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**REPORT TITLE: Vacant Home Tax Feasibility Study**

**FROM: Gary Kent, CPA, CGA, ICD.D, Chief Financial Officer and Commissioner of Corporate Services**

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## **RECOMMENDATION**

**That staff proceed to the next steps of developing a Region of Peel Vacant Home Tax (VHT) program including actions to:**

- **Design a VHT program framework through a further review of program design and key operational processes**
- **Commence public communication to gather initial public input to help design the program**
- **Bring a report back to Regional Council on the findings after completion of the Phase 1 described in the subject report**

**And further, that a capital budget funded from the Tax Rate Stabilization Reserve in the amount of \$300,000 be approved to provide funding for external consulting and professional services for the VHT program design and community engagement;**

**And further, that the Director of Procurement be authorized to amend contract 2021-154P, feasibility study and public benefit report for a vacant home tax policy, awarded to Ernst & Young LLP, to the limit of the approved budget, to support completion of required consulting services associated with the VHT program; in accordance with Procurement By-law 30-2018.**

## **REPORT HIGHLIGHTS**

- A variety of metrics and studies indicate growing pressures on affordable housing supply and eroding housing affordability in the Greater Toronto Area including Peel.
- The Region and local municipalities have long advocated for revenue tools to address the changing needs of local communities and to ensure municipal financial sustainability.
- Research and real-world experience suggest that VHT is one of many policy levers that can contribute to resolving the affordable housing crisis with near-term impact.
- Vacant Home Tax only applies to vacant residential properties.
- A working group comprised of Region of Peel and local municipalities' staff has been established and has engaged with various stakeholders in reviewing the VHT.
- While the primary goal of a VHT would be to increase housing supply by returning vacant residential units to the market, the VHT would also be a viable revenue source to support housing initiatives.
- If implemented, the VHT revenue, net of Regional and local administrative costs, can be used to support affordable housing initiatives such as the Region's Housing Master Plan as well as affordable housing financial incentives.
- The Region retained Ernst & Young LLP (EY) to conduct an assessment to evaluate the feasibility of implementing a VHT in Peel Region.

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- The EY study recommends that a VHT would be a feasible housing policy and revenue positive tool for implementation in Peel Region to address affordable housing challenges.
  - The EY study modeled financial analyses and estimates that the projected revenue for a one per cent tax rate based on 2021 housing figures would be approximately \$17 million (\$30 million if a two per cent tax rate is applied) for the first year, the one-time implementation cost would be in a range of approximately \$12 -15 million, and the annual operating cost would be approximately five million.
  - Identified risks include uncertainty around the extent to which vacant units would be returned to market to help increase the housing supply and revenue/cost sensitivity.
  - The Region would need to advance investment in this program in the coming years to facilitate the work required for an implementation. There are risks that revenues from a VHT could be inadequate to cover the implementation and operating costs of the Program; economic benefits generated from the VHT program could offset some financial risks.
  - VHT can be challenging to implement considering the novelty of the legislation and various risks identified. Staff envision a multi-phased approach with multiple communication touch point with Council towards a potential VHT implementation.
  - Final approval from the Minister of Finance is required for the Region to have an authority to impose a VHT. The time to obtain approval from the Minister of Finance will ultimately dictate when a VHT could be implemented.
  - If implemented, the VHT program would require all homeowners within Peel Region to declare annually their residential property occupancy status for a given year (i.e. whether the property is vacant).
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## DISCUSSION

### 1. Background

On May 17, 2017, *Bill 127, Stronger, Healthier Ontario Act (Budget Measures)*, 2017 received Royal Assent. Introduced as a part of the former Ontario government's *Fair Housing Plan*, this legislation amended the *Municipal Act, 2001* (the Act) to include Part IX.1 Optional Tax on Vacant Residential Units (VHT), permitting a municipality, if designated by the Minister of Finance through a regulation, to impose a tax on vacant residential units.

The Act sets out certain requirements and conditions relating to the imposition of a VHT, which are that:

- it must be a property tax applied to assessed value;
- the tax may apply only to the residential property class;
- the property must be taxable under the Assessment Act; and,
- it must be imposed by a by-law stating the tax rate, identifying the conditions of vacancy, and providing other necessary provisions.

At the January 14, 2021 Regional Council meeting, Council approved a resolution directing staff to conduct a feasibility study to assess the appropriateness and applicability of potential implementation of a VHT in Peel Region.

To assess the appropriateness of a VHT in Peel Region, Regional staff have established a VHT Working Group comprising of staff from Regional/Local Municipalities' Tax Teams and

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Regional Housing Teams, and engaged stakeholders such as Planning, Communications and Provincial staff.

### 2. Key Findings from the EY Feasibility Analysis

The Region retained EY to conduct an assessment to evaluate the feasibility of implementing a VHT in Peel Region and develop a public consultation plan and communications strategy.

The EY Study titled “Region of Peel Feasibility Assessment for Vacant Homes Tax” (EY Study) is appended as Appendix I. An executive summary of the EY Study is appended as Appendix II which provides a high-level presentation of key findings.

#### a) VHT as a Tool to Help Improve Housing Supply

The EY analysis of Peel Region’s housing market confirms that there is growing pressure on affordable housing supply and housing affordability in Peel with rental and ownership prices rising, multiple times faster than income levels.

EY identifies that there are several policy levers that may be explored by municipalities to potentially address the affordability crisis. By implementing a VHT, the Region may be able to incentivize owners of vacant properties to either sell or rent out their units. This increases the supply of market units, which could help to decrease average property sale and rental prices, thereby improving housing affordability in Peel.

#### b) Vacant Home Tax Program Design and Implementation

The EY study discussed potential VHT program design and suggests that the Region would need to conduct further detailed analysis to determine program design specifics.

Some key parameters considerations similar to Toronto/Ottawa are summarized in Table 1 below:

**Table 1 – VHT Program Key Design and Implementation Key Features**

<b>Key Features</b>	<b>EY Recommendation/Considerations</b>
Definition	Where a unit that is unoccupied for more than 6 months or 184 days within a calendar year would be designated as “vacant”.
Exemption	Various exemptions may be considered – for example: for reasons such as deceased owner, court prohibiting occupancy, and others
Tax Rate	Consider a range between 1-3%. Initial tax rate at 1%, subject to reassessment in future reviews.
Method to Identify a Vacant Home	All homeowners within Peel Region must declare annually.
Audit and Compliance	Consider an audit and compliance capability using mechanisms such as random audits, risk-based audits, and/or complaints-based audits.
Enforcement	Consider leveraging the existing steps for non-payment of property taxes at the lower-tier municipal level to collect VHT arrears.
Dispute Resolution	The VHT by-law would set out rules and govern dispute resolution.
Delivery Model	The Hybrid Delivery Model leveraging existing tax collection capabilities at the local level
Revenue Utilization	While not mandated by legislation, all jurisdictions that have implemented or are considering implementing a VHT have pledged to use revenues collected from the VHT revenues for affordable housing initiatives.

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### c) Financial Analysis

To estimate the feasibility of a VHT in Peel Region, EY undertook a high-level quantitative analysis to understand the potential financial impact to the Region and the three local municipalities.

#### ➤ Revenue

The revenue for vacant homes would be obtained from two streams:

- Stream 1 - taxes remitted by homeowners who declare their homes to be vacant
- Stream 2 - taxes and fines levied on homeowners who did not declare their homes to be vacant but were identified through audit/complaints

Revenue projection estimates were developed through a four-step process using existing Regional data and assumptions leveraged from the City of Vancouver with adjustments where applicable. An overview of the methodology, assumptions and financial analysis are described on pages 40 - 45 in EY's study (see Appendix I).

A revenue forecast scenario analysis is shown in Table 2 and involves various tax rates and their associated annual behavior response rate (ABRR):

- Tax Rate – the rate to be applied on the property's current assessment value
- ABRR – the percentage of homes that are placed on the market for sale or rent if a certain tax rate is applied on vacant homes

**Table 2 – Revenue Models Based on Various Tax Rates**

	<b>Tax Rate</b>	<b>ABRR</b>	<b>Stream 1 Revenue – from Self Declaration (\$millions)</b>	<b>Stream 2 Revenue – from Audit Activity (\$millions)</b>
Scenario 1	1%	2.5%	\$16.4	\$0.7
Scenario 2	2%	5.0%	\$28.9	\$1.3
Scenario 3	3%	6.5%	\$40.4	\$1.8

#### ➤ Cost

In a two-tiered municipal environment, the implementation and operations of a VHT requires a unique solution that accommodates or leverages the existing systems, responsibilities, and processes of the local jurisdictions to deliver the tax. EY cost estimates are summarized in Table 3.

**Table 3 – Cost Estimates**

<b>Cost Category</b>	<b>Estimated Costs</b>
One-Time Implementation Cost	\$12 – 15 million
Annual Operating Cost	\$5 million

### d) Summary

In summary, EY's study finds that, subject to further design and development, it is financially feasible to implement the VHT in Peel to generate revenue for affordable housing programs while increasing housing supply.

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### **POLICY CONSIDERATIONS**

#### **1. Guiding Principles and Objectives**

This VHT feasibility review and public benefit study is guided by the following overarching principles:

- Housing stock and supply is important for people both as homes and storage of wealth, but not exclusively as a buy-hold speculative commodity without any public regulation
- Integrated policy alignment to support Regional Housing Strategies and Financial Sustainability
- Promotes the Region's Term of Council Priority of "Transforming Housing Service Delivery"
- Equality and Fairness
- Predictability and Stability
- Ease of Administration
- Accountability to Taxpayers

#### **2. Housing Affordability Crisis**

The housing affordability crisis is systemic and will not be addressed by any one policy lever or program alone. As such, a variety of policy levers and programs collectively with varying near and long-term impacts are necessary.

Various metrics and studies indicate growing pressures on affordable housing supply and eroding housing affordability in the Greater Toronto Area including Peel. As of Q2 2021, it has been calculated that it would take the average Peel household 26 years to save for a down payment and closing costs at average market prices, while a dual minimum wage income family would need 51 years or paying 2/3 of their income at current average rental prices. Moreover, the consequences of the housing affordability crisis disproportionately impacts racialized, 2SLGBTQ and Indigenous communities.

While a substantial expansion of housing supply, especially affordable housing supply is needed to moderate excessive price growth, this can only be accomplished if housing supply is used for housing purposes. Given the financialization of housing, it can be lucrative for some property owners to intentionally maintain a housing unit vacant for speculative purposes. The Canadian Housing and Statistics Program operated by Statistics Canada has determined that nearly one in five property owners in the Toronto area own more than one property, while Teranet has recently determined that multiple property owners account for the single largest share of property acquisitions in the Toronto area.

#### **3. VHT as a Housing Tool**

The Council-endorsed Peel Housing and Homelessness Plan, 2018-2028 (PHHP) identifies that approximately one in three new housing units need to be affordable to meet the needs of Peel's growing population over the next 10 years. Further, there is evidence to suggest Peel's housing needs are being addressed through unregistered secondary suites, indicating an effective housing shortage despite thousands of units recorded as unoccupied in the census. The strategies within the PHHP reflect the fact that a range of tools and approaches is required to meet the various housing needs experienced by Peel residents.

Scholarly research and real-world experience indicate that a VHT is one of the policy levers that can help address the affordable housing crisis with near-term impacts. A VHT can return supply

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to market for use as housing, create housing supply more quickly than simply building new units, moderate price growth, and provide additional revenue to support housing initiatives.

The City of Vancouver has levied an Empty Home Tax since 2017 with an initial tax rate of one per cent and has since increased to rate of three per cent for 2021. The City reported that the number of vacant home units has dropped by 25 per cent since program implementation.

In implementing a well-designed VHT, the Region should be able to incentivize some owners of vacant properties to either sell or rent out their units. Evidence suggests that supply expansion as a result of a VHT will likely be in the condominium-based secondary rental market or condominium resale ownership market.

Though condominium rental supply has grown at an average rate of 660 units annually over the past decade, vacancy rates have generally remained well below three per cent with prices increasing year-over-year, indicating unmet demand for condominium rental supply. A VHT-facilitated increase in rental supply can help to address these vacancy rates and create opportunities for higher income households to move out of the purpose-built rental market into condominium rental or ownership, thereby relieving price and vacancy pressures in purpose-built market. This supports efforts by the Region and local municipalities to increase Peel's limited rental housing stock, create more housing options for households, and improve access and affordability so that new and existing residents can reside in the community of their choice. Further, it would also make it easier for the Region, in its service manager role, to support low-income households in securing housing.

### **4. VHT as a Revenue Tool**

The Region and local municipalities have long advocated for progressive revenue tools to address the changing needs of local communities and to ensure municipal financial sustainability. While the primary goal of the VHT would be to increase housing supply by returning units to the market, the VHT would be a viable revenue source to support service delivery and help mitigate municipal fiscal challenges related to housing.

The EY study finds that the VHT revenues have been directed towards affordable housing initiatives in all other jurisdictions that have implemented or are planning to implement a VHT. Hence, if the VHT is allocated towards general revenue purposes, it would be an outlier among Canadian municipalities and other jurisdictions. In addition, consultation with stakeholders from the Ministry of Finance indicates that the legislation changes were introduced as a part of the Ontario Fair Housing Plan to allow a municipality, if granted a designated authority, to impose additional tax on vacant homes. An approach of utilizing the revenues towards affordable housing initiatives that support the Ontario Fair Housing Plan would help enhance the probabilities of success for the Region to obtain an approval of the VHT program when submitted to the Province for ministerial assent.

The Region and local municipalities could consider utilizing the revenue to support programs such as the Region's Housing Master Plan (HMP). If fully funded and implemented, the HMP would add over 5,650 new affordable rental units/beds, including supportive housing and emergency shelter beds, to the housing stock by 2034. This includes developments in all three local municipalities contributing to housing affordability broadly throughout the Region. To date, a significant funding gap remains for the HMP.

The Region and local municipalities may also consider using the VHT revenue to support affordable housing initiatives through a range of financial incentives and other housing

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programs. It is important to note that the VHT will be insufficient to fully address Regional affordable housing needs, and other revenue tools and sources of funding must continue to be pursued and considered.

### 5. Risk Considerations

#### ➤ Revenue and Cost Sensitivity

One of the key variables in forecasting VHT revenue is how many of the vacant homes would qualify for a VHT based on Council approved definition and exemption rules. Estimates from the census suggest around 13,738 private unoccupied dwellings in 2016, up from 4,805 private unoccupied dwellings in 2001. The EY study utilized water billing data from the Region and arrived at 13,202 units as a starting point for financial modeling - a number not dissimilar to the last census count of unoccupied dwellings. However, there is no data to predict what percentage of those unoccupied dwelling units would be exempted from a VHT. The EY study used a series of assumptions for the revenue analysis using their methodology which projected a revenue forecast of approximately \$17 million for the first year of implementation assuming a tax rate of 1 per cent. For illustrative purpose, Table 4 below shows two additional scenarios using Toronto and Ottawa methodologies.

**Table 4 – Revenue Comparison Using Different Calculation Methods**

Calculation Methods	Tax Rate	Vacancy Rate	Peel Region Revenue Estimates (Year 1)
EY Study	1%	Modeled based on observations from Vancouver Program with certain adjustments	\$17 million
Use Toronto Method	1%	1%	\$17 million
Use Ottawa Method	1%	0.5%	\$ 9 million

It is important to note that even though a VHT can be used as a revenue tool, it should not be relied upon as a sustainable revenue source. A VHT is primarily intended as a housing tool to disincentivize the practice of intentionally keeping homes vacant. Declining numbers of vacant homes, all other things being equal, will result in declining revenues.

A significant amount of coordinated effort would be required between the Region and local municipalities to prepare, start up, implement, and administer the VHT program on an ongoing basis. With upfront costs likely in a range of approximately \$12-15 million, and the annual operating cost estimated at about five million each year, the Region would need to advance investment in this program in the coming years to facilitate the work required for program implementation. Although the EY study suggests that these costs are anticipated to be recouped from VHT revenues generated in future years, given the uncertainty around the extent of prevalence of vacant homes eligible for VHT in Peel Region there are risks that revenues from VHT could be inadequate to cover the implementation and operating costs of the program.

#### ➤ Uncertainty around the Degree of Effectiveness

Research and jurisdictional experience, including from British Columbia indicates that a VHT can have a moderating effect on prices, returning supply to the market and not negatively impact the production of housing. However, Peel Region and the City of Vancouver are distinct in some ways, e.g. demographics, economics, housing market and consumer behaviors. As such, there remains uncertainty around the extent to how closely a VHT program in Peel would

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perform as compared to Vancouver: e.g. what proportion of units would be returned to market as opposed to owners deciding to absorb the cost of the tax and generating revenues for affordable housing programs?

### ➤ **Operation Complexity**

VHT is a complicated tool to implement especially in a two-tiered municipal system. The Region and the three local municipalities will likely be facing challenges associated with VHT system upgrades and process engineering required for a VHT implementation. Detailed planning to identify the scope and complexity of system upgrades will be required, a standardized and consistent process is needed for operations such as tax billing/collection, auditing and enforcement, and reporting. Actual implementation and ongoing operational costs could differ significantly from the EY estimates based on the detailed implementation plan.

### ➤ **Non-Compliance**

A Universal Declaration method where all homeowners within Peel Region need to declare their property occupancy status annually is recommended in the EY study. This approach is consistent with other municipalities. This approach places the onus of compliance on the homeowners which could lead to lower non-compliance rates as homeowners would be expected to submit truthful declarations. Instances of non-compliance through fraudulent declarations of occupancy status or applications for exemptions are likely to be observed.

### ➤ **Public Reception and Communication**

Residents of Peel Region may not welcome a VHT for a variety reasons such as privacy concerns, disagreement with the notion that the VHT can be a tool to address housing issues, and lack of support for the added administrative requirements.

An extensive public consultation and engagement could help raise awareness and gauge the level of public support. A thoughtful communication plan combined with a realistic timeline is necessary to support an effective community outreach.

## **6. Other Municipalities**

The City of Vancouver has levied an Empty Home Tax since 2017 with an initial tax rate of one per cent and has since increased to a rate of three per cent for 2021. In Ontario, both Toronto and Ottawa are looking to start the implementation in 2022 and billing in 2023 with a tax rate of one per cent. Other Ontario municipalities such as York Region, Halton Region, Niagara Region and the City of Hamilton are reviewing this tax.

With Toronto implementing a VHT, there is a risk of spillover investment activity into Peel Region which could escalate housing prices and increase vacancy rates. By seeking to implement a VHT alongside Toronto, Peel could mitigate this spillover effect.

## **PATH FORWARD**

### **1. Multi-Phased Approach**

Should Council desire to pursue the VHT program implementation, further detailed analyses would be required to develop a comprehensive program through a multi-disciplinary intermunicipal working group. The working group would include Regional and local municipalities' staff from areas such as Finance, Housing, Planning, Legal, Information Technology, and Corporate Communications.

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The legislation changes introduced in 2017, as staff understand it, were primarily in response to the City of Toronto's request. Toronto had identified a tax on vacant homes as a tool that should be considered to encourage property owners to sell unoccupied units or make them available to be rented. While the *City of Toronto Act, 2006* authorizes Toronto to impose a VHT, for all other Ontario municipalities, the *Municipal Act, 2001* provisions require that the Minister of Finance explicitly designate a municipality to do so.

VHT can be challenging to implement given the novelty of the legislation and Peel's two-tier municipal government structure. For example, the City of Toronto is moving towards an implementation in 2023 even though they were provided with VHT authority in 2017. Significant time will be required to undertake the necessary public consultation, program design, by-law development and regulation preparation work to satisfy Provincial submission requirements. In the spirit of taking prudent steps with a hope to mitigate certain identified risks, Staff recommend a multi-phased approach towards a potential VHT implementation. The Working Group would assess the merits of moving forward to each next step and will bring forward various reports to provide updates to Council and seek Council direction on whether to move forward to subsequent next phases.

### ➤ Phase 1

- The working group develop a VHT program framework through a review of program design and key operational processes
- Commence a public communication to gather public input to help design the program
- Bring back a report to Council on findings

### ➤ Phase 2

- Commence working with the Ministry of Finance in preparation for an application submission to the Province
- Submit an application to the Ontario Ministry of Finance requesting a designated status under Part IX.1 of the *Municipal Act, 2001*

### ➤ Phase 3

- Bring forward a report to Council for consideration of a proposed VHT program, a VHT by-law and other associated parameters should the Province grant the Region the authority to impose a VHT in Peel Region
- Prepare for operationalization of the Council approved VHT Program including infrastructure upgrades and developments, tax billing and collection process implementation and other administrative processes and policies
- Enactment of a VHT By-law

### ➤ Phase 4

- Implementation of the VHT program in Peel

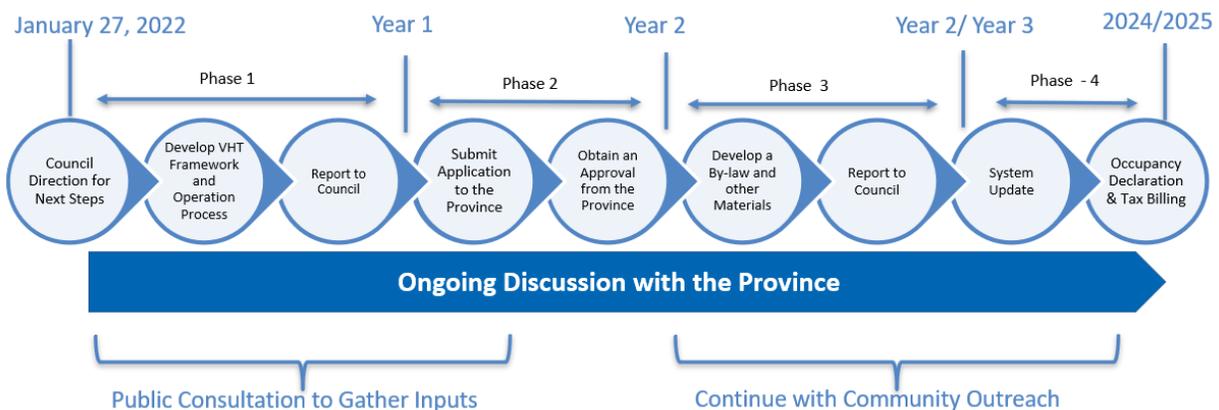
## 2. Preliminary Roadmap

A preliminary timeline below has been developed to illustrate what the deliverables and timeline could look like. Local municipalities would be implementing system and process updates to accommodate the collection of the VHT. Assuming the vacant home tax by-law could be in place in 2023, homeowners would then be required to make declarations in early 2024 on whether their property meets the vacant home definition for the calendar year 2023, with billing

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occurring later in 2024. It should be noted that the timeline may need to be pushed out beyond 2024 should any phase be longer than projected.

Keeping in mind that a reasonable timeline would need to strike a balance between the operational readiness, the degree of public awareness, and the policy objective, the schedule would need to be assessed and adjusted when needed. As final approval rests with the Minister of Finance, this will ultimately dictate the earliest possible VHT implementation.



### 3. The Next Phase

The EY study suggests that a VHT in Peel is financially feasible to implement and could generate revenue for affordable housing programs and increase housing supply. The EY study discussed high-level VHT program design features and states that the Region would need to conduct further detailed analysis to determine program design specifics and to develop a comprehensive program if implementation of a VHT is pursued. The Region, in consultation with its local municipalities and the Province, would need to determine detailed parameters for VHT implementation such as:

- Whether to have the VHT, if implemented, applied to a portion of Peel Region or to the entire Region
- The definition of vacant homes and the conditions of vacancy that make a home ineligible to be taxed
- The optimal tax rate (or a range of rates)
- Audit and inspection powers and processes
- Set out program administration process including billing and collection of taxes
- The most appropriate way to utilize the VHT revenue net off administrative costs
- Performance evaluation and reporting processes

EY was previously awarded the contract (Document L03-2021-0740, File Code 2021-154P) through a competitive procurement process to conduct the feasibility study. It is anticipated that the next steps action items can be undertaken by teams from the Region and the three local municipalities. Given EY's familiarity with the underlying analysis of the VHT implementation in Peel, if staff identify a need to engage for a consulting service, it is recommended that the Region extend and amend the existing contract with EY for continued support and advice as a part of the next steps including implementation feasibility and program design as well as communication plan execution. EY's knowledge and expertise obtained by conducting the feasibility study is beneficial in the implementation phase.

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Feedback from public consultations would help the Region make informed decisions related to the design of the VHT as it would provide insight into the level of public support, public policy implications, and privacy-related concerns about implementing the tax. Additionally, the results of public consultations are a key component in the submission to the Province for approval of VHT authority.

Staff recommend that a capital budget funded from the Tax Rate Stabilization Reserve in the amount of \$300,000 be approved to provide funding for required consulting and professional services for the VHT program design and community engagement.

### **CONCLUSION**

A variety of metrics and studies indicate eroding housing affordability in the Greater Toronto Area including Peel and growing pressures on affordable housing supply. While the primary goal of the VHT would be to increase housing supply by returning units to the market, it could also be a revenue source to support affordable housing initiatives and to help mitigate municipal fiscal challenges.

The EY study suggests that it is financially feasible to implement a VHT in Peel to generate revenue for affordable housing programs and increase housing supply. Should Council desire to pursue the VHT program implementation, Staff recommend that a multidisciplinary intermunicipal working group be established to develop and identify a viable framework for the VHT implementation.

### **APPENDICES**

Appendix I - EY Feasibility Study titled "Region of Peel Feasibility Assessment for Vacant Homes Tax"

Appendix II - Presentation - Executive Summary of EY Feasibility Study Key Findings

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