



York Region VHT

A REVIEW OF
CONSIDERATIONS
FOR A VACANT
HOMES TAX IN
YORK REGION

PREPARED FOR THE
REGIONAL MUNICIPALITY
OF YORK

APRIL 5, 2023



Disclaimer

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Our review was based on research and analysis of publicly available sources and data, Region-provided information, and select stakeholder consultations.

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1 Background

In October 2021, the Regional Municipality of York (“York Region” or “the Region”) Council directed staff to prepare a report on the feasibility and public benefits of implementing a vacant homes tax (“VHT”). In April 2022, to support the ongoing work of the Region, KPMG LLP (“KPMG”) was engaged to perform independent research and analysis and provide evidence-based advice on issues related to the Region’s consideration and potential implementation of a VHT. This included:

- Supporting the Region with public consultation;
- Engagement with local and upper tier stakeholders;
- Performing an analysis of the number of potential vacant homes in the Region and associated revenue potential under a VHT; and
- Identifying other considerations applicable to drafting a VHT bylaw and implementing the tax, such as conditions of vacancy, exemptions, administration of the tax, and revenue allocation.

This document is a culmination of the analysis of a VHT in the context of York Region. It is intended to update and build upon insights and findings from prior reports developed for this engagement.¹ This document presents a high-level overview of the following elements as at the date of this report:

- The public policy rationale and objectives of a VHT;
- The estimated prevalence of vacant homes within the York Region real estate market;
- Potential design features of an effective and efficient vacant homes tax program;
- Potential qualitative considerations for implementing and administering a VHT, including the alignment to stated policy objectives, governance, implementation, and administration; and
- Potential quantitative impacts of a VHT in the York Region context.

The research, advice, and initial design elements contained within the reports are intended to support York Region in a potential future request for designation from the Province to levy a VHT. The report includes analysis of:

- i. The applicability of such a measure in the York Region context;
- ii. Potential impacts of implementing a VHT (e.g., financial and policy outcomes); and
- iii. Considerations for the structuring and implementation of the tax, including options for how the tax could be administered between the Region and local municipalities, potential exemptions to the tax, and timing for implementation.

The Region provided key elements of information for this document, including background on the desired public policy objectives and residential real estate data. KPMG supplemented its analysis with publicly available information about the Vancouver, Melbourne, Toronto, and Peel and Halton Region case studies, Statistics Canada data, the Canadian Mortgage and Housing Corporation (“CMHC”) data, the Municipal Property Assessment Corporation (“MPAC”) data, and findings from stakeholder consultations.

¹ In addition to this report, KPMG has prepared other reports as part of this engagement. These reports provide more detailed analysis on specific components of the engagement and should be reviewed in parallel to this report. The following separate reports were prepared for the Region:

1. *A Review of Issues to be Considered for the Taxation of Vacant Homes in York Region*;
2. *A Review of Housing Market Conditions Within York Region*; and
3. *Evaluating a Vacant Homes Tax – What We Heard Report* (prepared by KPMG’s subconsultant PROCESS).

2 Overview of a VHT

2.1 Definition of a VHT

A Vacant Homes Tax (VHT) is a fiscal policy instrument that aims to increase housing availability and affordability under certain market conditions, such as those associated with a shortage of housing options for widespread segments of the population.

The VHT accomplishes this aim by encouraging owners of vacant homes to release their properties back into the housing market, either through outright sale or listing for rent. Properties that are purposefully kept vacant (e.g., property purchased for the purpose of resale at a later date) are subject to an additional tax (generally implemented at 1% of the assessed property value). The tax applies for residential properties that are left vacant for a minimum cumulative amount of time, typically six months throughout a specified reference period (commonly one calendar year).

2.2 Key considerations for implementation

In implementing a VHT, several policy considerations must be made to ensure that the tax is effective at meeting its objectives and does not penalize vacant property owners that are facing extenuating circumstances.

As per Ontario legislation, a VHT bylaw must contain:

- A stated tax rate; and
- Defined conditions of vacancy that, if met, make a unit subject to the tax.

Further details on key considerations are presented in Table 1. These items are discussed in detail throughout the rest of the report.

Table 1: Summary of considerations for implementing a VHT in York Region

No.	Category	Considerations
1	Identification method	A <i>mandatory declaration method</i> is likely to produce the largest degree of participation from residential property owners and has the potential to generate higher revenues when compared to other methods due to the mandatory requirement for all property owners to make a declaration. This method can be supplemented with a complaint-based method, whereby neighbours or residents inform on suspected vacant units by filing complaints which help to guide subsequent investigations into the occupational status of a property. ²
2	Vacancy threshold (i.e., definition of vacant)	A cumulative six-month vacancy period out of a calendar year is a frequent timeframe used by other jurisdictions as a minimum vacancy threshold. Using a period of six months ensures that properties remain occupied for the majority of the year.

² Note: due to privacy concerns, York Region will not at any time use any type of utility data to determine if a home is vacant.

No.	Category	Considerations
3	Tax rate	A tax rate of 1% of the assessed property value is generally accepted as the standard initial taxation rate based on the implementation of comparable vacant homes taxes. However, if the Region intends to have a greater impact on housing availability and affordability, a higher tax rate may be appropriate in later years, subject to pending Provincial regulation.
4	Exemptions	Reasonable exemptions to a VHT — such as vacancy due to medical care, major renovations, death of an owner, court orders, rental restrictions, and change in ownership — will excuse homeowners for leaving properties vacant due to legitimate reasons. In most cases, the properties are expected to resume occupancy within a reasonable time.
5	Audit & compliance	An audit and compliance team (and appropriate audit protocols and procedures) should be established to identify homeowners who are not compliant with the tax. An audit strategy should also be developed in conjunction with Regional audit teams. Strict penalties for tax avoidance should be included as part of the VHT implementation.
6	Administration & governance	Analysis identified that a <i>hybrid delivery method</i> is most suitable for administering a VHT in York Region. Under this method, the Region and its local municipalities split responsibilities for administering the VHT. Local municipalities would be responsible for collecting the tax, with the Region responsible for policy setting, identifying vacancies, and allocating revenue to affordable housing initiatives. Both the Region and local municipalities would share responsibilities for communications. The hybrid approach helps to limit duplication of functionalities and leverage the existing tax collection capabilities and processes of the local municipalities. This approach also maintains familiarity for York Region residents, making it more user-friendly.
7	Implementation activities	<p>Key steps identified for the implementation of a York VHT include:</p> <ul style="list-style-type: none"> – Establishing a dedicated project team of Region staff to lead the implementation and ongoing operation of a VHT; – Consulting with the Province to support the development of associated regulations and obtaining designation to implement the tax; – Developing the VHT bylaw and seeking approval from Regional Council; – Building the necessary IT systems to administer the VHT, including a declaration system and database at the Regional level, and billing and collections functionalities for local municipalities; – Undertaking extensive public education and awareness campaigns through effective communications to ensure that homeowners are aware of the tax, its applicability and the requirement to report declare vacancy status on an annual basis; and – Establishing an audit and compliance team to develop audit procedures and protocols, review annual declarations, identify non-compliance with the tax.

2.3 VHT examples

Increasingly, jurisdictions throughout Canada and across the world are implementing their own versions of a VHT in response to worsening housing availability and affordability. These examples can help inform the ultimate structure and operation of a VHT in York Region. Jurisdictions with VHTs that were identified as relevant from a tax structuring perspective include: Vancouver, Melbourne, Toronto, and Ottawa. Details of these VHTs are presented in Table 2. In addition, the City of Hamilton is implementing its own VHT program for the 2023 reference year, while the Regional Municipalities of Halton and Peel are in the process of designing their respective VHT programs. It should be noted that no two-tier municipality has implemented a VHT as of the date of this report.

Table 2: Summary of case study VHT features

Features	Vancouver Empty Homes Tax (EHT)	Melbourne Vacant Residential Land Tax (VRLT)	Toronto Vacant Home Tax	Ottawa Vacant Unit Tax (VUT)
Implementation	January 1, 2017	January 1, 2018	January 1, 2022	January 1, 2022
Tax rate	5% of assessed property value (raised from 3% in 2023; 1% at implementation)	1% of assessed property value	1% of assessed property value	1% of assessed property value
Definition of vacant	Unoccupied for longer than six months cumulatively during the prior calendar year (i.e., the vacancy reference period)			Unoccupied for more than 184 days during the prior calendar year.
Declaration method	All residential property owners are required to make a declaration (“mandatory declaration”)	Only residential property owners with vacant properties are required to declare (“self-identification”)	All residential property owners are required to make a declaration (“mandatory declaration”)	All residential property owners are required to make a declaration (“mandatory declaration”)
Audit methods	<ul style="list-style-type: none"> – Random checks – Audits selected based on risk assessment 	<ul style="list-style-type: none"> – Random checks – Tips/notifications from public – Audits based on risk assessment and data from other state/federal agencies 	<ul style="list-style-type: none"> – Random checks – Audits selected based on risk assessment 	<ul style="list-style-type: none"> – Random checks – Audits selected based on risk assessment – Tips/notifications from public
Implementation cost	\$7.4 million	Information not publicly available	\$11.0 million (estimated)	\$3.9 million (estimated)
Annual admin. cost	\$2.9 million	Information not publicly available	\$3.1 million (estimated)	\$1.4 million (estimated)
Revenue generation	<ul style="list-style-type: none"> – 2017: \$38.0 million – 2018: \$39.4 million – 2019: \$36.0 million – 2020: \$26.0 million – 2021: \$67.0 million 	Information not publicly available	Information not yet available	Estimated revenue: <ul style="list-style-type: none"> – 2023: \$6.9 million – 2024: \$6.1 million – 2025: \$6.5 million – 2026: \$6.8 million

3 Relevance and rationale for a York Region VHT

3.1 Objectives of a York Region VHT

Effective VHTs outline clear public policy objectives. Generally, the primary objective of a VHT is to transition vacant homes back into the housing market. Revenues generated by a VHT are typically secondary benefits to the primary objective, and are most often directed towards municipal programs, initiatives, and public policy objectives.

In York Region, the primary objective of a VHT is to transition vacant homes back into the housing market to improve overall availability. Any revenues generated by the tax will be treated as a secondary benefit and be used to support affordable housing projects and initiatives across York Region.

3.1.1 Transitioning homes to market

A VHT that is set sufficiently high (i.e., the tax rate) will disincentivize some owners of vacant homes, such as speculative investors, from leaving properties vacant by introducing financial disincentives and eroding potential returns. Essentially, if it becomes more expensive to keep a unit empty because of a VHT, owners of vacant homes may choose to release units into the rental market while they hold them, or potentially sell them outright and pursue other investments. Additionally, these disincentives may induce potential owners not to invest in a unit that they would have held empty in the first place. In line with the principles of supply and demand, with more units on the market and less demand, housing availability and affordability should be positively impacted.

3.1.2 Revenues generated

Additionally, revenues generated from a VHT can be directed towards supporting affordable housing programs, initiatives, and related public policy objectives. By directing VHT revenue towards affordable housing, a VHT can help offset some of the market impact arising from vacant units by adding additional housing supply. For example, Vancouver allocates all net revenues from its EHT to affordable housing initiatives, which has totaled more than \$115 million since its inception in 2017. Similarly, York's Regional Council indicated that all net VHT revenues will be directed to affordable housing initiatives.

3.1.3 Other uses

The data obtained from a VHT can also be leveraged by housing and municipal planners to better understand whether neighbourhoods or developments are being targeted by speculative investors, allowing them to modify or update relevant policies and approaches that benefit the municipality.

3.2 VHT relevance for York Region

York Region's housing market – like much of Canada's and the GTA's – is at an inflection point. Demand for housing has been at record highs, while vacancy rates and overall housing supply remains low. As a result,

the market has experienced substantial increases in housing prices (see Figures 1 and 2). Furthermore, rising personal debt and stagnant personal incomes are limiting the purchasing power of would-be homeowners.

Figure 1: Trends in GTA housing prices³

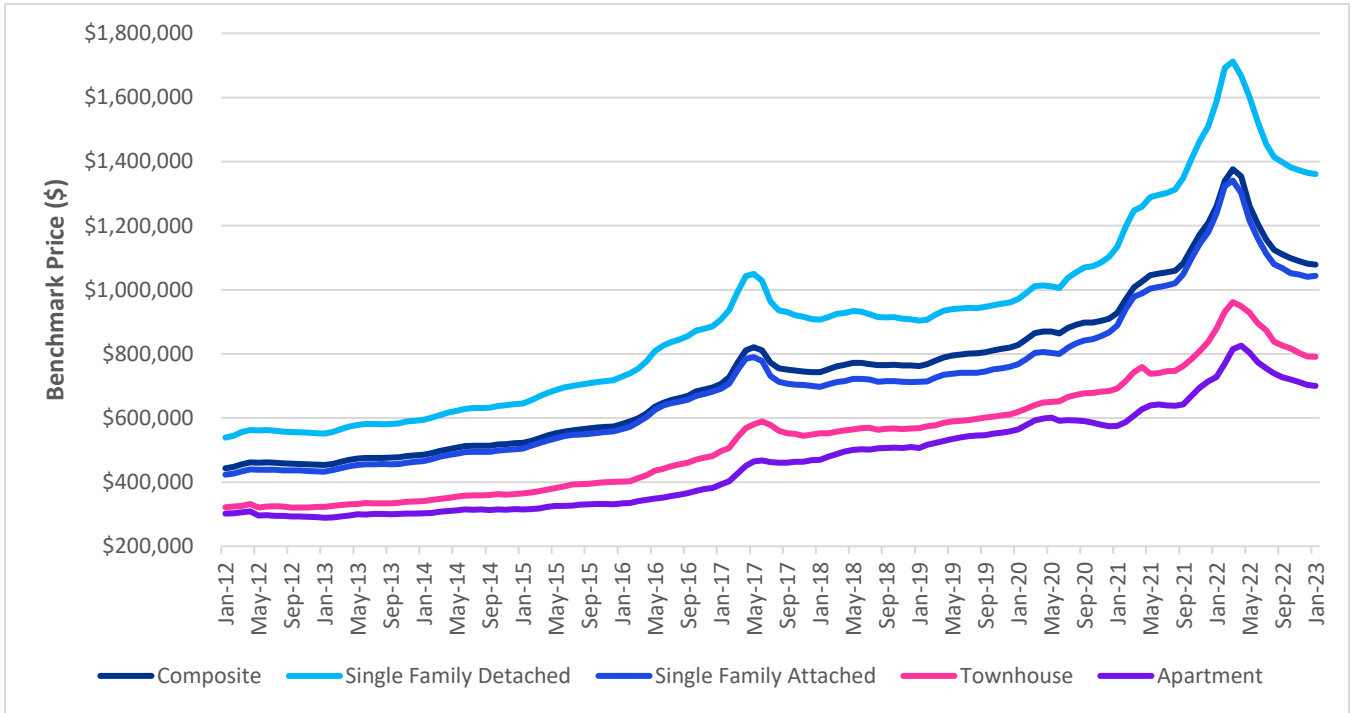
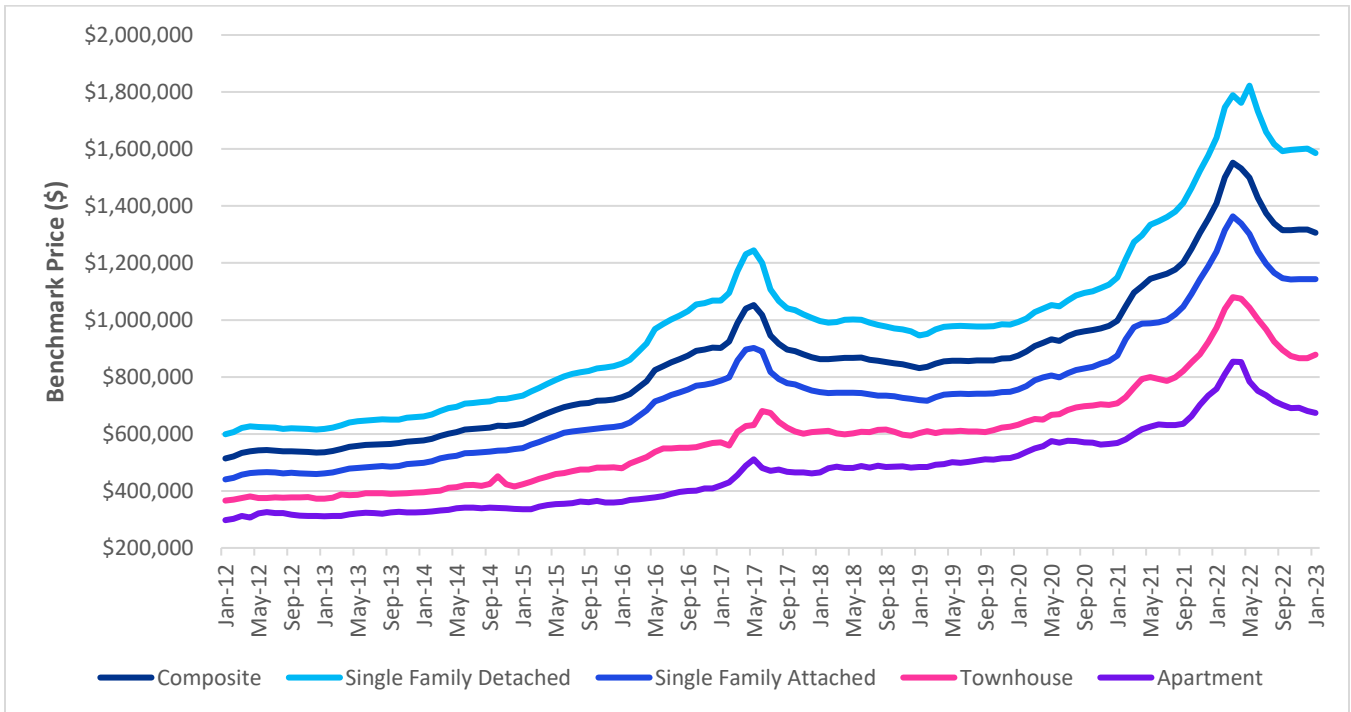


Figure 2: Trends in York Region housing prices⁴

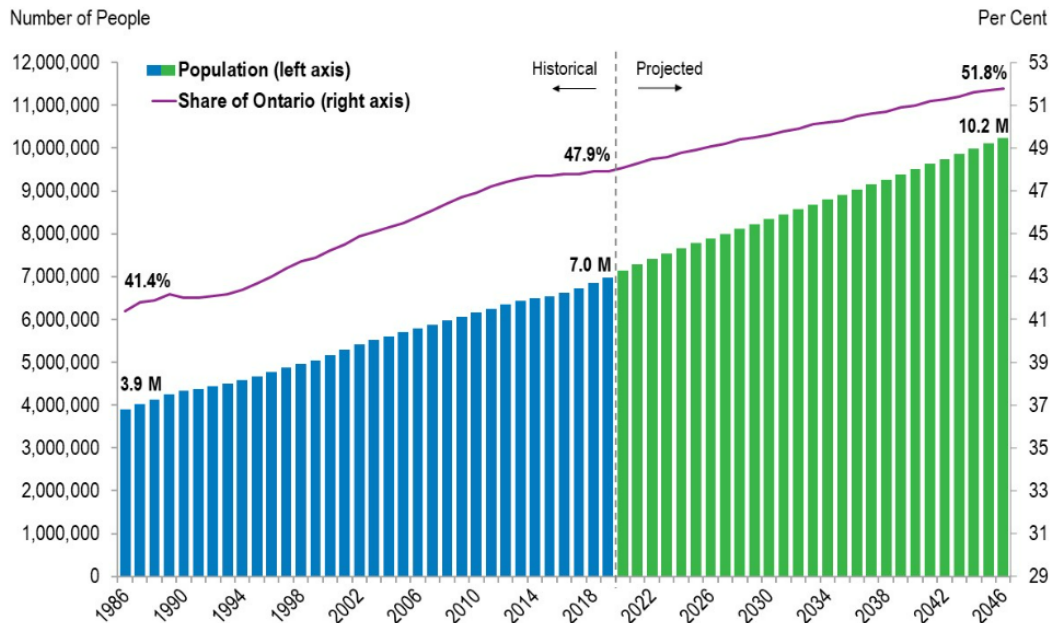


³ (Toronto Real Estate Board, 2023)

⁴ (Toronto Real Estate Board, 2023)

Despite declines in home prices across the Canadian market throughout 2022,⁵ housing affordability continues to be an issue for many Canadians. House prices are still well above pre-pandemic levels⁶ while price declines are being offset by higher costs from rising interest rates and strong demand for rental properties that continues to add pressure on affordability.⁷ Additionally, accelerated population growth in the GTA (see Figure 3) and housing supply gaps will continue to add upward pressure on house prices into the future.⁸

Figure 3: Population of the Greater Toronto Area, 1986-2046⁹



Given this forecasted population growth and these observed trends in the housing market, homes that are kept vacant exacerbate issues around affordability by reducing the market supply of available housing, which – with all else being equal – creates upward pressure on housing prices. This factor also indirectly impacts “affordable housing” by forcing buyers and renters into different tiers of housing, which can crowd out low-income residents from the market. Vacant homes also have a direct impact on municipal funding and infrastructure spending. Housing units that are built but left vacant have already been serviced (e.g., water, hydro, roads, etc.). This contributes to the erosion of municipal resources and can have a direct impact on local communities.

It should be noted that there is not a single factor or metric that will fully dictate trends in the housing market or the effectiveness of a VHT in York Region. There are several other factors that may impact the housing market in unforeseen ways. These factors include the Federal ban on foreign buyers from purchasing homes (under the Prohibition on the Purchase of Residential Property by Non-Canadians Act), the current high interest rate environment, and the Underused Housing Tax. This legislation and broader macroeconomic market conditions have the potential to impact the Canadian housing market and could incentivize behaviours or produce outcomes similar to the objectives of a VHT.

⁵ In York Region, the average December 2022 home sales price fell by approximately 9.3% from December 2021, while the number of sales fell by 45% (Move Smartly, 2023) (Toronto Real Estate Board, 2023).

⁶ As of December 2022, average home prices across Canada are 32.5% higher than average prices in February 2020 (The Canadian Real Estate Association, 2023), while average prices in York Region are 33% higher (Move Smartly, 2023).

⁷ (Canada Mortgage and Housing Corporation, 2022)

⁸ Average York Region house prices are forecasted to grow by 5.5% in 2023 (REMAX, 2022).

⁹ (Government of Ontario, 2020)

3.3 Estimated vacancies in York Region

Using data from the 2021 census, it was estimated that of the 405,863 private dwellings in York Region, approximately 391,034 are occupied by usual residents.¹⁰ This analysis suggests that approximately 3.6% or 15,000 of York dwellings were vacant (i.e., not occupied by usual residents at the date of assessment). However, this analysis likely over-estimates the number of vacant units in York Region that would be subject to a VHT, as it only considers occupancy at a single point in time. To correct for this limitation and estimate the number of units left vacant for a cumulative six-month period throughout the year, an adjustment factor of 52% was applied, which is based on the observed experience of Vancouver.¹¹ As a result, it is estimated that 1.8% or 7,250 of York dwellings were vacant and potentially eligible for the VHT.

However, when estimating the number of vacant homes that would ultimately be subject to a VHT, consideration must be given to potential exemptions to the tax. As further detailed in Section 4.2, exemptions could include major home renovations, a recently sold property, extended stay of an owner in a healthcare facility for medical care, recent passing of the principal resident, or a home intended for seasonal use, to name a few.

After accounting for exemptions, it is estimated that there are approximately 1,605 vacant homes in York Region that would be subject to a VHT, representing 0.4% of all dwellings. This analysis only considers dwellings that are left vacant for six months or longer during a calendar year. The analysis was largely informed by reported vacant home data in Vancouver and how that compared to reported occupancy rates from prior Census data.

Table 3: 2021 York Region vacant dwelling analysis

Municipality	Number of Vacant Dwellings	Potentially Exempted Dwellings	Vacant Dwellings After Exemptions	Assumed Vacancy Rate for Taxation
Aurora	386	304	82	0.4%
East Gwillimbury	218	180	38	0.3%
Georgina	572	464	108	0.6%
King	195	160	35	0.4%
Markham	2,089	1,605	484	0.4%
Newmarket	485	383	102	0.3%
Richmond Hill	1,397	1,060	337	0.5%
Vaughan	1,677	1,302	375	0.3%
Whitchurch-Stouffville	231	187	44	0.3%
TOTAL	7,250	5,645	1,605	0.4%

¹⁰ (Statistics Canada, 2022)

¹¹ In Vancouver, the 2016 census data indicated a vacancy rate of 8.2%. When the EHT was implemented, the reported vacant home rate was only 4.3%, which represents approximately 52% of the census vacancy rate.

4 VHT design features

The following chapter outlines the proposed features of the York Region VHT, including the definition for vacancy, potential exemptions, the method of declaration, compliance, tax rate, and key milestones for implementation. These policy design features were informed through comparator and jurisdictional research, as well as extensive stakeholder engagement activities.¹²

4.1 Definition of vacant

A York Region VHT would apply to “residential properties” (e.g., detached homes, semi-detached, townhouses, duplexes, apartments, condominiums, etc.) that are suitable for year round occupancy, and consider a property to be vacant if it is left unoccupied for a cumulative time of six months across a reference period of a 12-month calendar year.

4.2 Exemptions

As part of the bylaw development, the Region must identify exemptions to the tax to ensure that property owners who leave their property vacant through no fault of their own are not penalized. Based on initial research and stakeholder engagement, relevant exemptions for a York Region VHT include:

- Major renovations or redevelopment of the property that prevent occupancy.
- The property owner requires long-term care and is unable to reside in their property.
- Properties that have recently changed ownership.
- The property owner has passed away.
- Rental restrictions or prohibitions that are in place and prevent the property from being rented.
- A court order that prohibits occupancy of the property.
- Circumstances otherwise out of the property owner’s control, i.e., force majeure.

Most exemptions should only be applied for one year, such as a change in ownership – after which point the property would be subject to the tax.

4.3 Declaration method

The primary challenge to implementing a VHT is to identify which residential units are truly unoccupied over the course of the reference period. Effective identification ensures that the tax can be levied, and the desired outcomes achieved.

Through jurisdictional research and feedback from various stakeholders, the Region identified the mandatory declaration (universal declaration) method of identifying vacant homes as most effective. Mandatory declarations require property owners to declare the vacancy status of their home on an annual basis for the prior reference period. Failure of an owner to declare their property’s status results in the property being considered vacant by default, triggering liability for the VHT. This method is the most prevalent approach used in Canada, with Vancouver, Toronto, Ottawa, Peel Region, and Halton Region all implementing or planning to

¹² As part of the development of this report, KPMG and the Region conducted a jurisdictional scan of comparator municipalities and applicable VHT case studies, as well as an extensive stakeholder engagement exercise with local and upper tier municipal stakeholders. Additional information regarding these exercises can be found in the other reports prepared as part of this engagement (see footnote 1).

implement VHTs on this basis. The mandatory declaration method can then be supplemented with a complaint- or report-based method, where investigations into the occupational status of a property are undertaken when complaints/reports are received regarding suspected vacant units. If a property is suspected as being vacant, it can be reported to the Region by neighbours or residents. Should the property be deemed unoccupied, it becomes liable under the applicable VHT and is subject to strict penalties for noncompliance.

4.4 Compliance

The mandatory declaration method for identifying vacant homes can be supported by audits and compliance efforts that determine whether a home is vacant. Jurisdictions generally apply strict penalties to owners found to have falsely reported occupancy status. Homes selected for audit can be identified through random checks, as well as through the complaint-based method for compliance.

4.5 Tax rate

The tax rate set for a York VHT should discourage property owners from leaving residential properties vacant while not creating unintended consequences, such as disincentivizing housing development.

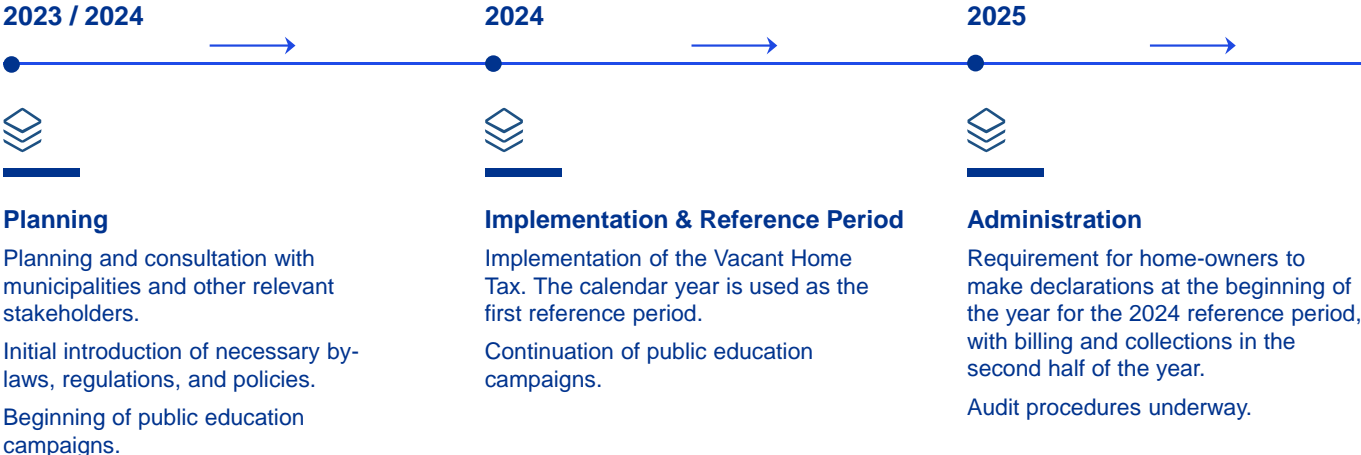
In almost all jurisdictions that have previously implemented a VHT, an initial tax rate of 1% of the assessed value of eligible vacant homes was used.

A tax rate of 1% may be appropriate initially and align with neighbouring jurisdictions, however a higher tax rate could be more effective at achieving policy objectives.

4.6 Implementation timeline

The VHT will need to be implemented in a timely manner to achieve desired results in the near term. However, it is important to allow sufficient time for communication and public education that informs residential property owners of their declaration obligations and allow them to adjust their behaviours accordingly. At a high-level, a potential implementation timeline for a VHT in York Region is outlined in Figure 4.

Figure 4: Potential VHT implementation timeline



Regional staff presented a summary report of the implementation considerations for a VHT to Council in September 2022. Following the delivery of the report to Council, staff continued to review and plan implementation items that would be included in the draft bylaw throughout the remainder of 2022. This work included additional consultations with the public, the York Chapter of the Building Industry and Land Development Association (“BILD”), and local municipalities. Through this latest round of consultations, the Region communicated the latest details regarding the design and structuring of the tax (e.g., declaration approach, potential exemptions, initial tax rate, etc.) and engaged the local municipalities to identify roles and responsibilities between the Region and local municipalities for the implementation and administration of the tax.

In addition, the Region also proceeded with the drafting of a VHT bylaw that was originally intended to go to Regional Council for approval in 2023. As a result of changing economic and legislative conditions as well as adjustments to the program design, staff expects to seek Council endorsement of the draft bylaw in early 2024, followed by an application to the Province for ‘designation’ to levy a VHT. Final Council approval of the bylaw would be required to implement the tax.

Following Council approval in 2024, the Region and local municipalities could use the remainder of the year to establish and implement the requisite systems and processes for administering the VHT. Additionally, it will be important to commence the promotion and education components of the communications strategy following approval. This should allow sufficient time for owners of vacant homes to make appropriate arrangements. By assigning the calendar year of 2024 as the initial reference period, homeowners would then be required to make declarations early in the following year, with billing to potentially occur at the same time as final property tax levy later in the year.

5 Governance, implementation, and administration

There are several factors that the Region must take into consideration for the implementation and administration of a VHT to ensure success. Consideration must also be given to the division of responsibilities between the Region and local municipalities.

Through jurisdictional analysis, consultation with York Region staff, and stakeholder outreach (see Appendix A for a summary of stakeholder feedback), it was determined that the most effective method for implementing and administering a VHT in York Region is a *hybrid delivery model*. Through this model, the Region and its local municipalities split responsibilities in a way that limits duplication of functionalities and utilizes existing capabilities and strengths (e.g., tax collection capabilities of the local municipalities). In comparison, a local delivery model, where each municipality implements and manages their own VHT, results in substantial duplication of efforts and higher costs.

5.1 VHT implementation considerations

5.1.1 Policy and legislation

Significant attention would have to be given to the public policy and legislative work associated with implementing the VHT. This work includes continuing public consultation and outreach, responding to any feedback from Regional leadership regarding the appropriate rules and regulations for the tax, and the drafting of legislation. A draft VHT bylaw will need to go to Regional Council for endorsement, followed by an application to the Province for ‘designation’ and final Council approval of the bylaw. Additionally, any VHT implemented by the Region would have to comply with any guidelines, policy statements, and regulations established by the Province.¹³

5.1.2 Communication

Public outreach initiatives should bring sufficient awareness and understanding of the VHT to the public. During the implementation process, regular communication and public engagement is necessary to ensure the public is properly informed. Communication leading up to the declaration period is especially important such that owners are made aware of their new responsibilities, and to ensure that taxes are not applied in

¹³ In 2022, as part of the Ontario Government’s *More Homes for Everyone* and *More Homes Built Faster* legislation, the Province introduced a Housing Supply Working Group to monitor progress on the implementation of provincial initiatives by municipalities.

situations where owners simply were unaware of the regulation. Public outreach campaigns would have to be run throughout the reference year, informing the public of the upcoming changes to their taxes.

These campaigns should also run throughout the initial taxation year to remind property owners of the application of the VHT on vacant properties.

5.1.3 Project management

The implementation of a VHT will require additional infrastructure and governance to be put in place to ultimately administer and manage the tax. These efforts will need to be coordinated by a project management team that oversees the initial implementation and early troubleshooting. Based on analysis of comparable jurisdictions, the project team will be responsible for coordinating the following initiatives:

- Business support, including internal subject matter experts in areas like taxation and revenue collection and allocation, legal services, and communications;
- Development of a declaration system and associated processes, including audit, compliance, and analytics capabilities;
- A dispute resolution system to handle appeals as necessary;
- Technical and professional services for the development of a VHT website, as well as configuration, and testing; and
- Hardware and software implementations, as well as a design consultancy engagement to ensure that the infrastructure is properly designed and functional.

As part of the VHT implementation, existing systems for the Regional and local municipalities will need to be adjusted. Local municipalities will require a new module to manage tax management and collection systems, taking advantage of synergies with the existing property tax and land transfer tax systems. This system will handle the processing of applicable taxes for vacant properties, using the same property assessment information currently included in the property tax systems. Furthermore, a front-end portal at the Regional level will be required for declarations of property occupancy status, as well as for initiating appeals and providing an interface for the public to interact with on VHT-related issues.

The Region will also need to develop an audit and compliance capability. This aspect will require new staff and technical systems (e.g., IT support systems, databases, registries, etc.) to support the ongoing audit and compliance functions. Having this capability in place prior to the declaration period will allow for audit and compliance checks to occur in a timely fashion and minimize the potential of tax avoidance from homeowners. In addition, a dispute resolution system will need to be implemented to handle appeals as necessary.

5.2 Administering a VHT

As part of ongoing operations of a VHT, staff will need to be employed to handle the following tasks:

- Tax administration (collection);
- Remitting VHT revenues;
- Review and compliance (audit) activities;
- Notice and advertising;
- IT support and maintenance; and
- Managing call centre operations and an online portal, including associated maintenance.

5.3 Division of responsibilities

Implementing a VHT in York Region requires additional consideration around the division of municipal and Regional responsibilities due to the nature of the two-tiered municipality. Currently, property taxes are collected by the local municipalities, with proceeds remitted to the Region. In determining the division of responsibilities held by the Region and local municipalities, consideration was given to maximizing efficiencies from existing processes and minimizing redundancies where possible.

Through the hybrid delivery model, York Region and the local municipalities will split the responsibilities for delivering a VHT. This system will have the local municipalities responsible for collecting the tax, with the Region responsible for identifying vacancies, and managing primary public communications, review and compliance activities, and remittance of revenues. There may also be other shared responsibilities, such as data sharing, tax adjustments, and communications efforts. This division of responsibilities helps limit the duplication of functionality while utilizing the local municipalities existing tax collection capabilities. Table 4 summarizes the division of responsibilities and key considerations:

Table 4: Hybrid delivery division of responsibilities for a York Region VHT

Jurisdiction	Phase	Activity	Key considerations
Regional	Implementation	Project management – implementation of the VHT, including drafting of the bylaw and coordination with local municipalities	<ul style="list-style-type: none"> Understand how different municipalities will need to be supported during implementation (i.e., large vs. small municipalities)
		Public communications	<ul style="list-style-type: none"> Determine what outlets will be leveraged to communicate with the public
	Administration	Review and compliance	<ul style="list-style-type: none"> Determine any IT system and staffing requirements
		Tax administration – identifying vacant homes, collecting revenue from local municipalities, reimbursing municipal expenses, and benefit allocation	<ul style="list-style-type: none"> Establishing standards for allocating net revenue across the region IT system requirements for managing the VHT (e.g., an online portal for homeowners to declare their vacancy status, an internal system to identify vacant homes) Additional staffing needs
		Public support and ongoing communications	<ul style="list-style-type: none"> Determine staffing requirements Establish support mechanisms (e.g., online portal, 311 phoneline, Access York)

Jurisdiction	Phase	Activity	Key considerations
Municipal	Administration	Tax administration – collection of the tax	<ul style="list-style-type: none"> – Determine staffing requirements (i.e., will additional employees be needed to manage?) – IT system requirements (i.e., will municipalities require any IT system upgrades to manage the tax?)

Given that no two-tiered municipality has implemented a VHT as of the date of this report, the Region should ensure that sufficient time and resources are allocated to determining the appropriate division of responsibilities between the upper- and lower-tier municipalities.

5.4 Revenue allocation

Revenue generated from a York VHT can be used to fund various housing projects and initiatives across the Region that benefit all municipalities. For example, Vancouver allocates all net revenues from its VHT, the Empty Homes Tax (“EHT”), to affordable housing initiatives. This commitment has resulted in over \$115 million being directed to local affordable housing initiatives since the inception of the tax in 2017. Initiatives that have benefited include the Community Housing Incentive Program, which is a program that supports non-profit and co-op housing developers with attracting funding partners for affordable developments.¹⁴ Similarly, Toronto City Council directed City staff to allocate any VHT net revenues towards affordable housing initiatives through the annual operating and capital budget approval process. The Cities of Hamilton and Ottawa will also be directing net revenues to affordable housing initiatives.

¹⁴ (City of Vancouver, 2021)

6 Estimated costs and revenue forecasts

6.1 Estimated costs

While there is notable revenue potential associated with the implementation of a VHT in York Region, there are also several costs that must be considered from both the implementation and ongoing administration of the tax at both the Regional and local levels. Implementation and administration costs have been estimated based on a review of costs incurred in other Canadian jurisdictions with a similar tax, in addition to feedback and input from Regional staff and staff from the local municipalities.

6.1.1 Implementation costs

Estimates for key VHT cost items outlined in Section 5.1 are summarized in Table 5. This table includes assumptions for each cost item under both a hybrid delivery approach and a local municipality led approach, where each of the local municipalities would be responsible for delivering its own tax.

Based on the implementation timeline presented Section 4.6, most of the estimated implementation costs are assumed to be incurred in 2024, as the Region and local municipalities prepare for vacant home declarations and tax collection to commence in 2025. It is assumed that the Region and local municipalities will use the remainder of the implementation period to further establish roles and develop audit functions and dispute resolution processes. It is also assumed that Region staff will be able to consult with counterparts at the City of Toronto, Region of Peel and Halton Region to discuss lessons learned from the implementation of their respective VHT programs and drive efficiencies in processes and costs.

Table 5: Implementation cost factors for a York Region VHT

Cost item	Description	Estimates	Rationale / other considerations
Project team	Team of Region full time employees (“FTEs”) responsible for implementation and coordination with local municipalities, including drafting and development of the bylaw. Annual salary and benefit costs for an FTE are assumed to be \$120K.	<ul style="list-style-type: none"> • Municipal delivery – 3 FTEs • Hybrid delivery – 5 FTEs 	Fewer Region FTEs are required for the municipal delivery model as the Region is not required to organize public communications or implement any VHT administration activities (e.g., setting up a review and compliance team, developing IT systems).

Cost item	Description	Estimates	Rationale / other considerations
Technical systems development, implementation, and support	IT costs associated with development and implementation of any required systems. Assumed efficiencies if coordinated at the Regional level and lessons learned from surrounding municipalities.	<ul style="list-style-type: none"> • Municipal delivery – \$8.5M¹⁵ • Hybrid delivery – \$4.2M 	Lower costs are estimated through a hybrid delivery as only the Region is required to implement a new system for administering the VHT, while municipalities can leverage their existing systems and only need to make minor updates. In comparison, municipal delivery involves duplication of efforts as each municipality will need to implement their own system.
Communications	Public outreach in advance of implementation and advertising associated with public notification.	<ul style="list-style-type: none"> • Municipal delivery – \$325K • Hybrid delivery – \$290K 	Scale efficiencies are assumed through hybrid delivery as the bulk of communications are conducted by the Region. Alternatively, municipal delivery requires each municipality to conduct their own communications which will result in duplication of efforts and creates the potential for inconsistent/mixed messaging.
Other costs	Other costs related to printing, advertising, accessibility, review, etc.	<ul style="list-style-type: none"> • Municipal delivery – \$180K • Hybrid delivery – \$100K 	Represents 2% of costs for each delivery model.

A summary of implementation costs compared across the municipal delivery and hybrid delivery models is presented in Table 6. As indicated, the hybrid delivery model is expected to offer efficiencies over the municipal model, with estimated costs of approximately \$5.2M compared to \$9.4M. In both approaches, existing municipal resources could be utilized in order to realize additional cost savings.

Table 6: Implementation cost estimates for a York Region VHT

Cost item	Municipal delivery	Hybrid delivery
Project team	\$360K	\$600K
Technical systems development, implementation, and support	\$8.5M	\$4.2M
Communications	\$325K	\$290K
Other costs	\$184K	\$100K
TOTAL	\$9.4M	\$5.2M

¹⁵ Note: technical support and systems cost estimate assumes higher costs for larger municipalities (\$1.25M each for Markham and Vaughan, \$1M each for Richmond Hill, Newmarket, and Aurora) and lower costs for smaller municipalities (\$750K for each remaining municipality). Incremental costs could vary based on the extent to which existing resources could be utilized.

6.1.2 Operating costs

Estimates for ongoing VHT cost items that are associated with the administration and operation of the tax are summarized in Table 7. Similar to the implementation costs presented above, the table includes assumptions for each cost item under both a hybrid delivery approach and a local municipality led approach.

Operating costs are assumed to be incurred on an annual basis once the tax is fully implemented (starting in 2025). Similar to the implementation costs, it is assumed that costs would be incurred at both the Regional and local levels, with the Region responsible for overall administration of the tax, including audit and compliance, communications with the public, etc. while the local municipalities would be responsible for the collection and remittance of tax revenues to the Region, as well as ongoing support and maintenance of their respective systems.

Table 7: Operating cost factors for a York Region VHT

Cost item	Description	Estimates	Rationale / other considerations
Tax administration	VHT administration teams responsible for collection and remittance of tax revenues. This may involve partial time for multiple staff members. Salary and benefits for an FTE are assumed to be \$120K.	<ul style="list-style-type: none"> • Municipal delivery – 9 FTEs • Hybrid delivery – 10 FTEs 	It is estimated that each municipality will require one FTE to administer the VHT in both delivery models. One additional FTE is included in the hybrid model and is responsible for the management of collecting municipal revenues, reimbursing municipal costs.
Compliance team ¹⁶	Audit and compliance team responsible for reviewing audits and exemption claims. Salary and benefits for an FTE are assumed to be \$120K.	<ul style="list-style-type: none"> • Municipal delivery – 32 FTEs¹⁷ • Hybrid delivery – 15 FTEs 	The compliance team in the hybrid model is expected to offer far more efficiencies due to the elimination of duplication of efforts in the municipal model. In the hybrid model, compliance is managed solely through the Region, whereas the municipal model requires each municipality to establish separate teams.
Communications	Ongoing public outreach and public support.	<ul style="list-style-type: none"> • Municipal delivery – \$230K • Hybrid delivery – \$140K 	Ongoing communications are expected to be more efficient in the hybrid model due to scale efficiencies as the Region would be solely responsible rather than each municipality.
Ongoing support and maintenance	IT support and maintenance for managing the administration of the VHT (e.g., collecting payments, managing VHT related expenses, remitting revenues).	<ul style="list-style-type: none"> • Municipal delivery – \$500K • Hybrid delivery – \$450K 	Costs in the hybrid model are estimated to be marginally higher as both the Region and municipalities must manage their systems rather than just the municipalities.

¹⁶ Responsible for declaration compliance – billing and collection enforcement is a separate local responsibility.

¹⁷ Note: the size of compliance teams (i.e., the number of FTEs) varies across the municipalities based on population size (Markham, Vaughan, and Richmond Hill each have six FTEs, Georgina has four, Newmarket and Aurora have three, Whitchurch-Stouffville has two, and East Gwillimbury and King have one).

A summary of operating costs compared across the municipal and hybrid delivery models is presented in Table 8. Similar to the implementation costs, efficiencies with the hybrid delivery model create estimated annual savings of approximately \$2M compared to the municipal model.

Table 8: Operating cost estimates for a York Region VHT

Cost item	Municipal delivery	Hybrid delivery
Tax administration	\$1.1M	\$1.2M
Compliance team	\$3.8M	\$1.8M
Communications	\$230K	\$140K
Ongoing support and maintenance	\$450K	\$450K
TOTAL	\$5.6M	\$3.6M

6.2 Estimated revenue potential

6.2.1 Estimating vacant homes

As detailed in Section 3.3, KPMG worked with the Region to develop an approach to estimate vacancy rates based on 2021 census data and observed outcomes from Vancouver’s implementation of the EHT. The approach uses 2021 census data for each of the nine municipalities within York Region to estimate vacancy rates based on the reported total number of dwellings and total occupied. A high-level analysis was developed to identify vacant home estimates for each municipality within York Region by incorporating adjustment factors based on the observed experience from Vancouver (e.g., to account for assessed values of vacant homes versus those of average home prices, vacancy rates by property type, potential exemptions, etc.) and census data relating to housing types in York Region. This analysis estimates that there are approximately 1,605 vacant homes in York Region that would be subject to a VHT, representing 0.4% of all dwellings.¹⁸

6.2.2 Gross revenue

Based on the approach to estimating vacant homes outlined in Section 3.3, average assessed housing values by housing type for each municipality were used to support the estimate of gross revenues across a range of tax rates. Table 9 presents the estimated VHT gross revenues from each municipality based on an associated tax rate of 1.0%, 1.5% and 2.0%.

¹⁸ The analysis was performed with the best available data at the time of this report. It does not account for externalities that have occurred since 2021, such as the Federal ban on foreign buyers from purchasing homes (under the Prohibition on the Purchase of Residential Property by Non-Canadians Act), the current high interest rate environment, and the Underused Housing Tax. Similarly, the experience from Vancouver was the only publicly reported outcome from the implementation of a VHT-type tax. It is unclear how well Vancouver’s experience can be directly extrapolated to York Region’s context; however, all relevant assumptions for estimating the potential VHT revenues in York Region have been stated in our analysis.

Table 9: Estimated gross revenues for a York Region VHT¹⁹

Municipality	No. of Dwellings	Assumed Vacancy Rate for Taxation	Tax Revenue at 1% Rate	Tax Revenue at 1.5% Rate	Tax Revenue at 2% Rate
Aurora	22,253	0.4%	\$735,583	\$1,103,374	\$1,471,165
East Gwillimbury	11,869	0.3%	\$257,232	\$385,848	\$514,463
Georgina	19,368	0.6%	\$566,975	\$850,463	\$1,133,951
King	9,346	0.4%	\$441,676	\$662,513	\$883,351
Markham	114,908	0.4%	\$4,043,295	\$6,064,943	\$8,086,591
Newmarket	31,239	0.3%	\$635,271	\$952,906	\$1,270,542
Richmond Hill	72,017	0.5%	\$3,151,914	\$4,727,871	\$6,303,828
Vaughan	107,159	0.3%	\$3,132,965	\$4,699,447	\$6,265,930
Whitchurch-Stouffville	17,154	0.3%	\$442,121	\$663,181	\$884,242
TOTAL	405,313	0.4%	\$13,407,031	\$20,110,547	\$26,814,063

Additionally, while the majority of revenues are anticipated to come from the declaration of vacant properties, there is also the potential for revenues to be generated through audit activities and the levying of fines/penalties for late declaration or falsely reporting a vacant property as occupied. Given that a VHT is meant to reduce the number of vacant homes over time, it is expected that the amount of revenue generated by the tax will also decrease, if all other variables such as average home value and tax rate remain equal.

6.2.3 Net revenue forecast

Based on the hybrid model cost forecasts and revenue estimates detailed above, along with observed cost and revenue trends from Vancouver’s implementation of the EHT, a five-year net revenue forecast was developed for a York VHT.

The forecast leveraged the following assumptions from Vancouver based on data between 2016 and 2022:

- On average, revenue from non-compliance penalties represented approximately 5% of tax revenues in Vancouver – these non-compliance penalties were excluded from revenue forecasts for York Region.
- Vacant homes in Vancouver decreased by an average of approximately 12% year-over-year after the EHT was implemented.²⁰
- Implementation costs for the EHT were realized across three years, beginning in the year before the tax was applied. 5% of costs were realized in the first year, 70% of costs in the second year, and 25% of costs in the third year.²¹

¹⁹ Calculations based on 2022 data.

²⁰ Note: despite rate increases in the EHT, year-over-year changes in the number of vacant homes in Vancouver were fairly consistent. While the EHT rate remained at 1% in its first three calendar years of operation (2017 to 2019), year-over-year vacancies declined by 8.7% after the first year and 14.5% after the second year (averaging 11.5%). The EHT then increased to 1.25% in 2020 and 3% in 2021, where year-over-year vacancies declined by 9.4% and 14.7% respectively (averaging 12.1%). The Province of British Columbia also introduced the Speculation and Vacancy Tax in 2018, which may have also contributed to the decline.

²¹ Note: York Region net revenue forecasts assume that 2022 is year one, which is one year prior to the official application of the tax and when implementation costs begin being realized.

Other assumptions include:

- The number of York Region homes are estimated to grow across all municipalities by an average of 1.6% annually. These estimates were informed by the average annual growth in homes in each municipality between 2016 and 2021.
- Starting in year 2, remaining implementation costs and ongoing operating costs are assumed to grow at an annual rate of 2% to account for inflation.
- During the forecast period, no changes were applied to the averaged assessed home values across York Region due to uncertainties in the housing market and around timelines for reassessment.

Using the cost and revenue estimates outlined in Sections 6.1 and 6.2.2, and applying the assumptions detailed above, net revenues from a York Region VHT were forecasted over a five-year timeframe. The net revenue forecast includes two separate scenarios, one that applies a constant 1% tax rate (see Table 10) and another that mimics the Vancouver example with an increasing rate over time (see Table 11). Neither scenario accounts for a potential reassessment of property values; however, such an event would likely yield an increase in forecasted revenues due to an anticipated increase in property value assessments since 2016.

Using the constant rate scenario, forecasts suggest that a York VHT could generate approximately \$31M in net revenue within the first five years that can be put towards affordable housing initiatives (see Table 10). This estimate accounts for revenue used to reimburse local municipalities for any costs incurred and covering regional costs associated with the VHT.

Table 10: Net revenue forecast for a York Region VHT with a constant rate²²

Year	Tax rate	Number of vacant units	Estimated revenue	Estimated expenses	Net revenue
Year 0	-	1,605	-	(\$260K)	(\$260K)
Year 1	1%	1,631	\$13.6M	(\$7.3M)	\$6.3M
Year 2	1%	1,458	\$12.2M	(\$5.0M)	\$7.2M
Year 3	1%	1,302	\$10.9M	(\$3.8M)	\$7.1M
Year 4	1%	1,164	\$9.7M	(\$3.9M)	\$5.8M
Year 5	1%	1,040	\$8.7M	(\$3.9M)	\$4.7M
Total			\$55.0M	\$24.1M	\$30.9M

In comparison, the increasing tax rate scenario, which grows from 1% in years 1 and 2 to 1.25% in year 3, 1.5% in year 4, and 2% in year 5, indicates that a York VHT could generate approximately \$47M in net revenue by year 5 (see Table 11). Increases in the tax rate may be restricted and will have to comply with pending provincial legislation.

²² Estimated values are rounded to the nearest hundred thousand dollars.

Table 11: Net revenue forecast for a York Region VHT with an increasing rate profile²³

Year	Tax rate	Number of vacant units	Estimated revenue	Estimated expenses	Net revenue
Year 0	-	1,605	-	(\$260K)	(\$260K)
Year 1	1%	1,631	\$13.6M	(\$7.3M)	\$6.3M
Year 2	1%	1,458	\$12.2M	(\$5.0M)	\$7.2M
Year 3	1.25%	1,302	\$13.6M	(\$3.8M)	\$9.8M
Year 4	1.5%	1,164	\$14.6M	(\$3.9M)	\$10.7M
Year 5	2%	1,040	\$17.3M	(\$3.9M)	\$13.4M
Total			\$71.3M	\$24.1M	\$47.1M

²³ Estimated values are rounded to the nearest hundred thousand dollars.

Appendices



Appendix A: Stakeholder feedback

Overview of consultation to-date

The Region conducted engagement in two phases. Initial consultation, which took place from June to September 2022 included:

- Two public meetings;
- One stakeholder meeting with the development community;
- One stakeholder meeting with the Local Municipal Housing Working Group; and
- One public survey.

Results from the initial public consultation was shared with the public and Council in September of 2022 as a part of an initial feasibility study. At this time, Council directed Region staff to continue work on exploring a potential VHT and report back during the first quarter of 2023 with a proposed program design and a draft bylaw.

Following this recommendation, additional consultation was undertaken to generate feedback from the public and key stakeholders. Between September 2022 and November 2022, consultation included:

- One stakeholder meeting with BILD – York Chapter (October 20);
- One stakeholder meeting with the Local Municipal Housing Working Group (October 21);
- One public meeting (October 26); and
- Two Area Treasurers meetings (October 25 and November 3).

Findings from consultation

- The public and key stakeholders were generally supportive of a VHT but had some questions and reservations about its implementation. In particular, the public had shared concerns about the methods for determining vacancy, the particular exemptions, and the reporting process for residents.
- Though the public is generally supportive of a VHT, there was some concern about the logistics of determining vacancy and the exemptions. Although many participants acknowledged and appreciated the tool's ability to lower home vacancy rates, some participants expressed concern regarding the difficulty of determining a property's vacancy status. Some participants conveyed that the declaration methods might introduce a burden to families and homeowners and expressed concerns over the potentially punitive nature of misreporting a property's vacancy status. Some expressed apprehension regarding the intrusive nature of the tax, which were similar to some of the objections raised in Markham's previous decision to forgo investigation of a VHT.
- The public expressed that they would like to see increased numbers of rental and affordable housing as a result of the VHT. Many participants wanted to see that the revenue from a VHT would be used to support affordable housing initiatives. Additionally, much interest was garnered regarding the effects of

the implemented vacant homes tax in Vancouver on the number of rental units in the city, as residents looked for clarity around the correlation between a VHT and available housing supply, to ensure the investment in implementation would produce the desired results for the Region.

- Participants conveyed the need for an equitable process in the determination of a property's occupancy status. Members of the public indicated they would like to see the VHT contain a flexible exemptions policy that captures a wide range of legitimate home vacancy reasons, in addition to the chance for the homeowners to dispute their case. Questions were also asked regarding penalties for providing incorrect information on the declaration form. One participant noted that they would like to see a clear differentiation between the treatment of properties used for business purposes and those occupied by families. Questions were also raised regarding the existence of differing vacant housing taxation rates for different housing structures.
- Industry stakeholders were generally supportive of a VHT. There was no industry concern about the overall design structure. Industry representatives were interested in the details associated with exemptions and wanted to better understand how they would be applied, especially around new builds.
- Local municipalities had mixed reactions to the proposed tax. There were several areas of concern raised relating to the roles and responsibilities between York Region and the local municipalities, as well as how the tax would be implemented/administered. One participant voiced that “the Region should have no administrative role in the collection of property/owner information and should maintain its policy role and leave all interactions with the lower-tier municipality as they are the custodian as it pertains to the levying of fees, charges, and taxes.”
- Several local municipalities raised questions around the use of revenues and revenue allocation. Local municipalities expressed interest in having an influence in how the revenues would be used. A 50:50 split was proposed between the local municipalities and the Region. The challenge identified here was that not all local municipalities have housing strategies.
- It was identified by several local municipalities that, in the administration of the VHT, most property owners do not know about the two-tier system and will always go back to local municipalities for any questions and concerns they may have. Local municipalities have experience in dealing with property owners and indicated that they should continue to maintain this role (worried about the citizen service considerations). The local municipalities identified interest in handling the administrative side of things, while they suggested the Region continue the role of setting property tax policy.
- Several local municipalities raised questions around how the Regional model/system would connect and interface with local municipality software/technology systems for collection.
- Smaller local municipalities identified that they don't necessarily have the resources to identify vacant properties and are supportive of the Region performing this role. Similar considerations were brought forward about administering the tax. Municipalities wanted certainty that their costs for administering the tax would be fully covered, as they won't necessarily have the resources to handle various administrative components (e.g., enquiries, disputes, etc.).

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