York Region VHT

A REVIEW OF ISSUES TO BE CONSIDERED FOR THE TAXATION OF VACANT HOMES IN YORK REGION

PREPARED FOR THE REGIONAL MUNICIPALITY OF YORK

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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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Executive Summary

In April 2022, the Regional Municipality of York ("York Region" or the "Region") engaged KPMG LLP ("KPMG") to perform independent research and provide evidence-based advice on issues related to the Region's consideration and potential implementation of a Vacant Homes Tax ("VHT"). This included:

- Supporting the Region with public consultation;
- Supporting the Region with local and upper tier engagement;
- Performing an analysis of the 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 sharing.

This document presents a high-level review of:

- The public policy rationale for a VHT;
- The estimated prevalence of vacant homes within the York Region real estate market;
- Potential design features of an effective and efficient vacant home tax program;
- Case studies from other major cities that have considered a comparable VHT, including four case studies of highly relevant examples (Vancouver, Melbourne, Toronto, and the Peel & Halton regions); and
- Potential qualitative and quantitative impacts of a VHT (e.g., alignment to stated policy objectives of increasing the supply of housing and affordable rents).

As part of the assessment, it was determined that an estimated 7,250 dwellings in York Region are vacant, of which approximately 1,600 are eligible to be taxed under a VHT. Taking into consideration estimated home values and based on an associated tax rate of between one and two percent, potential first year gross revenues generated by the VHT are estimated to range between $13.4 million and $26.8 million.

While the implementation of a VHT in York Region appears to be feasible from the initial revenue estimates, there is still work to be done by the Region and local municipalities to establish an appropriate implementation plan for the tax, roles and responsibilities in the administration of the tax and mechanisms for revenue sharing between York Region and the local municipalities. The remainder of this executive summary provides a high-level overview of the report and the associated methodology behind the VHT-related estimates (i.e., revenues, costs, etc.) along with a summary of considerations for implementing a VHT in York Region.

York Region housing market assessment

York Region's housing market – like much of Canada's – is at an inflection point. Demand for housing is at record highs, while vacancy rates remain low. Increasing housing prices, rising personal debt, and personal incomes that have not increased in-step are limiting the purchasing power of would-be homeowners. Additionally, the supply of housing is being continually outpaced by demand. These factors are negatively impacting those looking to purchase or rent residential properties. As a result, government is looking at policy measures to make housing more affordable.

Homes that are kept vacant effectively reduce the supply of housing on the market, which – with all else equal – creates upward pressure on housing prices. This has a negative effect on housing affordability, but 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.

Using data from the 2021 census, it was estimated that of the 405,863 private dwellings in York Region, approximately 391,034 of them are occupied by usual residents.[1] This analysis suggests that approximately 3.6% of all dwellings analyzed or approximately 15,000 units were vacant (i.e., not occupied by usual residents at the date of assessment). This figure is similar to 2021 census vacancy rates from other neighbouring jurisdictions, as illustrated in Figure 1, however, this analysis likely over-estimates the number of vacant units in York that will be subject to a VHT as it only considers occupancy at a single point in time. In comparison, most VHTs that have been implemented or proposed in other jurisdictions (e.g., Vancouver, Melbourne, Toronto, Ottawa and Hamilton) apply to homes that are left vacant for a minimum duration of time over a specified reference period (e.g., a VHT will only apply to houses that have been left vacant for at least six months of the calendar year).[2]

Figure 1: GTA municipality vacancy rates

Jurisdiction / Municipality	Toronto	Peel	Halton Region	York Region
Vacancy Rate	5.6%	3.7%	2.6%	3.6%

An overview of the current and historical housing market conditions within York Region, including vacancy rates and rent prices, is included in a separate report prepared by KPMG to support the assessment and consideration of a potential VHT, titled *"A review of housing market conditions within York Region"*.

Rationale for a VHT

There are two primary objectives for implementing a VHT:

- Transitioning vacant homes to the housing market, and;
- Raising revenue for municipal programs, initiatives, public policy objectives.

A VHT is a fiscal policy instrument that can increase housing availability and affordability under certain market conditions, such as those associated with a shortage of housing options for widespread portions of the population. A VHT that is set sufficiently high will disincentivize some owners of vacant homes, such as speculative investors, from leaving properties vacant by introducing financial disincentives and eroding potential returns. If it becomes more expensive to keep a unit empty because of a VHT, vacant homeowners may choose to release units into the rental market while they hold them, or potentially sell them outright. Additionally, the administrative and financial burdens associated with VHTs may induce such owners not to invest in the first place in a unit that they would have otherwise held empty. In line with the principles of supply and demand, with more units on the market, there should be a positive impact on housing affordability.

In addition to the policy objectives of a VHT, revenues generated from the tax could be directed towards supporting municipal programs, initiatives, and public policy objectives, such as developing affordable housing. For example, Vancouver allocates all net revenues from its VHT – the Empty Homes Tax ("EHT"), to affordable housing initiatives, which has totaled more than $86 million since its inception in 2017. In 2021 alone, Vancouver's EHT generated more than $26 million for affordable housing initiatives. Similarly, Toronto City Council directed City staff to allocate all VHT net revenues towards affordable housing initiatives through

[1] (Statistics Canada, 2022)

[2] The "reference period" is a defined period of time (typically one year) against which a property's occupancy is assessed. For example, a calendar year reference period would mean that property vacancy would be assessed between January 1st and December 31st of a given year. Properties deemed to have been vacant for a minimum duration during this period for a time (e.g., properties that are vacant for at least six months during a one-year reference period) and not granted an exemption would then be subject to taxation during the following year.

the annual operating and capital budget approval process. York Region has taken a similar approach. In October 2021, Regional Council directed that all net VHT revenues be directed to affordable housing initiatives.

The data obtained from the tax can be leveraged by housing and municipal planners to better understand whether particular neighbourhoods or developments are being targeted by speculative investors, allowing them to modify or update their policies and approaches to the benefit of the municipality and urban landscape more broadly.

Stakeholder engagement & what we heard

A core element of the scope of work associated with the feasibility assessment of a VHT was a robust stakeholder engagement process that involved several outreach sessions and approaches. The purpose of the consultation was to:

- Gauge the level of public support for the potential implementation of a VHT;
- Invite feedback and input from residents to inform the implementation of a VHT;
- Learn more about resident priorities and residential property vacancies;
- Identify potential impacts a VHT might have on the building and development industry in York Region;
- Discuss how VHT administration might be integrated into existing Regional and municipal processes; and
- Inform the development of the tax policy, bylaw and approach to implementation and revenue allocation.

Consultation consisted of a number of different activities, including:

- An online survey & project website;
- Interviews and working groups with key stakeholders; and
- Public meetings.

Across the consultation activities, the majority of participants were largely in favour of the VHT and aligned with the purpose of disincentivizing real estate speculation. Most participants support the idea of using tax revenue to fund affordable housing initiatives. Key findings from the stakeholder engagement exercise are incorporated into the assessment and this report. Additional information, including a detailed methodology and set of consultation findings, is included in a separate report prepared by KPMG and PROCESS Consultants to support the assessment and consideration of a potential VHT, titled *"Evaluating a Vacant Homes Tax – What We Heard Report"*.

Jurisdictional benchmarking

As part of the scope of work, a jurisdictional benchmarking exercise was taken to identify features and lessons learned from municipalities with experience implementing VHTs across the country and the globe. Vancouver, Melbourne, and Toronto are illustrative examples comparable to the York Region context. All three are large municipalities; have growing populations; and have experienced rapidly appreciating residential property values and rents, leading to challenges with housing availability and affordability for large portions of the population.

A high-level overview of these case studies is summarized in the table below. Additional detail about each, along with other comparator examples can be found in Section 4 of the report, along with Appendix A.

Table 1: Summary of case study VHT features

Features	Vancouver Empty Homes Tax (EHT)	Melbourne Vacant Residential Land Tax (VRLT)	Toronto Vacant Home Tax
Implementation date	January 1, 2017	January 1, 2018	January 1, 2022
Tax rate	3% of assessed property value (to be raised to 5% in 2023; previously 1% and 1.25%)	1% of assessed property value	1% of assessed property value
Definition of vacant	Unoccupied for more than six months during the prior calendar year (i.e., the vacancy reference period)		
Declaration method	All residential property owners are required to make a declaration (“mandatory declaration”)	Only residential property owners with vacant properties are required to make a declaration (“self-identification”)	All residential property owners are required to make a declaration (“mandatory declaration”)
Audit methods	– Random checks – Audits selected based on risk assessment	– Random checks – Tips and notifications from general public – Audits selected based on risk assessment and data from other state/federal agencies	– Random checks – Audits selected based on risk assessment
Implementation cost	$7.4 million	Information not publicly available	$11.0 million (estimated)
Annual admin. cost	$2.9 million	Information not publicly available	$3.1 million (estimated)
Revenue generation	– 2017: $38.0 million – 2018: $39.4 million – 2019: $36.0 million – 2020: $26.0 million	Information not publicly available	Information not yet available

In addition to these comparators, regional municipalities in the GTA – the Regional Municipality of Peel (“Peel Region”) and the Regional Municipality of Halton (“Halton Region”) – have also recently obtained Council approval for the implementation of a VHT.to pursue the implementation of a VHT. Following initial feasibility studies that were presented to Peel and Halton councils in 2022, staff from both regions will report back to their respective councils in 2023, after conducting further public consultation and exploring options on VHT program design. These are highly relevant case studies for York Region as well, given the upper-tier and local municipality relationship. Case studies for these two jurisdictions have been included; however, both are in the preliminary stages of implementation and should continue to be monitored by the Region to understand roles and responsibilities between the Regions and their local municipalities, along with revenue sharing approaches.

Vacancy and financial estimates for York Region

KPMG worked with the Region to develop an approach to estimating vacancy based on observed outcomes from Vancouver’s implementation of their EHT. The approach uses 2021 census data for each of the nine municipalities within York Region to estimate vacancy rates based on the total number of dwellings and total occupied dwellings identified in the census data. Incorporating adjustment factors based on observed experience of other municipalities (e.g., to account for assessed values of vacant homes versus those of average home prices, vacancy rates by property type, etc. as reported in Vancouver)[3], census data relating to housing types in York Region, and potential exemptions to the VHT, a high-level analysis was developed to identify vacant home estimates for each municipality within York Region. Based on this vacant home estimate, average assessed housing values by housing type for each municipality were used to support the estimate of gross revenues. In addition to these gross revenue estimates, initial estimates for the implementation (one-time) and operations (annual) costs were developed based on actual and estimated costs of a VHT in other jurisdictions. These costs were used to estimate the net revenue potential of a VHT in York Region. Summaries of dwelling and vacancy rates, gross tax revenues, as well as net revenue potential of a VHT for York Region are included in Tables 2, 3, and 4, respectively.

[3] Initially, Vancouver found that the assessed value of a vacant single-family home was approximately 40% higher than the average single-family home in the city (approx. $3.4 million vs. $2.4 million). The assessed value for vacant condominiums was found to be even higher – 53% greater than the average condo in the city. (City of Vancouver and Housing Vancouver, 2019)

Table 2: VHT vacancy rates in York Region

Municipality	Total Private Dwellings	Occupied Private Dwellings	Vacancy Rate	Adjusted Vacant Dwellings	Adjusted Vacancy Rate	Potentially Exempted Dwellings	Vacant Dwellings After Exemptions	Assumed Vacancy Rate for Taxation
Aurora	22,253	21,506	3.4%	386	1.7%	304	82	0.4%
East Gwillimbury	11,869	11,449	3.5%	218	1.8%	180	38	0.3%
Georgina[4]	19,368	17,895	7.6%	572	3.0%	464	108	0.6%
King	9,346	8,969	4.0%	195	2.1%	160	35	0.4%
Markham	114,908	110,867	3.5%	2,089	1.8%	1,605	484	0.4%
Newmarket	31,239	30,301	3.0%	485	1.6%	383	102	0.3%
Richmond Hill	72,017	69,314	3.8%	1,397	1.9%	1,060	337	0.5%
Vaughan	107,159	103,914	3.0%	1,677	1.6%	1,302	375	0.3%
Whitchurch-Stouffville	17,154	16,707	2.6%	231	1.3%	187	44	0.3%
TOTAL	**405,313**	**390,922**	**3.6%**	**7,250**	**1.8%**	**5,645**	**1,605**	**0.4%**

[4] MPAC data identified 190 seasonal properties in Georgina. Given that these types of properties would likely be exempted from the tax, but identified as vacant for census purposes, these units have been deducted from the estimated number of vacant dwellings in the analysis.

Table 3: Estimated VHT gross revenues

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%	$677,637	$1,016,455	$1,355,273
East Gwillimbury	11,869	0.3%	$274,519	$411,779	$549,039
Georgina	19,368	0.6%	$526,929	$790,393	$1,053,858
King	9,346	0.4%	$413,510	$620,264	$827,019
Markham	114,908	0.4%	$4,257,655	$6,386,482	$8,515,310
Newmarket	31,239	0.3%	$691,418	$1,037,128	$1,382,837
Richmond Hill	72,017	0.5%	$2,949,845	$4,424,767	$5,899,689
Vaughan	107,159	0.3%	$3,224,626	$4,836,939	$6,449,253
Whitchurch-Stouffville	17,154	0.3%	$378,013	$567,020	$756,027
TOTAL	**405,313**	**0.4%**	**$13,394,152**	**$20,091,229**	**$26,788,305**

Table 4: Net revenue potential of York Region VHT in 2024

	@ Rate of 1.0%	@ Rate of 1.5%	@ Rate of 2.0%
Gross Revenue Estimate	$13.4M	$20.1M	$26.8M
Annual Operating Cost Estimate	($3.5M)	($3.5M)	($3.5M)
Net Revenue Potential	**$9.9M**	**$16.6M**	**$23.3M**

Additional information on the potential financial implications for York Region regarding the implementation of a VHT, including the methodology and assumptions used to develop an estimate of the number of vacant homes across each of the nine local municipalities within the Region, the estimated potential costs (for implementation and annual operations), and the potential revenue that could be generated by a VHT, is included in Section 5 of this report.

Summary of considerations

The following table provides a high-level summary of the key considerations outlined in this report related to York Region considering the implementation of a vacant home tax.

Table 5: Summary of considerations for implementing a VHT in York Region

No.	Category	Considerations
1	Identification method	A mandatory declaration method 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. By contrast, a self-identification method is preferred if a primary objective is minimizing the administrative burden on homeowners.[5]
2	Tax rate	A tax rate of 1% of the assessed value of the property is generally accepted as the standard initial taxation rate based on the implementation of comparable

[5] **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 or not.**

No.	Category	Considerations
		vacant home taxes. However, if the Region intends to have the greatest impact on housing availability and affordability and generate higher VHT revenues, a higher tax rate may be appropriate.
3	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. Strict penalties for tax avoidance should be included as part of the VHT implementation.
4	Vacancy threshold	A six-month vacancy period (out of a calendar year) seems to be the most appropriate timeframe to be used as a vacancy threshold, based on jurisdictional research. Using a period of six months ensures that properties are not left vacant for the majority of a year.
5	Exemptions	Reasonable exemptions — such as for medical care, major renovations or recent sales or transfers — would excuse homeowners who have legitimate reasons for leaving their homes vacant, and in most cases will reassume occupancy within a reasonable time period.
6	Timing	If the Region decides to implement a VHT, having the first VHT reference period begin January 1, 2023 would allow the Region sufficient time to communicate the introduction of the tax and to develop the necessary systems and capabilities to administer the tax. It would also provide the Region time to draft the required by-law, including identifying the required exemptions and penalty regime and working with the Province on the required regulation.[6] Considerations will also need to be made about retroactive implementation of the tax / by-law, including language, communication, and fairness to those affected. Spending sufficient time to prepare the required systems and educate the public will help enable a smooth rollout of the VHT.
7	Administration & governance	Through discussions with York Region staff as well as an analysis of the administration methods available, the "hybrid delivery" method appears to be the most suitable option. Under this method, York Region and its local municipalities would split the responsibilities for delivering a VHT. For example, local municipalities could be responsible for collecting the tax, with the Region responsible for communications and compliance. This would limit the duplication of functionality while leveraging the local municipalities existing tax collection capabilities and processes. This approach would also maintain familiarity and may be more user-friendly to York Region residents. Additional consideration will also need to be given to the revenue sharing approach between the Region and the local municipalities.
8	Implementation considerations	In order to implement a VHT, the Region should consider the following steps: – Establish a dedicated project team to lead the implementation of a VHT; – Develop the by-law for a VHT; – Work with the Province to develop necessary regulations required; – Build IT systems to administer the VHT, including a declaration system, compliance/audit database and payment system; – Undertake extensive public education and awareness campaigns to ensure homeowners are aware of the tax, applicability of the tax and requirement to report on an annual basis; and

[6] Having the first VHT reference period begin January 1, 2023 reduces the administrative and communications burden of administering the tax across multiple calendar years (e.g., applying the tax from May 1, 2023 to April 30, 2024) and therefore not aligned with the current property tax payment schedule.

No.	Category	Considerations
		– Form an audit and compliance team to develop audit procedures and protocols, review annual declarations, identify non-compliance with the tax and create annual reports on the impact of the tax.

1 Introduction

1.1 Background

In 2017, the Province of Ontario introduced amendments to the *Municipal Act*, which granted designated municipalities the ability to implement an "Optional Tax on Vacant Residential Units", subject to designation by the Minister of Finance. Should a municipality decide to pass a by-law, it could "…impose a tax in the municipality on the assessed value, as determined under the *Assessment Act*, of vacant units that are classified in the residential property class and that are taxable under that Act for municipal purposes."

The two key requirements of the by-law are that it state:

1. The tax rate; and
2. The conditions of vacancy that, if met, make a unit subject to the tax.

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 home tax ("VHT"). At the time, the City of Toronto was moving forward with the implementation of a VHT, while Halton Region and Peel Region were studying the feasibility of their own VHTs. As a result, York Region Committee of the Whole[7] requested that a report be brought forward to further analyze the feasibility of implementing a VHT in York Region.

In April 2022, to support the ongoing work of the Region, the Region engaged KPMG to perform independent research 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;
- Supporting the Region with local and upper tier engagement;
- Performing an analysis of the 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 sharing.

1.2 Scope of this document

This document presents a high-level review of:

- The public policy rationale for a VHT;
- The estimated prevalence of vacant homes within the York Region real estate market;
- Potential design features of an effective and efficient tax program;
- Case studies from other major cities that have considered a comparable VHT, including four case studies of highly relevant examples (Vancouver, Melbourne, Toronto, and the Peel & Halton regions); and
- Potential qualitative and quantitative impacts of a VHT (e.g., alignment to stated policy objectives of increasing the supply of housing and affordable rents).

[7] The Committee of the Whole comprises of all members of Regional Council.

The research, advice, and initial design elements contained within this report are intended to support York Region staff in preparing materials to seek ‘designation’ from the Province to pass a VHT bylaw in the Region. 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.

1.3 Structure of this document

This document is organized by multiple sections, each addressing various considerations required to effectively analyze a VHT in York Region:

- Section 2 presents the rationale for a VHT in York Region, taking into consideration existing housing market conditions in the Region and the intended purpose of a VHT. This section also identifies the profile and motivations of a vacant homeowner, as well as the effect of vacant homes on housing affordability and rents within the Region.
- Section 3 describes the potential design features of a VHT. This includes the definitions of a vacant home and other terminology, along with considerations as to what might constitute a vacant home. This section also covers relevant administrative considerations, such as potential exemptions to the tax, levying and implementation of the tax, including administration options and considerations around roles and responsibilities for the Region and local municipalities, and operations and approaches for evaluation of the effectiveness of the tax.
- Section 4 highlights case studies of other municipalities and/or governments that have implemented and/or are in the process of implementing similar taxes on vacant properties. This section describes the backgrounds, administration methods, impacts (on vacant homes and local housing markets), public perception, as well as applicability to York Region for the different taxes reviewed in each jurisdiction.
- Section 5 provides an estimate of the financial implications of implementing a VHT in York Region. This includes an approach for estimating vacant homes in the Region based on experience in other jurisdictions, estimating the potential number of vacant homes that would be eligible for paying the tax and the associated VHT revenues across a range of tax rates and under different market assumptions.

In addition to this report, KPMG has prepared other reports as part of this engagement. These reportsprovide 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. An overview of current and historical housing market conditions within York Region to support the assessment and consideration of a potential VHT, titled *“A review of housing market conditions within York Region”*
2. A review of findings from research and stakeholder engagement, titled *“Evaluating a Vacant Homes Tax – What We Heard Report”,* prepared by KPMG’s subconsultant PROCESS.

2 Rationale for a VHT

The current housing market across much of Canada is at an inflection point. Demand for housing is at record highs, while vacancy rates remain low. Increasing housing prices, rising personal debt, and incomes that have not increased in-step are limiting the purchasing power of would-be homeowners, making it extremely difficult for many people to afford a home. A recent survey commissioned by KPMG Canada found that over 70% of millennials say their goal is to own a home, while over 45% of those surveyed believe that home ownership will likely be unattainable. As a result, governments across the country are actively looking at policy measures to make housing more affordable.

York Region is experiencing similar trends in its housing market – prices have been reaching record highs, and the supply of housing is being continually outpaced by demand. The increasing prices are affecting those looking to purchase or rent real estate.

Vacant homes can be a significant contributor to this problem. Houses that are kept vacant effectively reduce the supply of housing on the market, which – with all other things remaining equal – creates upward pressure on housing prices (following the law of supply and demand). This has a negative effect on housing affordability, but 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 detract from the health of the communities in which they exist, creating additional negative effects on businesses and community services that rely on local residents within the community for sustenance.

2.1 Profile and market motivations of a vacant homeowner

Anecdotal case studies, high-level market reviews, and economic reasoning indicate that a primary reason for leaving a house vacant is the desire to speculate on market price appreciation. Some may also see property as a store of wealth, whereby renting the property is not financially necessary and/or desirable for the owner. Other reasons might include extended absences due to work, study, or recreational lifestyle, such as spending winters/summers at a cottage or abroad.

Below is a summary of reasons that a house may be left vacant, some of which are generally deemed as exemptible from vacant home taxes in other jurisdictions:

- **Strata restrictions:** the rental of units is restricted, and the unit is unable to be rented.
- **Medical care or death:** the occupier of the home is no longer able to occupy the unit because they are receiving medical care or have recently passed away.
- **Property uninhabitable:** the property is not currently in a state that it could be safely inhabited.
- **Construction:** the property is either under construction or undergoing significant renovations.
- **Recent sale or transfer:** the property has recently been sold or has had a transfer of ownership.
- **Seasonal, recreational, or occasional use:** the desire for flexibility to use the property occasionally at the convenience of the owner and their lifestyle.

Additionally, there are multiple reasons why an owner may leave a home vacant which have not generally been exempt in other jurisdictions:

- **Liquidity:** leaving a home vacant makes it easier for an owner to quickly sell the unit if desired.

- **Aversion to becoming a landlord:** disinterest in being required to comply with the numerous obligations and regulations associated with being a landlord.
- **Wear and tear:** to avoid the associated wear and tear (i.e., deterioration) and maintenance costs for property upkeep.
- **Inertia:** a homeowner may intend to eventually occupy a property, renovate, or rent it out to others, but for whatever reason has not yet done so.

2.2 Effect of vacant homes on the supply of housing and rents

Calculating the precise impact of vacant homes on the Region's housing supply and affordability is not possible given the range of potential market variables and the lack of available data. Theoretically applying a tax against vacant homes should reduce the number of homes left vacant, as it increases the cost of leaving said home vacant.

Based on supply and demand economics, scarcity of a good generally increases the price of that good. As vacant homes have a negative impact on the housing supply, there is likely some upwards price pressure on housing prices in the Region because of the prevalence of vacant homes. Implementing a vacant home tax should increase the housing supply in the Region by transferring some vacant units to the market (either as rental properties or through sale by owners) and through the targeted use of revenues generated from administering the tax. Based on conversations with Region staff, directive from York Region Council, as well as at other comparable municipalities, it is expected that revenue generated from the tax could be used to fund affordable housing projects and initiatives across York Region.

The overall extent to which vacant homes are impacting the supply of affordable housing depends on a variety of factors, such as the types of homes currently being left vacant, their market price, and overall demand for homes of that type. Following the implementation of the tax, the Region should rely on available data gained through administering the tax to conduct analytics to review the impact. The data should demonstrate that the tax is achieving its stated purpose. The tax can be modified or adjusted based on any insights gained.

It is unlikely that many vacant homes transitioned to the market will fall into the low and mid-range market rental housing segment of the housing continuum. For example, Vancouver found that many homes that were vacant were single-family homes or condominium units that had an assessment value significantly above average. Many of these homes would likely be unaffordable to average income earners. However, transferring vacant homes to the market would likely improve housing choice for a number of York Region residents, which could moderate upward price pressures across the housing spectrum.

For example, transferring a three-bedroom single-family home to the market would provide a new option for a family of four currently living in a two-bedroom condominium. This family could then "right size" their housing by moving into the previously vacant home. This results in the current condominium unit being made available for new residents. Although no affordable housing units were added to the market in this example, the supply and range of housing options increased, which should help to improve overall affordability.

In Vancouver, the number of homes declared vacant has decreased significantly since the implementation of the VHT. Between 2017 and 2020 there was a 26% decrease in vacant homes, with the number of properties declared as vacant falling from 2,193 in 2017 to 1,627 in 2020. These 1,627 vacant properties represent 0.8% of all properties. In parallel, the number of principal and tenanted residences rose 1.3% and 19.5% respectively during the same period of time.[8] Of the 1,769 vacant properties identified in 2019, 36% were converted to occupied in the 2020 year, while other homes were newly declared as vacant.

[8] (City of Vancouver and Housing Vancouver, 2019)

2.3 Prevalence of vacant homes in York Region

It can be difficult to identify vacant homes and to determine the motivations of those homeowners. Data on home vacancy are not tracked on a continuous basis by the Region, Statistics Canada, or similar government agencies. Quantification is also challenged by the need to use an appropriate definition of vacancy and privacy legislation and principles.

Statistics Canada uses census data to identify unoccupied private dwellings for the census year only. Statistics Canada defines an unoccupied (i.e., vacant) dwelling as a private dwelling that meets the two conditions necessary for year-round occupancy but that has no individual residing in it on a specific date (e.g., May 11, 2021 for the 2021 census):

- A source of heat or power; and
- Provides shelter from the elements.

Using data from the 2021 census, it was estimated that of the 405,863 private dwellings in York Region, approximately 391,034 of them are occupied by usual residents. [9] This analysis suggests that approximately 15,000 or 3.6% of all dwellings analyzed were vacant (i.e., not occupied by usual residents at the date of assessment). This figure is more or less in line with 2021 census vacancy rates from other neighbouring jurisdictions, as illustrated in Figure 2.

Figure 2: GTA municipality vacancy rates

Jurisdiction / Municipality	Toronto	Peel	Halton Region	York Region
Vacancy Rate	5.6%	3.7%	2.6%	3.6%

This analysis of vacancy rates likely over-estimates the number of vacant homes for the purposes of a VHT, as it only considers occupancy at a single point in time. In comparison, most VHTs that have been implemented or proposed in other jurisdictions (e.g., Vancouver, Melbourne, Toronto, Ottawa and Hamilton) only apply to homes that are left vacant for a minimum duration of time over a specified reference period (e.g., a VHT will only apply to houses that have been left vacant for at least six months of the calendar year). The VHTs that have been passed or proposed in Vancouver, Melbourne, Toronto, Ottawa and Hamilton all stipulate that a home must be vacant for at least six months out of a 12-month year for it to be considered vacant.

2.4 Purpose of a VHT

There are two primary objectives for implementing a VHT:

- Transitioning vacant homes to the housing market, and;
- Raising revenue for municipal programs, initiatives, and public policy objectives, such as affordable housing.

2.4.1 Transitioning vacant homes to the market

A vacant home tax is a fiscal policy instrument that can increase housing availability and affordability under certain market conditions, such as those associated with a shortage of housing options for widespread portions of the population. When demand for residential property exceeds supply, residential property values will appreciate, leading to an increasing number of property owners that view residential real estate not just as a personal dwelling or source of rental income, but also as a store of wealth. One consequence of this can be

[9] Statistics Canada defines a "private dwelling occupied by usual residents" as a private dwelling in which a person or a group of persons is permanently residing.

speculative investment. In such cases, speculators may purchase and hold property until the maximum return on investment may be realized. In the interim, property owners may leave these properties vacant, which places pressure on available housing stock and drives up housing affordability / rents. This also limits the prevalence of vacancy and creates additional competition for units. Property owners may leave these properties vacant for a variety of reasons - the profile and market motivations of vacant homeowners are described in Section 2.1. For example, according to the Toronto Real Estate Board's 2018 Market Year in Review & Outlook Report, a survey of 2,501 GTA homeowners found that 2% of existing GTA homeowners stated that they own one or more additional homes that they keep vacant.[10]

These types of issues associated with a lack of housing supply are increasingly being felt across different jurisdictions throughout Canada, as the country currently faces a supply gap of 3.5 million homes.[11] All levels of government have acknowledged the lack of housing stock and each level has either studied or implemented policy measures to help with addressing the issue as the lack of supply continues to drive up housing prices.

Nonetheless, a VHT that is set sufficiently high will serve to disincentivize some speculators from leaving properties vacant by eroding potential returns. In the GTA it was found that 38% of vacant homeowners indicated that they would sell their investment property in response to a VHT while 37% would rent to tenants, and 25% would not change their behaviour.[12] Ultimately, if it becomes more expensive for vacant homeowners to keep a unit empty because of the VHT, they may choose to release these units back into the market for rent or sale. In addition to improving the supply of homes, a VHT could slow excessive market demand as it discourages investors from purchasing additional vacant homes due to the associated costs.[13] Overall, in line with the principles of supply and demand, more units on the market to buy or rent and fewer buyers competing in the market should have a positive impact on housing affordability.

More and more municipal and regional governments across Canada have recognized these potential benefits of a VHT and implemented their own version of the policy. A VHT can be an important policy initiative for quickly addressing the supply issues in Canada as it is relatively simple to implement. In comparison, it is extremely difficult to address housing shortages in the short-term by building new homes as the construction and government approvals process can be lengthy in Canada.[14]

Although a VHT displays several benefits, its impact is difficult to quantify. The housing market is impacted by a plethora of factors, such as global economic trends, cost of financing, other government policy, and changing demographics. While other jurisdictions have reported a decline in the number of vacant properties after the implementation of a vacant home tax, there are other factors that could impact the declining number of vacant properties and the decline cannot be solely or specifically attributable to the tax. Having said that, directionally, the decline in vacant properties is consistent with the intended purpose of a VHT.

Additionally, given the structuring and administration of the tax (described in Section 3), there will be lag time between the implementation of the tax and changes in behaviours of homeowners. A vacant home tax would likely not be paid by homeowners until at least a year after its implementation. Until a homeowner is required to pay the tax, it may not begin to impact their behaviour and ultimately transition vacant homes to the market.

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[10] (Toronto Real Estate Board, 2018)
[11] (Canada Mortgage and Housing Corporation, 2022)
[12] Ibid.
[13] Interest rates also impact demand for housing. High interest rates tend to decrease demand for property, placing downward pressure on housing prices, while low interest rates generally have the opposite effect. While Canada is currently experiencing a high-inflationary environment, leading to interest rates that have not been observed in Canada in several years, it can be reasonably expected that interest rates will flatten out or decrease within the coming years. Given the medium- to long-term nature of a VHT policy and the additional costs of carrying vacant real estate that the tax would create, it can be expected to further disincentivize speculators and encourage vacant homeowners to return said properties to the real estate market.
[14] (Canada Mortgage and Housing Corporation, 2022)

2.4.2 Generating revenue for regional/municipal programs and initiatives

Revenues generated from a VHT could be directed towards supporting municipal programs, initiatives, and public policy objectives, such as developing additional affordable housing. For example, Vancouver allocates all net revenues from its VHT, the Empty Homes Tax (“EHT”), to affordable housing initiatives, which has totaled more than $86 million since its inception in 2017. In 2021 alone, the EHT generated more than $26 million for affordable housing initiatives, which enabled the City to provide an additional $12 million in funding for the Community Housing Incentive Program. This program supports non-profit and co-op housing developers in attracting funding partners for affordable developments.[15] Similarly, Toronto City Council directed City staff to allocate any VHT revenues towards affordable housing initiatives through the annual operating and capital budget approval process.

A benefit regarding revenues generated from VHTs is that they typically have the general support from citizens and officials alike when compared to other taxes or fees. Additionally, the data obtained from the tax can be leveraged by housing and municipal planners to better understand whether particular neighbourhoods or developments are being targeted by speculative investors, allowing them to modify/update their policies and approaches to the benefit of the municipality and urban landscape more broadly.

If the VHT ends up achieving its policy objectives, the number of vacant homes will decrease over time, along with the revenue generated by the tax (in the absence of any rate increases). For example, vacant homes in Vancouver consistently decreased in each consecutive year following the implementation of the EHT in 2017. Vacant homes in Vancouver declined by 7% in 2018, 13% in 2019 and 8% in 2020.[16] Nonetheless, revenues from the EHT have remained relatively stable, as the tax rate was raised to 1.25% in 2020, 3% in 2021 and will be raised to 5% in 2023. While these rate increases have continued to support declines in the number of vacant homes, it is not clear how low the number of vacant homes will go, or whether there may be a limit on how high the VHT rate can be set and still remain effective.[17] Some vacant homeowners may continue to keep their properties vacant regardless of how high the tax rate is set. However, the effect of these homeowners on the housing market can be at least partially offset by directing the net revenues raised from a VHT towards affordable housing initiatives. The market response in Vancouver over the coming years will be an interesting case study for other jurisdictions who have implemented a similar tax. As such, a VHT can be viewed as a good revenue tool for the Region in the short- and medium-term but should not be relied upon as a long-term sustainable revenue source.

[15] (City of Vancouver, 2021)
[16] (City of Vancouver, 2021)
[17] A VHT rate that is set too high may face challenges in terms of political ramifications and/or general market acceptance.

3 VHT Program Design

Per the enabling legislation in the Ontario Municipal Act, and upon receiving ‘designation’ from the Minister of Finance, York Region must pass a by-law to implement a vacant home tax. According to Ontario legislation, that by-law must contain:

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

Ontario legislation dictates that municipalities may include other contents in a by-law for a VHT as deemed necessary, such as:

- Exemptions from the tax;
- Rebates of tax;
- Audit and inspection powers; and
- Except as otherwise provided for in the regulations, the establishment and use of dispute resolution mechanisms.

This section provides research and analysis on these tax design features for the consideration of implementing a VHT in York Region.

3.1 Definitions

A VHT will require clear definitions for terms such as “vacant” and “home”. Definitions used by Vancouver, Melbourne, and Toronto are shown in Table 6 below.

Table 6: VHT definitions from comparator municipalities

	Vancouver Empty Homes Tax	Melbourne Vacant Residential Land Tax	Toronto Vacant Home Tax
Vacant	Properties are considered vacant if they have been unoccupied for more than six months during the preceding calendar year.	Properties are considered vacant if they have not been lived in for at least six months (collectively) of the preceding calendar year. The occupation does not need to be by the same occupant or for a single continuous period.	A residential unit is vacant if it has been unoccupied for more than six months during the prior calendar year, or it is deemed to be vacant due to the owner failing to make a vacancy declaration or making a false vacancy declaration.
Home	All “Class 1 Residential” properties, including: single-family residences, multi-family residences, duplexes, apartments, condominiums, nursing homes, seasonal dwellings, manufactured homes, farm buildings and daycare facilities.	Land that is able to be used solely or primarily for residential purposes, such as a home or an apartment.	A residential unit is a self-contained unit which includes a dedicated washroom and kitchen, located on property classified as residential property on the assessment roll.

A six-month period within a twelve-month reference year (e.g., calendar year, fiscal year) would align to the York Region context. This period of time acknowledges several life circumstances common in York Region, such as individuals who travel for work and/or spend extended periods outside of the Region (e.g., cottagers, snowbirds, etc.).

Definitions used by other agencies may serve as a precedent. To maintain OHIP coverage, an individual may be temporarily outside of Canada for a total of 212 days in any 12-month period as long as their primary place of residence is still in Ontario.[18] Under certain circumstances, the Ontario Ministry of Health and Long-Term Care has extended absence provisions. These would cover absences due to studying outside of Canada, working outside of Canada, and charitable work outside of Canada. In comparison to Ontario, in order to maintain coverage under the Medical Services Plan in British Columbia, a person must be physically present in B.C. at least six months in a calendar year.[19] In Vancouver's implementation of the EHT, they noted that by using an occupation aligned with the Medical Services Plan would reduce the number of snowbirds impacted, as many snowbirds would likely return to their primary residence to maintain their health coverage. As OHIP coverage allows for Ontario residents to remain out of the country for an additional 29 days (or approximately seven months in total) compared to British Columbia's plan (six months), a VHT with a six-month occupation requirement may capture the primary residences of some snowbirds. Property taxes in York Region are currently applied on a calendar year basis, with property assessment values and property tax rates revised annually. Utilizing a calendar year as the VHT reference period would align the application of other tax measures currently used by the Region.

Details around timing of implementation are included in Section 3.5.

3.2 Exemptions

Given the range of residential property taxes in a large city/region, policymakers may seek to exempt certain types of property owners or classes of homes. The enabling legislation permitting the Region to implement a VHT requires regulations "prescribing persons and entities who are not subject to [the] tax." Other jurisdictions have included the following exemptions:

Table 7: VHT exemptions across comparable jurisdictions

Vancouver Empty Homes Tax	Melbourne Vacant Residential Land Tax	Toronto Vacant Home Tax
– Major home renovation requiring vacancy – Resident has been admitted to a long-term care facility (for no more than 12 months) – Rental restrictions or prohibitions in place for the property – Transfer of 100% of the legal interest in the property was registered in the Land Title Office – Court order prohibits taking up residence in the property – Use of the property for rental purposes is curtailed due to	– Change of ownership during the year – Property became a "residential" property during the year – Property is a holiday home for a minimum of 4 weeks in a year – The property is used and occupied for work purposes by the owner for at least 140 days – Significant renovations to the property (lasting no more than 2 years from date of building permit)	– Death of a registered owner – Undergoing redevelopment or major renovation that makes occupation impossible for at least six months – Registered owner is in care, institutionalized or hospitalized – Residential Unit is subject to a restriction or prohibition on rental – Legal ownership of residential unit has been transferred to an arm's length transferee (during year of sale only)

[18] (Ministry of Health and Long-Term Care, 2012)
[19] (Province of British Columbia, 2022)

Vancouver Empty Homes Tax	Melbourne Vacant Residential Land Tax	Toronto Vacant Home Tax
factors such as size limitations – Property belongs to the recently deceased	– Property forms part of an estate for the recently deceased	– Unit is occupied by a registered owner with a principal residence outside of the Greater Toronto Area and the property is required for employment purposes in Toronto for at least six months per year – Court order is in place prohibiting occupancy of the residential unit

Many exemptions are only able to be applied for one year, such as in the case of a recent death – after which point the property would be subject to the tax.

It is important to ensure sufficient consideration is made to ensure exemptions don't create unintended behaviours and/or produce workarounds. For example, Vancouver conducted an evaluation of its EHT and found that its exemptions had created multiple, unintended loopholes. Individuals were leasing residential properties to corporations they owned to avoid being assigned a vacant status. Vancouver has since modified its tax regulations to close these loopholes, specifying that the property must have actually been used/occupied for the required minimum amount. If the property was not rented out or used/occupied for at least six months of the tax year, the EHT will apply. Additionally, the use and occupation must be as a principal place of residence or subject to an actual leasing arrangement.

3.3 Levying the tax

3.3.1 Identification of vacant homes

The primary challenge to implementing a VHT is identifying which residential units are truly unoccupied over the course of the reference period. This will ensure that the tax can be levied, and the desired outcomes achieved. There are potentially several different methods to identifying vacant homes:

- **Mandatory declaration (universal declaration):** Property owners are required to complete mandatory declarations each year, confirming the status of their property as occupied, exempt, or vacant during 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 is the most prevalent method used in Canada, with Vancouver, Toronto, Ottawa, Region of Peel and Halton Region all implementing their VHTs on this basis.
- **Self-identification (voluntary declaration):** Property owners are expected to self-identify vacant units to municipalities for the purpose of determining liability for the VHT. Properties are assumed to be occupied unless declared as vacant. Penalties are put in place to act as a deterrent to owners of vacant properties that might be tempted to not self-identify. This method was employed by Melbourne with some challenges – it was found after the fact that, when given the option, many residents did not report their property occupancy, potentially reducing the impact of the implemented VHT.
- **Complaint-based identification:** Investigations into the occupational status of a property are undertaken by municipalities where complaints are received regarding suspected vacant units. Complaints can be filed either by neighbours, residents, or municipal staff. Should the property be deemed unoccupied, it becomes liable under the applicable VHT. Such an approach can also be used as an audit and enforcement mechanism in combination with any of the above methods.

These identification methods are often supported by audits and compliance efforts that verify whether a property/home is vacant or not. Jurisdictions generally apply penalties to owners found to falsely report occupancy status. The mandatory declaration or self-identification mechanisms could be used in combination with a complaint-based method for compliance – this was also largely supported by respondents across the stakeholder engagement activities.

The advantages and disadvantages of these approaches are summarized in the table below:

Table 8: Advantages and disadvantages of VHT declaration methods

	Advantages	Disadvantages
Mandatory declaration	– Individual property owners are more directly accountable (they must claim occupancy to avoid the tax) – Larger dataset of responses allows for additional analysis – Lower evasion rate	– Higher administrative effort, with significantly more forms to be processed – More intrusive (all taxpayers must respond) – All homeowners must be aware
Self Identification	– Lower administrative effort – Less intrusive to public	– Owners can more easily claim ignorance of obligations – Higher risk of avoidance – More education/public awareness required to ensure compliance (Response relies on homeowners self-identifying and knowing that they have an obligation)
Complaint-based identification	– Lower administrative effort – Less intrusive to public	– Higher risk of avoidance – Reliant on in-person inspections to verify – Potentially higher degree of mediation on account of false reports / categorizations of occupancy

3.3.2 Tax rate

The VHT tax rate should discourage property owners from leaving residential properties vacant while not creating unintended consequences, such as disincentivizing housing development. In general, other jurisdictions have defined vacancy in a way to avoid impacting snowbirds or cottagers who may be temporarily absent.

Depending on the tax rate and the number of vacant homes in York Region, the measure could potentially generate additional revenues for the Region (although not a primary policy objective). Policymakers may decide to dedicate this new revenue to similar public policy objectives (such as Regional affordable housing initiatives).

Without sufficient data around the VHT it is not possible to establish an initial optimal tax rate. Once the VHT is established and implemented, data can be collected to evaluate its effectiveness and to determine the impacts of raising the tax rate. In the absence of such data, York Region may want to look to jurisdictions with experience with VHT implementation to identify an initial tax rate for consideration.

Vancouver, Melbourne, Toronto, Ottawa, the Region of Peel, Halton Region, and Hamilton all have used (or will use) an initial tax rate of 1% of the assessed value of the property. Although not insignificant in value, there are questions in all jurisdictions as to whether the 1% tax rate is high enough to incentivize property owners to return their vacant properties to the market. The Region of Peel and Halton Region have indicated that they would consider adjustments of the rate to up to 3%. As indicated previously, Vancouver has already made rate increases, with further rate increases already planned – moved from 1% to 1.25% in 2020, up to 3% for 2021 and 2022 and increasing to 5% in 2023.

A tax rate of 1% may be appropriate initially and align with neighbouring jurisdictions, however a higher tax rate could support achieving policy objectives more quickly. It may be beneficial to the Region to keep the tax rate constant for the early years of implementation to support in establishing baseline data on vacant homes in the Region. Once established, the Region may wish to consider steadily increasing the rate (i.e., on an annual basis) to measure potential impacts on the number of vacant homes and revenues to determine what an optimal rate could be in York Region.

3.4 Implementation

There are a number of factors that the Region should take into consideration when implementing a VHT. At a high level, the key considerations are as follows:

- Timing;
- Communication;
- Local Municipal/Regional responsibilities;
- Costs;
- Public policy and legislation;
- Allocation of revenues; and
- Infrastructure and governance.

Additional detail for each is provided below.

3.4.1 Timing

The VHT will need to be implemented in a timely manner if it is to achieve its desired results in the near term. However, it is also important to allow sufficient time for communication and public education in order to effectively inform residential property owners about their declaration obligations, and to allow them adequate time to adjust their behaviours. A potential implementation timeline is provided in Section 3.5.

3.4.2 Communication

Public awareness initiatives will be required in order to bring sufficient awareness and understanding of the VHT to the public. During the implementation process, regular communication and public engagement would be required. Communication leading up to the declaration period is required such that owners are aware of their responsibilities, and to ensure that taxes are not applied in situations where owners simply were unaware of the regulation. Public awareness campaigns would have to be run throughout the reference year, informing the public of the upcoming changes to their taxes. Inserts in utility bills and official Region/local municipality correspondence, along with radio, television, and other media advertisements would be appropriate. Campaigns would be required to inform owners of the intent of the VHT, as well as of new regulations regarding vacant homes.

These campaigns would also be required to run throughout the initial taxation year, to remind property owners of the application of the VHT on vacant properties. The Region should work with groups such as the Canadian Real Estate Association and the Condominium Authority of Ontario to ensure the impact of the VHT is communicated and understood.

One of the lessons learned from Vancouver was that more effort was required to raise public awareness than they had projected. Following the implementation of their EHT, Vancouver had to allocate an additional $650,000 on public communications than what was originally anticipated.[20] Vancouver needed to conduct additional public communications during the reference period and in the lead up to the declaration period in order to ensure the public was aware of the requirement to declare, but still found that some homeowners

[20] (City of Vancouver, 2017)

claimed a lack of awareness for why their home was left vacant or not declared (vacant or occupied) as part of the initial declaration process. Public awareness campaigns during the reference period were targeted at convincing vacant homeowners to find ways to have their homes be occupied. Whereas campaigns during the declaration period were focused on reminding all homeowners of the need to declare their vacancy status.

3.4.3 Local municipal/Regional responsibilities

Implementing a VHT in York Region will require additional considerations around municipal/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. When determining the responsibilities of the Region versus local municipalities, consideration should be made to maximize efficiencies from existing processes and minimize redundancies where possible.

There are three main administration methods available:

- **Local municipal delivery:** The local municipalities would be responsible for completing all activities related to a VHT, including communication, reporting, collections, and compliance. This may require duplication of functionality across the local municipalities and may result in inconsistencies between different municipalities.
- **Hybrid delivery:** York Region and the local municipalities would split the responsibilities for delivering a VHT. For example, the local municipalities could be responsible for collecting the tax, with the Region responsible for communications and compliance. This would limit the duplication of functionality while utilizing the local municipalities existing tax collection capabilities.
- **Regional delivery:** York Region would be responsible for completing all activities related to a VHT. This may result in higher levels of efficiency due to consolidated operations across the Region. It may, however, require amendments to the Municipal Act in order to allow the Region to collect the tax. Because of the challenges associated with obtaining permission from the Province for the Region to become a tax collector and the potential costs associated with establishing a tax collection system at the Regional level, the Region has indicated that this is an unlikely option for implementation.

Through discussions with York Region staff as well as an analysis of the administration methods available, the "hybrid delivery" method appears to be the most suitable option as it limits the duplication of efforts between local municipalities and the Region, while also leveraging existing property tax collection systems. This approach would also maintain familiarity and may be more user-friendly to York Region property owners.

Implementation details, such as by-law drafting and implementation planning will need to be finalized over the coming months. The Region, working together with local municipalities, will be able to learn from the experience of other neighbouring jurisdictions, such as Toronto, Halton or Peel, to understand what went well, what to be aware of, and how to more effectively manage both effort and costs. Both the Region of Peel and Halton Region have recommended to their Councils that the VHT be delivered through the "Hybrid" delivery model. Both regions estimated that a hybrid delivery model would have lower implementation and operating costs by leveraging existing tax collection capabilities at the local level. Neither region has specified how the various responsibilities for delivering the tax, such as audits, will be divided between the local municipal governments and respective regions.

3.4.4 Costs

When considering the implementation and design of a residential vacancy tax, the associated costs would have two components: a start-up cost and the ongoing costs for operation.

The start-up cost for implementing the Empty Homes Tax in Vancouver, including the key considerations outlined in this section, amounted to approximately $7.4 million. Overall, implementation costs for Vancouver were 57% higher than their original anticipated start-up cost estimate of $4.7 million.[21] Vancouver staff indicated that, at the time of implementation, there were limited jurisdictions with VHTs that could inform their analysis. As a result, Vancouver had to refine estimates for implementation costs several times. Subsequent jurisdictions to implement VHTs in Canada have experienced implementation costs that were largely consistent with Vancouver's ultimate costs (proportionate to their population sizes). Thus, other jurisdictions can be used to help inform estimates for implementation costs of a VHT in York Region. Given the Region's two-tier municipal structure, the cost structure for York Region will be different than that of several other municipalities. For further details on costs, please see Section 5.3.

Most jurisdictions look to ensure that all operating costs are covered by the proceeds collected from the tax, with the remaining funds being dedicated to various housing-related initiatives. The cost structure of the "Hybrid" implementation approach will also need to be considered, with the Region and local municipalities sharing costs for different components of the tax.

Additional cost considerations, including anticipated costs for the Region, are included in Section 5 of this report.

3.4.5 Public policy and legislation

A significant amount of time will be required for the public policy and legislative work required to implement the VHT. Public consultation, Council decision(s) regarding the appropriate rules and regulations for the tax, and the drafting of legislation will all need to take place before the implementation can begin. Based on consultation with York Region staff, implementation of the VHT would likely entail using the period through 2022 to address policy and planning issues, along with establishing roles and responsibilities between the Region and local municipalities. It is anticipated that a draft VHT bylaw will go to Regional Council for approval in early 2023, followed by an application to the Province for 'designation' which council will later enact. Given this timing and the potential to use 2023 as the first reference period for the VHT, the Region may need to include language in its by-law drafting that allows for the tax to be implemented retroactively and include a period of time prior to the formal adoption of the tax.

Following Council approval, the Region could use the remainder of the year to establish and implement the requisite systems and processes. In addition, it will be important for the Region and/or local municipalities to commence the promotion and education component of the communications strategy following approval. This should allow sufficient time for homeowners to make appropriate arrangements for their homes should they be considered vacant under the VHT by-law. By retroactively assigning the calendar year of 2023 as the initial reference period, homeowners would then be required to make declarations in early 2024, with billing occurring one to two months thereafter. A potential VHT implementation timeline is discussed in Section 3.5.

3.4.6 Allocation of revenues

There are several different methods for allocating revenue across the Region. The three primary methods are as follows:

- **Regional approach:** The Region would retain all revenue and allocate it to projects and initiatives across the Region as it sees fit. Under this approach, the Region would direct any revenues generated by the VHT to affordable housing programs and initiatives per Council direction.

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[21] (City of Vancouver, 2017)

- **Return revenue to local municipalities:** A portion of revenue generated in a municipality may be returned to it by the Region after accounting for administration costs and other potential Regional initiatives. For example, if there is $5 million in VHT revenue generated by/within a municipality, that funding would be given to the municipality after deducting the administrative costs associated with levying the VHT and other potential Regional program costs that would get priority access to the VHT revenues. This means that the proportion of total VHT revenue a municipality receives each year may fluctuate but allows for a portion of revenue generated to be returned to the area in which it is generated.
- **Allocate revenue to local municipalities proportionately:** Revenue generated across the Region is divided across municipalities using established factors such as population, number of households, or affordable housing demand. The amount of revenues available for distribution would be established after the Region determines the extent of revenues required to deliver on Regional housing initiatives. This approach could result in a more predictable allocation of funding across the Region but may mean that VHT revenue is not returned to the municipality in which it was generated.

The approach to sharing/allocating revenue is still to be determined by the Region and its local municipalities. There were several suggestions made by stakeholder engagement participants about allocating revenues with municipalities based on the number of vacant units, established housing programs, local populations, or property assessment value, however a firm conclusion was not determined.

These initial considerations for allocation of revenues should be considered against their alignment with historical approaches, whether they recognize local municipal housing initiatives, their ease of implementation, and whether they address stakeholder concerns. Regardless of the revenue allocation method, the Region will always maintain a share/portion of the revenues generated by the VHT. Preliminary conclusions through discussions with the Region and the stakeholder engagement exercise indicate that the "Regional approach" may be the most appropriate, however the Region will need to assess further how revenue allocation should best be handled to deliver on the policy objectives of the VHT (e.g., increased housing supply; VHT revenue to go to affordable housing in the Region). Note that revenue allocation may be also informed by the different roles related to housing within a two-tiered municipal environment.

3.4.7 Infrastructure and governance

The implementation of a VHT would require additional infrastructure and governance to be put in place in order to administer and manage the tax. Based on the experience of other jurisdictions like Vancouver and Melbourne, as well as an assessment of typical requirements associated with implementing new taxes, the Region and its local municipalities would have to ensure that the following is employed:

- A project team to oversee the initial implementation and early troubleshooting;
- Business support, including internal subject matter experts in areas like revenue generation, tax policy, housing policy, legal services, and communications;
- Development of a payment and reporting system, including audit, compliance, and analytics capabilities;
- A dispute resolution system to handle appeals as necessary, similar to the appeals process in place for supplementary taxes and land tax appeals;
- Technical and professional services for website development, 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 implementation of the new tax, adjustments to existing Regional and local municipality systems would be required. A new module for the local municipalities' tax management and collection systems would be required, taking advantage of synergies with the existing property tax and land transfer tax systems. This system would handle the processing of applicable taxes for vacant properties, using the same property assessment information used in the existing property tax system. Furthermore, a front-end portal would be required for declarations of property occupancy status, as well as for initiating appeals and providing an interface for the public to interact on VHT-related issues. The Region and its local municipalities should consult with other municipalities in the GTA implementing similar changes in an effort to leverage lessons learned and/or products/solutions developed for other municipalities to help keep costs down.

The Region will also need to develop an audit and compliance capability. This would require technology systems and new staff in order 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 consultation with Vancouver staff, they indicated that their initial assumptions for the resources and efforts required to adequately audit and enforce the VHT were underestimated. As of 2019, the City had 12 full time staff responsible for administering audits.

In addition, a dispute resolution system would need to be implemented to handle appeals as necessary. As part of the EHT in Vancouver, an independent body was established to handle the appeals and dispute resolution process. Such a body would require a defined or independent dispute mechanism or process to handle VHT case considerations. If, however, an independent body was not set up, the Region could follow a similar process to that used for land tax appeals.

3.5 Implementation timeline

Due to lag times associated with housing policy, a VHT designed to reduce the number of vacant homes in the market and potentially improve housing affordability/availability would need to be implemented in a timely manner if it is to impact the housing market in the near term. The sooner the VHT is implemented, the sooner potential impacts to the housing market can be identified (e.g., available housing units, impacted price points, etc.).

A reasonable timeline for the implementation of a VHT would balance the urgency of the public policy objectives with the necessary administrative and operational preparations required. At a high-level, a potential implementation timeline for a VHT for York Region is outlined in Figure 3 below.

Figure 3: Potential VHT implementation timeline

2022 / 2023	2023	2024
Implementation	**Reference Period**	**Operations**
Introduction of necessary by-laws, regulations, and policies. Beginning of public education campaigns.	Introduction of the Vacant Home Tax. The calendar year is used as the first reference period. Continuation of public education campaigns.	Requirement for home-owners to make declarations at the beginning of the year for the 2023 reference period as part of the initial property tax billing cycle, with billing one to two months afterwards. Audit procedures underway.

In pursuing the implementation timeline above, sufficient consideration will also need to be made by the Region about retroactive implementation of the tax / by-law. Additionally, specific consideration around language within the by-law, communication (internally and externally) about the tax and implementation timeline, and general fairness towards those affected by the VHT will need to be incorporated. Several other jurisdictions within Ontario that have already passed VHT by-laws have taken similar approaches using a retroactive implementation. In Toronto, City Council passed a VHT by-law on February 3, 2022, which retroactively came into effect on January 1st of that same year. Ottawa City Council also passed a draft VHT bylaw on March 23, 2022, which retroactively came into effect on January 1, 2022. Similar to the case for York Region, Ottawa City Council officially enacted the VHT following receipt of ‘designation’ from the Province that same year. York Region may consider using the precedents set by other municipalities with experience implementing a VHT to inform its own by-law and implementation timeline.

3.6 Operations

As part of ongoing operations of a VHT, the Region and/or local municipalities would need to employ staff that could handle the following tasks:

- Tax administration;
- Review and compliance (audit);
- Notice and advertising;
- IT support and maintenance; and
- A call centre or online portal and maintenance.

The above tasks will be split between the Region and local municipalities. Specific details on roles and responsibilities and governance will need to be further refined between the Region and local municipalities.

Given the novel nature of a vacant home tax in York Region, a large portion of ongoing costs of operation would be spent to ensure compliance with the tax regulations and to educate property owners about their roles and responsibilities in regard to responding to the tax. Relevant operating costs would include salaries for inspectors and audit staff, IT services, and any hard costs associated with print, postage, and electronic services.

Vancouver indicated that developing the audit and dispute functions in advance of the declaration period was important in order to increase compliance. Having the audit function established allowed the city to conduct audits and ensure compliance in a timely fashion, ultimately increasing the overall compliance with the tax. Additionally, Vancouver city staff identified that ensuring the evidence requirements were not overly onerous made the audit process efficient, while still ensuring overall compliance with the tax.

The intention is that a VHT would be self-funding in that the revenue generated would be able to cover annual costs of administration, with any surplus revenue being directed to affordable housing programs or other Regional initiatives. Additionally, in order to ensure compliance with the tax, the VHT would need to have priority lien status in order to enforce unpaid VHT balances.

3.7 Measuring effectiveness

In order to evaluate the effectiveness of a VHT, the public policy objective should be clear. Based on discussions with York Region staff and factors identified by Council, the primary objective of a VHT in York Region would be to produce a positive impact on housing availability and affordability across the Region. This is similar to other jurisdictions. For example, the stated objective of Vancouver's Empty Homes Tax is to "return empty or under-used properties to use as long-term rental homes for people who live and work in Vancouver." The objective is not necessarily to maximize revenues or to force owners to sell their properties.

Annual reporting and monitoring will be required to effectively measure the effects of the tax on housing availability and affordability. The number of vacant homes, revenue collected, and housing trends should be monitored on an annual basis in order to understand the effects of a VHT.

As the Region does not have existing reliable data on the number of vacant homes, the effectiveness of the tax should be analyzed based on the trend of annual VHT declarations. Additional sources of information, such as utility usage, public surveys, and housing data can also be used to monitor the overall housing market and vacancy trends.

Several municipalities that have recently implemented VHTs in Canada have successfully identified and established several key metrics useful for the evaluation of the performance of the taxes. In consultation with the City of Vancouver and the City of Toronto, the following metrics have been identified as effective indicators related to VHT performance. The Region should consider measuring and evaluating tax performance on an ongoing basis:

- The evolution of vacancy rates over time;

- The relationship between vacancy rates and market rents;
- Number of properties required to declare;
- Changes in vacant and exempt properties (e.g., the number of properties converted from vacant to occupied, the number of new properties reported as vacant);
- Breakdown of exemptions by type;
- Changes in tenanted properties;
- Occupancy status of previously vacant properties;
- Average assessed value of vacant properties versus all properties; and
- Revenues generated by the tax.

The City of Vancouver reports on several of the indicators above related to the performance of the tax. Additional information related to the annual performance measurement is available in the Vancouver Empty Homes Tax Annual Report.

It can be reasonably assumed that by simply announcing the tax and its effective taxation date of January 1, 2024, some owners of vacant properties may seek out tenants in 2023 to avoid paying the tax. This will help the Region in achieving its objective of releasing housing stock but will be difficult to measure quantitatively.

Ultimately, a VHT should discourage maintaining vacant homes, either by returning units to the rental market or by encouraging owners to sell the property. The success of the tax will depend on a number of factors. Annual reporting and monitoring will be essential to successfully measuring the impact of the tax.

4 Case Studies

This section provides a high-level summary of reference information from other domestic and international jurisdictions that have implemented or are planning on implementing a VHT or a similar policy. This section focuses on publicly available and published data. A key outcome of the jurisdictional scan was to identify key learnings and takeaways for a York Region VHT and identify any elements that are unique to the other jurisdictions. Jurisdictions covered include Vancouver, Toronto, the Region of Peel and Halton Region, and Melbourne. Additional information about the jurisdictions and their conditions related to VHTs, as well as information on several additional jurisdictions (Paris, New York, and London) can be found in Appendix A.

4.1 Vancouver

4.1.1 Background of tax

In response to mounting pressures on Vancouver's housing market resulting in record-breaking housing prices, in November 2016 the City of Vancouver approved the Empty Homes Tax, which came into effect in January 2017. The primary intent of the EHT was to return empty and underutilised properties to the housing market through sales or as long-term rental homes for residents of Vancouver. Any revenue generated by the EHT was intended to be a secondary benefit of the tax, with all funds collected to be directed towards investments in affordable housing in Vancouver.[22]

4.1.2 Definition of vacant home

The City of Vancouver defines a vacant residential property as one that has been unoccupied for more than six months during the vacancy reference period.[23] The EHT is assessed by calendar year (January 1 to December 31), defined as the "vacancy reference period".

The occupant does not need to be the same occupant over the six-month period, nor does the occupancy need to take place over a single continuous period. However, occupancy must occur in periods of at least 30 consecutive days or more. It is not enough that the property is simply available for occupation (i.e. listed as a short term rental), the property must have actually been used/occupied for the required minimum amount. If the property was not rented out for at least six months of the tax year, the EHT will apply. The use and occupation must be as a principal place of residence or subject to an actual leasing arrangement.[24]

The EHT applies to all Class 1 Residential properties within the city of Vancouver that were not used as a principal residence or rented for at least six months of the year, and do not qualify for an exemption.[25] Class 1 Residential properties include:

- Single-family residences;
- Multi-family residences;
- Duplexes;
- Seasonal dwellings;
- Manufactured homes;
- Some vacant land;

[22] (City of Vancouver and Housing Vancouver, 2019)
[23] (City of Vancouver, 2019)
[24] (City of Vancouver, 2019)
[25] (City of Vancouver, 2020)

- Apartments;
- Condominiums;
- Nursing homes;
- Farm buildings; and
- Daycare facilities.

Acceptable exemptions include:

- Major renovations;
- Change in ownership;
- Death of owner;
- Rental restrictions apply to the property;
- Property is under court order; and
- Property is limited in use.

In addition, properties will be exempt from the EHT if the lands are vacant, a heritage property, or part of a phased development – provided that an application to redevelop has been submitted and permits are under review. There are no exemptions for properties that are unoccupied for more than six months of the vacancy reference period solely because they are unimproved.[26]

4.1.3 Administration method

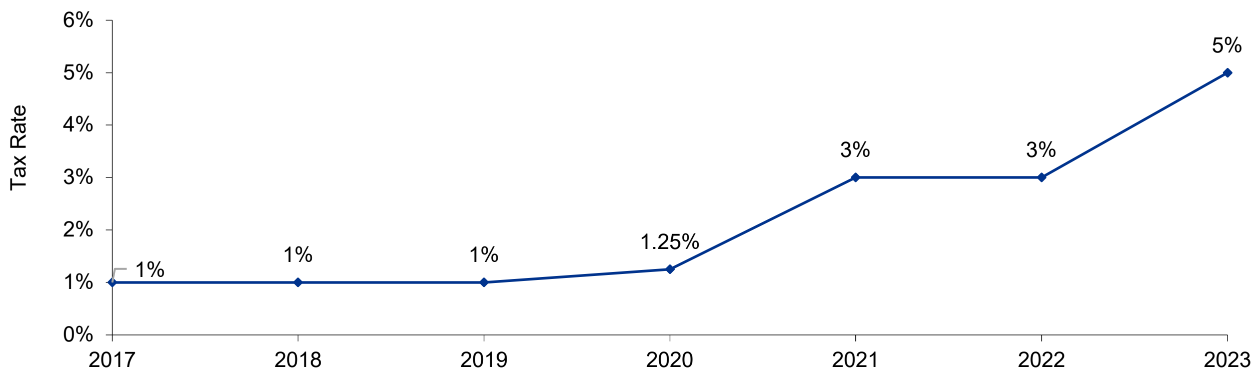
Vancouver's EHT is administered as a mandatory declaration program. Each year, residents are required to complete mandatory declaration forms, confirming the status of their property as occupied, exempt, or vacant during the prior reference period. If a resident owns a property that was unoccupied for greater than six months during the previous vacancy reference period, they must indicate as such on the mandatory declaration form, at which point the property will be subject to the tax. Those that fail to submit their property status declaration(s) by this date will have their property / properties automatically declared vacant and will be subject to the EHT as well as a $250 penalty for not submitting their declaration(s).[27]

In situations where there may be doubt surrounding the validity of a resident's declaration, the City can require the registered owner to provide additional information about their property ownership for up to 2 years after the initial declaration. As a means of data collection and enforcement, the City will periodically audit certain properties to ensure compliance with the tax. Using a combination of a risk-based approach and random audits, the EHT program verifies the validity of property status declarations. All property status declarations are subject to the audit process as per best practices for provincial and federal tax programs. As part of the audit process, registered property owners may be required to submit additional evidence to the City to support their declaration.

The annual EHT was originally set at 1% of the property's assessed taxable value,[28] and was increased to 1.25% for the 2020 tax year.[29] Vancouver has continued to raise the tax, with a rate of 3% in 2021, and recent announcements inform of a 5% rate to come into effect for 2023.[30] The assessed taxable value of a property is the value of the land, buildings, and any other aspects of the property as determined by BC Assessment, and is different depending on the class of property involved. An overview of the historical EHT tax rate is illustrated in Figure 4 below.

[26] (City of Vancouver, 2020)
[27] (City of Vancouver, 2019)
[28] Ibid.
[29] (City of Vancouver, 2019)
[30] (Little, 2022)

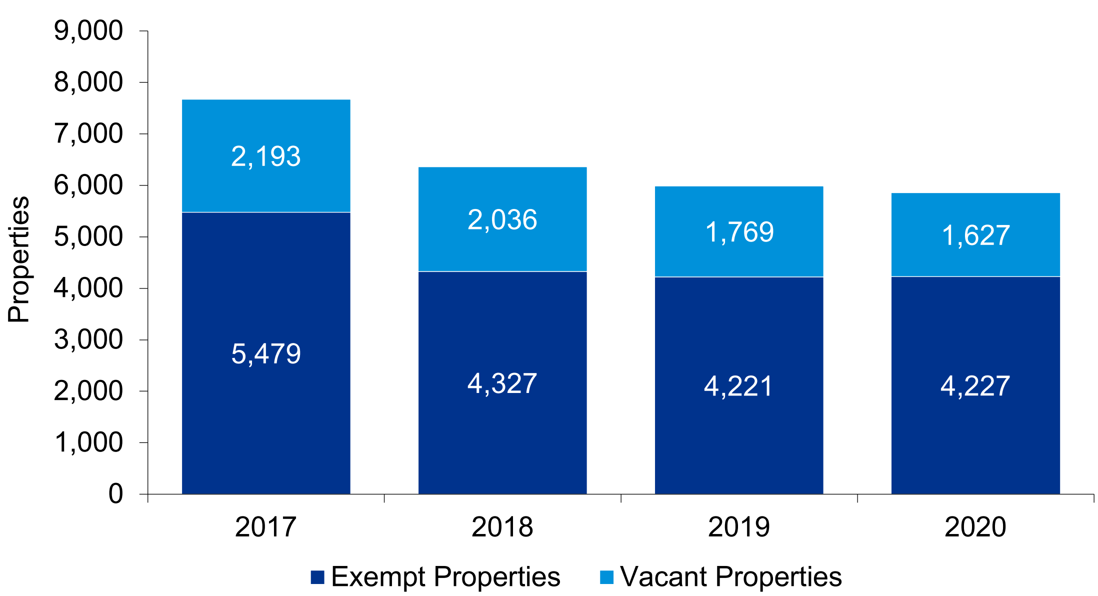
Figure 4: Vancouver EHT rate by year



4.1.4 Impact of tax

Between 2017 and 2020 there was a 26% decrease in vacant homes, with the number of properties declared as vacant falling from 2,193 in 2017 to 1,627 in 2020. These 1,627 vacant properties represent 0.8% of all properties. In comparison, the number of principal and tenanted residences rose 1.3% and 19.5% respectively during the same period of time.[31] Of the 1,769 vacant properties identified in 2019, 36% were converted to occupied in the 2020 year. A visual breakdown of vacant and exempt properties over the past four years is included in Figure 5, below.

Figure 5: Vacant and exempt Vancouver residential properties subject to the EHT



Although any revenues generated by the EHT were intended to be a secondary benefit of the tax, the City raised approximately $38.0 million, $39.4 million, $36.0 million and $26.0 million from the tax in years from 2018 to 2021, respectively. The City noted that revenue decreased in 2021 as more vacant homes were

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[31] (City of Vancouver and Housing Vancouver, 2019)

transitioned back into the market where the number of vacant properties decreased by approximately 250. Figures for the 2022 tax reference period are not yet complete and still unavailable.

4.1.5 Applicability to York Region

Similar to Vancouver in 2015, York Region has been experiencing a rapid acceleration in housing prices. As a result, both jurisdictions have experienced low vacancy rates over a similar timeframe. Furthermore, both are under strong and increasing pressure from growing demand to live in urban areas, while supply – despite the addition of new buildings, has not kept pace to meet this demand. Furthermore, both jurisdictions are in provinces that have implemented provincial foreign buyers' taxes.

Although it is still too early to definitively conclude that Vancouver's EHT is producing its intended results, at a high level there has been a decrease in vacant properties within the city and additional revenue raised for affordable housing initiatives. If York Region were to proceed with implementing a VHT, Vancouver's experience in implementing their EHT should be taken into account for insights into the structure and components of the tax (i.e., administration, exemptions, enforcement, etc.). Furthermore, lessons learned with regards to understanding the effectiveness of the tax, as well as setbacks, loopholes, public perception, and potential changes/revisions being made to Vancouver's EHT should be considered in Region's initial implementation of a VHT.

4.2 Melbourne

4.2.1 Background of tax

In 2017, it was estimated that in Melbourne, up to 3.9% of all residential properties were vacant (nearly 61,000 properties[32]), based on water usage data.[33] As a percentage of investor-owned rental properties, the vacancy rate was estimated to be as high as 16.2% of all rental properties – demonstrating more than $20 billion in vacant property.[34] To address the lack of housing supply in Melbourne and across the state of Victoria, the Victorian Government introduced the vacant residential land tax ("the VRLT") in March 2017, with it coming into effect in January 2018. The aim of the VRLT was to assure the availability of housing and was intended to encourage owners to rent or sell their properties rather than providing additional revenue to the government. The intent is such that additional revenue generated by the VRLT will support affordable housing initiatives in Victoria.

4.2.2 Definition of vacant home

The Victorian Government defines residential property or residential land as land that is able to be used solely or primarily for residential purposes, such as a home or an apartment. This also includes land on which a residence is being renovated, or where a former residence has been demolished and a new one is being constructed. It does not, however, include vacant land or commercial residential properties.[35]

A property is deemed to be vacant if, for more than six months in the preceding year, it has not been lived in by either of the following:

- The owner of the property, or a permitted occupier by the owner, as their principal place of residence; or
- A person under a lease or short-term letting arrangement made in good faith.

The occupant does not need to be the same occupant over the six-month period, nor does it need to take place over a single continuous period. However, it is not enough that the property is simply available for

[32] The study analyzed 1,579,906 dwellings out of a total possible 1,741,984. Dwellings not included were excluded because of data availability issues.
[33] (Prosper Australia, 2019)
[34] Ibid.
[35] (Victoria State Revenue Office, 2017)

occupation (i.e., listed as a short-term rental). The property must actually have been used/occupied for six months or more. Furthermore, it is also not enough that the property is used intermittently or on a casual basis (i.e., by friends and/or family of the owner). The use and occupation must be as a principal place of residence or subject to an actual lease or letting arrangement.[36]

There are several exemptions to the above rules, including:

- Ownership of the property changed;
- The property became a 'residential' property during that year
- The property is a holiday home; and
- Property is used and occupied by the owner for work purposes.

Properties that are owned by companies, associations, or organizations are generally not eligible for these exemptions.[37]

4.2.3 Administration method

The administrative method for Victoria's VLRT is self-identification. If a resident owns a property that was unoccupied for greater than six months during a calendar year, it is their responsibility to notify the Victoria State Revenue Office (VSRO).[38] Failure by a resident to notify the VSRO of ownership of a vacant residential property is considered a notification default, and results in the owner being held liable for a penalty tax on the amount assessed in accordance with the state's revenue ruling on penalty tax and interest.[39]

The annual VRLT is set at 1% of the capital improved value (CIV) of taxable land.[40] The CIV of a property is the value of the land, buildings, and any other capital improvements made to the property as determined by the general valuation process.

4.2.4 Impact of tax

Overall, the effects of the VLRT on vacancy rates in Melbourne remains unclear. Prior to the implementation of the VLRT, vacancy rates in Melbourne were consistently trending downwards, falling from an average of 2.7% in 2013 to 1.4% in 2018.[41] Following the implementation of the VLRT in 2018, vacancy rates began increasing – 2.5% in 2019, 4.7% in 2020 and 4.4% in 2021.[42] Nonetheless, Melbourne's real estate market was significantly affected by the COVID-19 pandemic. The VRLT was suspended in 2021, as border restrictions limited the entry of foreign workers and students which resulted in extremely high vacancy rates.[43] Additionally, vacancy rates have likely been inflated due to high levels of dwelling completions in recent years.[44] As of 2022, the VLRT has been reinstated and corresponded with a sharp drop in vacancy rates. However, it is too early to determine the extent to which this trend is due to the easing of pandemic restrictions or the reinstatement of the VRLT. Furthermore, some critics note that the current tax rate is too low, and a higher rate would be more effective at incentivizing property owners to return vacant houses to the market.

4.2.5 Applicability to York Region

Melbourne and York Region share multiple similarities that make Melbourne a relevant comparator to York Region in the context of a vacant home tax. Both cities have experienced recent property booms, significant increases in housing demand, low vacancy rates over the past 5-10 years (excluding during the COVID-19 pandemic), and have struggled to supply adequate levels of housing to meet increasing demand. Furthermore,

[36] Ibid.
[37] Ibid.
[38] Ibid.
[39] (Parliament of Victoria, 2019)
[40] (Victoria State Revenue Office, 2017)
[41] (Statista, 2022) (SQM Research, 2022)
[42] (SQM Research, 2022)
[43] (Victoria State Revenue Office, 2017)
[44] (Australian Bureau of Statistics, 2020)

speculation investment is exacerbating the housing shortage by keeping a significant number of properties off the market as investors hold properties vacant as speculative investment vehicles rather than allowing them to be occupied for housing. In addition, both jurisdictions share similar structures of government, laws, and regulations, which allow for relevant comparison in the context of taxes and similar such initiatives.

Melbourne also serves as an example of a jurisdiction that has opted for a voluntary self-identification vacant home declaration method as opposed to the mandatory declaration methods applied in Vancouver and Toronto. As some of the initial evidence from Melbourne indicates that the VLRT has been less effective at reducing the number of vacant homes compared to Vancouver, a self-identification declaration mechanism may be less effective than the mandatory declaration method at achieving the goals of the tax.

4.3 Toronto

4.3.1 Background of tax

Toronto housing has become increasingly unaffordable and has priced many residents out of the market. Between 2006 and 2017, average home prices grew by over 130%.[45] Furthermore, residential rental prices have continuously risen – between 2006 and 2017 the average prices for primary rental units and condominiums rose by approximately 30% and 47%, respectively.[46] A major contributor that has been worsening affordability in Toronto is a lack of housing supply. Vacancy rates for both primary rental apartments and rental condominium units have declined, indicating limited supply. In 2017, overall rental vacancies for primary rentals and condominiums were 1.4% and 0.7% respectively.[47]

To address these challenges, in 2016, the City of Toronto began investigating a VHT. This decision closely followed the implementation of Vancouver's EHT. In 2016, studies using census data[48] and analysis of water consumption data indicated that Toronto residential vacancies ranged between 2% and 5.7%.[49] In response to the affordability and supply issues in Toronto's housing market, Toronto City Council approved the implementation of a 1% VHT in July 2021 which subsequently came into effect in January 2022.[50] The City outlined that the goal of the tax was to improve the supply and affordability of housing stock by disincentivizing homeowners from leaving their properties vacant.[51] Although Toronto's VHT was not passed to generate revenue, City Council has directed that all revenues from the tax be directed to affordable housing initiatives.[52]

4.3.2 Definition of vacant home

At the time of this report, specifics on Toronto's VHT have not yet been finalized as the official bylaw has not been released for public review. However, City Council has approved the final design features for the VHT. The City of Toronto defines a vacant residential property as one that has been unoccupied for more than six months during the vacancy reference period (January to December).[53] The six months does not have to be consecutive, however, tenant stays must be for at least 30 consecutive days to count towards the six months. Homes can also be deemed vacant by the City in circumstances where the owner fails to make a status declaration, makes a false status declaration, fails to provide information/evidence to the City or provides false

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45 (MLS Real Estate Listings, 2022)
46 (Canada Mortgage and Housing Corporation, 2020)
47 Ibid.
48 (Statistics Canada, 2016)
49 Ibid.
50 (City of Toronto, 2021)
51 Ibid.
52 Ibid.
53 Ibid.

information/evidence.[54] The Toronto VHT applies to all residential units within the city that were neither used as a principal residence nor rented out for at least six months of the year, and do not qualify for an exemption.[55]

A residential unit is defined by the City as "a self-contained unit which includes a dedicated washroom and kitchen, located on property classified as residential property on the assessment roll".[56]

The City of Toronto has outlined a number of exemptions to the VHT. If a property is deemed exempt, the owner will not be charged the tax for the applicable year. Exemptions include:

- Death of a registered owner;
- The property is undergoing redevelopment or major renovation;
- The registered owner is in care, institutionalized, or hospitalized;
- The property is under court order which is prohibiting occupancy;
- The residential unit is subject to a restriction or prohibition on rental;
- The property has undergone a transfer in ownership; and
- The property is being occupied for full time employment.

4.3.3 Administration method

Toronto's VHT will be administered as a universal declaration program. All registered owners of residential property within the City of Toronto will be required to complete mandatory declaration forms each year, confirming the status of their property as occupied, exempt, or vacant during the prior reference period.[57] If a resident owns a property that was unoccupied for greater than six months during the previous vacancy reference period, they must indicate as such, at which point the property will be subject to the tax. Those that fail to submit their property status declaration(s) will automatically have their property / properties deemed vacant.[58]

In situations where there may be doubt surrounding the validity of a resident's declaration, the Director of Revenue Services can require the registered owner to provide additional information about their property ownership for up to 2 years after the initial declaration. As a means of data collection and enforcement, the City will periodically audit certain properties to ensure compliance with the tax. Using a combination of a risk-based approach and random audits, the VHT program verifies the validity of property status declarations. All property status declarations are subject to the audit process as per best practices for provincial and federal tax programs. As part of the audit process, registered property owners may be required to submit additional evidence to the City's Director of Revenue Services to support their declaration.

4.3.4 Impact of tax

As Toronto's VHT only came into effect in January 2022, with payments not starting until 2023, there is not yet any evidence of the impact that the tax has on vacant homes or the Toronto housing market in general. However, comparing Toronto with Vancouver highlights the potential effectiveness that a VHT can have. Both Vancouver and Toronto have faced issues with high numbers of homes being left vacant in each city. In 2016, vacant homes accounted for 8.2% and 5.6% of the total housing stock in Vancouver and Toronto respectively according to census data.[59] Nonetheless, following the implementation of Vancouver's EHT in 2017, the number of vacant homes in the city has fallen by over 25%.[60] In comparison, the number of vacant homes in

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[54] Ibid.
[55] Ibid.
[56] Ibid.
[57] (City of Toronto, 2021)
[58] Ibid.
[59] (Younglai, 2022)
[60] Between 2017 and 2020 there was a 26% decrease in vacant homes, with the number of properties declared as vacant falling from 2,193 in 2017 to 1,627 in 2020.

Toronto over the same period of time has increased by approximately 40%.[61] This contrast between Vancouver and Toronto indicates that a VHT could have a significant impact in reducing the number of vacant homes.

Furthermore, revenues from a VHT will increase support for affordable housing initiatives in Toronto. Just as with Vancouver, Toronto's VHT has a principal objective of increasing the supply of housing to the market. All revenues generated from the VHT are seen as a secondary benefit and will be directed towards affordable housing initiatives after deducting operational expenses.[62] Using tax metrics from Vancouver's experience and assuming a one percent vacancy rate of Toronto's 800,000 residential units, the City estimates that the one percent VHT could generate approximately $55 million to $66 million in annual revenue.[63]

Additionally, since the goal of Toronto's VHT is to increase housing supply, the City may find a one percent tax to be insufficient, as was the case with Vancouver. The City may subsequently choose to raise the tax if too many property owners are opting to pay the tax instead of putting their property on the market.

4.3.5 Applicability to York Region

Toronto's decision to implement a VHT is highly pertinent to the York Region, both in terms of taking action to improve housing affordability and the potential spillover effects. Toronto has experienced rapid growth in real estate prices over the past 5-10 years, low vacancy rates, and supply levels that have struggled to keep pace with demand. Speculative housing investments pose a significant risk for further exacerbating the housing shortage by keeping properties off the market and reducing supply. Concern for this risk is already evident at the provincial government level which introduced the foreign home buyers' tax in 2017 for the Golden Horseshoe region, including both York Region and the City of Toronto, before expanding it provincewide in 2022. Additionally, given York Region's proximity to Toronto, a Toronto VHT could result in an acceleration of speculative housing investments in York Region, as investors replace their Toronto properties with properties in York Region to avoid being taxed.

Although Toronto's VHT has yet to produce any concrete results, it offers useful insights into the policy design of a VHT in Ontario. Furthermore, as more information comes out on Toronto's VHT, York Region can leverage lessons learned with regards to understanding the effectiveness of the tax, as well as potential setbacks, loopholes, public perception, and policy changes/revisions that are required.

4.4 Region of Peel & Halton Region

4.4.1 Background of tax

Both the Region of Peel and Halton Region have announced their intentions to launch a vacant home tax in each respective region. Similar to the other case studies examined, this policy came in response to rapidly rising property values and to address housing affordability. Both regional municipalities anticipate an expected implementation by 2023/2024.

4.4.2 Definition of vacant home

Halton and Peel have engaged in jurisdictional scans to formulate potential definitions of a vacant home. In remaining consistent with the definitions in Vancouver and Toronto, both regions have recommended to council that a definition for a vacant home should be one which is unoccupied for more than six months of the calendar year.[64] Additionally, both Regions are considering exemptions, such as:

[61] (Younglai, 2022)
[62] (City of Toronto, 2021)
[63] Ibid.
[64] (Region of Peel, 2022) (Halton Region, 2022)

- Holiday homes if the property is lived in for a minimum of 4 weeks every year;
- Deceased owner;
- Large renovations;
- Owner in medical care;
- Inability to find tenant or buyer;
- Change of ownership; and
- Court prohibiting occupancy.

4.4.3 Administration method

In aligning with VHTs in Toronto and Vancouver, Peel and Halton are considering similar administration methods. Both Regions have recommended that their Council adopt a universal declaration method, where all homeowners within the region annually declare the vacancy status of their home(s).[65] Furthermore, both Regions have recommended initial tax rates of 1% for the VHT, with future reassessments that would consider adjustments of the rate to up to 3%.[66] The Regions have recommended that a VHT be enforced through periodic audits, with penalties applied to homeowners that fail to appropriately declare their homes as vacant. Homeowners would retain the right to challenge any penalties through established dispute resolution bodies.[67] Lastly, both regions have recommended to their Councils that a VHT will be most efficiently delivered through a hybrid delivery model. Both regions estimated that a hybrid delivery model would reduce implementation and operating costs due to efficiencies gained through centralizing functions at the regional level while leveraging capabilities at the local level.

4.4.4 Impact of tax

Both Peel and Halton have outlined that a VHT will have a primary objective of returning vacant homes back to the market for rent or sale, with any revenue generated from the tax treated as a secondary benefit. Additionally, both Regions have forecasted potential net revenues generated by a 1% VHT. In Halton, the Region projected that a VHT could generate $4.1 to $4.3 million in annual net revenue ($5.8 million from declarations and $0.3 million from penalties through audits) based on an estimated 348 to 376 vacant homes.[68] Annual operating costs were estimated to range between $1.8 to $2 million for eleven to twelve full-time employees, as well as notices and advertising, IT support and maintenance, and customer service.[69] Implementation is forecasted to cost between $3.3 and $3.9 million for six to nine full-time employees, professional services, infrastructure costs, and technical costs.[70] Overall, Halton projects that a 1% VHT will result in approximately 330 vacant homes being sold or converted into rental properties.[71] In comparison, the Region of Peel expects to generate $17.1 million in annual revenue ($16.4 million from declarations and $0.7 million from penalties through audits), with $5 million in annual operating costs.[72] Peel expects that implementation costs will range between $12 and $15 million.[73] Both Regions have indicated that all net revenues from a VHT will be directed towards affordable housing initiatives.

4.4.5 Applicability to York Region

The decision of the Region of Peel and Halton Region to pursue a VHT has several implications for York Region. As more jurisdictions across Canada face housing affordability issues, a VHT is seen as an effective policy for improving affordability. Jurisdictions such as Toronto, Peel, and Halton are acknowledging Vancouver's success at reducing vacancy rates following the implementation of a VHT and are implementing

[65] (Region of Peel, 2022) (Halton Region, 2022)
[66] Ibid.
[67] Ibid.
[68] (Halton Region, 2022)
[69] Ibid.
[70] Ibid.
[71] Ibid.
[72] (Region of Peel, 2022)
[73] Ibid.

their own VHTs that share many similarities (e.g., definition of a vacant home, universal declaration method, consistent exemptions, etc.). Additionally, Peel and Halton are neighbouring jurisdictions to York Region, where a VHT may result in spillover effects. For example, home vacancies in York Region may accelerate as housing speculators seek to move their investment properties out of Peel or Halton and into York Region to avoid paying the tax. Lastly, Peel and Halton indicated that a hybrid delivery model for a VHT may be most effective for York Region, as all are regional municipal governments within the GTA.

5 Vacancy and Financial Estimates for York Region

This section of the report presents a high-level overview of the potential financial implications for York Region regarding the implementation of a VHT, including the methodology and assumptions used to develop an estimate of the number of vacant homes across each of the nine local municipalities within York Region, and the potential revenue that could be generated by a VHT.

5.1 Estimating vacant homes

Estimating the number of vacant homes in a given municipality or region can be challenging. There is limited credible data available to support the identification of vacant homes (particularly when considering the breadth of exemptions available under the tax), and jurisdictions that have implemented a VHT (or similar tax) have found that the actual number of eligible vacant homes can vary from estimates.

One source of data that has been used by York Region, as well as other jurisdictions, is electricity or water consumption data. While this can be helpful in providing rough estimates for vacancy rates, **the data is not directly linked to an address due to privacy concerns** and, as a result, can be unreliable – particularly when it comes to new developments or homes that are under construction. Additionally, the majority of condominiums and apartments in municipalities are bulk metered, meaning that it is not possible to identify the water consumption for individual housing units within the building.[74]

Another source of data that has been used to estimate vacant homes is census information. The census will identify the total private dwellings within a particular jurisdiction, along with an estimate of the occupied private dwellings (which provides an implicit vacancy rate for the jurisdiction). A major challenge with using this Statistics Canada data (i.e., census data) is that it is a point-in-time estimate that attempts to measure whether a dwelling is occupied or not. The dwelling could be unoccupied during the time of the census, but otherwise occupied for the majority of the year. This could lead to several properties being identified as vacant in the census, while not meeting the criteria for vacancy under a VHT. For example, when Vancouver implemented its EHT in 2017, the Vancouver Census Subdivision reported a total of 309,418 private dwellings in 2016, of which 283,916 were identified as ‘occupied’. This implied an 8.2% vacancy rate. When Vancouver implemented the EHT the following year, the total number of vacant homes based on the mandatory declaration of residents was notably lower at 4.3% (and this was before any exemptions were applied).

5.1.1 Approach to estimating vacant homes for York Region

Given the challenges in estimating vacant homes, KPMG worked with the Region to develop a conservative approach to estimating vacancy based on observed outcomes from Vancouver’s EHT implementation. The

[74] **Note: due to privacy concerns, York Region does not use any type of utility data to determine if a home is vacant or not and will not use such data at any time in the future.**

approach uses 2021 census data for each of the nine municipalities within York Region to estimate vacancy rates based on the total dwellings and total occupied dwellings identified in the census data.

Table 9 below presents the dwelling information and the implied vacancy rate for each municipality from the 2021 census.

Table 9: 2021 York Region census dwelling information

Municipality	Total Private Dwellings	Occupied Private Dwellings	Vacancy Rate
Aurora	22,253	21,506	3.4%
East Gwillimbury	11,869	11,449	3.5%
Georgina	19,368	17,895	7.6%
King	9,346	8,969	4.0%
Markham	114,908	110,867	3.5%
Newmarket	31,239	30,301	3.0%
Richmond Hill	72,017	69,314	3.8%
Vaughan	107,159	103,914	3.0%
Whitchurch-Stouffville	17,154	16,707	2.6%
TOTAL	**405,313**	**390,922**	**3.6%**

From here, an adjustment factor of 52% was applied to the vacancy rates to reduce the anticipated vacancy rates under the VHT based on the observed experience of Vancouver.[75] Effectively, this step is to convert the vacancy rates from being based on vacancy on a specific date to vacancy over a six-month period.

Table 10 below presents the adjusted number of vacant dwellings and vacancy rates for each municipality based on the application of the adjustment factor.

Table 10: 2021 York Region vacant dwellings

Municipality	Total Private Dwellings	Number of Vacant Dwellings	Assumed % of Vacant Dwellings
Aurora	22,253	386	1.7%
East Gwillimbury	11,869	218	1.8%
Georgina[76]	19,368	572	3.0%
King	9,346	195	2.1%

[75] 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.
[76] MPAC data identified 190 seasonal properties in Georgina. Given that these types of properties would likely be exempted from the tax, but identified as vacant for census purposes, these units have been deducted from the estimated number of vacant dwellings in the analysis.

Municipality	Total Private Dwellings	Number of Vacant Dwellings	Assumed % of Vacant Dwellings
Markham	114,908	2,089	1.8%
Newmarket	31,239	485	1.6%
Richmond Hill	72,017	1,397	1.9%
Vaughan	107,159	1,677	1.6%
Whitchurch-Stouffville	17,154	231	1.3%
TOTAL	**405,313**	**7,250**	**1.8%**

5.1.2 Assessment of housing types

As previously mentioned, the vacancy rate and exemption rate can vary substantially by housing type. Using 2021 census data as well as observed data from Vancouver, we attempted to approximate the number of vacant homes by housing type in each of the local municipalities in York Region.

The 2021 census data provides the total number of private dwellings in each municipality. It also provides a breakdown of the 'occupied' private dwellings within each municipality by housing type. Based on the total number of vacant dwellings (the difference between the total private dwellings and total occupied private dwellings), vacancies within each municipality were distributed based on the relative ratio of vacancies observed in Vancouver.

In 2017, the first year of implementation for the EHT, Vancouver indicated that 3.4% of all single-family homes were deemed vacant for the period, along with 4.9% for condominiums and 4.8% of other housing stock. Using this ratio of vacancy rates and the breakdown of housing stock from the 2021 census, our analysis estimated the number of vacant homes by housing stock for each municipality.

5.1.3 Exemptions to the VHT

When estimating the number of vacant homes for revenue purposes, it is important to consider that a significant number of homes will likely fall within one of the exemptions identified for the VHT and therefore not subject to the tax. These exemptions could include renovations to the home, 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.

The number of exemptions each year can be quite high and have been seen to vary by housing type. Since the implementation of the EHT in Vancouver, almost 60% of the condominiums identified as vacant were exempted from paying the tax. The exemption rate for single-family homes and other housing types was even higher at approximately 83% and 80%, respectively.

For the purposes of estimating the potential number of exemptions to the VHT in York Region, it was assumed that the exemption rate would be similar to that experienced by Vancouver in its first year of implementation. Based on this, the analysis assumes that:

- 83.2% of vacant single detached, semi-detached and duplex homes are exempted from the tax;
- 78.5% of vacant townhomes are exempted from the tax; and
- 58.1% of vacant condo and apartment units are exempted from paying the tax.

Table 11 presents the total number of dwellings that could be exempted from the tax and the estimated number of dwellings that would be eligible to pay the VHT, along with the assumed vacancy rate for taxation purposes within each municipality.

Table 11: 2021 York Region census vacant dwelling exemptions

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%**

5.2 Estimated gross revenue potential

Once an estimate for the number of vacant homes subject to VHT by housing type within each municipality was established, the next step was to estimate home values and calculate the potential VHT revenues that could be captured in the first year of implementation. To do this, data was leveraged from MPAC that identified average assessment values by housing type for each municipality. As home values in York Region have substantially increased in recent years, a scheduled reassessment of home values for tax purposes in 2024 will likely result in higher revenues that what is currently estimated.

In terms of home values, based on EHT data in Vancouver, there is a “value premium” for vacant homes when compared to the average value of homes. This means that, on average, the assessed value of the vacant homes was higher than the assessed value of all homes in Vancouver of a similar housing type. The amount of the premium has fluctuated slightly over the last few years, however it still remains high. There could be several factors contributing to this value premium, such as vacant homes tend to be located in higher priced neighborhoods or communities, or are newly built or recently renovated homes, etc.

In 2017, the value premium for vacant condominiums was 53%, while vacant single-family homes had a value premium of 40%. These value premium rates may not be directly applicable to York Region – given the housing markets are different between the two municipalities. For example, York Region is not expected to have the same extent of vacant luxury condos that “dragged” up the average value of vacant condos in Vancouver. Therefore, for the purposes of the analysis, the value premiums observed in Vancouver have been reduced by 50% and applied to the average assessed values in York Region.

Table 12 below provides the assessed home values assumed in the analysis on a weighted basis for each municipality, along with the weighted assessed value after the premium was applied. Based on these two values, the implied value premium is also included for each municipality. The slight differences between municipalities is attributable to the housing mix of the assumed number of vacant homes within each municipality (i.e., the municipalities with a higher prevalence of vacant condominiums have a higher implied value premium).

Table 12: Weighted average of assessed values by municipality before and after value premium is applied

Municipality	Weighted Assessed Home Value	Weighted Assessed Home Value After Premium	Implied Value Premium*
Aurora	$680,813	$826,386	21.4%
East Gwillimbury	$601,048	$722,419	20.2%
Georgina[77]	$404,194	$487,897	20.7%
King	$979,351	$1,181,456	20.6%
Markham	$723,780	$879,681	21.5%
Newmarket	$558,272	$677,861	21.4%
Richmond Hill	$720,000	$875,325	21.6%
Vaughan	$708,069	$859,900	21.4%
Whitchurch-Stouffville	$711,052	$859,121	20.8%
* Differences derived from housing mix for vacant homes in each municipality.			

5.2.1 Tax rate

In almost all jurisdictions that have implemented a VHT, the initial tax rate has been set at 1.0% of the assessed value of eligible vacant homes. For the purposes of the analysis, multiple tax rate scenarios have been included to observe the impact of the tax rate on potential VHT gross revenues.

Table 13 below presents the estimated VHT gross revenues that could be generated within each municipality based on the methodology outlined above and an associated tax rate of 1.0%, 1.5% and 2.0%. A tax rate of 1.0% may be appropriate initially as it aligns with neighbouring and comparator jurisdictions, however a higher tax rate could support achieving policy objectives more quickly and through initial public engagement, would appear to have public support (more than 65% of survey respondents indicated support for a tax rate higher than 1%). Additionally, it may be beneficial to the Region to keep the tax rate constant for the early years of implementation to support in establishing baseline data on vacant homes in the Region. Once established, the Region may wish to consider steadily increasing the rate (i.e., on an annual basis) to measure potential impacts on the number of vacant homes and revenues to determine what an optimal rate could be in York Region.

Table 13: Estimated VHT gross revenues

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%	$677,637	$1,016,455	$1,355,273
East Gwillimbury	11,869	0.3%	$274,519	$411,779	$549,039

[77] MPAC data identified 190 seasonal properties in Georgina. Given that these types of properties would likely be exempted from the tax, but identified as vacant for census purposes, these units have been deducted from the estimated number of vacant dwellings in the analysis.

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
Georgina	19,368	0.6%	$526,929	$790,393	$1,053,858
King	9,346	0.4%	$413,510	$620,264	$827,019
Markham	114,908	0.4%	$4,257,655	$6,386,482	$8,515,310
Newmarket	31,239	0.3%	$691,418	$1,037,128	$1,382,837
Richmond Hill	72,017	0.5%	$2,949,845	$4,424,767	$5,899,689
Vaughan	107,159	0.3%	$3,224,626	$4,836,939	$6,449,253
Whitchurch-Stouffville	17,154	0.3%	$378,013	$567,020	$756,027
TOTAL	**405,313**	**0.4%**	**$13,394,152**	**$20,091,229**	**$26,788,305**

Given that a VHT is primarily a policy tool used to incentivize property owners to release vacant homes to the housing market, whether through sale or tenancy (rather than allowing them to stay vacant), it is expected that the number of vacant homes will decrease over time as more property owners adjust their behavior. With a decline in the number of vacant homes, 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.

Vancouver has reported annual revenues for the last four years. In the first year of the EHT, revenues were $33.6 million. Revenues have declined since that initial year, but still surpass $20 million on an annual basis. This includes a rate increase from 1% to 1.25% last year, as well as planned increases of 3% for 2021 and 2022, and up to 5% for 2023.

Between 2017 and 2020, there was a 26% decrease in vacant homes observed in Vancouver, with vacant properties falling from 2,193 in 2017 to 1,627 in 2020. These 1,627 vacancies represent approximately 0.8% of all properties in the city. Of the 1,769 vacant properties identified in 2019, 36% were converted to occupied in 2020. While it is difficult to attribute these behaviors solely to the EHT, the desired outcome of the tax is being observed and more homes are being returned to the market.

While Vancouver has seen the conversion of several vacant homes to occupied units, there are still a number of property owners who are incurring the tax on an annual basis – some people are less price sensitive than others, particularly if these are investment properties and the EHT is viewed by property owners instead as a transaction cost. The price sensitivity of owners of these vacant homes will be tested in the coming years with the proposed tax rate increases planned through 2023.

5.2.2 Other revenue potential

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. In Vancouver, approximately 4.5% of the total revenues generated for the EHT come from penalties that are applied through non-compliance audits and the percentage of revenues received through audit activities has been increasing each year (see Table 14).

Table 14: Annual gross revenues from Vancouver's Empty Homes Tax

	2018	2019	2020	2021
Revenues from declarations	$38.0M	$39.4M	$36.0M	$26.0M
Revenues from penalties	$1.1M	$1.8M	$1.9M	$1.8M
Total revenues	**$39.1M**	**$41.2M**	**$37.9M**	**$27.8M**
% of Revenues from Penalties	*2.8%*	*4.4%*	*5.0%*	*6.5%*

5.3 Administration costs and net revenues

When considering the implementation of a VHT, it is important to consider the cost of setting up and administering the tax on an ongoing basis. It will be critical that the revenues collected outweigh the costs, and that there are sufficient net revenues to support housing initiatives within the Region. To date, there are limited examples of regional municipalities moving ahead with a VHT. Vancouver, Melbourne, and Toronto are all single-tier municipalities, and it is difficult to assess the cost sharing approach that would occur under a two-tiered approach. Both Peel Region and Halton Region have recently approved a VHT – both have studied the tax, however neither have implemented nor reported on the actual cost of implementing the tax.

Through discussions with the Region and feedback from our stakeholder engagement process, it appears that a hybrid option for administration of the VHT may be most effective. This approach would allow the Region to lead the communications and public outreach related to the implementation of the tax and ongoing communications, while also establishing an audit and compliance team that would perform spot checks of residences along with leading the review of properties that applied for exemptions. Under this model, the local municipalities would leverage their existing property tax payment systems and processes to support the collection of any VHT related payments. Additionally, the local municipalities would be responsible for reporting to the Region the number of vacant homes within their respective municipalities.

Under this model, all VHT revenues would be collected by the local municipalities and remitted to the Region. Direct costs incurred with the administration of the tax – both at the local and regional level – would be covered by the proceeds from the tax and the remaining proceeds would be directed to housing initiatives within the Region. A potential revenue sharing approach between the Region and local municipalities has not yet been identified and will be further explored following the submission of this report.

Table 15 below presents the estimated costs associated with implementing and administering a VHT based on a hybrid model, along with rationale for each of the assumptions. Costs are indicative in nature and are subject to change based on a more clearly defined implementation and administration approach. This is expected to involve further discussions between the Region and the local municipalities.

Table 15: Estimated costs with implementing and administering VHT in York Region

Cost Item	Amount	Assumptions	Rationale
Implementation (One-Time)			
Region Project Management	$1,200,000	10 FTEs plus benefits @ $120K	Responsible for overall implementation and coordination with local municipalities, including drafting and development of the by-law.
Technical Support	$4,500,000	$500K per municipality	IT costs associated with development and implementation (assumed at each municipality). Assumed efficiencies if coordinated at the Regional level and lessons learned from surrounding municipalities.
Hardware and Software	$500,000		Requirement for additional purchases to support the buildout of the tax administration system
Communications	$200,000		Public outreach in advance of implementation and advertising associated with public notification
Other Costs	$128,000	2% of total costs	Other costs related to printing, advertising, accessibility, review, etc.
TOTAL	**$6,528,000**		
Operating Costs (Annual)			
Tax Administration	$1,080,000	1 FTE per muni plus benefits @$120K	Local municipality administration teams responsible for collection and remittance of tax revenues. This may involve partial time for multiple staff members.
Compliance Team	$1,800,000	15 FTEs plus benefits @$120K	Audit and compliance team from the Region responsible for reviewing audits and exemption claims
Communications	$140,000		Public outreach and public support
Ongoing support and maintenance	$450,000	$50K per municipality	IT support and maintenance at the local level to ensure systems is available for payment
TOTAL	**$3,470,000**		

Based on the implementation timeline presented Section 3.5, the majority of the estimated implementation costs are assumed to be incurred in 2023 as the Region and local municipalities prepare for vacant home declarations and tax collection to commence in 2024. It is assumed that the Region and local municipalities will use the implementation period (Q4 2022 and 2023) to further establish roles and responsibilities and develop audit functions and dispute resolution processes. It is also assumed that Region staff will be able to work 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 the Region's and local municipality's processes and costs.

The operating costs presented above are assumed to be incurred on an annual basis once the tax is fully implemented (starting in 2024). 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 and ongoing support and maintenance of their respective systems.

These estimates are subject to change based on the implementation approach selected for the VHT (e.g., hybrid model) and other factors, including the procurement of services for third party consultants to support the implementation and staffing levels approved by Regional and local councils. It is expected that these estimates will be refined based on a more detailed implementation plan.

5.3.1 Net revenue potential

Based on the gross revenue estimate presented in Section 5.2.1 and the ongoing operating costs discussed above, it is estimated that the net revenue potential at a tax rate of 1% could be approximately $9.9 million. Table 16 presents the estimated net revenues for each of the tax rates analyzed.

Table 16: Net Revenue Potential of York Region VHT in 2024

	@ Rate of 1.0%	@ Rate of 1.5%	@ Rate of 2.0%
Gross Revenue Estimate	$13.4M	$20.1M	$26.8M
Annual Operating Cost Estimate	($3.5M)	($3.5M)	($3.5M)
Net Revenue Potential	**$9.9M**	**$16.6M**	**$23.3M**

Appendices

Appendix A – Detailed Case Studies

This appendix provides a more detailed overview of the conditions within other domestic and international jurisdictions that have implemented or are planning on implementing a VHT or a similar policy. This appendix focuses on publicly available and published data. A key outcome of the jurisdictional scan was to identify key learnings and takeaways for a York Region VHT and identify any elements that are unique to the other jurisdictions. Jurisdictions covered include Vancouver, Toronto, the Region of Peel and Halton Region, Melbourne, Paris, New York, and London.

Vancouver

Background of the tax

Vancouver has been one of Canada's most expensive real estate markets for many years and has continued to grow over time. These market features are conducive to speculative housing investments due to the high returns offered. These speculative investments further exacerbate price growth by reducing housing supply. Homes are purchased for the sole purpose of resale in the future, leaving them vacant in the interim. As a result, the Vancouver real estate market has become increasingly unaffordable, with many residents being priced out. In 2016, the City began exploring various policies, such as a VHT, to improve housing affordability after experiencing year after year of record-setting housing prices.

In early 2016, the average sale price of a detached home in Vancouver was over $1.8 million and was approximately $0.72 million and $0.53 million for attached homes and condos, respectively.[78] In addition, residential rental prices continued to rise, while vacancy rates for both primary rental apartments and rental condominium units were declining. The average price for a rental unit rose by approximately 6.4% from the previous year, while the overall rental vacancy rate decreased to 0.7%.[79] Amplifying the issue further, numerous residential properties in Vancouver remained unoccupied, as they were being kept vacant by their owners. A report issued by the City of Vancouver in March 2016 estimated that the percentage of unoccupied homes in Vancouver was approximately 4.8% for all housing types, based on electricity consumption data. Fueled by strong demand for residential accommodation which outpaced new additions to the market supply, an abundance of underutilised and vacant properties, and strong employment and population growth, rising home and rental prices put the Greater Vancouver area as the most expensive real estate market in the country.

In an effort to help address the mounting pressures placed on Vancouver's housing market, Vancouver City Council approved the Empty Homes Tax in November 2016, with it coming into effect in January 2017. The primary intent of the EHT was to return empty and under-utilized properties to the market as long-term rental homes for residents of Vancouver. Any revenue generated by the EHT was intended to be a secondary benefit of the tax, with all funds collected to be directed towards investments in affordable housing in Vancouver.[80]

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[78] (McElroy, 2016)
[79] (Canada Morgage and Housing Corporation, 2016)
[80] (City of Vancouver and Housing Vancouver, 2019)

The City's objective was for the tax to motivate owners of empty and under-used homes to rent out their properties, resulting in an increase in the rental housing supply.[81]

The tax applies to residential units that were vacant for more than six months in the preceding calendar year. The tax excludes principal residences and homes that qualify for an exemption. The EHT is assessed by calendar year (January 1 to December 31), defined as the "vacancy reference period". The six months of vacancy do not need to be continuous.

The annual EHT was originally set at 1% of the property's assessed taxable value,[82] and was increased to 1.25% for the 2020 tax year.[83] Vancouver has continued to raise the tax, with a rate of 3% in 2021, and recent announcements inform of a 5% rate to come into effect for 2023.[84]The assessed taxable value of a property is the value of the land, buildings, and any other aspects of the property as determined by BC Assessment, and is different depending on the class of property involved.

Definition of a vacant home

The City of Vancouver defines a vacant residential property as one that has been unoccupied for more than six months during the vacancy reference period.[85] The EHT applies to all Class 1 Residential properties within the city of Vancouver that were not used as a principal residence or rented for at least six months of the year, and do not qualify for an exemption.[86] Class 1 Residential properties include:

- single-family residences;
- multi-family residences;
- duplexes;
- apartments;
- condominiums;
- nursing homes;
- seasonal dwellings;
- manufactured homes;
- some vacant land;
- farm buildings; and
- daycare facilities.

The occupant does not need to be the same occupant over the six-month period, nor does the occupancy need to take place over a single continuous period. However, occupancy must occur in periods of at least 30 consecutive days or more. It is not enough that the property is simply available for occupation (i.e. listed as a short term rental), the property must have actually been used/occupied for the required minimum amount. If the property was not rented out for at least six months of the tax year, the EHT will apply. The use and occupation must be as a principal place of residence or subject to an actual leasing arrangement.[87]

There are a number of exemptions to the above rules. Properties that would otherwise be subject to the EHT may be exempt from the tax if: [88]

- Legal ownership of the property changed during the current year. For example, a property would be exempt from the EHT if the property was sold, and a new Land Title Number was issued during the vacancy reference period. The change of ownership must actually occur during the vacancy reference period – a property that was empty for more than six months of the year solely because it was listed for sale will still be subject to the EHT. Effective for the 2019 tax year and beyond, the exemption for property transfer will be tied to proof of payment of the property transfer tax.

[81] (City of Vancouver, 2020)
[82] Ibid.
[83] (City of Vancouver, 2019)
[84] (Little, 2022)
[85] (City of Vancouver, 2019)
[86] (City of Vancouver, 2020)
[87] (City of Vancouver, 2019)
[88] Ibid.

- The property was undergoing redevelopment or major renovations. This exemption is only applicable to properties that are undergoing active construction where all the necessary permits have been issued. Properties that are undergoing construction without the necessary permits will be subject to the EHT. Additionally, minor renovations do not qualify for an exemption.
- The property is used and occupied by the owner for work purposes. Properties that are occupied by the registered owner for a minimum aggregate of six months during the vacancy reference period for the purpose of attending their workplace or conducting business in Greater Vancouver are not subject to the EHT. The nature of the employment must require physical presence in Greater Vancouver.
- The property occupier was undergoing medical care. Properties that are unoccupied for more than six months of the vacancy reference period because the occupier was residing in a hospital, long term or supportive care facility, and had previously been using the property as a principal residence or occupying it as a tenant would be exempt from the EHT. All occupants must be residing in a care facility for the exemption to apply. This exemption is not allowed for more than two consecutive tax years.
- Death of registered owner. Properties that were empty for more than six months because the last registered owner became deceased are exempt from the EHT. This exemption applies for the vacancy reference period in which the property owner became deceased as well as the following vacancy reference period.
- Rental restrictions or prohibitions applicable to the property. For example, properties that were empty for more than six months because they are subject to a strata rental bylaw where the bylaw restricts rentals altogether or restricts the number of rental units are exempt from the EHT, provided that the maximum number of units allowed to be rented have been rented.
- The property is under a court order. For example, if a property is under a court order, court proceedings, or order of a governmental authority where occupancy is prohibited, the property will not be subject to the EHT. This exemption applies to owners who were prohibited from selling, occupying, or renting their property, but does not apply to properties that are uninhabitable due to inaction by the owner.
- A property is limited in use. For example, if a property is restricted for a specific use, such as vehicle parking, or the shape, size, or other aspect of the property precludes it from having a residential building constructed on the site, it will not be subject to the EHT.

In addition, properties will be exempt from the EHT if the lands are vacant, a heritage property, or part of a phased development – provided that an application to redevelop has been submitted and permits are under review. There are no exemptions for properties that are unoccupied for more than six months of the vacancy reference period solely because they are unimproved.[89]

Administration method

Vancouver's EHT is administered as a universal declaration program. All registered owners of residential property within the city of Vancouver are required to complete mandatory declaration forms each year, confirming the status of their property as occupied, exempt, or vacant during the prior reference period. If a resident owns a property that was unoccupied for greater than six months during the previous vacancy reference period, they must indicate as such on the mandatory declaration form, at which point the property will be subject to the tax. Mandatory declaration forms are mailed out to residents on or before December 31st of each year and must be returned to the City by the second business day of February. Declarations are made through an online platform on the City website. Those that fail to submit their property status declaration(s) by this date will have their property / properties automatically declared vacant and will be subject to the EHT as well as a $250 penalty for not submitting their declaration(s).[90]

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89 (City of Vancouver, 2020)
90 (City of Vancouver, 2019)

In situations where there may be doubt surrounding the validity of a resident's declaration, the City can require the registered owner to provide additional information about their property ownership for up to 2 years after the initial declaration, regarding:

a. the property;

b. the identity and address of the registered owner;

c. the identity and address of any person occupying the property;

d. the status of the property; or

e. the nature of the occupancy of the property during the vacancy reference period.

As a means of data collection and enforcement, the City will periodically audit certain properties to ensure compliance with the tax. Using a combination of a risk-based approach and random audits, the EHT program verifies the validity of property status declarations. All property status declarations are subject to the audit process as per best practices for provincial and federal tax programs. As part of the audit process, registered property owners may be required to submit additional evidence to the City to support their declaration. Some of the evidence that the City may ask for as part of the audit are:

a. copies or certified copies of:

    i. government-issued personal identification, including, without limitation, driver's license, BCID card, British Columbia Services Card;

    ii. medical Services Plan or ambulance invoice;

    iii. income tax returns and notices of assessment;

    iv. tenancy agreements;

    v. wills, grants of probate, or grants of administration;

    vi. employment contracts, pay statements or records of employment;

    vii. verification of residence in long term or supportive care;

    viii. verification of educational enrolment form;

    ix. separation agreements;

    x. court orders;

    xi. insurance certificates for homeowners or tenants insurance; or

    xii. strata by-laws, minutes of strata meetings or records prepared or maintained by the strata.

b. statutory declarations or affidavits regarding the status of the property.

If required, auditors are authorized to enter onto residential property to verify its occupancy status if a registered letter was sent to the owner ahead of time advising of the inspection time and date, and a copy of the letter was posted on the property in advance of the inspection. Vancouver completed 6,231 audits in 2018, and 8,457 in 2019. In 2018, approximately 5 percent of the properties subject to audit were found in non-compliance, with the rate doubling to 10.5 percent in 2019.[91] Owners found non-compliant in their audits may submit a Notice of Complaint. If unsuccessful, owners may request a review by an external review panel.[92]

Since the introduction of the EHT, various loopholes have been identified and are actively being mitigated. Through the auditing process, City staff identified situations in which a property owner attempted to avoid paying the EHT on an un-occupied second home by entering into a rental agreement with a corporation (which they may own) or with a family member or friend who would not actually occupy the property. Some residents

[91] (City of Vancouver and Housing Vancouver, 2019)
[92] Ibid.

have also attempted to submit outdated rental agreements as proof of occupancy. The City has since modified the EHT to remove these loopholes.

For those properties which are subject to the EHT, an EHT tax notice is mailed to each registered owner of the taxable property / properties by the 10th business day of March. The City has the ability to reassess the status of a property after the fact and can issue a supplementary EHT tax notice to change the status of a property if required. The City keeps records of the date(s) when vacancy tax notices and supplementary vacancy tax notices were mailed to registered owners, as well as any refunds of excess tax, penalty, and interest payments that have been issued and/or received.[93]

The annual revenue for each vacancy reference period is estimated on November 1st of that year. Late declaration and audit activities continue until the calendar year-end, and thus additional revenue after November 1 is rolled into the subsequent year's revenue results. If a payment for an EHT notice is not made by December 31st of the levied year, the outstanding amounts may be added to the owner's property tax account, with a commencement of interest (approximately 7%) accruing as of January 1.[94]

The administrative start-up costs for the EHT program included a one-time $7.4 million investment which covered the project implementation team, business support, technical and professional services, hardware and software, and contingency funds. The ongoing budgeted costs for the EHT are approximately $2.9 million, and include tax administration staffing, review and compliance staffing, notice and advertising, IT support and maintenance services, and a 311-call centre. These costs are funded by revenues collected from the tax.

Vancouver City Staff have indicated that initial assumptions for the resources and efforts required to adequately audit and enforce the EHT were underestimated. As of 2019, the City has approximately 12 staff responsible for administering audits.

Impact of the tax on vacant homes

The principal objective of the EHT is to increase the supply of housing to the rental market. Although any revenues generated by the EHT were intended to be a secondary benefit of the tax, the City raised approximately $38, 39.4, 36 and 26 million from the tax in 2018 – 2021 respectively. The City noted that revenue decreased in 2021 due to the number of vacant properties decreasing by 250 as increased communications were directed towards undeclared property owners. Figures for the 2022 tax reference period are not yet complete and still unavailable. Between 2017 and 2020 there was a 26% decrease in vacant homes, with the number of properties declared as vacant falling from 2,193 in 2017 to 1,627 in 2020. These 1,627 vacant properties represent 0.8% of all properties. In parallel, the number of principal and tenanted residences rose 1.3% and 19.5% respectively during the same period of time.[95] Of the 1,769 vacant properties identified in 2019, 36% were converted to occupied in the 2020 year. In 2022, the CMHC reported that rental vacancy rates in purpose-built rental apartments in Vancouver had decreased from 2.6% in 2020 to 1.2% in 2021. This represents a return to similar rates seen in 2019. This was attributed to a rebound in economic growth, an influx of students returning due to COVID-19, as well an increased migration to Vancouver, all of which contributed to rental demand growing faster than supply.[96] This reduction in vacancy rates has been more pronounced in the city of Vancouver than the surrounding region.

As of 2021, the vacancy rates for purpose-built rental and condominium apartment markets were 1.2% and 0.8% respectively.

However, due to the large array of factors that have influenced the property market since the introduction of the EHT, it is not possible to attribute these changes directly to the EHT alone.

Revenue from tax and penalties recorded over 2018 – 2020 hovered between $36 and 39 million, and as of November 1st, 2021, that figure is tracking a decline sitting at $26 million. While revenue has been fairly steady,

93 (City of Vancouver, 2019)
94 (City of Vancouver and Housing Vancouver, 2019)
95 (City of Vancouver and Housing Vancouver, 2019)
96 (CMHC, 2022)

the number of vacant homes declared has been decreasing year over year, with 2020 marking a 25% decrease since the tax's implementation in 2017.[97] The 2021 annual report reveals that the Vancouver empty homes tax has generated more than $86.6 million of net revenue, which has been allocated to supporting affordable housing initiatives.[98]

Additionally, revenues generated were more heavily weighted from taxes applied to vacant apartment and condominium units compared to single and semi-detached homes. Approximately 77% of vacant homes identified in 2020 were condominiums, with 1.2% of Vancouver's total condominium stock identified as vacant, compared to only 0.5% for single-family homes.[99] In comparison to 2017, 2.1% of condos and 0.35% of single-family homes were declared vacant. This trend suggests that the number of vacant homes is declining over time. Furthermore, the assessed property value of the taxed units was higher than the overall average assessed property value in both categories.

Due to the relatively high number of property owners that opted to pay the tax rather than renting out their property, the City of Vancouver is currently increasing the EHT rate. In November 2019, Vancouver City Council approved a 25% increase in the EHT rate for 2020 (to 1.25%), followed by additional increase in 2021 to 3%. After successful outcomes from the raises, the City will again increase the rate to 5% in 2023. The rationale behind this increase is that it will put additional pressure on owners to transition their empty homes to the rental market, as the higher tax would increase the cost of holding the home vacant and potentially lead to owners renting or selling the property. Furthermore, additional revenues created by the increase will be put towards additional enforcement efforts and providing affordable housing for households with income less than $50,000 per year.[100] Given the infancy of the EHT, however, it is difficult to confidently determine the true impact that this rate increase might have on property owners' behaviour.

Impact of the tax on the housing market

As the EHT only came into effect in 2017, the direct impacts of the tax are difficult to evaluate. Additionally, a number of government policy changes occurred near the time of implementation, further obfuscating the impact of the EHT. These changes include the BC Foreign Buyers Tax and the BC Speculation and Vacancy Tax.

In 2018, the CMHC reported that rental vacancy rates in purpose-built rental apartments in Vancouver had decreased slightly between 2017 and 2018; from 0.9% to 0.8%. This was attributed to a strong local economy contributing to growing rental demand, while the high cost of entry-level homeownership was keeping some residents in rental housing for longer periods. There were some early indications that rental prices were weakening, however it is unclear whether those price changes were attributable to the EHT or the broader housing market in Vancouver.[101]In 2019, the Vancouver region saw over 11,000 condominium and apartment residential units come onto the rental market. This exceeded the 9,000 newly built apartments which were completed in 2019, suggesting that upwards of 2,000 existing condominium units were added to the city's rental stock. This was even more pronounced in downtown Vancouver, where approximately 3,000 condominium and apartment residential units were added to the rental market, while only 300 new units were built. It has been suggested by City staff that the transfer of condominium and apartment units to the rental stock is a result of policies such as Vancouver's EHT.[102]

2020 also saw an increase of 2,879 in tenanted properties from 2019. Condominiums represent the majority of this increase with 68%, while single-family homes and other property types represented 9% and 23% respectively. The asking rents for both occupied and vacant units witnessed a decline in 2020. The CMHC

[97] (City of Vancouver, 2021)
[98] Ibid.
[99] (City of Vancouver and Housing Vancouver, 2019)
[100] (City of Vancouver, 2019)
[101] (CTV News, 2019)
[102] (Bula, 2020)

believes this to be associated with the introduction of new apartments in high rent locations that were previously left vacant.

The CMHC's 2022 annual report for the 2021 year informs readers that the city is making efforts to increase rental supply. A total of 1602 purpose-built rental apartments hit the market in 2021, representing an increase of 1.4%. Much of these additions come from construction projects coming to completion after several years. The number of condominium apartments in long-term rentals also increased by 2,550 units (a 3.3% increase from 2020). As of the publication of this report, the purpose-built rental market and condominium apartment markets have an average two-bedroom rent of $1,824 and $2,498 respectively.

There has been a considerable range of factors that have influenced the property market since the introduction of the EHT, so isolating the effects of the tax and/or attributing these occurrences to the tax alone is not possible.

Nonetheless, since the introduction of the EHT, revenues from the tax have enabled the City to allocate an additional $86.6 million to affordable housing initiatives. These initiatives have helped to increase the supply and affordability of social housing to many local residents[103].

Profile of vacant homeowners

Vancouver has been experiencing issues surrounding how owners use residential properties for some time. Speculative ownership of residential properties is thought to be a driving force behind rising rent and housing prices in Vancouver, along with much of the province. Additionally, there is widespread belief that foreign buyers are the primary culprits behind the trend, purchasing homes and displacing residents who find that housing has become unaffordable. Furthermore, there is concern that housing purchased by foreigners is more likely to remain vacant. In 2016, in an effort to slow foreign ownership of residential properties within Vancouver, the city introduced the Foreign-buyers Tax – an additional property transfer tax of 15% on all residential property purchased by foreign buyers. Then, in 2019, the Province of British Columbia introduced the Speculation and Vacancy Tax – an additional tax of between 0.5% and 2% paid out when a property is vacant – in an effort to discourage speculative ownership of residential properties. A Statistics Canada report published in 2017 indicated that approximately 4.8% of all residential properties in Vancouver were owned by non-residents,[104] however, it is difficult to determine how much of the current vacant stock of housing is locally owned compared to foreign owned.[105]

There are multiple motivations for owners to keep their property vacant in Vancouver. Conversations with public officials at the City of Vancouver indicated that it is too early in the EHT's lifecycle to create definitive profiles of vacant homeowners, however, at a high level, vacant homeowners can often be categorized into:

- **Retirees**: individuals that own properties in Vancouver but have relocated in their retirement to other parts of the country or abroad. As a result, the property tends to be used sparely and is often reserved for when these individuals return to the city to tend to personal matters. Retirees are often reluctant to rent their properties because they wish to use them at their convenience.
- **Non-resident speculator**: data on non-resident ownership in Vancouver is not widely available to the public as much of it still under development. However, it is estimated that non-residents of Vancouver own approximately 5.1% of total residential property value in the city.[106] These include foreign nationals and Canadian citizens who live abroad but does not include Canadian corporations that have a foreign director or owner. Due to data privacy reasons, Vancouver is unable to directly quantify the number of non-resident speculators that own vacant properties.
- **Domestic speculators**: in high demand real estate markets, domestic speculators tend to buy and hold property in anticipation of rapid appreciation. The Royal Bank of Canada released a report in 2016 that

[103] (City of Vancouver, 2021)
[104] (Statistics Canada, 2017)
[105] Privacy restrictions limit the information publicly available regarding ownership information.
[106] (Statistics Canada, 2017)

suggested that speculators may be holding onto their properties in order achieve the greatest return. This becomes particularly likely when the real estate market is out-performing other types of investments.[107]

Public opinion

In general, public opinion regarding the EHT has been positive. Much of the public is unfavourable towards speculative housing investment, with overwhelmingly negative opinions towards vacant residential properties and their contributory effects to high costs of real estate in Vancouver. Criticism of the EHT has however been documented, much of which focuses on the fairness of evaluations. The City of Vancouver is currently facing multiple lawsuits regarding homeowners and developers disputing their evaluations. Some property owners who own second homes in Vancouver claim that they have been unfairly taxed, arguing that there are legitimate reasons for owning a second home in the city, and that such properties should not be subject to the EHT.[108] For example, some condominium owners claim that it is more practical to keep second properties vacant to be used when they visit the city (i.e., for family, occasional work, etc.) than to rent them out. They view the tax as a penalty for which they receive nothing in return. Others feel that the EHT unfairly targets retirees who might have seasonal properties elsewhere.[109] Public officials at the city of Vancouver have stated that much of the negative sentiment toward the EHT is due to the lack of understanding of the EHT, its relevant policy, and how it is meant to improve housing costs. Vancouver staff indicated that greater levels of communication and more thorough public awareness campaigns may have led to fewer negative reactions from the public. Vancouver staff are confident that once better understood, cases of non-declaration and non-payment will continue to decrease.

From a municipal point of view, the EHT is largely seen to have been a success. Decreasing annual declarations are considered to be a positive result of the policy, and significant revenues generated are seen as an added benefit. As such, neighbouring municipalities such as West Vancouver and White Rock are now considering implementing their own similar versions of an EHT.

Applicability to York Region

Similar to Vancouver in 2015, York Region has been experiencing a rapid acceleration in house prices. As a result, both jurisdictions have experienced low vacancy rates over a similar timeframe. Additionally, both are under strong and increasing pressure from growing demand to live in urban areas, while supply – despite the addition of new buildings, has not kept pace to meet this demand. Furthermore, both jurisdictions are in provinces that have implemented provincial foreign buyers' taxes.

Although it is still too early to definitively conclude that Vancouver's EHT is producing its intended results, at a high level there has been a decrease in vacant properties within the city and additional revenue raised for affordable housing initiatives. If the York Region were to proceed with implementing a VHT, Vancouver's experience in implementing their EHT should be taken into account for insights into the structure and components of the tax (i.e., administration, exemptions, enforcement, etc.). Furthermore, lessons learned with regards to understanding the effectiveness of the tax, as well as setbacks, loopholes, public perception, and potential changes/revisions being made to Vancouver's EHT should be considered in York Region's initial implementation of a VHT.

[107] (Royal Bank of Canada, 2016)
[108] (Morton & Duran, 2018)
[109] Ibid.

Toronto

Background of the tax

Closely behind Vancouver, Toronto has been Canada's second most expensive real estate market for several years and has continued to growth rapidly. Toronto shares many similarities with Vancouver, as both are major Canadian population centres and are experiencing strong employment and population growth which contribute to rising real estate prices. Additionally, these features encourage speculative housing investments which further worsens affordability. In response to these trends, the City of Toronto has adopted numerous initiatives to improve affordability, such as the Vacant Home Tax that was passed in late 2021.

Toronto housing has become increasingly unaffordable and has priced many residents out of the market. Between 2006 and 2017, average home prices grew by over 130%, reaching an average value of over $800,000. By 2017, average Toronto sale prices for detached homes, attached homes and condos were $1.1 million, $925,000, and $493,000 respectively.[110] Furthermore, residential rental prices have continuously risen. Between 2006 and 2017, the average prices for primary rental units and condominiums rose by approximately 30% and 47%, reaching over $1,300 and $2,100 respectively.[111] In comparison, incomes have not kept pace with these trends. Between 2006 and 2016, the median household income grew by only 25%, or approximately 2.2% per year.[112] The Canadian Rental Housing Index, a database that compiles rental housing statistics for cities, regions and provinces across Canada, ranked the rental situation in Toronto as "critical", with about 23% of renters in the GTA spending 50% or more of their salaries on housing costs.[113] In contrast, the benchmark for affordability has historically been set at 30% of income spent on housing.[114]

A major contributor that has been worsening affordability in Toronto is a lack of housing supply. Vacancy rates for both primary rental apartments and rental condominium units have declined, indicating limited supply. In 2017, overall rental vacancies for primary rentals and condominiums were 1.4% and 0.7% respectively.[115] Additionally, Toronto's population is forecasted to grow by 36% by 2041.[116] However, growth in accompanying housing supply is only forecasted to be 32.5%.[117] This gap suggests that there will continue to be persistent excess demand for housing in Toronto, with the primary constraint being the availability of residential dwellings.

Due to the insufficient housing supply in Toronto, speculative housing investments that leave homes vacant pose a substantial risk for further worsening affordability. Thus, around 2016, the City of Toronto began investigating a VHT. This decision closely followed the implementation of Vancouver's EHT. In 2016, studies using census data[118] and analysis of water consumption data indicated that Toronto residential vacancies ranged between 2% and 5.7%.[119] Bringing these properties back onto the market would thus help ease some of the supply pressures that Toronto currently faces.

In response to the affordability and supply issues in Toronto's housing market, Toronto City Council approved the implementation of a 1% VHT in July 2021 which subsequently came into effect in January 2022.[120] The City outlined that the goal of the tax was to improve the supply and affordability of housing stock by disincentivizing homeowners from leaving their properties vacant.[121] Although Toronto's VHT was not passed

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[110] (MLS Real Estate Listings, 2022)
[111] (Canada Mortgage and Housing Corporation, 2020)
[112] (City of Toronto Planning & Housing Committee, 2019)
[113] (BC Non-Profit Housing Association, 2016)
[114] Ibid.
[115] (Canada Mortgage and Housing Corporation, 2020)
[116] (Canadian Centre for Economic Analysis and Canadian Urban Institute, 2019)
[117] Ibid.
[118] (Statistics Canada, 2016)
[119] Ibid.
[120] (City of Toronto, 2021)
[121] Ibid.

to generate revenue, City Council has directed that all revenues from the tax be directed to affordable housing initiatives.[122]

Definition of a vacant home

At the time of this report, specifics on Toronto's VHT have not yet been finalized as the official bylaw has not been released for public review. However, City Council has approved the final design features for the VHT. These design features show that Toronto's VHT shares many similarities with Vancouver's EHT. The City of Toronto defines a vacant residential property as one that has been unoccupied for more than six months during the vacancy reference period (January to December).[123] The six months does not have to be consecutive, however, tenant stays must be for at least 30 consecutive days to count towards the six months. Homes can also be deemed vacant by the City in circumstances where the owner fails to make a status declaration, makes a false status declaration, fails to provide information/evidence to the City or provides false information/evidence.[124] The Toronto VHT applies to all residential units within the city that were neither used as a principal residence nor rented out for at least six months of the year, and do not qualify for an exemption.[125] A residential unit is defined by the City as "a self-contained unit which includes a dedicated washroom and kitchen, located on property classified as residential property on the assessment roll".[126]

The City of Toronto has outlined a number of exemptions to the VHT. If a property is deemed exempt, the owner will not be charged the tax for the applicable year. Exemptions to Toronto's VHT include:[127]

- The death of a registered owner. If the registered owner dies, the property will be exempt from the VHT for the year that the death occurred, as well as one subsequent year.
- The property is undergoing redevelopment or major renovation. In this circumstance, the property will only be considered exempt if the redevelopment or major renovation makes occupation impossible for a period of six months or longer. The redevelopment or major renovation must also have permits issued and be actively pursuing the opinion of the Chief Building Official.
- The registered owner is in care, institutionalized or hospitalized. This exemption is not allowed for more than two consecutive tax years.
- The residential unit is subject to a restriction or prohibition on rental, preventing the registered owner from renting out the property. For example, a condominium building or co-ownership with restrictions on allowing units to be made available for rental.
- The property has undergone a transfer in ownership. This applies to circumstances where legal ownership of the residential unit has been transferred to an arm's length transferee. This exemption only applies during the year of sale only.
- The property is being occupied for full time employment. This exemption will apply if the residential unit is occupied by a registered owner with a principal residence outside of a defined Greater Toronto Area, and the property is required for employment purposes in Toronto for an aggregate of at least six months per year.
- The property is under a court order which is prohibiting occupancy. For example, if a property is under a court order, court proceedings, or order of a governmental authority where occupancy is prohibited, the property will not be subject to the VHT.

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[122] Ibid.
[123] Ibid.
[124] Ibid.
[125] (City of Toronto, 2021)
[126] (City of Toronto, 2021)
[127] Ibid.

Administration method

Toronto's VHT will be administered as a universal declaration program. All registered owners of residential property within the City of Toronto will be required to complete mandatory declaration forms each year, confirming the status of their property as occupied, exempt, or vacant during the prior reference period.[128] If a resident owns a property that was unoccupied for greater than six months during the previous vacancy reference period, they must indicate as such on the mandatory declaration form, at which point the property will be subject to the tax. Mandatory declaration forms are mailed out by the Director of Revenue Services to residents on or before December 31st of each year and must be returned to the City by the specified due date. Declarations can either be mailed or made through an online platform on the City website. Those that fail to submit their property status declaration(s) will automatically have their property / properties deemed vacant.[129]

In situations where there may be doubt surrounding the validity of a resident's declaration, the Director of Revenue Services can require the registered owner to provide additional information about their property ownership for up to 2 years after the initial declaration, regarding:

a. the residential unit;
b. the identity and address of the registered owner or any person occupying the unit, including tenants;
c. the nature and duration of the occupancy of the residential unit during the relevant taxation year; or
d. the nature of any exemption to the VHT.

As a means of data collection and enforcement, the City will periodically audit certain properties to ensure compliance with the tax. Using a combination of a risk-based approach and random audits, the VHT program verifies the validity of property status declarations. All property status declarations are subject to the audit process as per best practices for provincial and federal tax programs. As part of the audit process, registered property owners may be required to submit additional evidence to the City's Director of Revenue Services to support their declaration. Some of the evidence that the Director of Revenue Services may ask for as part of the audit includes:

a. copies or certified copies of:
    i. MTO vehicle registration and insurance;
    ii. government-issued personal identification, including, without limitation, driver's license, Ontario Identity Card;
    iii. proof of OHIP coverage or valid Health card;
    iv. income tax returns and notices of assessment;
    v. lease agreements;
    vi. wills, grants of probate, or grants of administration;
    vii. employment contracts, pay statements or records of employment;
    viii. verification of residence in long term or supportive care;
    ix. relevant court orders;
    x. insurance certificates for homeowners or tenants insurance;
    xi. copies of condominium/co-ownership building by-laws, minutes of meetings or records prepared or maintained by the condominium/co-ownership building; and
b. statutory declarations or affidavits regarding the occupancy of the residential unit.

[128] Ibid.
[129] Ibid.

Should the property owner be found to have misrepresented their vacancy declaration, they will face a fine that is no less than $250 and no more than $10,000 for each offence.[130]

Following the submissions of the mandatory declarations from property owners, the Director of Revenue Services will determine which homes are subject to the VHT and mail out a vacancy tax notice on or before March 31st of each year.[131] The tax rate for the VHT is set at one percent of the property's current value assessment for the year that the home is vacant. Property owners subject to the tax must then pay the tax by a specified deadline. Failure to meet this deadline results in a penalty of 1.25% per month of the unpaid taxes due, which is the same late penalty applied to property taxes.

The administrative start-up costs for Toronto's VHT are forecasted to total $11 million. The costs are planned to be spread across 2021 and 2022 and stem from establishing the administrative structure, systems and programming that will be required to collect the tax, as well as initial public communications. The ongoing operational costs forecasted for the VHT are approximately $3.1 million. The operational costs include salaries for 25 staff positions, and direct operating expenses such as licensing and data storage/file server costs for systems, printing, postage and communications, banking and payment processing costs, as well as other normal office expenditures.[132]

Impact of the tax on vacant homes

As Toronto's VHT only came into effect in January 2022, with payments not starting until 2023, there is not yet any evidence of the impact that the tax has on vacant homes or the Toronto housing market in general. However, comparing Toronto with Vancouver highlights the potential effectiveness that a VHT can have. Both Vancouver and Toronto have faced issues with high numbers of homes being left vacant in each city. In 2016, vacant homes accounted for 8.2% and 5.6% of the total housing stock in Vancouver and Toronto respectively.[133] Nonetheless, following the implementation of Vancouver's EHT in 2017, the number of vacant homes in the city has fallen by 10%. In comparison, the number of vacant homes in Toronto over the same period of time has increased by approximately 40%.[134] This contrast between Vancouver and Toronto indicates that a VHT could have a significant impact in reducing the number of vacant homes. If Toronto's experience with a one percent VHT is similar to Vancouver's experience, non-exempt vacant homes in the city could decrease by approximately 10% annually.

Furthermore, revenues from a VHT will increase support for affordable housing initiatives in Toronto. Just as with Vancouver, Toronto's VHT has a principal objective of increasing the supply of housing to the market. All revenues generated from the VHT are seen as a secondary benefit and will be directed towards affordable housing initiatives after deducting operational expenses.[135] Using tax metrics from Vancouver's experience and assuming a one percent vacancy rate of Toronto's 800,000 residential units, the City estimates that the one percent VHT could generate approximately $55 million to $66 million in annual revenue.[136]

Additionally, since the goal of Toronto's VHT is to increase housing supply, the City may find a one percent tax to be insufficient, as was the case with Vancouver. The City may subsequently choose to raise the tax if too many property owners are opting to pay the tax instead of putting their property on the market.

Profile of vacant homeowners

There is nothing to indicate that vacant homeowners in Toronto are significantly different from vacant homeowners in Vancouver. Speculative ownership of residential properties is thought to be a driving force behind rising rent and housing prices in Toronto and across the rest of the province. Additionally, many view

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[130] (City of Toronto, 2021)
[131] Ibid.
[132] (City of Toronto, 2021)
[133] (Younglai, 2022)
[134] Ibid.
[135] (City of Toronto, 2021)
[136] Ibid.

foreign buyers as a substantial contributor for worsening housing affordability. Furthermore, there is concern that housing purchased by foreigners is more likely to remain vacant. In 2017, in an effort to slow foreign ownership of residential properties, the Government of Ontario introduced the Foreign Home Buyers Tax which added a 15% tax on a home's purchase price within the Greater Golden Horseshoe region. In 2022, the tax was increased to 20% and expanded to apply across the entire province.[137] A Statistics Canada report published in 2017 indicated that approximately 4.9% of all residential properties in Toronto were owned by non-residents,[138] however it is difficult to determine how much of the current vacant stock of housing is locally owned compared to foreign owned.[139]

Overall, there are multiple motivations for owners to keep their property vacant in Toronto. Examples include:

- **Retirees**: these individuals own properties in Toronto but have relocated in their retirement to other parts of the country or abroad. As a result, the property tends to be used sparely and is often reserved for when these individuals return to the city to tend to personal matters. Retirees are often reluctant to rent their properties because they wish to use them at their convenience.
- **Non-resident speculator**: data on non-resident ownership in Toronto is not widely available to the public as much of it still under development. However, it is estimated that non-residents of Toronto own approximately 4.9% of total residential properties in the city.[140] These include foreign nationals and Canadian citizens who live abroad but do not include Canadian corporations that have a foreign director or owner. Due to data privacy reasons, Toronto is unable to directly quantify the number of non-resident speculators that own vacant properties.
- **Domestic speculators**: In high demand real estate markets, domestic speculators tend to buy and hold property in anticipation of rapid appreciation. The Royal Bank of Canada released a report in 2016 that suggested that speculators may be holding onto their properties in order achieve the greatest return. This becomes particularly likely when the real estate market is out-performing other types of investments.[141]

Public opinion

Public consultations on a Toronto VHT have demonstrated overwhelming support from the public. A survey of approximately 5,000 people that was conducted by the City of Toronto found that 84% of respondents were very supportive or supportive of a VHT.[142] Such positive reception has been consistent across many jurisdictions with expensive housing markets due to negative opinions on vacant residential properties and their contributory effects to high costs of real estate.

Applicability to York Region

Toronto's decision to implement a VHT is highly pertinent to York Region, both in terms of taking action to improve housing affordability and the potential spillover effects. Similar to Toronto, York Region has also experienced rapid growth in real estate prices over the past 5-10 years due to significant increases in housing demand, low vacancy rates, and supply levels that have struggled to keep pace with demand. As a result of these trends, speculative housing investments pose a significant risk for further exacerbating the housing shortage by keeping properties off the market and reducing supply. Concern for this risk is already evident at the provincial government level which introduced the foreign home buyers' tax in 2017 for the Golden Horseshoe region, including both York Region and the City of Toronto, before expanding it provincewide in 2022. Additionally, given York Region's proximity to Toronto, a Toronto VHT could result in an acceleration of

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137 (KPMG Canada, 2022)
138 (Statistics Canada, 2017)
139 Privacy restrictions limit the information publicly available regarding ownership information.
140 (Statistics Canada, 2017)
141 (Royal Bank of Canada, 2016)
142 (City of Toronto, 2021)

speculative housing investments in York Region, as investors replace their Toronto properties with properties in York Region to avoid being taxed.

Although Toronto's VHT has yet to produce any concrete results, it offers useful insights into the policy design of a VHT in Ontario. Furthermore, as more information comes out on Toronto's VHT, York Region can leverage lessons learned with regards to understanding the effectiveness of the tax, as well as potential setbacks, loopholes, public perception, and policy changes/revisions that are required.

Region of Peel and Halton Region

Background of the tax

In response to worsening housing affordability issues, both the Region of Peel and Halton Region are exploring the implementation of a VHT. In Peel, house and rental prices have risen annually by 7.5% and 2.8% respectively over the past 15 years. Along with rising costs, incomes have lagged, growing at only 1.4% over the same period.[143] Thus, the housing market has become increasingly unaffordable. In 2020, Peel reported that owning or renting is now unaffordable for 80% of residents. The pandemic has only exacerbated this crisis. In 2021, the Region of Peel calculated that it would take the average Peel household 26 years to save for a down payment at current average market prices, while a dual minimum wage income family would need 51 years to save or pay 2/3 of their income in rent.[144] In response, Peel has enhanced its efforts to increase the market supply of housing, as well as affordable housing projects through initiatives such as a vacant home tax. Currently, Peel is continuing to solicit public consultation on a VHT and expects to report to council in 2023 with program design options and next steps.[145] Peel expects that a VHT would come into effect in 2023/2024.[146]

Halton has also experienced similar trends as Peel and is investigating their own VHT. In Halton, house prices have rapidly accelerated since 2014, where prices rose by over 39% through to 2018. In comparison, incomes only rose 16.7% over the same period.[147] Since the pandemic, these trends have also accelerated, where prices have risen an additional 37% between 2019 and 2021 to an average sale price of over $1.3 million.[148] Additionally, rental rates have become increasingly unaffordable, rising by an average of 7% between 2019 and 2020. According to the CMHC, Halton now has the most cost prohibitive rents in Ontario, with an average 2020 monthly rental price of $1583.[149] As a result, increasing numbers of city residents are being priced out of the market. Waitlists for subsidized housing have ballooned to over 3,200.[150] In response to the Halton housing market, the Region continues to investigate the adoption of a VHT with an expected implementation by 2023/2024.[151]

Definition of a vacant home

Halton and Peel have engaged in jurisdictional scans to formulate potential definitions of a vacant home. In remaining consistent with the definitions in Vancouver and Toronto, both regions have recommended to council that a definition for a vacant home should be one which is unoccupied for more than six months of the calendar year.[152] Additionally, both Regions are considering exemptions, such as:

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143 (Region of Peel, 2022)
144 Ibid.
145 Ibid.
146 Ibid.
147 (Desormeaux, 2022)
148 (ZOLO, 2022)
149 (Halton Region, 2022)
150 Ibid.
151 (Halton Region, 2022)
152 (Region of Peel, 2022) (Halton Region, 2022)

- Homes owned by snowbirds, or used as holiday homes are exempt if the property is lived in for a minimum of 4 weeks every year;
- Deceased owner;
- Large renovations;
- Owner in medical care;
- Inability to find tenant or buyer;
- Change of ownership; and
- Court prohibiting occupancy

Administration method

Again, in aligning with VHTs in Toronto and Vancouver, Peel and Halton are considering similar administration methods. Both Regions have recommended that their Council adopt a universal declaration method, where all homeowners within the region annually declare the vacancy status of their home(s).[153] Furthermore, both Regions have recommended initial tax rates of 1% for the VHT, with future reassessments that would consider adjustments of the rate to up to 3%.[154] The Regions have recommended that a VHT be enforced through periodic audits, with penalties applied to homeowners that fail to appropriately declare their homes as vacant. Homeowners would retain the right to challenge any penalties through established dispute resolution bodies.[155] Lastly, both regions have recommended to their Councils that a VHT will be most efficiently delivered through a hybrid delivery model. A hybrid model is likely to result in lower implementation and operating costs by leveraging existing tax collection capabilities at the local level.[156]

Operations and forecasted impact

In alignment with Toronto and Vancouver, both Peel and Halton have outlined that a VHT will have a primary objective of returning vacant homes back to the market for rent or sale with any revenue generated from the tax treated as a secondary benefit. Additionally, both Regions have forecasted potential net revenues generated by a 1% VHT. In Halton, the Region projected that a VHT could generate $4.1 to $4.3 million in annual net revenue ($5.8 million from declarations and $0.3 million from penalties through audits) based on an estimated 348 to 376 vacant homes.[157] Annual operating costs were estimated to range between $1.8 to $2 million for 11 to 12 full-time employees, as well as notices and advertising, IT support and maintenance, and customer service.[158] Implementation is forecasted to cost between $3.3 and $3.9 million for six to nine full-time employees, professional services, infrastructure costs, and technical costs.[159] Overall, Halton projects that a 1% VHT will result in approximately 330 vacant homes being sold or converted into rental properties.[160] In comparison, the Region of Peel expects to generate $17.1 million in annual revenue ($16.4 million from declarations and $0.7 million from penalties through audits), with $5 million in annual operating costs.[161] Peel expects that implementation costs will range between $12 and $15 million.[162] Both Regions have indicated that all net revenues from a VHT will be directed towards affordable housing initiatives.

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[153] Ibid.
[154] Ibid.
[155] Ibid.
[156] Ibid.
[157] (Halton Region, 2022)
[158] (Halton Region, 2022)
[159] Ibid.
[160] Ibid.
[161] (Region of Peel, 2022)
[162] Ibid.

Applicability to York Region

The decision of the Region of Peel and Halton Region to pursue a VHT has several implications for York Region. As more jurisdictions across Canada face housing affordability issues, a VHT is seen as an effective policy for improving affordability. Jurisdictions such as Toronto, Peel and Halton are acknowledging Vancouver's success at reducing vacancy rates following the implementation of a VHT and are implementing their own VHTs that share many similarities (e.g., definition of a vacant home, universal declaration method, consistent exemptions, etc.). Additionally, Peel and Halton are neighbouring jurisdictions to York Region, where a VHT may result in spillover effects. For example, home vacancies in York Region may accelerate as housing speculators seek to move their investment properties out of Peel or Halton and into York Region to avoid paying the tax. Lastly, Peel and Halton indicate that a hybrid delivery model for a VHT may be most effective for York Region, as all are regional municipal governments within the GTA.

Melbourne

Background of the tax

In 2017, Melbourne — the largest city in the Australian state of Victoria, with over 1.7 million dwellings — was at the height of a property boom, where an estimated 3.9% of all residential properties were vacant (nearly 61,000 properties[163]), based on water usage data.[164] As a percentage of investor-owned rental properties, the vacancy rate was estimated to be as high as 16.2% of all rental properties – demonstrating more than $20 billion in vacant property.[165] Despite significant investment in residential property development and relatively high vacancy rates, prospective homebuyers and renters found it difficult to enter the market due to increasing housing prices coupled with an abundance of underutilised and vacant properties.

To address the lack of housing supply in Melbourne and across the state of Victoria, the Victorian Government introduced the vacant residential land tax ("the VRLT" or "the tax") in March 2017, with it coming into effect in January 2018. The aim of the VRLT is to assure the availability of housing and is intended to encourage owners to rent or sell their properties rather than providing additional revenue to the government. The intent is such that additional revenue generated by the VRLT will support affordable housing initiatives in Victoria. The VRLT affects properties in 16 inner-city areas of Melbourne. The tax applies to homes that were vacant for more than six months in the preceding calendar year. The VRLT is assessed by calendar year (January 1 to December 31), and the six months do not need to be continuous.

The annual VRLT is set at 1% of the capital improved value (CIV) of taxable land.[166] The CIV of a property is the value of the land, buildings, and any other capital improvements made to the property as determined by the general valuation process. For example, if a vacant home has a capital improved value of $1,000,000, the tax will be $10,000 owed annually.

Definition of a vacant home

The Victorian Government defines residential property or residential land as land that is able to be used solely or primarily for residential purposes, such as a home or an apartment. This also includes land on which a residence is being renovated, or where a former residence has been demolished and a new one is being constructed. It does not, however, include vacant land or commercial residential properties.[167]

A property is deemed to be vacant if, for more than six months in the preceding year, it has not been lived in by either of the following:

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163 The study analyzed 1,579,906 dwellings out of a total possible 1,741,984. Dwellings not included were excluded because of data availability issues.
164 (Prosper Australia, 2019)
165 Ibid.
166 (Victoria State Revenue Office, 2017)
167 Ibid.

- The owner of the property, or a permitted occupier by the owner, as their principal place of residence; or
- A person under a lease or short-term letting arrangement made in good faith.

The occupant does not need to be the same occupant over the six-month period, nor does it need to take place over a single continuous period. However, it is not enough that the property is simply available for occupation (i.e., listed as a short-term rental). The property must actually have been used/occupied for six months or more. Furthermore, it is also not enough that the property is used intermittently or on a casual basis (i.e., by friends and/or family of the owner). The use and occupation must be as a principal place of residence or subject to an actual lease or letting arrangement.[168]

There are a number of exemptions to the above rules. Properties that are exempt from land tax are also exempt from the VRLT.[169] Such exemptions include:

- Principal place of residence, subject to the definition of 'taxable land';
- Primary production land;
- Charities;
- Rooming houses;
- Crown land;
- Municipal and public land;
- Residential care facilities;
- Retirement villages; and
- Land leased for outdoor sporting, recreational, or cultural activities by members of the public.

In addition to the above exemptions, homes that would otherwise be subject to the VRLT may be exempt from the tax if:

- Ownership of the property changed during that year. For example, a property sold and transferred is exempt from the following tax year. The change of ownership must actually occur during the calendar year – it is not sufficient that the property is simply available for sale or awaiting settlement of sale.
- The property became a 'residential' property during that year. For example, a commercial warehouse that was converted into residential apartments in one year is exempt from the following tax year.
- The property is used as a holiday home. Holiday homes that are occupied by the owner for at least four weeks of that year (whether continuous or in aggregate) are not subject to the tax in the following year. The owner must also have a principal place of residence in Australia in the relevant tax year.
- The property is used and occupied by the owner for work purposes. Properties that are occupied by the owner for at least 140 days of that year (whether continuous or in aggregate) for the purpose of attending their workplace or conducting business are not subject to the tax in the following year. The owner must have a principal place of residence in Australia.

Properties that are owned by companies, associations, or organizations are generally not eligible for these exemptions.[170]

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[168] Ibid.

[169] Land tax is payable each year by owners of "taxable land" in the state of Victoria. Land is considered to be taxable land unless it is exempt land as outlined in the *Land Tax Act 2005 (Vic)*. Land tax is assessed on all taxable land of which the taxpayer owns and is calculated on the "taxable value" of the land. The land's "taxable value" is determined by reference to the land's unimproved value, typically the value of the land excluding any improvements to the land such as buildings and fixtures. Land tax is required to be paid if the total taxable value of all the land owned within the State of Victoria, individually or jointly, as of December 31, is equal to or exceeds A$250,000.

[170] (Victoria State Revenue Office, 2017)

In addition, properties that are undergoing significant renovations or construction are not considered vacant for the purpose of the tax for up to two years from the date a building permit for the construction or renovation was issued. This grace period may be extended under certain circumstances. Grace periods are also available if the vacant property forms part of a deceased estate, provided that the property was used and occupied as the owner's principal place of residence immediately prior to their passing. The grace period for a deceased estate is for up to three years. However, properties part of the estate that were not used as the principal place of residence are subject to the VRLT.

Finally, property owners who opt to rent their properties on short-stay accommodation sites, such as Airbnb, will find their property/properties are still subject to the tax if they are unoccupied for more than six months in a calendar year.[171]

Administration method

Unlike Vancouver and Toronto, the administrative method for Victoria's VRLT is self-reported. If a resident owns a property that was unoccupied for greater than six months during a calendar year, it is their responsibility to notify the Victoria State Revenue Office (VSRO) by January 15 of the following year.[172] Failure by a resident to notify the VSRO of ownership of a vacant residential property is considered a notification default under the Taxation Administration Act 1997.[173] Notification defaults result in the owner being held liable for a penalty tax on the amount assessed in accordance with the state's revenue ruling on penalty tax and interest.

Owners that inform the VSRO by the January 15 deadline will be subject to an annual tax of 1% of the capital improved value of the vacant property. Additional penalty taxes are applicable to owners which do not disclose their vacant properties. Owners that miss the deadline of January 15 are encouraged to notify the VSRO as soon as they are able as late disclosures are treated more favourably than properties identified to be vacant through a formal investigation.

A breakdown of the penalty tax levels by percentage is found in Table 17, below.

Table 17: Tax penalty breakdowns

Notification of Vacant Property / Properties	Penalty Tax (% of Assessed Amount)
The owner misses the annual deadline, but voluntarily notifies the state of vacant residential properties before an investigation is begun.	5%
The owner misses the annual deadline but notifies the state of vacant residential properties after an investigation has begun.	20%
The state believes that the owner intentionally disregarded the law and hindered the state's investigation regarding vacant residential properties.	Up to 90%

Residents must notify the state office of their vacant properties using the state office's online portal. Within the portal, they are also able to claim exemption(s) from the tax, as well as nominate a representative to receive further correspondence about the tax should it be appropriate.

The VSRO conducts monitoring activities to make sure that vacant residences are being declared, including comparing data with that of other state and federal agencies, as well as conducting investigations. However, the tax relies heavily on owners of homes reporting that their properties remain vacant. The state office encourages residents to submit tip-offs to notify them of suspected owners not complying with their obligations.

The VRLT was waived in 2021 as part of COVID-19 relief measures and has recommenced for 2022.[174]

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171 (Conveyancing, 2018)
172 (Victoria State Revenue Office, 2017)
173 (Parliament of Victoria, 2019)
174 (Victoria State Revenue Office, 2017)

Impact of the tax on vacant homes

The VRLT, while its principal objective is to increase the housing supply, was originally forecast to raise more than A$80 million — equivalent to approximately C$72 million — over its first four years. Nonetheless, no official data from the state government has been released on net revenue from the VRLT to date. Additionally, because the VRLT only came into effect in 2018, there is currently little evidence on the market impact of the tax to date. Initial mainstream media reports indicate that the tax is not performing as expected, allegedly bringing in approximately A$5.4 million (C$4.9 million) in its first full financial year compared to approximately A$20 million previously expected.[175] Water usage data suggests that there are between 14,000 and 21,000 properties using zero water within the VRLT boundary,[176] however, using a median property price, initial tax performance figures imply that only approximately 900 investors self-reported their property as vacant and paid the tax. Sufficient data is not yet available to ascertain if these low values are as a result of non-compliance, exemptions, or tax boundary limitations within Melbourne.

Overall, the effects of the VLRT on vacancy rates in Melbourne remains unclear. Prior to the implementation of the VLRT, vacancy rates in Melbourne were consistently trending downwards, falling from an average of 2.7% in 2013 to 1.4% in 2018.[177] Following the implementation of the VLRT in 2018, vacancy rates began increasing, with a high of 2.5% in 2019, 4.7% in 2020 and 4.4% in 2021.[178] Nonetheless, Melbourne's real estate market was significantly affected by the COVID-19 pandemic. The VRLT was suspended in 2021, as border restrictions limited the entry of foreign workers and students which resulted in extremely high vacancy rates.[179] Additionally, vacancy rates have likely been inflated due to high levels of dwelling completions in recent years.[180] As of 2022, the VLRT has been reinstated and corresponded with a sharp drop in vacancy rates. However, it too early to determine the extent to which this trend is due to the easing of pandemic restrictions or the reinstatement of the VRLT. Furthermore, some critics note that the current tax rate is too low, and a higher rate would be more effective at incentivizing property owners to return vacant houses to the market.

Impact of the tax on the housing market

Currently, the Government of Victoria has not released any reports on the impact of the VRLT, making it difficult to analyze its effectiveness. Additionally, the VRLT only came into effect in 2018, leaving little evidence on the impact of the tax. Nonetheless, initial news reports indicate that the tax may not have had as large an effect on the housing market as intended, possibly because it only applies to select regions within the Melbourne metropolitan area. Discussions with officials from the Government of Victoria indicated that the tax was intended to apply only to the regions within Melbourne experiencing the greatest issues with housing availability, however some housing affordability advocates believe that the tax should be applied to a larger area. In addition, there are others who believe that the tax is not material enough to make a difference (at 1% annually), along with too many properties being eligible for exemptions (most notably the 2-year window for construction of new units – much of Melbourne's available real estate was constructed after the most recent property boom).

Critics note that a higher tax rate would be more likely to incentivize property owners to adjust their behaviour and consider renting and/or selling properties that they might otherwise be speculating on. Additionally, the Australian housing market experienced a significant decline in housing prices during 2018, which saw dwelling values fall in price by approximately 5.8%.[181] Furthermore, there were approximately 2,000 extra rental listings available across the Melbourne metropolitan area over the previous year.[182] This decline in the housing market

[175] (Minear, 2019)
[176] (Prosper Australia, 2019)
[177] (Statista, 2022) (SQM Research, 2022)
[178] (SQM Research, 2022)
[179] (Victoria State Revenue Office, 2017)
[180] (Australian Bureau of Statistics, 2020)
[181] (Yardney, 2018)
[182] (Owen, 2019)

and increase in properties available may have been partially as a result of the VRLT. However there has been a considerable range of factors that have influenced the property market since the introduction of the tax, so isolating the effects of the tax and/or attributing these occurrences to the tax alone is not necessarily possible.

While Melbourne's property market slowed during the pandemic, 2022 has experienced a 'return to normal' as Australian governments have begun relaxing restrictions. Melbourne's housing market, which slowed considerably during the peak of the pandemic, has started to rebound aggressively. As Victoria opened its borders, demand increased from the return of international students, tourists, and skilled migrants. Accompanying the lower vacancy rates are increases in rental costs. In 2022, prices surged in response to the new demand, with all units experiencing an average weekly rental increase of 17% in the past 12 months (as of June 4th, 2022).[183]

Profile of vacant homeowners

According to last year's annual report by The Foreign Investment Review Board, Melbourne remains the number one target for foreign investors in Australia, although domestic investors still account for the majority of those holding vacant properties. There has been some skepticism that foreign investors are purchasing properties simply to keep them empty, with some real estate professionals indicating that the vacancy data is more reflective of the new housing that is being constructed but has not yet been occupied for long enough to qualify as occupied.

It is unclear how much of the vacant stock of housing is locally owned and how much is foreign-owned. However, the Melbourne central business district, which has drawn a significant volume of foreign investment, has the largest number of vacant properties, at just over 1,100 units or approximately 6.7% of properties.[184] Interestingly, the primarily student residential areas in Melbourne had the highest ratio of vacant homes, at approximately 7.6%.[185]

Public opinion

In general, the vacant home tax has been received positively in Melbourne. Due to the high cost and short supply of homes in Melbourne there has not been significant pushback from the public. One of the primary complaints about the Melbourne tax, however, is the number of exemptions and ease at which a home could be exempt. There has been some public sentiment that the exemptions are too lenient, such as a vacation home or through short term rental platforms like Airbnb. As a result, not enough vacant homes are returning to the market. Furthermore, some critics argue that the VRLT experienced a soft launch, due primarily to the self-reported declaration method. There has also been some feedback from landowners who do not believe their land should be subject to the tax, particularly those with holiday homes and properties for intermittent use within Melbourne.

Applicability to York Region

Melbourne and York Region share multiple similarities that make Melbourne a relevant comparator to York Region in the context of a vacant home tax. Both cities have experienced recent property booms, significant increases in housing demand, low vacancy rates over the past 5-10 years, and have struggled to supply adequate levels of housing to meet increasing demand. Furthermore, speculation investment is exacerbating the housing shortage by keeping a significant number of properties off the market as investors hold properties vacant as speculative investment vehicles rather than allowing them to be occupied for housing. According to SQM Research, the City of Melbourne had a rate of vacancy of approximately 1.9%[186] in 2020, which is only slightly higher than York Region's rate of vacancy of approximately 0.9% in the same year.[187] In addition, both

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[183] (SQM Research, 2022)
[184] (Bleby, 2015)
[185] Ibid.
[186] (SQM Research, 2022)
[187] (The Regional Municipality of York, 2021)

jurisdictions share similar structures of government, laws, and regulations, which allow for relevant comparison in the context of taxes and similar such initiatives.

Melbourne also serves as an example of a jurisdiction that has opted for a voluntary self-reported vacant home declaration method as opposed to the mandatory declaration methods applied in Vancouver and Toronto. As some of the initial evidence from Melbourne indicates that the city's vacant home tax has been less effective at reducing the number of vacant homes compared to Vancouver, a self-reported declaration mechanism may be less effective than the mandatory declaration method at achieving the goals of the tax.

Ottawa

Background of tax

Just as in many other Canadian jurisdictions, Ottawa has been experiencing worsening housing affordability in recent years and implemented various initiatives such as a VHT to combat affordability issues. Ottawa's housing market has been largely consistent with broader Ontario trends, with rapidly increasing house and rent prices over the previous 5 to 10 years. In 2022, the average home sale price in Ottawa reached approximately $830,000,[188] an 88% increase from pre-pandemic price levels of $440,000 in 2019 and a 130% increase from the 2014 average of $361,707. [189] Ottawa rental prices have also rapidly grown. Between 2016 and 2018, average rents for one and two-bedroom apartments grew by 7.4% and 7.9% respectively.[190] These prices have continued to grow and skyrocketed since the pandemic. Between 2018 and 2021, average rents for one and two-bedroom apartments increased by 36% and 51.5% respectively.[191] In contrast, median household incomes in Ottawa have only grown by 2% since 2019 and 10.4% since 2016.[192]

As a result of the housing and income trends in Ottawa, the city is facing an affordability crisis. The waitlist for affordable housing in Ottawa has grown by 14.8% since 2017 to over 12,000 people.[193] To afford a two-bedroom apartment in Ottawa, a person needs to make at least $38 an hour, which is over $13 greater than the Ontario minimum wage.[194] In response, Ottawa declared a housing and homelessness emergency in January 2020, becoming the first Canadian city to do so.[195] This declaration was followed by several policy initiatives aimed at improving affordability, such as a Ottawa's Vacant Unit Tax (VUT) that was passed by city council in May 2022.[196]

Definition of vacant home

Ottawa's VUT defines a vacant home as a property in the residential tax class that has been left unoccupied for more than 184 days in a calendar year.[197] The tax excludes commercial, industrial and multi-residential properties and does not apply to principal residences, tenanted properties, or properties occupied by a family member, friend, or other resident using it as their principal residence.[198]

Acceptable exemptions to the VUT include:

- Major renovations;
- Change in ownership;
- Death of owner;
- Seasonal property (e.g., a cottage); and
- Property is under court order.

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188 (Cusack, 2022)
189 (Agent in Ottawa, 2022)
190 (Prism Economics and Analysis , 2019)
191 (Pringle, 2022)
192 (Invest Ottawa, 2022)
193 (Osman, 2020)
194 Uses CMHC's measure of 30% of income spent on housing to represent affordability.
195 (Osman, 2020)
196 (City of Ottawa, 2022)
197 Ibid.
198 Ibid.

Administration method

The Ottawa VUT will be administered through a mandatory declaration method. Ottawa homeowners are required to annually declare to the City if their home is vacant and if any exemptions apply if their property was vacant.[199] Late declarations may be charged a $250 fee.[200] The City will also conduct periodic audits of houses to confirm the accuracy of declarations. If a homeowner is found to have falsely declared their property following an audit, they will be subject to a fine of between $500 and $10,000.[201] Homeowners would retain the right to challenge any penalties through established dispute resolution bodies.[202] Additionally, the VUT has been set at a rate of 1% of the property's assessed value.[203]

Impact of tax

The City of Ottawa has outlined that the primary objective of the VUT is to return vacant homes to the market for rent or sale, while any revenue that is generated is treated as a secondary benefit. Nonetheless, the City has forecasted that a 1% VUT will on average, generate $6.6 million annually.[204] This forecast is based on the estimate that 0.5% of Ottawa's 330,000 eligible units will be subject to the tax.[205] Start-up costs are estimated to be $3.9 million over the first 2.5 years, with eight full-time employees and five temporary employees. Annual long-term operating costs are estimated to be $1.4 million. After accounting for costs, average annual net revenues are estimated to be $5.2 million, all of which will be invested towards affordable housing initiatives.[206]

Applicability to York Region

Ottawa's decision to implement the VUT demonstrates that a VHT is increasingly being viewed by municipalities as a key policy initiative for improving housing affordability. Although Ottawa's housing market has been strong in recent years, the city has not experienced the same growth rates as the GTA or Vancouver jurisdictions and does not have the same levels of population density. Nonetheless, Ottawa has recognized the affordability issues its residents face and has pursued initiatives such as a VHT to improve this issue. Therefore, Ottawa demonstrates that a VHT does not need to be limited to the most extreme jurisdictions. Additionally, Ottawa's VUT is largely consistent with the VHTs of other Canadian jurisdictions, illustrating that the general framework of the tax is viewed as effective.

Paris

Background of the tax

The City of Paris introduced a tax on vacant residential units in 2015. The tax was introduced in an effort to reduce the prevalence of vacant residences in Paris, a long-standing public policy objective of local government. Over the 15-year period leading up to 2017, the number of unoccupied homes within Paris increased by approximately 43%.[207] According to one estimate, there were more than 100,000 vacant residential properties in Paris – approximately 10% of all residential homes. It was found that 40,000 vacant

[199] Ibid.
[200] Ibid.
[201] Ibid.
[202] Ibid.
[203] Ibid.
[204] (City of Ottawa, 2022)
[205] Ibid.
[206] Ibid.
[207] (Porier, 2017)

units had even been disconnected from the electrical grid – implying that the properties were purely owned for speculative purposes. The issue was most prevalent in Paris's most popular neighbourhoods.[208]

The tax rate was originally set at 20% of the annual fair market value of rent for the taxable property. The introduction of the tax in 2015 was met with opposition from real estate agents and property developers. By 2017, the original tax rate of 20% was increased to 60% of the fair market value of rent, as it was perceived as not having had the desired effect of enticing owners of vacant properties to either rent or sell their properties.[209] Some media outlets have reported that the government is considering additional increases to the tax rate to as high as 250%.[210] Deputy Mayor of Paris Ian Brossard, whose mandate includes housing in Paris, had stated that the goal of the tax was to eliminate "richer people's ghettos".[211] Increasing the availability of housing was also in line with the government's commitment to build more social housing across Paris.[212]

Although specific revenue figures from the tax have not been released, the introduction of the higher 60% tax rate is expected to generate an additional CAD $63 million annually, which will fund affordable housing projects within Paris. In addition to the vacancy tax, Paris also introduced caps on rent increases in 2016, and a tourist tax for residences using short term rental services such as Airbnb.[213]

Definition of a vacant home

Dwellings that are subject to the vacancy tax include those that have:

- been proven to be vacant and habitable for longer than one year;
- been vacant and habitable on January 1 of the tax year and January 1 of the previous year; and
- not been occupied for more than 90 consecutive days.

Dwellings that were occupied for more than three months, while exempt from the vacancy tax, are subject to applicable homeowner taxes.[214] In addition, only dwellings for residential use are taxable. A dwelling is presumed to have a residential use if it is enclosed, covered, and provided with basic comfort (electricity, running water, and sanitary services). Dwellings requiring major work (representing approximately one quarter of the value of the dwelling, or greater) to become habitable are not impacted by the tax.[215]

Dwellings that are exempt from the tax include:

- those whose vacancy is involuntary (as a result of an inability to find an occupant);
- those that are occupied for at least 90 consecutive days during the year;
- those which are furnished accommodation held as a secondary residence and subject to housing tax; and
- illegally occupied accommodation (i.e. squats).[216]

The amount to be paid by property owners for the tax is determined by the annual fair market value of rent of the property. For example, if the annual fair market value of rent for a property was $36,000 (rent of $3,000 per month), the owner would be required to pay an annual tax equal to $21,600 (60% of $36,000). An additional management fee of 9% is then added to the payable amount.

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[208] (Mason, 2017)
[209] (Hopkins, 2017)
[210] (This Paris Life, 2019)
[211] (Gréco, 2016)
[212] (City of Paris, 2019)
[213] (Mason, 2017)
[214] (Impot Sur le Revenu, 2015)
[215] (Jurifiable, 2020)
[216] (Jurifiable, 2020)

Impact of the tax on the housing market

In an effort to incentivize homeowners to rent their vacant properties, the City of Paris introduced benefits in 2015 for owners who put their properties onto the rental market through a system known as Multiloc. Owners who utilize the system receive:

- an entry bonus of €2,000;
- a beautification and restoration bonus of €2,000 to €3,000 for accommodations that were vacant for less than six months, and €9,000 to €11,000 for accommodations that were vacant for more than six months; and
- a guarantee of unpaid rents up to €400.

In return, the owner must agree to rent the property for 20% below the reference median rent in the neighbourhood.[217] In order to qualify, owners are required to use a real estate agency that is part of Multiloc for a minimum of three years. Additionally, homes must:

- be bigger than $14m^2$;
- be vacant for over a month;
- be located within Paris;
- be an empty, furnished, or shared rental property; and
- be habitable (and meet associated habitability criteria).

Public opinion

Critics of the Multiloc system have argued that the incentives are not high enough to entice behaviour changes of owners in the lucrative Parisian market. Critics have also noted that real estate agents have not adequately promoted the program to potential renters – an element critical for the program's success.[218]

Applicability to York Region

While there are a number of differences in the political, legal, and social compositions between York Region and Paris, there are nonetheless lessons to be learned from Paris. Paris' current high housing density has narrowed the policy options available to Government in addressing housing affordability (such as increasing supply through construction). As York Region becomes increasingly dense, Paris serves as a look at a potential future-state for the York Region and an opportunity to explore the impact of high-density housing policies. Additionally, the Paris case study demonstrates that more aggressive tax rates may be required to achieve desired effects within the market.

New York

Background of the tax

In recent years, New York City has been experiencing a notable increase in 'pied-à-terres' (i.e., an extremely small living unit that is generally not used as a primary residence and is often used as a commuter home) and short-term vacation rental units. Since 2015, the New York City has seen an increase of nearly 20,000 such units, bringing the total number to approximately 2.1% of all available housing in New York City. More broadly, vacant units that were unavailable for rent due to occasional, seasonal, or recreational use totaled 75,000 units in 2017.[219]

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[217] (Lodgis, 2020)
[218] (Thépot, 2016)
[219] (United States Census Bureau, 2018)

In an effort to address the availability of affordable housing, New York City explored the implementation of a 'pied-à-terre' tax on luxury second homes. The objective of the tax was to generate revenue which would be used to help fund public transit in New York City.

The implementation of the tax gained momentum in 2019 following media reports detailing the sale of a USD $238 million apartment (to be used as a secondary home) in New York City. The movement was met with support with elected state officials, who drafted a bill aimed at addressing vacant secondary homes. However, once the bill became public, the real estate industry lobbied against it. Ultimately the government abandoned the tax. Instead, the government is exploring the introduction of a one-time fee on all real estate transactions over USD $3 million (although the exact threshold is still under review).[220]

There is disagreement among officials around how much revenue might be generated through a one-time fee as opposed to an annual tax. Some officials estimate that the one-time fee might generate between USD $300 million and $400 million. In comparison, initial estimates indicated that the 'pied-à-terre' tax would generate anywhere between USD $370 million to $650 million, annually.[221] New York City has not yet implemented either of the aforementioned programs.

Applicability to York Region

Although New York has not implemented a VHT, the city demonstrates that 'pied-à-terres' (i.e., commuter homes) and short-term rentals can exacerbate local vacancy rates. Although commuter homes may not yet be relevant for York Region, growing populations and proximity to Toronto may necessitate such considerations in time. As such, this case study can help inform York Region on potential considerations and/or exemptions to include or not to include in a VHT.

London

Background of the tax

London has long faced what is considered to be a 'housing crisis'.[222] The number of empty homes across England has increased for the second consecutive year to more than 216,000 (the highest level since 2012). Particularly, vacant homes in London have seen a notable increase of 11%, totaling 22,481 properties – valued at over £10.7bn.[223]

Since 2013, Councils in London have had the ability to impose a punitive 'empty homes premium' of an additional 50% in property taxes on homes left vacant for more than two years in the city.[224] However, this policy has proven to be difficult to enforce, as homeowners are not obligated to report the occupational status of their properties.[225] In an effort to address the shortcomings of the policy, the premium was raised to 100% in 2019. Further changes were implemented in 2020, with the introduction of a 200% premium to be applied to properties that have been left vacant for more than 5 years.[226]. However, critics have argued that the change is still unlikely to lead to the sale or rental of the properties in question, as the overall increase to the annual property taxes is considered to be relatively small.[227]

Councils can charge up to double the amount of their Council Tax if a home has been empty for two or more years (unless the property is an annexe or the owner is in the armed forces). Each Council has the ability to

[220] (Wang, 2019)
[221] Ibid.
[222] (Dubiski, 2019)
[223] (Kollewe, 2019)
[224] (Barking & Dagenham, 2020)
[225] (Pegg, 2016)
[226] (Barking & Dagenham, 2020)
[227] (Brown, 2017)

determine criteria for discounts to the additional tax, and if an owner would qualify for said discounts. To receive an exemption, homes need to remain empty and fall under one of the following criteria:

- The property is being sold on behalf of an owner who's died as long as the property is unoccupied;
- The owner is in prison (excluding for not paying a fine or Council Tax);
- The owner has moved into a care home or hospital;
- The property has been repossessed;
- The property cannot be lived in by law (i.e., if the property is derelict);
- The property is a compulsory purchase and will be demolished;[228] or
- The Property is left by a member of the armed services, who is away from their property as a result of their services.[229]

Homes undergoing major repair work or structural changes are eligible for an exemption. The property exemption is only valid until a 'completion notice' is sent by the Council.[230]

The low-use and vacant properties are primarily concentrated in small, desirable areas across the city, most notably the London boroughs of Chelsea and Kensington.[231] The value of low-use properties in the Chelsea and Kensington has been estimated at £21 billion. Overall, researchers estimate that in England and Wales, 39-47% of the population lives in an area where low-use properties are more expensive than permanently occupied homes. Based on the estimates and current council tax base, changing the taxation to an empty homes tax of 1% of the fair market value of the home (similar to the policy implemented in Vancouver) could raise an additional £1.2 billion in taxes which is equivalent to 11% of the council tax currently collected in those areas. In London more specifically, the tax would raise an additional £2,100 per resident – the equivalent to 260% of current council tax in Chelsea and Kensington.[232]

Research by the University College of London argues that building new homes is not the solution to London's housing availability and affordability challenges, as increased supply is likely to lead to additional speculative property investments. Instead, the authors suggest that the government should focus on implementing a one percent tax on second homes within the city.[233] The researchers argue that the tax has the potential to generate considerable new revenue for local authorities, while encouraging the renting or sale of vacant properties.[234]

Applicability to York Region

Similar to Melbourne, the London case study indicates that a voluntary reporting mechanism for vacant homes is less effective than a mandatory declaration, as fewer homeowners report vacancy. As a result, a voluntary reporting mechanism will likely bring fewer vacant homes back to the market and require more resources for enforcement.

[228] (Government of UK, 2020)
[229] Ibid.
[230] Ibid.
[231] (Knapton, 2019)
[232] (Springer, 2019)
[233] (Bourne, 2019)
[234] (Knapton, 2019)

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