



The Regional Municipality of York

Committee of the Whole
Finance and Administration

November 9, 2023

FOR DECISION

Report of the Commissioner of Finance and Chief Planner **Vacant Home Tax Update**

1. Recommendations

1. Council not proceed with implementing a Vacant Home Tax for the financial reasons outlined in this report.
2. The Regional Clerk forward this report to the local municipalities for information.

2. Purpose

This report provides updated information for Council's consideration regarding the financial feasibility of implementing a Vacant Home Tax in York Region, including recent data about the housing market, the progress of the Province's legislative framework, and the experience of other Ontario municipalities.

Key Points:

- Vacant Home Tax is a policy tool created when market conditions made commercialization of homes more prevalent. While investment activity in the housing market continues, interest rates have driven up the cost of financing. Higher costs and slowly declining housing prices are expected to make it less financially viable for investors to buy homes and leave them vacant
- While data about the impact of Federal legislation, including the two-year ban on foreign purchases of homes and the Underused Housing Tax, is still not yet available, it is expected that these will result in fewer vacant homes
- Based on recent data from Statistics Canada and preliminary vacancy information published by Toronto and Ottawa, updated estimates suggest the Region could expect

up to 80% fewer vacant homes than KPMG's previous estimate resulting in revenues over four years of at least \$27 million lower than initially forecasted

- Although the program is not expected to be self-sustaining for the Region, as most other Ontario municipalities have also determined, the potential effectiveness of the program as a housing affordability policy tool could be further explored as part of the Affordable Housing Implementation Plan

3. Background

A Vacant Home Tax (VHT) is a policy tool that was designed to increase availability of the existing housing supply by encouraging owners of vacant homes to return them to either the rental or resale markets.

In 2017, the Province granted the City of Toronto the authority to levy a VHT and allowed other Ontario municipalities to apply for designation to do the same.

In [October 2021](#), Council directed staff to conduct a feasibility study for implementing a VHT in York Region. This study was prepared by KPMG, using assumptions based on the City of Vancouver's experience, and showed that a VHT could be financially viable. These results were presented in a report to Council in [September 2022](#).

In [May 2023](#), an updated report to Council recommended that any further consideration of the tax be deferred to ensure its alignment with the Province's new VHT Policy Framework and to conduct updated cost and benefit estimates that reflected changing economic and legislative conditions.

Council directed staff to report back in the Fall of 2023 about this matter with updated information.

Increased financing costs and lower house prices may mean that fewer investors are buying homes and then leaving them vacant

Investors are a major source of homes that are being left vacant and may be subject to a VHT.

Since May 2023, the Bank of Canada has enacted two more interest rate increases, reaching its highest overnight level since 2001. Recent Canada Mortgage and Housing Corporation data showed that by the second quarter of 2023, the average mortgage payment in Ontario had increased by 17% over the prior year. Due to these higher carrying costs, many more homeowners are now listing their properties for sale. Between June and July of this year, the number of unsold listings increased by 50% in York Region. In response, York Region's average home resale price fell by 2% in June, and by another 1% in July.

Current cost pressures, and the potential for further price corrections, could further discourage prospective investors from buying homes and then leaving them vacant.

Higher rent revenues may also encourage investors to rent existing vacant homes

According to rental reports published by the Toronto Regional Real Estate Board, by the second quarter of this year, the number of condominium units listed for rent in York Region had increased by 62% compared to last year.

Despite rents increasing by 9% over last year in York Region, many newly listed units are now tenanted, and the number of leased units has grown by 45% over the same period. The higher potential for rent revenues and higher carrying costs may already be encouraging more owners of vacant homes to list them for rent.

Senior government programs could also help reduce the number of vacant homes

The Federal Underused Housing Tax, effective January 2022, discourages homeowners from leaving their properties vacant. However, the reduction in the number of vacant homes due to this tax cannot be estimated until at least 2024 as the Canada Revenue Agency is accepting penalty-free Underused Housing Tax payments up to an extended deadline of November 1, 2023.

The federal government implemented a two-year ban on foreign purchases of homes, which came into effect in January 2023. While the impact has not yet been quantified, data from British Columbia's Speculation and Vacancy Tax program and [research](#) from the United Kingdom suggests that homes purchased by foreign investors are more likely to be vacant.

Once data is available, the impact of foreign ownership on York Region's housing market could be better assessed; however, both factors suggest the number of vacant homes in York Region could fall compared to prior figures.

The Province has not released its Vacant Home Tax Policy Framework

Any municipality requesting Provincial designation to levy a VHT will need to align with the Provincial Policy Framework. A draft of the framework was initially expected in March 2023, but it is not yet available. The Policy Framework could impose limitations on a potential program.

Most Ontario municipalities are not expected to implement a Vacant Home Tax, primarily due to their financial feasibility concerns

The Cities of Toronto, Ottawa, and Hamilton are the only Ontario municipalities that may levy the tax by legislation or designation, respectively. Halton Region is in the process of designing a program for potential implementation in 2024. To date, all other Southern Ontario municipalities

that have evaluated a tax did not proceed with implementation primarily due to financial feasibility concerns. This is summarized in Appendix A.

Peel has suspended its implementation of a Vacant Home Tax

In April, Peel Region requested that local municipalities provide letters of support to support the Region’s application for Provincial designation to implement a VHT. Mississauga and Brampton did not provide supporting letters, and Caledon sent a letter of dissent for the proposed tax.

On July 6, 2023, Peel Region formally suspended its implementation of a VHT.

Early vacancy figures from Toronto and Ottawa are expected to decrease once appeals and audits have been fully processed

Figures are expected to decrease from those shown in Table 1. Toronto expects to receive more Notices of Complaint for the 2022 tax year until April 15, 2024, and final data will be available after a three-year audit process. Ottawa’s figures do not reflect the outcome of 2,800 Notices of Complaint. At the time this report was written, Ottawa staff reported that 86% of Notices of Complaint processed were accepted as not being vacant for the purpose of the tax.

Table 1
Updated Vacant Homes in Ottawa and Toronto

Municipality	Declared Vacant	%	Deemed Vacant	%
Toronto ¹	2,161	0.26%	17,437	2.13%
Ottawa ²	3,268	0.97%	2,836	0.84%

¹ Data as of August 1. Reflects a reduction of over 27,000 vacancies due to Notices of Complaint processed to date

² Data as of April 30. Does not reflect decisions on over 2,800 Notices of Complaint

Toronto and Ottawa are expected to implement changes to their Vacant Home Tax programs

Toronto and Ottawa will introduce exemptions for newly constructed properties starting in the 2024 tax year, which could reduce the number of homes subject to the tax. Other program changes are also taking place. For example, on [August 23](#), Ottawa Council directed that the declaration process be improved and simplified and on [October 11](#), Toronto City Council approved a plan to increase the tax rate from 1% to 3% for the 2024 taxation year. Also, Toronto will tax homes that do not meet the definition of a short-term rental (e.g., Airbnb) that are being rented for 28 days or longer, but do not have a lease in place.

The long-term impact of these changes on the number of vacant homes and tax revenues is not known at this time.

Vancouver has cancelled its planned vacant home tax increase

On May 10, 2023, the City of Vancouver cancelled the Empty Homes Tax (their version of the Vacant Home Tax) rate increase from 3% to 5% planned for the 2023 tax year due to concerns that higher evasion would result in additional audit and enforcement expenses. Like Ottawa and Toronto, Vancouver introduced a new exemption for vacant new units retroactive to 2022 resulting in \$3.8 million in taxes being refunded. The associated staff report suggested the reduction in vacant homes since 2017 might not be a trend that continues in a post-pandemic environment, and more time is required to assess the effectiveness of the tax.

Consultations with other municipalities considering a Vacant Home Tax have shown that cost savings through joint administration would not be achievable

Consultations were held during the summer with GTHA municipalities that either are levying or planning to implement a tax and joint processing agreements for other programs were reviewed. Through this process, staff determined that all participating municipalities would require identical VHT programs with no variations in exemptions, program features, timelines or vacancy thresholds to be able to realize savings from sharing resources efficiently. Municipal Property Assessment Corporation (MPAC) data-sharing restrictions also limit the ability to share resources among municipalities.

Of the three Ontario municipalities that are currently levying a vacant home tax, all have different programs, and none expressed an interest in joint administration. Therefore cost savings from a joint processing facility are not achievable.

4. Analysis

In October 2023, Statistics Canada released new data highlighting major differences between York Region's and the City of Vancouver's housing markets. Staff have analyzed these differences and their impact on previous assumptions.

York Region could have fewer properties subject to a Vacant Home Tax, with lower assessed values, than had been previously assumed

Statistics Canada data, summarized in Table 2, show that 43% of all condominium units and 14% of single-family detached homes in Ontario are owned by investors. Among York Region properties, fewer are owned by investors across all housing types compared to the Provincial

average. Since primary residences would be exempt from a VHT, this suggests fewer homes may be subject to the tax than previously anticipated.

Table 2
Share of Properties Owned by Investors (Non-Primary Residences)

Housing Type	Ontario	York Region
Single Family Detached	14.1%	9.0%
Semi-Detached	15.3%	12.9%
Row House	21.2%	16.6%
Condominium	42.6%	33.1%
Total	20.1%	13.2%

Source: Canada Housing Statistics Program Residency ownership and property use by residential property type and period of construction (Table 46-10-0070-01), 2021

York Region has fewer investment properties than any Canadian municipality levying a VHT, illustrated by Table 3. In addition, these taxable homes typically have lower assessed values than primary residences. The assumption that York Region's vacant homes would have higher-than-average assessed values like in Vancouver resulted in revenue projections that could be overestimated by at least \$3 million in the first year alone.

Table 3
Share and Relative Value of Taxable Homes

Municipality	Share of homes owned by investors (non-primary residences)	Assessed value of non-primary vs. primary residences
Vancouver	31.3%	131%
Toronto	23.6%	99%
Ottawa	17.8%	115%
Hamilton	15.7%	93%
York Region	13.2%	69%

Sources: Canada Housing Statistics Program Residency ownership and property use by residential property type and period of construction (Table 46-10-0054-01), 2021; Vancouver Empty Homes Tax Annual Report 2021 Vacancy Reference Year

Updated projections show a Vacant Home Tax in York Region would likely not be self-sustaining

Toronto and Ottawa data on vacant homes by housing type was applied to York Region's housing mix, and Statistics Canada data informed assumptions about the number of taxable properties and their assessed values. Table 4 shows that depending on whether York Region's experience more closely resembles Toronto's or Ottawa's, the Region can expect between 290 and 1,052 vacant homes, up to 82% lower than initial forecasts.

Table 4
Updated York Projections for Vacant Homes and Tax Revenues

Scenario	Initial Vacant Units	Revenues (\$ millions) ¹			
		Year 1	Year 2	Year 3	Year 4
Original ²	1,605	13.6	12.2	10.9	9.7
Preliminary Toronto Experience (Low)	290	1.6	1.4	1.2	1.1
Preliminary Ottawa Experience (High)	1,052	5.7	5.0	4.4	3.9

¹ Based on a 1% tax rate

² Forecasted by KPMG, presented in May 2023

A Vacant Home Tax will be reviewed again, as a policy tool, as part of the Affordable Housing Implementation Plan

Although the program is no longer considered to be feasible from a solely financial perspective, the experience of Vancouver suggests that it could be an effective policy to help reduce the number of vacant homes, especially as the City increased its tax rate. The potential use of a VHT will be assessed among other policy tools as part of the Affordable Housing Implementation Plan, expected in 2024.

5. Financial Considerations

As Table 5 demonstrates, a VHT in York Region would be expected to generate total net losses of between \$1.2 and 14.9 million over the first four years of implementation, based on cost estimates prepared by KPMG. However, there are additional risks to net proceeds, including additional enforcement resourcing needs, possible litigation costs, revenue impacts of any additional exemptions, and complexities related to implementing a VHT in a two-tier environment, which cannot be quantified. As a result, actual net losses could be even higher

than projected. The potential for tax levy pressures rather than the planned net revenues support a recommendation not to proceed with implementing a VHT.

Table 5
Updated York Projections for Vacant Homes and Tax Revenues

(\$ millions)		Year 0	Year 1	Year 2	Year 3	Year 4
Revenues ¹	Low		1.6	1.4	1.2	1.1
	High		5.7	5.0	4.4	3.9
Costs ²		(0.2)	(7.3)	(5.0)	(3.8)	(3.9)
Net Revenues/ (Costs)	Low	(0.2)	(5.7)	(3.6)	(2.6)	(2.8)
	High	(0.2)	(1.6)	-	0.6	-

¹ Based on a 1% tax rate. The Low and High revenue scenarios are based on revenue forecasts assuming York Region's experience would be similar to that of Toronto or Ottawa, respectively

² Forecasted by KPMG, presented in May 2023

6. Local Impact

KPMG's April 2023 final report recommended a hybrid administration approach as the most cost-effective option, with shared responsibilities between the Region and its local municipalities. Should York Region proceed with implementing a VHT, local municipal administrative impacts and concerns, such as potential resident confusion, resource and capacity pressures, and information-sharing challenges would need to be resolved.

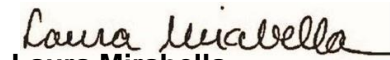
7. Conclusion and Next Steps

The VHT was introduced when housing market conditions could potentially lead to homes being purchased as investments and left vacant. Based on updated information, the tax is not expected to be self-sustaining in York Region. However, figures may change as the number of vacant homes reported by the Cities of Ottawa and Toronto are finalized.

Staff will continue to monitor the programs at other Ontario municipalities and provide updates as required. While updated figures suggest the tax may not be financially feasible, the effectiveness of the policy on housing affordability and availability will be further assessed through the Affordable Housing Implementation Plan expected in 2024 for Council consideration.

For more information on this report, please contact Edward Hankins, Director, Treasury Office and Deputy Treasurer at 1-877-464-9675 ext. 71644 or Sandra Malcic, Director, Long Range Planning ext. 75274. Accessible formats or communication supports are available upon request.

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Updated Interjurisdictional Scan

Municipality	Initial Tax Rate ¹	First Reference Year (calendar)	Status
City of Toronto	1	2022	<ul style="list-style-type: none"> • Bills sent to property owners in Mar. 2023 • Accepting Notices of Complaint until Apr. 2024 • Three-year audit process to begin
City of Ottawa	1	2022	<ul style="list-style-type: none"> • Bills sent to property owners in Jun. 2023 • Accepted Notices of Complaint until Sept. 2023 • Audit process underway
City of Hamilton	1	2023	<ul style="list-style-type: none"> • Declaration portal under development • Mandatory declaration notices to be mailed mid-December 2023
Region of Peel	N/A	N/A	<ul style="list-style-type: none"> • Program suspended in Jul. 2023 due to dissolution of Region of Peel
Region of Halton ²	1	2024	<ul style="list-style-type: none"> • Proposed program design expected in Fall 2023
City of Windsor	N/A	N/A	<ul style="list-style-type: none"> • Deferred implementation in Jul. 2023, until the Provincial framework is released
City of Niagara Falls	N/A	N/A	<ul style="list-style-type: none"> • Council declined to implement a tax in Feb. 2023 due to financial feasibility concerns
City of Kitchener	N/A	N/A	<ul style="list-style-type: none"> • Council declined to endorse a tax in Aug. 2022 due to financial feasibility concerns
Region of Waterloo	N/A	N/A	<ul style="list-style-type: none"> • Declined to implement a tax following the City of Kitchener's decision
City of London	N/A	N/A	<ul style="list-style-type: none"> • Declined to implement a tax in Jan. 2022 due to financial feasibility concerns

Municipality	Initial Tax Rate ¹	First Reference Year (calendar)	Status
Region of Durham	N/A	N/A	<ul style="list-style-type: none"> Declined to implement a tax in Mar. 2023 due to financial feasibility concerns
Town of Blue Mountains	N/A	N/A	<ul style="list-style-type: none"> Declined to explore implementing a tax in Apr. 2023 due to program design and administrative complexities

¹Expressed as a per cent of Current Value Assessment as determined by the Municipal Property Assessment Corporation

²Initial tax rate and reference year are subject to Council approval