

The Financial Impact of Effective Real Estate Markets on First Nation Lands

Executive Summary

A number of First Nations are interested in having residential, commercial, or industrial development on their lands. They want to have the open market work on their lands. Some First Nations are perplexed, however, when their open market lands are not valued as high as nearby and comparable non-First Nation lands. It seems unfair.

This sense of injustice was confirmed when in 2000 the Supreme Court ruled in the Glass decision that certain leasehold properties within the Musqueam First Nation should be valued at 50% of comparable off reserve properties. A number of First Nation commentators were concerned that this meant that all First Nation open market land would be valued at 50% of comparable off reserve land.

This concern was unjustified. The Glass decision did not immediately lower the value of First Nation land. The Supreme Court does not establish the value of real estate, the forces of demand and supply within the open market do. With respect to the Glass decision, the demand for the leasehold properties within Musqueam was much less than for comparable off reserve properties adjacent to Musqueam. As a result, the Supreme Court decision observed that the market value of the Musqueam leasehold properties in 2000 was about 50% of comparable properties in the adjacent neighborhood of Shaunessy.

As is well known, location is the primary determinant of real estate values. The Glass decision was a local decision. There is little evidence to suggest that the Glass decision has had any significant impact on First Nation real estate values in other locations. Moreover, as this paper demonstrates, some First Nations have effective real estate markets that create properties values near or even above those of adjacent off reserve communities, including Musqueam, seven years after the Glass decision, where values are now 85% of comparable off reserve properties.



Lower residential real estate values on First Nation lands are avoidable. The Kamloops Indian Band and the Westbank First Nation are among several First Nations that have both built market friendly tenure and governance structures for specific residential developments on their lands. In economic terms, Kamloops and Westbank are raising the value of their most exportable advantage - their favorable locations. In both cases, the market value of real estate on their lands approaches the market value of comparable real estate with fee simple title in adjacent jurisdictions.

What if the successful strategies of Kamloops, Westbank and other communities were transferred to interested First Nations? Effective real estate markets would generate significant net benefits for participating First Nations. This paper estimates the fiscal and economic costs and benefits of creating effective real estate market on a sample of 30 property tax collecting First Nations in BC.

	Lower Bound of Confidence Interval Benefits (over 15 years)	Upper Bound of Confidence Interval Benefits (over 15 years)
Estimates	<ul style="list-style-type: none"> • Increase in real estate value - \$1.4 billion • New Employment – 22,500 FTEs, \$338 million in increased productivity • Increase in Housing Stock – 2,111 residential units 	<ul style="list-style-type: none"> • Increase in real estate value - \$1.8 billion • New Employment – 30,000 FTEs, \$452 million in increased productivity • Increase in Housing Stock – 2,930 residential units
Total	\$1.8 billion in benefits over the next 15 years for 30 sample First Nations	\$2.25 billion over the next 15 years for 30 sample First Nations

Benefit estimates are based on conservative estimation methods, best available data, and a 15-year adjustment period. In a sample of 30 First Nations, the total benefits of creating a competitive investment climate is estimated at between \$1.8 and \$2.25 billion with 95% confidence. These benefits result from increased development, higher real estate values, and increased employment of 22,500 full time equivalents (FTE's). Moreover, it would lead to, on average, over 2,520 open market home ownership opportunities. The table below summarizes the upper and lower bounds of these benefit estimates.

These are significant benefits for these 30 First Nations. National benefits are not estimated because of missing data.



It is clear that market reforms on First Nations lands need to be implemented, but creating more market friendly systems of governance on First Nation lands can be challenging because:

- (a) current First Nation economic policy is not focused on markets,
- (b) some First Nation governments are leery that changes could impact current entitlements, and
- (c) there is little support for First Nations to develop the administrative and legal framework necessary to support markets.

As is evidenced by the success of recent Canada-First Nation institutional and legislative initiatives, designing and implementing an agenda that allows interested First Nations to make the necessary changes when they choose will enable them to overcome these challenges and allow real estate markets to work effectively on many First Nation lands.

