for summary and comparison, and is not intended as an evaluation of policies or overall strategy in each city.

<table>
<thead>
<tr>
<th>Policy Measure</th>
<th>Vancouver</th>
<th>New York</th>
<th>San Francisco</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Tax/Rent Tax Exemptions for ISBs</td>
<td>Limited (~12 developments in Vancouver use RTE)</td>
<td>CRP- rebate of up to $2.50 per square foot</td>
<td>CRT and Education Rent Tax- 3.9% of lease value</td>
</tr>
<tr>
<td></td>
<td></td>
<td>CRT- 3.9% of lease value</td>
<td>Tenderloin Payroll Tax Exemption- exempt from all taxes above 2011 levels</td>
</tr>
<tr>
<td>New Development</td>
<td>Limited- guidelines promote smaller storefronts</td>
<td>UWS- storefronts limited to 40 feet (banks to 25 feet)</td>
<td>Restrictive- Formula Businesses need special use permit</td>
</tr>
<tr>
<td>Restrictions and Requirements</td>
<td>East New York - 20% of space reserved for local retailers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>--------------------------------</td>
<td>----------------------------------------------------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct Financial Support to ISBs</td>
<td>No</td>
<td>No</td>
<td>Legacy Business Historic Preservation Program - total funding of $1 million, average grant of $7,824</td>
</tr>
<tr>
<td>Commercial Revitalization and Support Services for ISBs</td>
<td>Strong BIAs</td>
<td>Strong BIAs</td>
<td>Strong BIAs</td>
</tr>
<tr>
<td></td>
<td>Commercial Renovation Centre - supports businesses in permitting and licencing</td>
<td>Business support workshops, lease negotiation assistance, street beautification</td>
<td>Small Business Assistance Center - workshops, training, support with permitting and licencing</td>
</tr>
</tbody>
</table>

The numerous policies employed in both case study jurisdictions emphasizes that a multi-pronged approach is effective in addressing issues of ISB displacement. Both New York and San Francisco support ISBs through some form of tax exemption, while also employing other policies such as neighborhood or district ordinances, incentives and design standards for new developments, and direct support for ISBs through financial compensation or business assistance programs. In both cities, targeted policies have been developed to address the unique context of and conditions which contribute to ISB displacement. For example, in New York, development standards were created to restrict the proliferation of national bank chains, while San Francisco has enacted several policies to limit chain stores, as well as to address the disappearance of culturally valuable businesses.

While programs promoting property tax credits for landlords have been cited as effective in supporting ISBs (ILSR, 2016; NYC Urban Policy Researcher, personal communication, February 22, 2019), their measured effectiveness in the case study jurisdiction of New York is limited. The Commercial Revitalization Program (CRP) and the Commercial Rent Tax (CRT) Special reduction, have both been shown to have limited effect on reducing vacancy rates, and on improving local employment (NYC Independent Budget Office, 2017). Further, participation rates in the program were
relatively low, with an estimated 22% of eligible properties participating in the CRP rebates. (NYC Independent Budget Office, 2017). Moreover, it is important that the thresholds for eligibility for tax exemption programs are properly set. For example, in New York, business advocacy groups have argued that the exemptions threshold on the Commercial Rent Tax Special Reduction is too low and should be raised to allow more businesses to qualify for the reduction (Brewer, 2015).

Targeted policies intended to restrict chain stores and provide direct support to ISBs, such as a Legacy Business Program, can be very effective in preserving independent businesses (SF Small Business Advocate, personal communication, March 6 2019). However, as more businesses become eligible for funding under the grant programs, grants to each business become smaller, and therefore are less effective (SF Office of Small Business Representative, personal communication, March 21 2019). Concerns exist over the long-term sustainability of the Legacy Business Historic Preservation Fund, which is currently funded by the City’s general revenues. Policies such as San Francisco’s Formula Business Ordinance are seen as very effective in terms of limiting chains and supporting ISBs. However, they run the risk of reducing the level of service provided to community residents, as has been seen in some neighborhoods where boutique retail shops have displaced businesses which provided basic services such as groceries and other amenities (Horgan, 2017). Another risk of such a policy is that chain stores are sometimes best suited for a property, and can bring additional benefits to surrounding businesses such as increased foot traffic to a retail street (Li, 2018: BIA Representative #4, personal communication, January 29 2019). Proper policy design must therefore take into account the need for flexibility and adaptability to the unique needs of each case.

Development standards and restrictions can be very effective in promoting smaller retail spaces and limiting the proliferation of chain stores (NYC Urban Policy Researcher, personal communication, February 22, 2019; ILSR, 2016). Small business advocates in New York City have argued that while tenant protections and lease renewal negotiation reform are important, development standards to ensure that development is compatible with small businesses is the most powerful tool for local governments to use in supporting independent businesses (O’Connor, 2016). Targeted policies intended to restrict chain stores and provide direct support to independent businesses, such as a Legacy Business Program, can be very effective in protecting properties from
redevelopment and in supporting independent businesses (SF Small Business Advocate, March 6 2019). However, greater complexity in local policies and permitting processes are criticized for contributing to administrative burdens, both for businesses and local government (Office of Economic and Workforce Development, 2018).

A final strategy that is effective in promoting the retention of ISBs in both case study jurisdictions is the provision of small business assistance services (SF Office of Small Business Representative, personal communication, March 21 2019; NYC Urban Policy Researcher, personal communication, February 22, 2019), including but not limited to services such as: assistance for ISBs in the permitting and licencing process, lease renegotiation assistance, business development/marketing workshops, and assistance with physical renovations and signage.
Chapter 7.

Policy Options Targeted towards Independent Business Retention

The analysis of existing literature, data, and interview findings of this study yield several policy options which could be pursued by the CoV to better preserve ISBs in Vancouver. This report discusses and evaluates these three options against several criteria.

7.1. Strengthen Zoning and Development Requirements

As evidenced by research in Vancouver and other cities, ISBs face numerous barriers in securing retail space and surviving in newly developed commercial properties (Regan, 2017; ILSR, 2016). This suggests that changes to development guidelines and regulations can be part of an effective solution to independent business displacement. While zoning guidelines in most of Vancouver’s retail districts promote smaller retail spaces, these guidelines also allow anchor stores to have wider frontages, and as such do not consistently lead to the development of retail spaces that are compatible with ISBs (Urban Designer #2, personal communication, February 21 2019).

Interview participants suggested multiple changes to Vancouver’s commercial zoning and development standards which could better support ISBs. One such suggestion was for development requirements to limit the size of ground floor retail units and mandate smaller storefronts (City of Vancouver Planner, personal interview, January 28 2019). For example, storefront widths that are limited to a maximum of 12, 25, or even 50 feet are conducive to smaller retailers and promote greater pedestrian traffic (Urban Designer #1, personal communication, February 19 2019). Another suggestion was for the COV to limit land assembly and property redevelopment on arterial streets and neighborhood retail streets in Vancouver, which would better preserve existing retail streetscapes or allow developments with smaller ground floor retail units (City of Vancouver Planner, personal communication, January 28 2019; Urban Designer #2, personal communication, February 21 2019). As previously stated, a final necessary change to zoning guidelines would be to create specificity of allowable
residential and commercial development, to allow for fairer, lower taxation of many commercial properties in Vancouver.

7.2. Municipal Revitalization Tax Exemption (RTE)

The BC Community Charter and the Vancouver Charter give municipalities the authority to give property tax exemptions where they see fit. Through the creation of a bylaw, a municipality can exempt specific properties from paying all or part of their municipal property value tax, for a period of up to ten years (Ministry of Community Services, 2008). The use of Revitalization Tax Exemption (RTE) zones is usually intended to attract increased business investment in designated areas, but the policy could be used to support existing independent businesses in certain retail districts by reducing the pressures of high commercial property taxation in these districts. RTE zones could be introduced in Vancouver in areas where changes in land-use planning, such as those under a community plan, have caused dramatic increases in commercial property values, to mitigate the negative impacts of these changes on the local business community.

To implement this option, the CoV would need to establish a revitalization program with a defined rationale and objectives, the types of eligible properties, exemption amounts and formulas, and the areas where the bylaw would apply (Ministry of Community Services, 2008). The city would need to estimate the impacts that different levels of tax exemption would have on the exempted businesses, and the rest of the tax base which would be absorbing the lost revenue from exempted properties. The policy would need to include measures to ensure that the tax exemption is demonstrably passed on to commercial tenants. For commercial properties housing multiple businesses, or for properties housing both ISBs and chain businesses, the policy would require similar measures to ensure that relief went to ISBs in need.

As the CoV can set criteria for eligibility for tax exemption, the policy could be formulated to offer greater exemptions for properties which can demonstrate they are home to a historic or culturally valuable business, or businesses which can demonstrate a greater need for support (for example, properties where the assessment value has increased at a rate far greater than other exempted properties, or properties housing an independent business). Finally, an RTE could include clauses to incentivize landlords to
offer and maintain longer leases with tenants, which would further support the viability of ISBs. Proper design of an RTE policy be effective in offering tax relief to ISBs at risk of displacement or closure. Disadvantages of a poorly designed and implemented RTE include the possibility that the policy protects poorly run firms from competition, arbitrarily picks winners and losers, and creates barriers to entry for new firms located outside of an RTE zone.

RTE zones have been used in several Vancouver development projects in the past, usually in an area where a heritage revitalization exemption could be granted (City of Vancouver Planner, personal communication, January 28 2019). Revitalization exemptions have been used before in the Lower Mainland to protect existing businesses: An RTE zone was enacted in Richmond in 2011 to protect local businesses in the rezoned City Centre area from rapidly increasing property taxes (City of Richmond, 2011). Properties where the assessed value increased by 100% or more since 2010, or where the tax bill had increased by more than $30,000 since 2005, were eligible for exemption from 20% of their municipal property taxes until 2015 (City of Richmond, 2011). The exemption benefitted 248 businesses on 37 properties in 2012, with approximately $914,000 in taxes exempted, and average of $3,685 per exempted business (City of Richmond, 2012).

A proposed Small Business Revitalization Tax Exemption Program would target ISBs on one or more of Vancouver’s retail streets, where average commercial property values have increased at high rates (for example, West Broadway, West 4th Ave, Hastings-Sunrise, Main Street). The policy would grant ISBs who have experienced tax bill increases of $30,000 or more over the past five years, an exemption of 20% of their municipal tax bill. To be granted an exemption certificate, properties located in a revitalization zone would have to demonstrate: The property houses an Independent Small Business; The same tenant (the ISB) has been located on the property during the past five years; the property has experienced a tax bill increase of $30,000 or more in the past five years; the cost savings from the tax exemption will be passed to the tenant. The Small Business Revitalization Tax Exemption Program could include additional provisions to give additional tax relief to property owners who can demonstrate they have signed longer leases with ISBS (e.g. 10 years), or who have housed the same business on their property for 10 years or longer. Using a preliminary analysis of CoV Property Tax Opendata, an estimated 15 (of approximately 200) retail properties on
Main Street, 6 (of approximately 90) properties in Hastings-Sunrise, and 80 properties (of approximately 260) along West Broadway, have experienced property tax increases of $30,000 or more between 2014 and 2018. These properties could be eligible for the exemption, provided they met the other criteria.

7.3. Create a Small Business Assistance Office

Municipalities in BC, including Vancouver, are limited in the amount of direct support they can offer to businesses, as the BC Community Charter and Vancouver Charter do not confer grant giving powers from municipalities to businesses (Bula, 2017). This policy option may therefore be a way for the city to directly offer non-financial support to independent businesses with demonstrated needs. A Small Business Assistance Office could serve as a platform to strengthen existing CoV programs which offer support to independent small businesses, such as the recently established Commercial Renovation Centre, which assists new or recently-relocated businesses by expediting the permitting and licencing processes related to meeting municipal codes; and the small business reference service, an online service to connect local businesses with business development resources (CoV, 2019b).

A Small Business Assistance Office could help businesses respond to some of the major challenges created by shifting trends in retail create numerous challenges for ISBs. In order to stay competitive, independent retailers need to incorporate tools and concepts such as mobile pay and analytics, experiential retail, e-commerce, and responding to changing demographics and shopping habits (BDO, 2018). A properly funded Small Business Assistance Office can offer meaningful assistance to ISBs in the form of business development workshops, assistance in building an online presence, direct support for modernizing signage and physical renovation, and assistance with lease negotiation.

This option is put forward as a policy option for the CoV to consider, as it was elicited from the literature, interviews, and case study analysis that many of the major challenges to ISBs are related to changing trends, and that such a program could be effective in helping local businesses adapt to these changes (CoV Staff, personal communication, January 19 2019; BIA Representative #4, personal communication, January 29 2019).
Chapter 8.

Policy Objectives, Criteria, Measures

The policy options will be evaluated against a set of five considerations. These considerations are grouped into societal objectives and governmental objectives. The key objective of the policy intervention is its effectiveness in preventing displacement of ISBs. Effectiveness is measured in two ways, in order to show that some policies are more effective over the short or long term, and to reflect that effectiveness is the primary objective of the policy. Equity is a further societal objective, as it is important to consider that the policy may have diverse impacts on different groups, and may benefit some more than others. The governmental objectives are cost, ease of implementation, and stakeholder acceptance, to take into account the fiscal, administrative, and political impacts of the policy options. Policy options are considered for how well they meet each of the societal and governmental objectives, and then given a score of low, medium, or high for that objective. The total score for each policy option informs the policy recommendation that is made.

8.1. Societal Objectives

8.1.1. Effectiveness

Effectiveness is the primary objective of the policy. Effectiveness is measured by how well the policy reduces ISB displacement in Vancouver neighborhoods. To reflect the importance of effectiveness as the primary objective of the policy, and as well to take into account that some policy options may be more immediately effective, whereas some are more effective in the long term, the objective is broken into two measures: Effectiveness in the short term (less than 2 years) and effectiveness in the long term (2-10 years).

8.1.2. Equity

The second societal objective is equity, which considers policy options for how well they are able to offer support to all ISBs with demonstrated need. If the policy option
is able to offer support to most or all ISBs with a demonstrated need, it receives a high score (3). If a policy is able to offer support to some ISBs, but not others, it receives a medium score (2). If a policy only offers support to a few independent businesses and excludes many businesses with a demonstrated need, it receives a low score of 1.

8.2. Governmental Objectives

8.2.1. Cost

Cost is the third criteria that is considered, defined as the annual cost of the policy to the CoV and the Province of B.C. The cost of the policy includes any direct costs from either level of government for providing the program, as well as costs of the option if it leads to foregone tax revenue. Options are ranked for cost relative to the other policy options, rather than being given a score based on a specific cost. Options are given a high score (3) if the cost to government of the option is low, a medium score (2) if there is a moderate cost to government, and a low score if the cost to government is high, compared to other options.

8.2.2. Ease of Implementation

Ease of implementation measures the ease with which government can enact, implement and administer the policy. This is to take into account the legislative and administrative burden that may accompany some policy options. Options are given a high score of 3 if there is limited additional administrative or legislative burden required to implement the policy. Options are given a medium score (2) if there is some additional administrative or legislative burden required to implement the policy. Options are given a low score (1) if there is much more additional administrative or legislative burden required to implement the policy.

8.2.3. Stakeholder Acceptance

The final criteria on which policy options are considered is stakeholder acceptance, which estimates how acceptable the policy option will be for four stakeholder groups: Vancouver’s independent business community; Formula/chain retailers in Vancouver, commercial property developers, and residential property
owners. The public is not considered a stakeholder group in this analysis, as their concerns and acceptability of a policy would largely be captured by the acceptance of residential property owners. Options are given a score of 3 if there is high acceptability among stakeholder groups, a score of 2 if there is moderate acceptability among stakeholder groups, and a score of 1 if there is low acceptability among stakeholder groups.

8.3. Criteria and Measures Table

Table 4. Criteria and Measures Table

<table>
<thead>
<tr>
<th>Objective</th>
<th>Definition</th>
<th>Measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effectiveness (short-term)</td>
<td>Ability of the policy to lead to a reduced number of businesses closing in a neighborhood in the short term.</td>
<td>High- The number of businesses closing is greatly reduced</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Medium – The number of businesses closing is moderately reduced</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Low – The number of businesses closing is relatively unchanged</td>
</tr>
<tr>
<td>Effectiveness (long-term)</td>
<td>Ability of the policy to lead to a net increase in the retention of independent small businesses in Vancouver’s retail neighborhoods</td>
<td>High- the number of independent small businesses retained in a neighborhood is greatly increased over the long-term</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Medium- the number of independent small businesses retained in a neighborhood is somewhat increased over the long-term</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Low- the number of independent small businesses retained in a neighborhood is relatively unchanged, or continues to decline over the long-term.</td>
</tr>
<tr>
<td>Equity</td>
<td>Ability of the policy to support independent small businesses with demonstrated need</td>
<td>High- Most or all businesses with demonstrated financial need or demonstrated value in preserving are supported by the policy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Medium- Some businesses with demonstrated financial need or demonstrated value in preserving do not receive support from the policy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Low – Many businesses with demonstrated financial need or demonstrated value in preserving do not receive support</td>
</tr>
<tr>
<td>Cost</td>
<td>Annual cost of the policy to Provincial and Local Government</td>
<td>High (Low Cost relative to other options)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Medium (Moderate cost relative to other options)</td>
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<td></td>
<td></td>
<td>Low (High cost relative to other options)</td>
</tr>
<tr>
<td>Objective</td>
<td>Definition</td>
<td>Measure</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>---------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Ease of Implementation</td>
<td>Additional administrative/legislative burden to implement the policy</td>
<td>High- Limited additional administrative or legislative burden required to implement the policy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Medium- Some additional administrative or legislative burden required to implement the policy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Low- Much more additional administrative or legislative burden required to implement the policy</td>
</tr>
<tr>
<td>Stakeholder Acceptance</td>
<td>Acceptability of Policy to Independent Business Community</td>
<td>High- Stakeholder groups are very supportive of policy</td>
</tr>
<tr>
<td></td>
<td>Acceptability of Policy to Formula/Chain retailers</td>
<td>Medium- Stakeholder groups are somewhat supportive of policy</td>
</tr>
<tr>
<td></td>
<td>Acceptability of Policy to Property Developers</td>
<td>Low- Stakeholder groups are not supportive of policy</td>
</tr>
<tr>
<td></td>
<td>Acceptability of Policy to Local Residents</td>
<td></td>
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</tbody>
</table>
Chapter 9.

Evaluation of Policy Options

9.1. Strengthen Zoning and Development Requirements to better support Independent Small Businesses

Effectiveness (short term)

Strengthening Zoning and Development Standards would be relatively ineffective at contributing to the retention of ISBs in the short term, as small retail-compatible spaces would only be ensured in newly redeveloped properties as they are completed. New development standards would not apply to developments currently under construction, or those which have already been issued a permit, so this option would have a low level of effectiveness in the short term.

Effectiveness (long term)

Incentivizing the creation of ground floor retail spaces that better support ISBs would be effective in the long-term in supporting their retention, as it would lead to the creation of spaces that are more compatible for small businesses, and reduce overhead costs to businesses who can gain access to smaller, inexpensive retail spaces. Greater availability of smaller spaces may also lead to lower average rents in the long term. However, it was noted by one interview participant that even if new developments create spaces that are compatible with smaller retailers, high rents and taxes may dissuade ISBs from moving into these spaces, and as well that a market may not always exist to be able to support ground-floor retail. Recent developments along Kingsway are an example of this, where many developments have smaller ground-floor retail units that remain vacant after development (Property Tax Expert #1, personal communication, February 7 2019). Further, this option does not address property tax pressures which would exist in redeveloped spaces. This option receives a medium ranking for long-term effectiveness, as it will moderately contribute to the retention of ISBs in Vancouver’s retail neighborhoods.

Equity
New development requirements, if able to create more affordable ground floor retail units and promote pedestrian traffic in a neighborhood, would bring benefits to ISBs in a neighborhood. Restrictions around maximum floor space and store width could have negative impacts on some ISBs who require larger retail units. This option would only bring benefits to ISBs when property is redeveloped, and does not benefit other ISBs. It is therefore ranked medium for equity.

Cost

While a change in development requirements could create challenges for developers and others in the form of increased costs, this option brings minimal additional costs to local or provincial government. However, restrictions on development standards could limit the land lift (the increase in land value) that results from a rezoning. This would lead to reduced Community Amenity Contribution (CAC) revenue for the City. This potential implicit cost imposed on the city in the form of lost revenue gives this option a medium ranking.

Ease of Implementation

New development requirements would require current development guideline bylaws to be amended, placing an additional burden on the city’s planning department and council to enact the requirements. However, once enacted, the additional requirements would lead to minimal additional administrative burden to local government. This option therefore ranks as medium.

Stakeholder Acceptance

Overall, this policy would likely be supported by ISBs and residential property owners, but opposed by formula/chain retailers and property development companies. This option is therefore given a ranking of medium for stakeholder acceptance.

Independent Businesses

The policy would likely be strongly supported by ISBs, as requirements to build smaller retail spaces would lead to more of these spaces being available, making it easier for ISBs to acquire these spaces, and potentially resulting in more manageable rents.
Formula/Chain Retailers

Formula retail and larger chain businesses would likely oppose the policy, as it would lead to fewer new spaces that are compatible with larger businesses.

Property Developers

The policy would likely be opposed by property developers, as additional changes to development standards would upset the status quo, add uncertainty in the short-term, and potentially add additional burdens to planning and construction practices.

Residential Property Owners

If the policy is successful in allowing more ISBs to be viable in a neighborhood, residential property owners, who value these businesses, would be supportive of the policy.

9.2. Municipal Revitalization Tax Exemption (RTE)

Effectiveness

Several considerations are important for determining the size and scope of an RTEs. When deciding on the size and exemption amount of RTEs the city would likely face a tradeoff of having larger RTEs with a lower exemption amount, or smaller RTEs that allow greater exemptions. Larger RTEs would allow more businesses to be supported, but may be less effective as each business would receive a lower exemption. Smaller, more concentrated RTE zones would allow for greater exemptions, and be more effective, yet they would exempt fewer ISBs from paying taxes.

Effectiveness (Short term)

Enacting municipal revitalization tax exemption zones in retail districts throughout Vancouver would immediately increase the retention of ISBs on properties eligible for exemption. By exempting properties from some taxation, this policy would bring immediate tax relief to ISBs who are responsible for property tax payments, and it is likely that far fewer businesses will go out of business. In the City of Richmond’s use of
an RTE in an area with rapidly rising land values and property taxes, businesses under the 20% exemption saved an average of $4300 in the first year of the policy. This option receives a high rating for short-term effectiveness.

**Effectiveness (Long-term)**

Assuming the RTE is continued over the long-term, this option would likely continue to be highly effective at supporting ISB retention in the long term. It therefore ranks as high for long-term effectiveness. By law, an RTE can exist for a maximum of 10 years, and to continue to support businesses on underdeveloped properties facing high tax loads, the RTE would need to be re-implemented.

**Equity**

The introduction of RTE zones into Vancouver retail neighborhoods will have large equity impacts. ISBs located in areas of the city that are not eligible, or properties that are not eligible for the RTE would not be able to benefit from the policy, and the boundaries of a particular exemption zone may exclude some ISBs that have a demonstrated need for assistance. According to one interview participant, RTEs need to be limited in order to be effective, as well as to be feasible for government to administer (Urban Designer #2, personal communication, February 21 2019). Decisions about creating broader RTEs where the exemption is more diluted, vs. smaller RTEs which allow for greater exemptions, will impact the equitability of the policy. Broader RTEs would be more equitable, as more businesses with demonstrated need could benefit from the policy, at the expense of effectiveness.

A further equity issue is the extent to which the reduction in COV property tax revenue due to the RTE is offset by a tax increase elsewhere. The revenue lost through the exemption would likely be absorbed by an increase in tax rates on other commercial properties, or on another property class, in order to make up for this lost revenue (Property Tax Expert #1, personal communication, February 7 2019).

A strong equity benefit of the RTE policy is that through its ability to set geographic boundaries of RTE zones and specific criteria for commercial properties to receive exemptions, the COV can give financial relief to many ISBs who have a demonstrated need for support. This option receives a medium score for equity.
Cost

The introduction of RTE zones throughout Vancouver to offer financial relief to ISBs would likely require other commercial properties outside of an RTE to bear the burden of this tax shift. The city would therefore not be foregoing any commercial property tax revenue, instead shifting it to other properties. The policy would therefore be of minimal cost to the City of Vancouver, giving this option a high ranking.

Ease of Implementation

The program is legislatively straightforward to enact, as the Vancouver Charter gives City Council the power to enact RTEs where there is justification. However, its design and implementation would impose a large burden on the city (Hamilton et. al, 2014), as the COV would likely need to process applications and exemptions from specific properties for relief under the program. Further, the municipality may need to make agreements with property owners around meeting certain conditions or requirements for the exemption, such as those that guarantee that tax relief will be passed on to businesses. Finally, RTEs can be granted for a maximum of 10 years, and would likely be granted for a much shorter period, requiring ongoing renewal by the COV, which would create additional administrative burden. This options ranks low for ease of implementation.

Stakeholder Acceptance

This policy is likely to be largely supported by ISBs and residential property owners, but is likely to receive strong opposition from formula/chain retailers and property developers, as well as from any ISBs who are not eligible for tax relief under the program. It therefore ranks as low.

Independent Businesses

RTEs have the potential to substantially reduce the tax pressures facing ISBs. Businesses that would be eligible to receive tax exemptions would be very supportive of the policy. From personal interviews, it was found that the use of RTEs was supported by representatives of numerous BIA’s. However, even an RTE policy with well-designed exemption zones and criteria would likely exclude some businesses in need from exemption. These businesses may be opposed to the policy.
**Formula/Chain Retailers**

Formula and Chain retailers would likely be excluded from receiving exemptions, as the policy would require properties receiving exemptions to direct those exemptions towards independent small retailers. Formula and Chain Retailers would therefore likely be highly opposed to the policy.

**Property Developers**

The introduction of this policy may reduce development pressures on commercial properties under the RTE. Some property developers would likely be opposed to the policy, as it would reduce development pressures on properties under the RTE.

**Residential Property Owners**

Residential property owners would likely be supportive of this policy, assuming it does not induce a tax shift that would increase residential property taxes. If the policy is successful in retaining greater numbers of ISBs, this group would be highly supportive of it.

**9.3. Small Business Assistance Office**

**Effectiveness**

This option, if implemented and funded properly, could be effective in helping ISBs respond to some of the biggest challenges they face, such as changing consumer trends, marketing, and the slow city permitting process. It was found in the literature, the case study analysis, and was suggested by several interview participants that such programs can be effective in supporting ISBs, and particularly for supporting new businesses. (CoV Staff, personal communication, January 19 2019; BIA Representative #4, personal communication, January 29 2019).

**Effectiveness (short term)**

The services provided by a Small Business Assistance Office could be immediately accessed by ISBs, and would therefore be moderately effective in the short-term. Particularly, lease renegotiation assistance, permitting and licencing support, and
business development resources and training, could be immediately effective in helping businesses remain competitive. This option ranks as medium for short-term effectiveness.

Effectiveness (long term)

A well-funded Small Business Assistance Office accessible by all ISBs in Vancouver, would continue to offer various forms of support to local businesses, and help them remain competitive and viable. However, this option does nothing to address tax and rent pressures, and therefore ranks low for long-term effectiveness.

Equity

A Small Business Assistance Office would be able to offer assistance to businesses with demonstrated need. As the supports offered would be on a case-by-case basis, the Small Business Assistance Office could determine what level of support to give to businesses, depending on their need. Provision of services would not have any equity impacts on businesses who do not opt for assistance. This option ranks as high for equity.

Cost

Of the three options considered, a Small Business Assistance Office is the option that is likely to incur the highest direct costs to the CoV. In order to be effective in meeting the needs of ISBs, and to offer meaningful support in marketing, training, lease negotiation, and assisting with expediting permitting and licencing processes, a dedicated team of staff would be needed. The SF Office of Small Business operates a Small Business Assistance Centre with a staff of four. Using this as a reference, a Small Business Assistance Office in Vancouver with comparable capacity to support small businesses is estimated to have an annual cost of under $400,000, including staffing and operation costs. This option therefore ranks as low (high cost).

Ease of Implementation

Legislatively, this option should be easy to enact, as similar supports and programs are already offered by the CoV. On a program delivery level, implementing this option would require some planning and approval from within local government. The
specific support programs provided by the office, as well as the level and duration of support, and the criteria for which businesses would be eligible for such support, would need to be determined and approved. Further, outside staff and resources would need to be coordinated, and the program would have to be appropriately communicated or advertised to ISBs. This option therefore ranks as medium for ease of implementation.

Stakeholder Acceptance

Overall, stakeholder groups are likely to be very accepting of this policy. It therefore receives a ranking of high.

Independent Businesses

Independent businesses are likely to strongly support the creation of a Small Business Assistance Office, which would directly address some of the biggest challenges these businesses face.

Formula/Chain Retailers

Formula and Chain Retailers, while being excluded from support by the Small Business Assistance Office, are not likely to strongly oppose this policy.

Property Developers

Property Developers are not likely to oppose this policy, as it would not have any implications for property development processes.

Residential Property Owners

Residential property owners are not likely to oppose this policy, as residents support a vibrant independent business community. There may be some opposition from residential property owners, if they believe funding for a Small Business Assistance Office could be used towards the provision of other city services.
### 9.4. Evaluation Criteria and Measures Table

**Figure 6:** Evaluation Criteria and Measures Table

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Strengthen Zoning and Development Requirements</th>
<th>Municipal Revitalization Tax Exemption</th>
<th>Small Business Assistance Office</th>
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<td>Effectiveness (short-term)</td>
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<td>High (3)</td>
<td>Med (2)</td>
</tr>
<tr>
<td>Effectiveness (long-term)</td>
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<td>High (3)</td>
<td>Low (1)</td>
</tr>
<tr>
<td>Equity</td>
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<td>Med (2)</td>
<td>high (3)</td>
</tr>
<tr>
<td>Cost (low cost=high score)</td>
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<td>Med (2)</td>
<td>low (1)</td>
</tr>
<tr>
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<td>Low (1)</td>
<td>Med (2)</td>
</tr>
<tr>
<td>Stakeholder Acceptance</td>
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<td>Low (1)</td>
<td>High (3)</td>
</tr>
<tr>
<td>Total</td>
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</tbody>
</table>
Chapter 10.

Recommendations

This report recommends that in the short term, the city implement both options 2 and 3, by establishing a Small Business Assistance Office and implementing a Municipal Revitalization Tax Exemption program in several of the city’s retail neighborhoods.

A sufficiently funded and staffed Small Business Assistance Office will offer immediate support to ISBs in Vancouver and can offer a suite of services to increase their viability. Services such as lease negotiation assistance, support with permitting and licensing processes, and business development training have been effective in increasing the viability of ISBs in other cities, and could be quickly implemented and accessed by ISBs in Vancouver. While this option may be limited in the level of support it can offer for ISBs struggling with high taxes, the option is recommended based on its high scores for ease of implementation, equity, and stakeholder acceptance.

The enactment of a Municipal Revitalization Tax Exemption (RTE) bylaw in several retail neighborhoods will offer immediate relief to local businesses who are at risk of displacement due to tax pressures. In areas where land-use planning changes have occurred, an RTE can mitigate the negative tax impacts of the change on ISBs. This option may be an effective strategy to alleviate increasing tax pressures on the Broadway corridor, as property values rise in anticipation of transit infrastructure and land-use changes in the area. Although RTEs have been used in Vancouver and other BC municipalities before, creating an RTE program of this scale comes with large administrative complexity considerations, and may be opposed by some independent businesses and others who are excluded from exemption. The option comes with little financial cost to government, but the reduction in tax revenue from all properties under the revitalization exemption would require the tax burden to be absorbed by other commercial properties not exempted under the RTE. The equity considerations associated with this would need to be examined and addressed by the CoV.

Option 1, strengthening development standards to better support small businesses, is recommended as a longer term option for the CoV to consider. Strengthening zoning and development guidelines and standards will ensure that as high
levels of property redevelopment continue to occur in Vancouver, the stock of retail spaces that are compatible and affordable for ISBs will not diminish.
Chapter 11.

Additional considerations for the CoV: Property Taxation Rates and Changes to Specificity in Zoning Guidelines

This section discusses several changes to commercial property taxation practices, and changes to the Commercial Tenancy Act, which could be considered by the CoV and the Province of BC. This report discusses these options here, but does not include them in the policy analysis section of this study for several reasons: First, changes to existing zoning guidelines to create specificity for residential and commercial development potential, as well as changes to the commercial tax rate, would result in lower tax assessments on many commercial properties, and necessitate redistributions of the tax burden onto different groups, the impacts of which this study is not equipped to analyze. Policies such as Tax Deferment, and Split Tax Bills (requiring landlords to pay tax bills for taxes on undeveloped density), would also create substantial changes in revenue, and would likely have other unintended effects, which this study is not equipped to analyze.

11.1. Creating Specificity in Zoning Guidelines

Creating specificity of allowable residential and commercial development on a property would allow for split-classification (split class) property assessments to be used, and would result in lower, fairer taxation for many Vancouver ISBs. The CoV could facilitate the use of split class assessments on properties used for retail and small business by amending zoning guidelines and creating specificity of use for community retail zoning categories (including C2, C2C, C2C1 and C3A areas) (Property Tax Agent #1, personal communication, March 8 2019). This would allow the development potential of these properties to be more fairly taxed, and would result in lower taxes which would improve survival rates for independent small businesses located on these properties. According to one interview participant, these amendments to Vancouver’s zoning guidelines would be straightforward for the CoV to make. As discussed, the use of split-class assessments would allow development potential that is likely to be residential, to be taxed at the residential rate, resulting in tax assessments that are much lower.
While greater ability to use split class assessments will significantly reduce the tax burden for some ISBs, it does not fully address or resolve the disproportionate impacts of property taxation on independent businesses (BIA Representative #1, personal communication, January 14, 2019). Greater use of split class assessments has been called for by independent tax policy commissions as well as numerous stakeholder groups in Vancouver (Hamilton et.al, 2014; BIA Representative #1, personal communication, January 14, 2019; CoV, 2018). In 2018, the CoV formally asked the BC government to enact these changes, a request which was supported by Metro Vancouver and the Union of BC municipalities (CoV, 2019b). While introducing the use of split classification assessments to community retail zoning categories has no direct costs to the CoV, but would result in a substantial loss of tax revenue from these property types, requiring other commercial properties to pay higher tax bills. In 2018, there were approximately 2500 C2, C2C, C2C1 and C3A-zoned properties in Vancouver, out of a total of approximately 7400 commercial and industrial properties. Introducing the use of split-class assessments for these 2500 community-retail zoned properties could result in a substantial tax shift, which would be taken up by other commercial and industrial-zoned properties. This potential equity concern needs to be considered.

11.2. Five Year Targeted Land Averaging

Targeted Land averaging allows properties which increase greatly in assessed value to shift a portion of the increased property tax payment to later years, reducing the severity of the increase in the first year. In 2017, commercial properties in Vancouver whose assessed value increases by greater than 40.2% were eligible for 3 year Targeted Land Averaging (CoV, 2017a). In 2019, legislation allows for a shift in the land averaging formula to up to 5 years to be considered (CoV, 2017a). A longer averaging time would help further mitigate some of the negative impacts associated with the burden of increased property taxes, by further dispersing the burden over the 5 year period. Implementation of 5-year targeted averaging would help further reduce the severity of increased property taxes, and provide greater opportunity for ISBs to either adjust their business model, or to find a viable property to relocate to (CoV Staff, personal communication, January 19, 2019).
Targeted averaging is a necessary support, particularly for independent businesses who may have small operating margins. However, while this policy delays the impacts of the tax pressures on ISBs, it does not remove or solve them (BIA Representative #3, personal communication, January 23 2019; City of Vancouver Planner, personal communication, January 28 2019). Further, increased use of 5-year averaging will mean some city revenue is lost in the short-term, which will require an increased tax burden on the rest of the commercial property stock. The recommendation to implement 5-year targeted averaging also includes the assumption that changes will be made so that properties which receive split classification assessments will be eligible for 5-year targeted averaging, and vice versa.

### 11.3. Shift Tax Burden from Commercial to Residential

A shift of the property tax burden towards residential property owners would offer immediate relief to all businesses located on commercial properties, including ISBs. Vancouver continues to have the highest commercial-to-residential property tax ratio of any major city in Canada, which critics claims impacts the competitiveness of Vancouver’s business community, and ultimately can contribute to ISBs closing. Many small businesses also see this as a fairness issue, with businesses being responsible for paying for a larger share of city services than they use. While commercial properties represent only about 8% of all properties in Vancouver, they are responsible for approximately 42.3% of the city’s property tax revenue (CoV, 2019a). A study by MMK Consulting in 2007 found that the non-residential sector in Vancouver paid $2.42 in taxes for each $1 of benefit received in services, while the residential sector paid $0.56 for each $1 of benefit received. It further found that the non-residential share of services consumed was 24% of the total, and that the residential share was 76% (Kitchen and Slack, 2012).

With rising densification, and conversion of industrial lands to residential use, the growth rate of the residential tax base far exceeds that of the commercial tax base by a ratio of 27:1; However, the tax burden on residential and business properties has not shifted in accordance with this growth (Property Tax Agent #1, personal communication, March 8 2019). In fact, in 2018 the annual residential property tax rate paid in Vancouver was 0.26% of assessed value, less than half the rate paid in Calgary, Toronto, or other major Canadian cities (Hemingway, 2018). Tax experts argue that because of this
disproportionate growth, the shifts in the tax burden from commercial to residential that have been made, only serve to maintain the existing commercial to residential ratio, rather than help close the gap (Property Tax Expert #1, personal communication, March 8 2019).

A 2% shift in the tax burden from Commercial to Residential would amount to relatively small average increases for residential property taxpayers, adding an average of just $40 to a resident’s annual property tax (Property Tax Expert #2, personal communication, March 8 2019). While redistributing the property tax burden from commercial to residential would directly benefit independent businesses, it is politically difficult, as residential taxpayers are also local voters, and would likely have a low level of support for any increase in their property taxes (CoV Staff, personal communication, January 19, 2019; City of Vancouver Planner, personal communication, January 28 2019).

11.4. Further Considerations

Several further changes could be considered by the CoV and Province of BC to address independent small business closure. First, the commercial tenancy act could be strengthened in several ways to mitigate some of the impacts on small businesses of property redevelopment. As discussed in section 3.2.6 of this report, redevelopment of a property can force ISBs to relocate, and often leads to their permanent closure if a suitable or affordable space is not found. Further, section 3.2.6. discusses some of the disadvantages ISBs face compared to chain stores in negotiating a lease, due to the incentives for developers to secure leases with larger chain stores. The CoV and the Province of BC could look to mitigate these challenges by introducing a Right of First Refusal clause into the BC Commercial Tenancy Act, or an incentive for property owners of new developments to sign leases with previous ISB tenants. The CoV may need to play a role in ensuring that previous tenants are offered a chance to negotiate a lease.

Another possible action for consideration is for the CoV or Province of BC to introduce Split Tax Bills, requiring two separate tax assessments for each commercial property with development potential: One tax assessment given to the commercial tenant, for assessed value at current use of the property, and other tax assessment given to the property owner for the tax bill on the undeveloped assessed value. This
option may be administratively complex, may be opposed by some stakeholders, and may create unintended consequences, such as resulting in increased rents. However, it would likely lead to lower tax bills for businesses, while maintaining revenue for the city, and maintaining incentives and pressures to develop where they are needed. While this has great implications for revenue streams of property owners, such a policy could increase stability and predictability of leases for commercial tenants, and reduce ISB displacement or closure.
Chapter 12:

Limitations and Conclusions

This study has attempted to contribute to a more wholesome understanding of independent small business closure in Vancouver, and to the factors contributing to their closure, including increased levels of development, increased property tax burdens, and shifting retail market trends. It has also attempted to offer evidence of the contributions which independent small businesses make to their communities: Independent small businesses provide secure jobs and strong services, and recirculate wealth in the community at far higher rates than chain businesses, and are integral to the social and cultural makeup of Vancouver’s neighborhoods. These contributions support the rationale and justification for the CoV to take policy action to reduce independent small business closure. A strong independent small business community plays a key role in helping the CoV reach its goals of building healthy, sustainable, complete communities. Continued densification and change in land use in areas such as the West Broadway corridor and across Vancouver, necessitate that the CoV has a strategy to allow responsible property redevelopment while also retaining and supporting the existing independent small businesses throughout Vancouver’s neighborhoods.

This study faced several limitations which could be addressed by future research. Firstly, the findings of the analysis of the CoV business licence Opendata were inconsistent and improbable. Although the data correlates with observations from BIA representatives and others, it will be important to more comprehensively examine the data source, or to conduct an independent study of Vancouver’s retail neighborhoods. This study was further limited in its ability to consult with ISBs to incorporate their views on the acceptability and effectiveness of the various policy options. While the BIA representatives interviewed for this study generally represent the views and opinions of their member businesses, comprehensive consultation of Vancouver’s independent business community would need to take place before a policy decision is made, and during the planning and implementation processes of that policy. Finally, this study is limited in its scope to fully analyze the costs and impacts of the policy options presented.
Given these limitations, the growing challenges which independent businesses face are nevertheless clearly demonstrated throughout this study, warranting immediate policy action by the CoV. The policy analysis identifies strengths and weaknesses of each of the policy options, and indicates that implementing a suite of options can be effective in reducing independent small business closure rates. The creation of a Small Business Assistance Office, and the implementation of a revitalization tax exemption program for businesses in several Vancouver neighborhoods will allow the CoV to offer immediate assistance to many independent small businesses. In the long term, strengthening development standards and ensuring specificity of commercial and residential development potential in new developments, will reduce the tax burden placed on independent businesses and increase fairness. This study offers several additional options for the CoV to consider to further alleviate growing tax pressures on independent small businesses, and will ensure that Vancouver continues to maintain a thriving independent small business community. These include: the creation of specificity of allowable residential and commercial development in Vancouver’s existing retail zoning guidelines; a shift of the tax burden from commercial to residential, the use of five-year targeted averaging; changes to the Commercial Tenancy Act to better support independent small businesses; and the implementation of split tax bills (taxes on actual use paid by tenants, and taxes on development potential paid by landlords).
References


Appendix A.

City of Vancouver Opendata Business Licence Records - Methodology and Analysis

City of Vancouver Opendata Business Licence Records from 2008 to 2018 were filtered to show data for six types of business properties: Restaurant Class 1, Restaurant Class 2, Retail Dealer, Retail Dealer-Food, Retail Dealer- Grocery, Retail Dealer- Market. Several types of small retail businesses were excluded from this analysis (for example, animal hospitals, liquor establishments, non-profit offices). Data was further filtered by neighborhood (business licences are categorized by Opendata into one of Vancouver’s 23 defined neighborhoods). A final filter was applied for business licences considered ‘issued’ to count only active businesses in each year, for both restaurant (Type 1 and 2) and retail (retail dealer; retail dealer-food; retail dealer-grocery; retail dealer-other).
Number of Restaurants, 2008-2018 (b)

Source: City of Vancouver Opendata Business Licences, 2008-2018
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<td>92%</td>
<td>90%</td>
<td>88%</td>
</tr>
</tbody>
</table>

A final preliminary analysis was conducted to include a greater number of categories of issued business licences, excluding business licence categories which may not require the business to be located on a physical property. This final analysis showed a decline of approximately 16% in the number of these businesses in Vancouver, from 12,483 to 10,527 businesses, with declines of varying severity across different neighborhoods.

Change in number of businesses (retail, restaurant and others), 2008-2018

<table>
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<tr>
<th></th>
<th>2008</th>
<th>2018</th>
<th>% decline</th>
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<td>940</td>
<td>672</td>
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<tr>
<td>Downtown</td>
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<td>2788</td>
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<td>317</td>
<td>16%</td>
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<tr>
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<td>17%</td>
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<tr>
<td>Vancouver</td>
<td><strong>12483</strong></td>
<td><strong>10527</strong></td>
<td><strong>16%</strong></td>
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</table>

Vancouver Local Area Boundaries

The following map shows the boundaries used by the CoV for defining different neighborhoods, and is used in the City’s Opendata catalogues.

Source: Vancouver Open Data Catalogue, Local Area Boundary. [https://data.vancouver.ca/datacatalogue/localAreaBoundary.htm](https://data.vancouver.ca/datacatalogue/localAreaBoundary.htm). Reproduced in Accordance with City of Vancouver Terms of Use.
Appendix B.

Interview Themes and Questions

Preserving Independent Small Businesses in Vancouver - Interview Guide

Research Team:

Principal Investigator: Johann Zerbe, Candidate, Master of Public Policy
Faculty Supervisor: Joshua Gordon, Assistant Professor, SFU School of Public Policy
Faculty Director: Nancy Olewiler, Acting Director, SFU School of Public Policy

Interview Themes

• Background and Pressures on Independent/Legacy businesses
• Status quo policies
• Feasibility and Effectiveness of policies to support independent/legacy businesses
• Challenges and barriers to implementation of policy options
• Perspectives of interviewees on feasibility (changes needed, either legislative or administrative, to implement policy options), effectiveness, benefits and costs of policy options

General Interview Questions

• What are the biggest challenges that independent businesses in Vancouver are facing?
• To what extent have increased property assessments/commercial property taxes impacted independent businesses in Vancouver? How has this trend changed over time?
• In your opinion, is the City of Vancouver doing enough to support independent businesses and a healthy business environment in the city?
• In your opinion, how effective would a policy that offers targeted financial support or tax exemption to specific independent businesses be in preserving these businesses?
• In your opinion, how effective would a policy that creates Revitalization Tax exemption zones (to offer tax exemptions for all businesses along specific retail streets or city blocks) be in preserving these businesses?
• In your opinion, how effective would a policy that allows greater use of Split Class Assessments for commercial properties (assessed value would more accurately reflect the potential commercial and residential use of the property) be in preserving independent businesses in Vancouver?

• What other policy options or actions could be taken that could help support the survival of independent businesses in your area (and Vancouver)?

**Development/Urban Design Questions:**

• Vancouver is experiencing high levels of commercial property redevelopment. What zoning and development regulations does the City of Vancouver currently use to support a local business environment? Are these regulations similar to those in other municipalities? How effective are they and how could they be changed to better support independent businesses?

• What role do chain stores play in supporting a thriving retail neighborhood? How can chain stores better support independent businesses in their community?

**Case Study Jurisdiction Sample Questions**

• What are the biggest challenges that independent businesses in your jurisdiction are facing? What role do increases in property taxes/rents play? How has the trend changed over time?

• How has the City addressed these challenges? In what ways do they offer small retailers support?

• How effective have these programs/supports been and how can they be more effective?