

Region of Peel Feasibility Assessment for Vacant Homes Tax

January 2022

Disclaimer

Ernst & Young LLP (“EY”) prepared the attached report only for the Region of Peel (“Client”) and the Project Steering Committee comprising of senior officials from the Region (collectively, the “Steering Committee”) pursuant to an agreement solely between EY and Client. EY did not perform its services (the “Review”) on behalf of or to serve the needs of any other person or entity. Accordingly, EY expressly disclaims any duties or obligations to any other person or entity based on its use of the attached report. Any other person or entity must perform its own due diligence inquiries and procedures for all purposes, including, but not limited to, satisfying itself as to the financial condition and control environment of the Steering Committee, and any of its funded operations, as well as, the appropriateness of the accounting for any particular situation addressed by the report. EY did not perform an audit or review (as those terms are identified by the CPA Canada Handbook - Assurance) or otherwise verify the accuracy or completeness of any information provided by the Client or the Steering Committee or any of its funded operations financial statements. Accordingly, EY did not express any form of assurance on accounting matters, financial statements, any financial or other information or internal controls. EY did not conclude on the appropriate accounting treatment based on specific facts or recommend which accounting policy/treatment the Steering Committee, or any funded operations should select or adopt. The observations relating to all matters that EY provided to the Steering Committee were designed to assist the Steering Committee in reaching its own conclusions and do not constitute EY’s concurrence with or support of Client's accounting or reporting or any other matters.

Table of contents

	Slide
1. Introduction and Project Background	4
2. Current State Overview	7
3. Understanding the Vacant Homes Tax	15
4. Operating the Vacant Homes Tax	22
5. Financial Analysis	38
6. Feasibility Analysis	52
7. Public Communications Plan	58
8. Conclusion and Next Steps	67

Introduction and Project Objectives

The Region of Peel engaged EY to conduct an assessment to evaluate the feasibility of implementing a Vacant Homes Tax, and develop a public consultation plan and communications strategy for the same. The assessment provided includes the following:



Analysis of the current housing market conditions in Peel, including the secondary rental market and the potential short- and long-term impacts of COVID on the housing market



Evaluation of the impacts of implementing a Vacant Homes Tax including changes to availability and affordability of housing, and potential revenue generated from this tool



Review of potential structures for the tax, taking into account experiences other jurisdictions have had with Vacant Homes Tax



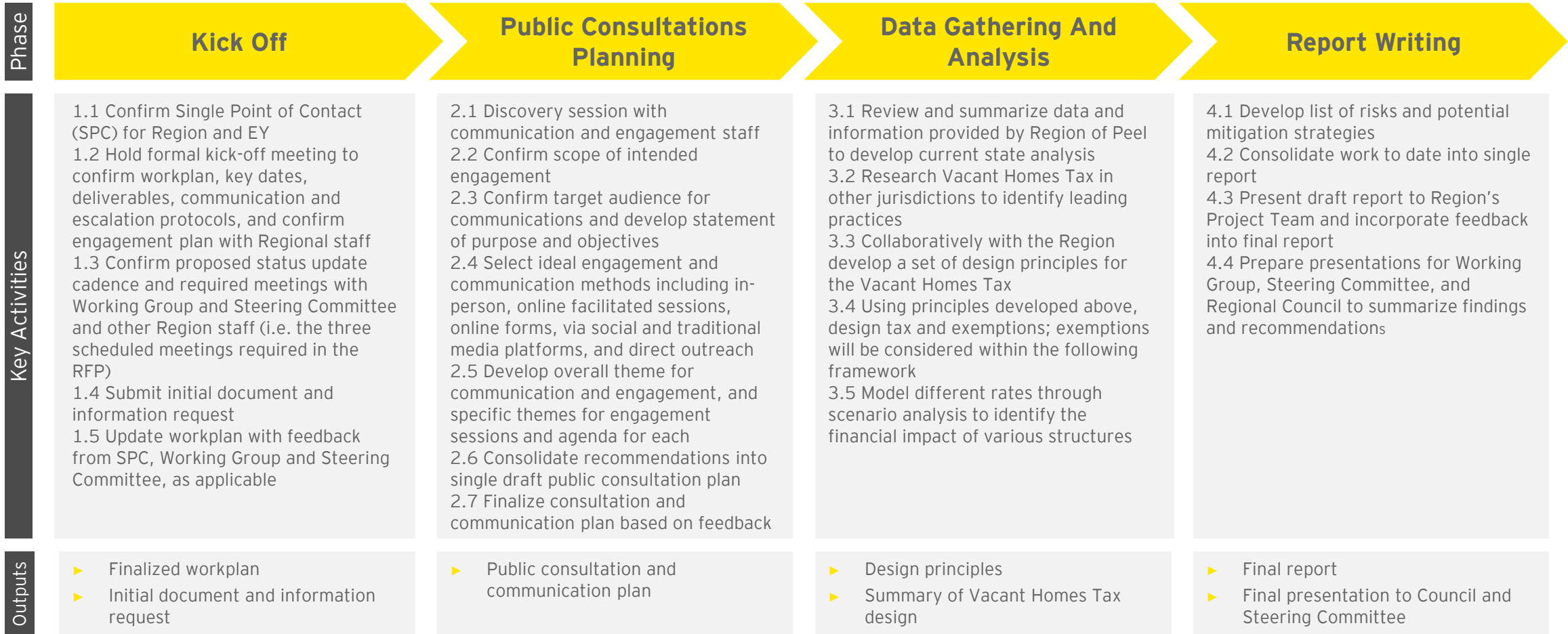
Modelling of different structures and rates, and analysis of the impact on housing supply and the amount of revenue generated;



Developing measures of effectiveness and efficacy for a potential Vacant Homes Tax - both from a revenue generation and housing affordability perspective

Approach and Methodology

The approach and methodology employed by the EY Team to conduct this feasibility assessment is illustrated below.



Report Overview



Report purpose

This report contains the findings of the project team from the stakeholder consultations, jurisdictional review, secondary research, and data analysis conducted as part of the feasibility assessment for the vacant homes tax.



Overview of current housing challenges at the Region of Peel, and the potential role of the Vacant Homes Tax in addressing these challenges



Overview of the Vacant Homes Tax - what it is, what it includes (and doesn't), and what its objectives are



Analysis of how the tax can be implemented and operated in a two-tier municipal system, including an assessment of various operating models and their associated synergies, duplications, and risks



High level financial estimates, including revenue projections and sensitivity analysis for various tax rates, and operating costs (one-time and ongoing) for different delivery models



Feasibility assessment, through an evaluation of net financial impact (revenue less operating costs) and risks



Public communications and consultation plan summarizing the key stakeholder groups to be engaged for the development and finalization of the Vacant Homes Tax by-law



CURRENT STATE OVERVIEW

Current State Overview | Introduction

Understanding the environment around the housing market and affordability is critical to assessing the feasibility of a Vacant Homes Tax in the Region of Peel. In this section, we seek to build an understanding of the current state of housing in Peel by assessing the following:



Housing Market Conditions

Assessing the trends of sale and rent prices at the Region in comparison with income trends



Housing Affordability Trends

Understanding the pressures faced by residents to maintain housing at the Region



Impacts of Covid-19

Assessing the impact of the pandemic on housing affordability in Peel



Prevalence of Vacant Homes

Understanding why homes are left vacant, and its impact on housing affordability

Inputs related to the above were developed through a combination of analysis of housing data submitted by the Region of Peel, secondary research, and consultations with key stakeholders (tax policy and finance staff at the lower tier municipalities, housing and communications staff at the Region, Ministry of Finance, and Peel's project leadership)

Housing Market Conditions in Peel

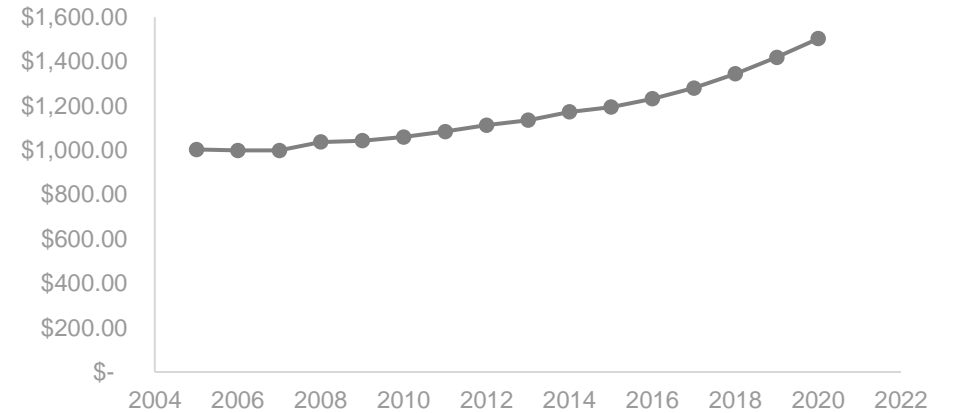
Rate of growth of rent and sale prices of homes in Peel are over double the rate of growth of incomes - indicating growing pressures on housing affordability

HIGHLIGHTS

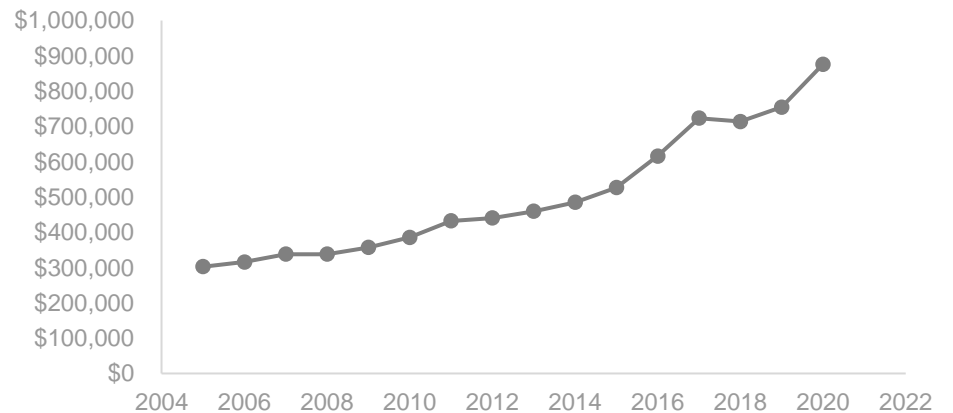
In the last 15 years the average price of a home in the Region of Peel increased 7.5% annually*, while the average rental price has risen by 2.8% annually*.¹ This rise in sale/rent price is significantly higher than the growth of incomes over the same period, which is 1.4% annually², thereby created challenges in housing affordability in the Region. Additionally, between 2011-2016, despite the growth in total dwellings outpacing population growth, only one-third (1/3rd) of new ownership homes created in Peel were deemed affordable for middle-and low-income families.³

Since 2013, the Region has spent over \$1.3 billion on Peel’s social housing programs.⁴ Yet, prior to the pandemic, the Region’s rent subsidy wait list was almost 15,000 households³, with some households expected to wait 12 years before obtaining accommodation³. Over the pandemic, another 7,500 new families were added to the waitlist³; potentially increasing the total wait time to 18 years. In addition to the increasing number of Peel families relying on subsidies, emergency shelters resources have also been reported to be constrained at the Region. This shows that despite the Region’s best efforts and continuous investment, more needs to be done to support its most vulnerable residents.

Average Rent Prices in Peel



Average Home Prices in Peel Region



¹Data submitted by Peel Project Team

³Peel Region Housing Strategy

²Census Data from 2005 and 2016

⁴Peel Annual Reports

*Indicates Compounded Annual Growth Rate (CAGR)

Housing Affordability in Peel

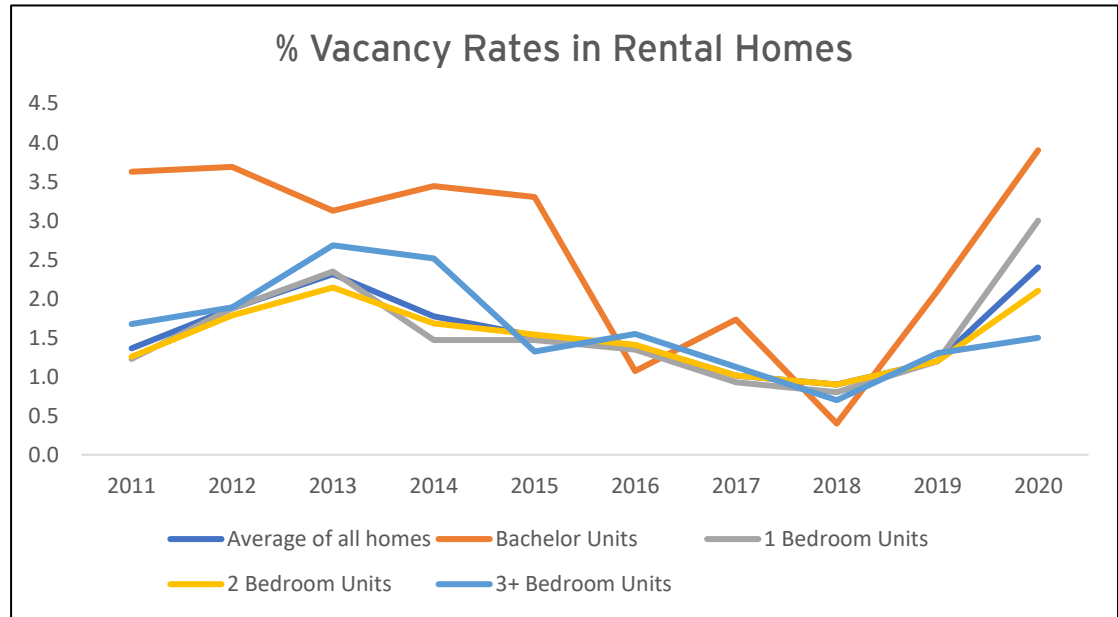
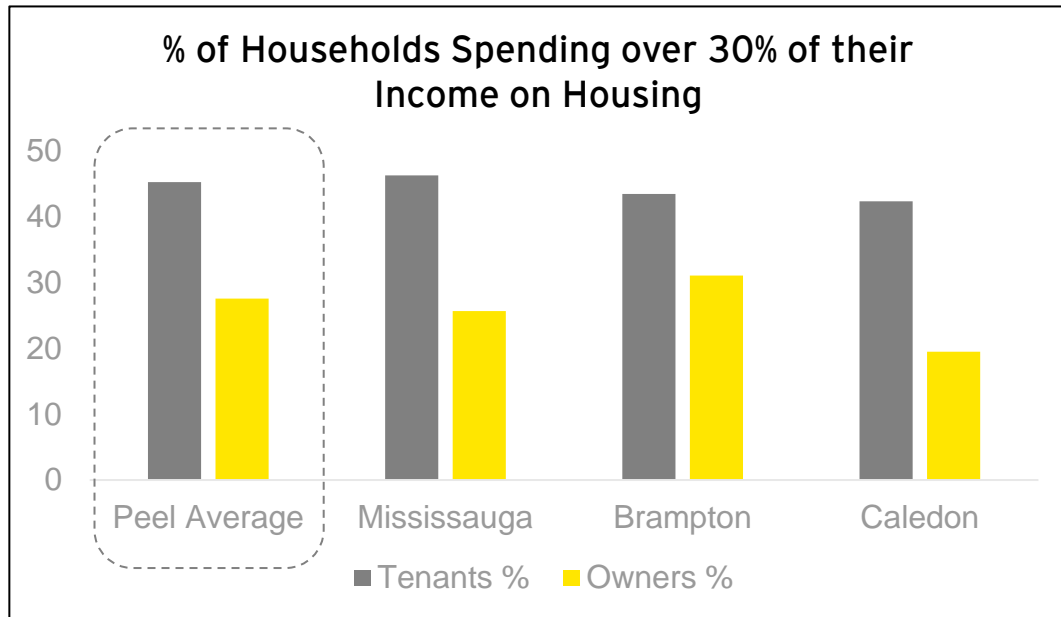
Over 40% of Peel's residents spend higher than 30% of their income on housing - indicating an affordability crisis that is worsened by low rental vacancy rates

Housing affordability is a persistent challenge at the Region...

...and is expected to re-surge after the COVID-19 pandemic

The percentage of income spent on housing/shelter costs is a key measure of affordability adopted by the Canadian Mortgage and Housing Corporation - with the current threshold being 30%.¹ As indicated in the graph below, over 40% of tenant households across the Region of Peel spend more than 30% of their income on housing as per the 2016 census - which illustrates the affordability challenges that the residents of the Region are currently facing.

Vacancy rates for rental units have witnessed a continuous decline between 2011 - 2019, which worsens affordability due to lack of housing supply. While vacancy rates improved during 2020, this may be attributed to the release of short-term rental units (e.g. AirBnB) due to a lack of demand owing to the pandemic. It can be expected that, as the province returns to normalcy, more units may be converted back to short-term rentals, thereby creating a resurgence of the affordability crisis



¹Data sourced from Peel Region Open Data Centre

COVID-19 Impact On Housing Market

The pandemic has had varied impacts on the housing market - but it is too early to assess whether those impacts would be short- or long-term

The COVID-19 pandemic has had significant impacts on the real estate and housing market in Peel, and across Canada¹. While there is limited research to indicate whether or not these impacts would last, and for how long, the housing market in Peel has been showing signs of recovery and indications of returning to pre-COVID levels. Brampton and Mississauga both saw more than a 25% increase in housing prices year-over-year. It may not be possible to predict whether the recovery would be sustained over an extended period of time, but it is evident that the pandemic has not had long-lasting positive effects on improving housing affordability at the Region. Some of these impacts are discussed below.

Trend	Impact
Demand for short-term rentals (e.g. AirBnB) have decreased due to a decline in interprovincial and international travel, putting pressure on Airbnb owners to either sell or list their unit on the long-term housing market	In the first three months of the pandemic, the GTA housing market saw a 52% ² increase in furnished rental listings, while rent prices have fallen 5.7% year-over-year ² , largely attributed to be driven by Airbnb hosts. This indicates the pandemic was able to temporarily improve housing supply to ease affordability pressures, but this change is unlikely to be long-term if AirBnB owners see an increase in demand from travellers.
Some home owners may decide to not list their property for rent due to an unwillingness to handle the increased hassle of being a landlord during uncertain times ³ . Owners may also be averse to having unknown persons rent units that in proximity to the owner's home (e.g. basement apartment attached to the owner's primary residence) due to the fear of exposure	Landlords who would have potentially listed their vacant units onto the market may now do so at an increased price, to compensate for the additional perceived risk, or leaving it vacant to avoid the additional hassle or potential exposure to the COVID-19 virus. This negatively impacts housing affordability in the Region
Occasional use property owners such as snowbirds or frequent travelers have returned and occupied their previously vacant home due to a restrictions on international travel	Homes that were generally left vacant by these classes of homeowners have now been occupied. However, this has no impact on housing affordability as those units were not meant to be sold or rented out.

¹RBC Thought Leadership "Seven Ways COVID-19 Is Affecting Canadian Housing"

²Miscellaneous rental market reports

³City of Toronto assessment of COVID-19 impact on affordability

Purpose and Objectives of Vacant Homes Tax

Leaving homes vacant lowers the rental housing supply - which negatively impacts housing affordability

There are a number of policy levers and revenue tools that can be explored by municipalities to address the affordability crisis they face - A Vacant Homes Tax being one of them. The tax is commonly implemented in rapidly growing urban centres which face challenges related to housing such as rapidly appreciating house prices (at a rate higher than the growth of income) or low availability of homes for sale or rent. The tax is generally applied to homes that are vacant for at least 6 months over a 12-month period (calendar year or fiscal year). The objectives of this tax are two-fold:

1. POLICY TOOL TO IMPROVE HOUSING AFFORDABILITY



By implementing this tax, the Region may be able to incentivize owners of vacant properties to either sell or rent out their units. This increases supply of units on the market which should decrease average property sale and rent prices; improving the affordability of housing in the Region

2. REVENUE TOOL TO SUPPORT HOUSING PROGRAMS



While not mandated by legislation, all jurisdictions that have implemented (or considering to implement) the Vacant Homes Tax have pledged to use revenues collected from this tax to help support rent relief programs, build and maintain affordable housing, and provide grants to non-profit organizations to assist the community.

Compared to other policy tools or strategies to improve affordability of housing, a Vacant Homes Tax has been observed to be straightforward to implement with minimal ongoing operating costs. By designing the right tax structure, which is high enough to support a change in behavior and raise adequate revenues, municipalities may be able to access a new source of revenue to address housing challenges and/or increase the supply of housing in the market to address affordability challenges.

Market Motivations of a Vacant Home Owner

Assessing the rationale behind keeping homes vacant to identify groups for whom a Vacant Homes Tax may influence a change in behavior

Based on case studies of vacant home implementations, and stakeholder consultations at the Region of Peel, there are varied reasons for keeping a home vacant. Below is an aggregated list of reasons identified through research:

Short term reasons*



Inertia: the owner has a plan to occupy or rent the property out, however due to various reasons, they have not



Construction: the property cannot be lived in as a result of current renovations or large construction



Recent sale or transfer: the property recently was sold or ownership was transferred

*Short term reasons are situations that may be reasonably resolved within 6 months

**Long term reasons are situations that may require more than 6 months to be resolved

Long term reasons**



Recent death, or medical care: the owner currently lives outside of their home due to medical reasons or have recently passed away



Property is uninhabitable: the property is no longer safe to live in and homeowner may not have resources to reinstate to a livable condition



Liquidity: a vacant home is easier to sell than an occupied one allowing the owner more flexibility to time the market



Aversion to being a landlord: owners may find being a landlord tedious and not worth the financial benefits



Seasonal or occasional use: the homeowner uses the property occasionally for a few months each year



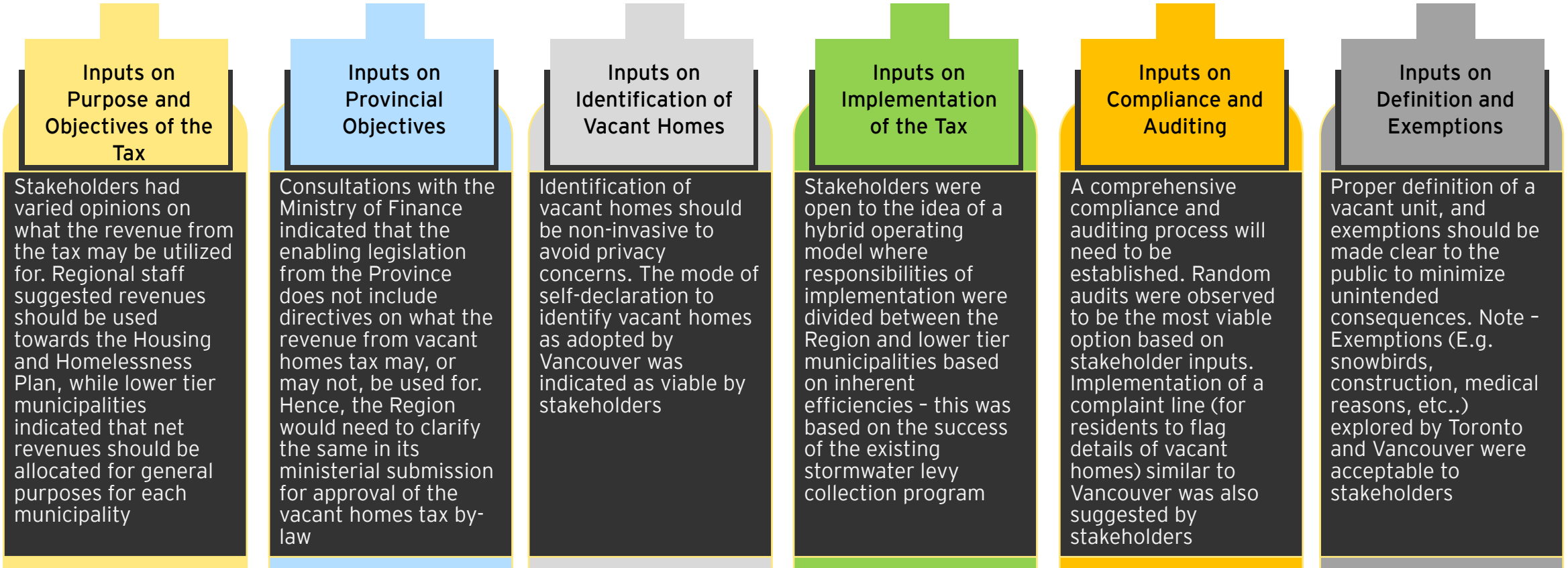
Speculation: Non-resident or domestic speculators who buy properties to store wealth in the hope of price appreciation

Through the rest of this report, we will analyze how a Vacant Homes Tax may be designed, implemented, and operated in the Region of Peel in a way that allows exemptions for legitimate causes for vacancy, and enforces a change in behavior in property owners who hold homes vacant for speculative reasons or to be used as short term rentals.

Findings from Stakeholder Consultations

Obtaining inputs from the tax policy, housing, and communications stakeholders across the Region and the lower tier municipalities to inform decisions on tax policy design

Throughout the engagement, the EY team conducted a number of stakeholder consultations to gain a deeper understanding of the desired outcomes, implementation considerations and potential risks of a Vacant Homes Tax. Inputs obtained from stakeholders informed decisions around the design of the vacant homes tax. Below is a summarized and categorized list of findings from the interviews



In the rest of this report, we apply the inputs obtained from these stakeholder consultations, and the learnings from a jurisdictional scan, to assess the feasibility of implementing a vacant homes tax in the Region of Peel.

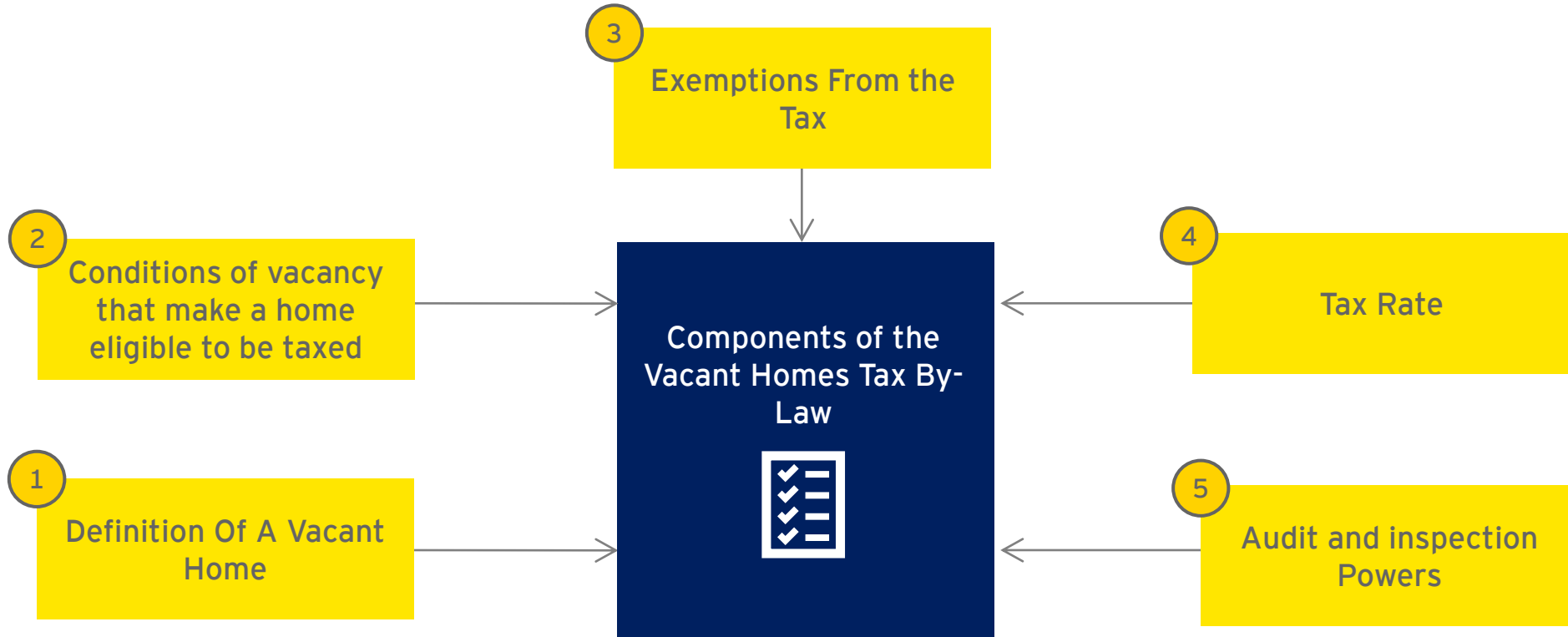


UNDERSTANDING THE VACANT HOMES TAX

"What is a Vacant Homes Tax and who does it apply to?"

Understanding the Vacant Homes Tax | Introduction

Schedule 19 of Bill 127 (Stronger, Healthier Ontario Act), promulgated by the Province of Ontario in 2017 allows municipalities to implement a by-law to impose taxes on vacant residential units in certain circumstances. According to the provincial legislation, the by-law to be passed by each municipality must include the following:



In this section we will explore items 1, 2, and 3 from the list above to help inform decisions around these components for the by-law. Findings were developed through a combination of stakeholder consultations, and secondary research from jurisdictions that have previously implemented, or considering to implement, a Vacant Homes Tax. Items 4 and 5 from the list will be discussed in subsequent sections

Understanding the Vacant Homes Tax | Definition

Understanding what a vacant home means, and what it does not

While developing the policy and by-law for the vacant homes tax, municipalities are required to define what qualifies a home to be designated as vacant. A jurisdictional scan of municipalities that have implemented, or considering to implement, a Vacant Homes Tax yielded the following findings on the possible definitions of a vacant home.

Definition	Municipalities that include this definition*
Unoccupied for more than 6 months or 184 days within the reference period	Toronto, Ottawa, Melbourne
Unoccupied for more than 6 months of the reference period - periods of occupation must be at least 30 consecutive days in duration	Vancouver
Unoccupied for more than 3 months of the reference period	Paris

- As vacant home taxes are calculated based on assessment values, which are in turn revised at the end of the calendar year every 4 years, the “reference period” for assessing whether a home is vacant can be set to a calendar year basis. This also aligns with property tax calculation and collection schedules at the Region’s municipalities.
- The Region may consider choosing between the definition used by Toronto/Ottawa or Vancouver for prescribing the qualifying criteria for a home to be designated as “vacant”. Setting the cut-off to 6 months would also enable the Region to capture primary residences of snowbirds under the purview of the tax - as snowbirds can currently spend up to 212 days outside Ontario while maintaining OHIP coverage.

Understanding the Vacant Homes Tax | Exemptions

Identifying potential exemptions to the vacant homes tax based on observations from other municipalities that have implemented the tax

Not all homes that fall under the definition of “vacant” as discussed earlier are eligible to be taxed, as municipalities enact exemptions to vacant homes for various reasons based on policy decisions. Below is a list of exemptions used by municipalities both domestically and internationally.

Exemption		Definition	Municipalities that include this exemption*
Potential exemptions identified from domestic jurisdictions			
1.1	Snowbirds/ holiday home	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	Toronto
1.2	Deceased owner	If the owner is deceased, the property is exempt until the estate transfer process is completed	Vancouver, Toronto
1.3	Large renovations	Large renovations are exempt from this tax. Note - The specific parameters around what constitutes a “large renovation” is unclear and can lead to misinterpretations, hence it would need to be clearly defined by the Region of Peel (See definition of large renovations used by Paris on the next page)	Vancouver, Toronto
1.4	Owner in Medical Care	Properties owned by an owner who is in medical care can be exempt. In Vancouver, this exemption can be applied for up to two consecutive years	Vancouver, Toronto
1.5	Inability to find tenant or buyer	This includes the situation where the owner could not find suitable tenant(s) for their property or the property has been listed for sale for an extended amount of time	Vancouver
1.6	Change of ownership	If the property has recently changed ownership, it is exempt for one tax cycle to accommodate the changes	Vancouver
1.7	Court prohibiting occupancy	Any forms of court related orders that prohibit the owner from renting or selling the property is exempt from the tax	Vancouver

*Ottawa has not publicly mentioned any exemptions as the City is still completing the feasibility analysis

Understanding the Vacant Homes Tax | Exemptions (Cont'd)

Identifying potential exemptions to the vacant homes tax based on observations from other municipalities that have implemented the tax

Exemption		Definition	Municipalities that include this exemption*
Potential exemptions identified from international jurisdictions			
1.8	Furnished accommodations such as second homes	Any properties that are furnished and set up to be used as a second home is exempt from this tax. However, by declaring the unit to be a second home, it is then subject to the "Owner Tax", which is 3% of home's fair market rental value	Paris
1.9	Rezoned within the previous year	Properties that were recently rezoned by the City are exempt for one cycle before being subject to a 1% vacant land tax	Melbourne
1.10	Premises are uninhabitable	If the premise is deemed uninhabitable, the City will not charge owners the Tax	Paris
1.11	Large renovations	Renovations that are greater than or equal to 25% of the total value of the property are exempt from the tax, until renovations are completed	Paris
1.12	The unit is of low value	Any vacant properties whose market value is lower than €300,000 (approx. \$440,000 CAD) is exempt from the tax	Paris
1.13	Work purpose unit	The property is used and occupied for work purposes for at least 140 days of the year	Melbourne

The Region of Peel would need to finalize a set of exemptions that it may apply to owners of vacant homes, as part of the design of the vacant homes tax. Exemptions may include the ones explored in other municipalities, and may also include other occupancy categories (e.g. students, veterans etc.) as per policy decisions of the Region. For the purposes of this feasibility assessment, we have assumed that the Region maintains the same exemptions as the City of Vancouver in order to assess revenue estimates

Understanding the Vacant Homes Tax | Identification

Below is a list of four methods that the Region can use to identify vacant homes in Peel

1

Universal Declaration

All homeowners within the Region need to, annually, declare their housing status to be occupied or vacant. Failure to do so can either result in a fine, or the property will be automatically deemed vacant. This method ensures the VHT is kept top of mind if an owner's property becomes vacant in the future.

2

Declaration by exemption

Only homeowners of vacant units will be required to declare property vacancy. All other homes are automatically deemed occupied and could be potentially subjected to compliance and auditing procedures.

3

Utility monitoring

Utility monitoring is likely to be the most accurate form of identifying the property status, while requiring minimal effort from property owners. However, residents may find this method to be intrusive and may leave out properties who are not individually metered (e.g. condominium units) or not connected to the Regional utility systems (e.g. farms).

4

Complaints based

Residents or municipal employees (e.g. waste management staff) can report suspected vacant homes. Complaints may have a higher chance of identifying non-compliant homeowners as neighbours are able to observe the unit over a longer period of time to identify trends or signs of home vacancy. However, identifying vacant units in condos would be a challenge.

Self-declaration or declaration by exemption identification methods, in tandem with the complaints based system, is likely the most appropriate mechanism to identify vacant homes. Utility monitoring, while technically possible, may present residents' privacy concerns.

Understanding the Vacant Homes Tax | Identification (Cont'd)

An analysis of the pros and cons of the two declaration-based identification options, that residents may use to report occupancy status is given below.

Method	Advantages	Disadvantages
Universal Declaration	<ul style="list-style-type: none"> Places the onus of compliance on the homeowners as they are required to declare, on an annual basis, whether their home is vacant or occupied - and indicate if they qualify under any exemptions if their home is vacant Anticipated to have lower non-compliance rate (based on experience of Vancouver) as homeowners would be expected to submit truthful declarations 	<ul style="list-style-type: none"> Requires significant communications effort to ensure that homeowners are aware of the declaration requirements, and understand the definitions and exemptions of the vacant homes tax by-law Requires high administrative effort as the tax administration team of the municipality will have to process and validate a high volume of submissions from property owners annually
Declaration by exemption	<ul style="list-style-type: none"> Requires lower administrative effort as the tax administration team of the municipality will have to process and validate only the submissions from homeowners of vacant properties (and not owners of all homes) 	<ul style="list-style-type: none"> Requires higher investment in audit and enforcement capabilities as compliance staff would be required to assess a larger number of properties to ensure that they haven't been declared as "occupied" for the purpose of evading the tax. This places the onus of compliance on municipal staff Places additional challenges on grievance redressal mechanisms as home owners may seek to avoid tax payment or penalties by claiming lack of awareness of reporting obligations

While the associated administrative effort is higher, the Region may consider adopting the "Universal Declaration" method for identification of vacant homes, as it has been observed to generate positive results in the City of Vancouver. Over time, the Region can also digitize the declaration process thereby simplifying it for the property owner, and improving the administrative efficiency to reduce operating costs



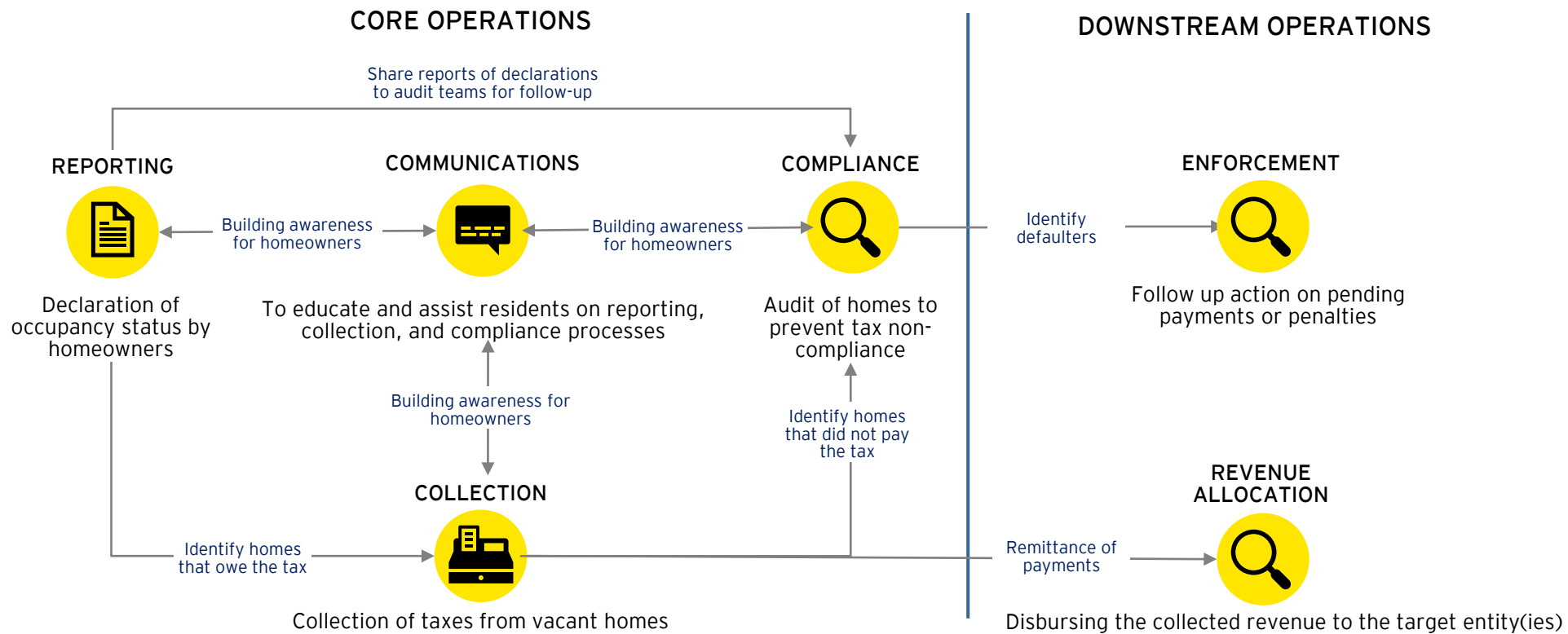
OPERATING THE VACANT HOMES TAX

"How does the Vacant Homes Tax work?"

Operating the Vacant Homes Tax | Introduction

Having obtained an understanding about the Vacant Homes Tax, and who it applies to, we will now assess the various operational aspects of a Vacant Homes Tax to help the Region understand the key processes and associated responsibilities.





Operations of the vacant homes tax can be segmented into two major groups - core operations and downstream operations - as illustrated below. This section provides information on the processes within each of these groups, and also explores various delivery model options for division of responsibilities of core operations between the Region and the lower tier municipalities.



Core Operations | Overview

Understanding the four processes that form the core operations of the vacant homes tax

Core operations of the vacant homes tax comprises of 4 major processes as described below. In a two-tier municipal system, the Region and the lower tier municipalities would need to make decisions on how to delineate responsibilities associated with these processes - this will be discussed later as part of the analysis of delivery models.

	 Reporting	 Collections	 Compliance	 Communications
What is it	Process of identification of vacant homes in the Region through declarations reported by homeowners	Collection of tax revenue from vacant homes and penalties from homeowners who are non-compliant or who present fraudulent declarations	Conducting investigations to determine if a property is vacant and understand if declarations submitted by property owners are truthful	Addressing queries and grievances, and building awareness of the tax to help the public understand the scope, reporting guidelines, and compliance processes
How is it done	<ul style="list-style-type: none"> Homeowners would submit a mandatory declaration each year to indicate if their property is occupied or vacant. Declaration forms would be issued by the Region/lower-tier municipalities for submission through online or digital channels The Region/lower-tier municipalities may request for additional documentation or subject the owner to an audit if there are any concerns about the validity or accuracy of a declaration 	<ul style="list-style-type: none"> Tax collection can be done through the existing property tax collection systems at the municipalities or through a new system that is created and deployed at the Region. The collection system will need to access existing property tax assessment information to calculate the tax amount to be applied to the vacant home. The collection system would share data on homeowners that have defaulted on their payments/penalties with the audit and compliance team 	<ul style="list-style-type: none"> Compliance teams will audit properties to ensure the status of occupancy declared by the homeowner is valid. Audits may be done through a combination of the following techniques - random audits, risk-based audits, and complaint-based audits (discussed in detail in the following pages) Compliance teams would escalate instances of non-payment of the tax/penalties for enforcement actions 	<ul style="list-style-type: none"> The Region, and lower tier municipalities, would need to utilize existing communication channels, both physical (e.g. notices) and digital (e.g. website, social media), to spread awareness about the Vacant Homes Tax The Region, or the lower tier municipalities, would need to equip their customer service agents to handle queries from homeowners, address grievances, and escalate complaints related to the Vacant Homes Tax.

Core Operations | Compliance Processes

Developing methods to assess if the stipulations in the Vacant Homes Tax by-law are being adhered to and prevent revenue loss

The compliance processes help the Region identify potential cases of non-compliant vacant homes situations. Compliance teams would scrutinize homes that were declared to be occupied or applied for exemptions under the vacant homes tax, and/or investigate complaints lodged by residents. Based on the jurisdictional scan and desktop research, three identified compliance mechanisms are discussed below:

Random Audits

The compliance team will randomly audit units that were self-declared to be occupied to ensure the declaration was correct

Risk Based Audits

The compliance team uses judgemental sampling methods to select units for inspection based on defined risk parameters so that audit resources are dedicated to high risk areas, rather than casting a wide net across all homes

Complaints Based

The compliance team would only investigate units that are suspected to be vacant by neighbours, or Regional/City service staff (e.g. waste management staff) who observe the lack of inhabitation at an address

Pro

1. Encourages compliance and proper declaration as the owner can, at anytime, be audited, and face fines for non-compliance
2. Increases the number of audited units as there is a dedicated team that is responsible for auditing, potentially lowering non-compliance

1. Allows audit teams to select homes which are considered to be of special audit interest based on risk-profiles (e.g. same exemption criteria declared for multiple years)
2. High potential for digitization and streamlining through the use of analytics as more information on non-compliance trends become available

1. Easier to implement, as it does not require a dedicated audit team since only complaints are investigated (can be done by by-law officers)
2. Cheaper to implement as an online form or existing call centres can be leveraged to intake complaints

Cons

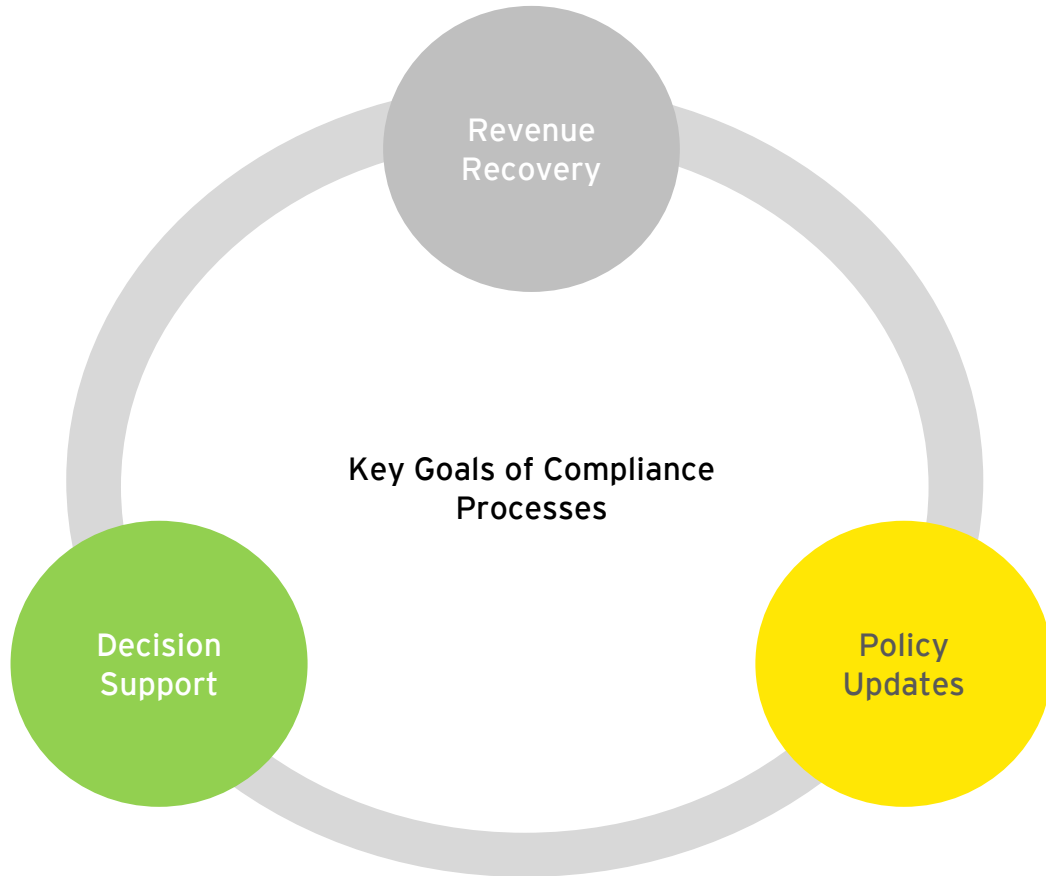
1. More expensive to implement as it will require hiring full-time compliance auditors and require customized auditing processes and systems
2. May be seen as intrusive by the public

1. High reliance on the professional judgement of auditors which can be developed only after a reasonable amount of historical information is available to determine high risk areas
2. Presents risks of bias against various communities

1. May not have a large uptake if neighbours are not keen to report vacancy
2. May not achieve the goal to increase total housing supply if owners do not believe they will be audited
3. Pushes onus of ensuring compliance onto residents instead of the Region

Core Operations | Compliance Processes

While the key objective of compliance and audit processes is to help the Region and the municipalities avoid revenue loss/leakage, there are secondary goals that help strengthen the effectiveness of the Vacant Homes Tax program.



Revenue Recovery

- The compliance processes help audit staff validate the occupancy status submitted by homeowners to prevent cases of tax non-compliance
- Occupancy status may be validated through a review of documents submitted by the homeowner in response to the audit request, or by physical verification of the property (after issuing advance notice to the homeowner)
- Audit of occupancy status helps prevent revenue leakage and encourages homeowners to submit truthful declarations as they, at any time, can be audited

Decision Support

- Findings from the compliance processes would help in the development of a data repository that helps the audit team identify key trends in tax non-compliance (e.g. fraudulent or expired tenancy agreements), and develop a risk-based framework for audits

Decision Support - Business Partnership, Understanding and Insight

- Compliance processes would enable the Region identify key loopholes in the Vacant Homes Tax by-law through which homeowners attempt to avoid paying the tax
- The Region would then be able to enact amendments to the by-law to address these loopholes to the extent that it is feasible to do so, thereby strengthening the Vacant Homes Tax by-law to pre-empt and prevent cases of non-compliant owners

Downstream Operations | Enforcement Processes

Developing methods to ensure revenue owed to the Region is being collected

Enforcement is a follow-up to the compliance processes discussed earlier, and is necessary when the resident is found to be non-compliant in the auditing process, and if the resident refuses to pay the penalty amount, despite multiple notifications. In such cases, there are three enforcement methods that can be leveraged by the Region to collect any outstanding dues. These are discussed below:

1. Adding the Vacant Homes Tax and penalty amount to bill

If the owner is found to be non-compliant through the auditing process and refuses to pay associated fines despite reminders (e.g. collection letters, telephone contact, etc.), the Vacant Homes Tax amount and fine would be added onto the property tax bill, along with any additional penalty or interest

2. Third Party Collection

If the owner of the property does not pay the full property tax bill inclusive of the vacant homes tax penalty that was added to the original tax amount, third party services (collection agencies) including a bailiff may be engaged to expedite collection

3. Tax Arrears Certificate

If the owner of the property does not pay the owed amount despite bailiff action, a Tax Arrears Certificate may be registered against the property under section 371 of the Municipal Act, and the property can be advertised for foreclosure if arrears are not paid within one year of registering the Tax Arrears Certificate

The above enforcement steps are already in place at the lower-tier municipal level for non-payment of property taxes. These steps are also leveraged by the Region for non-payment of utility fees, wherein the Region works with the lower-tier municipalities to add any fees owed to the Region on to the property tax bill. Even with these synergies, some Municipal systems may face issues regarding the total number of line-items allowed on a property tax bill, and upgrades to the collection system will need to be in place to ensure the enforcement penalties can be levied through property taxes

Downstream Operations | Allocation of Net Revenue

It is recommended that net revenue is allocated to the Region for Affordable Housing initiatives as the enabling Provincial Legislation for the Vacant Homes Tax was introduced as part of the Ontario Fair Housing Plan

Consultations with stakeholders from the Ministry of Finance (Government of Ontario), who were responsible for developing the Vacant Homes Tax legislation, indicated that there is no legislative mandate or restrictions on how the Vacant Homes Tax revenue should (or not) be used. Hence, net revenue collected from vacant homes (revenue less operating costs) may either be distributed to the lower tier municipalities for general revenue purposes or remitted to the Region for homelessness and affordable housing initiatives. These options are listed below

1

Region receives net revenue

- The Region receives the net revenue from the vacant homes tax in each of the municipalities, and the revenue would be allocated towards affordable housing programs and priorities outlined in the Housing Master Plan
- As per the "Housing Service Transformation - Needs Based Subsidy Prioritization Approach Policy" drafted by the Region on July 8 2021, revenue earmarked for affordable housing would be spent to assist those in highest need based on the centralized waitlist, and there would be no proportionate allocation of revenue for affordable housing initiatives for each municipality separately. (i.e. It is not mandatory that revenue raised from vacant homes in Brampton would be spent to address affordable housing needs for those in Brampton)

2

Municipalities receive net revenue





- Municipalities would retain the net revenue raised from the vacant homes in their jurisdictions
- Revenue may be utilized either for initiatives outlined in the Housing Strategy (if any) for each municipality, or allocated for general purposes identified in the operating budget
- Allocation of revenue to the municipalities for housing initiatives would lead to overlaps and duplication of effort with the affordable housing initiatives being driven at the Regional level
- Allocation of revenue to municipalities to be utilized for general purposes may create challenges with public communications and outreach as there may be a negative reception towards the tax if the proceeds aren't tied to a tangible social goal

While the Province has not indicated any restrictions on how the net revenue may be utilized or allocated within the legislation, it has been directed towards affordable housing initiatives in other jurisdictions. Hence, if the Region allocates the Vacant Homes Tax towards general revenue purposes, it would be an outlier among Canadian municipalities. This will also ensure alignment with the Region's Term of Council priorities, and long term vision, on improving housing affordability, facilitate the approval process of the by-law when submitted for Ministerial assent to the Province

Delivery Model Options

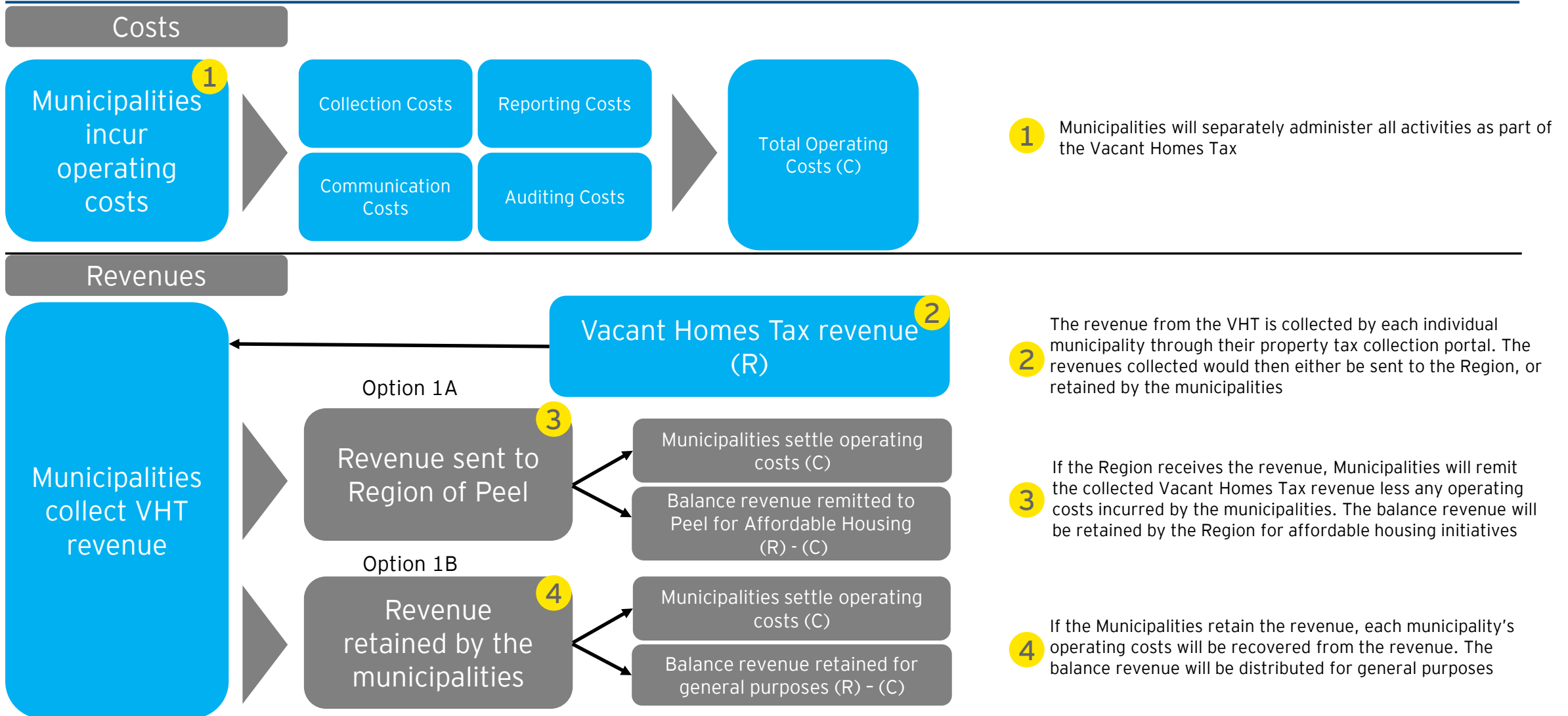
Developing delivery options that cater to the two-tier municipality system by delineating responsibilities between the entities involved

As the Region of Peel is a two-tiered municipality, the implementation and operations of Vacant Homes Tax requires a unique solution that accommodates or leverages the existing systems, responsibilities, and processes of the jurisdictions to deliver the tax. It is to be noted that the revenue generated from the vacant homes tax is agnostic of the delivery option as it is a function of the number of vacant homes in Peel - however implementation and operational costs would change based on synergies that may exist within options. Three delivery models for Peel's consideration with the distribution of responsibilities as illustrated below

		Option 1: Municipal Delivery		Option 2: Hybrid Delivery		Option 3 : Regional Delivery	
Activity		Regional responsibility	Municipal responsibility	Regional responsibility	Municipal responsibility	Regional responsibility	Municipal responsibility
	Communication and customer service: Public communications and awareness building about the tax		✓	✓		✓	
	Reporting: Providing the platform where the resident is able to declare property status		✓		✓	✓	
	Collection: Collecting the tax when applicable		✓		✓	✓	
	Auditing: Auditing and compliance functions		✓	✓		✓	

Option 1: Municipal Delivery | Flow of Responsibilities

The municipal delivery model assigns full responsibility of core operations to each of the lower tier municipalities



Option 1: Municipal Delivery | Summary

The municipal delivery model leverages existing infrastructure and processes for tax collection, but may lead to duplication of costs and increased staffing levels if audit and customer service responsibilities are decentralized

HOW IT WOULD WORK

- ▶ The lower-tier municipalities would be responsible for all the operational activities for the Vacant Homes Tax - This includes administering the reporting forms for self-declaration, collecting taxes, managing the audit processes, and delivering communications/customer service
- ▶ The municipalities may leverage existing property tax collection systems to assess, impose, and collect a vacant homes tax on properties that have been declared as vacant by the homeowner. The municipalities may also leverage existing enforcement mechanisms to collect owed revenue
- ▶ If the net revenue is to be allocated to the Region, the municipalities would settle their internal operating costs from the collected revenue, and remit the balance to the Region.

WHAT WOULD NEED TO CHANGE

PROCESS CHANGES

Design self-declaration forms and implement a reporting process for home-owners

Design reporting mechanism to assess the status of declarations and collections and identify arrears

Implement process changes to existing enforcement mechanism to collect tax arrears from vacant homes

Upskill existing customer service staff to manage queries about the vacant homes tax

TECHNOLOGY CHANGES

Implement a portal for collecting information on the declaration of occupancy status

Implement upgrades to the existing property tax collection system to include a module for the vacant homes tax

Implement systems to facilitate the audit and compliance process including status tracking

Implement systems to streamline the response process for audited homeowners to submit proof of occupancy or exemptions

Municipal Responsibility

Regional Responsibility

WHAT ARE THE RISKS

- ▶ Varying timelines for implementation of the proposed changes and roll-out of the vacant homes tax, as each municipality may have different project timelines
- ▶ Potential for duplication in staffing levels for audit and enforcement teams as each municipality would have to have its own group of compliance officers
- ▶ Lack of standardization in reporting and collection processes, unless the processes are jointly designed
- ▶ Inconsistencies in customer service due to varied interpretations or applications of the by-law

HOW MUCH IT WOULD COST*

ONE TIME COSTS

\$14.10M - \$12.41M

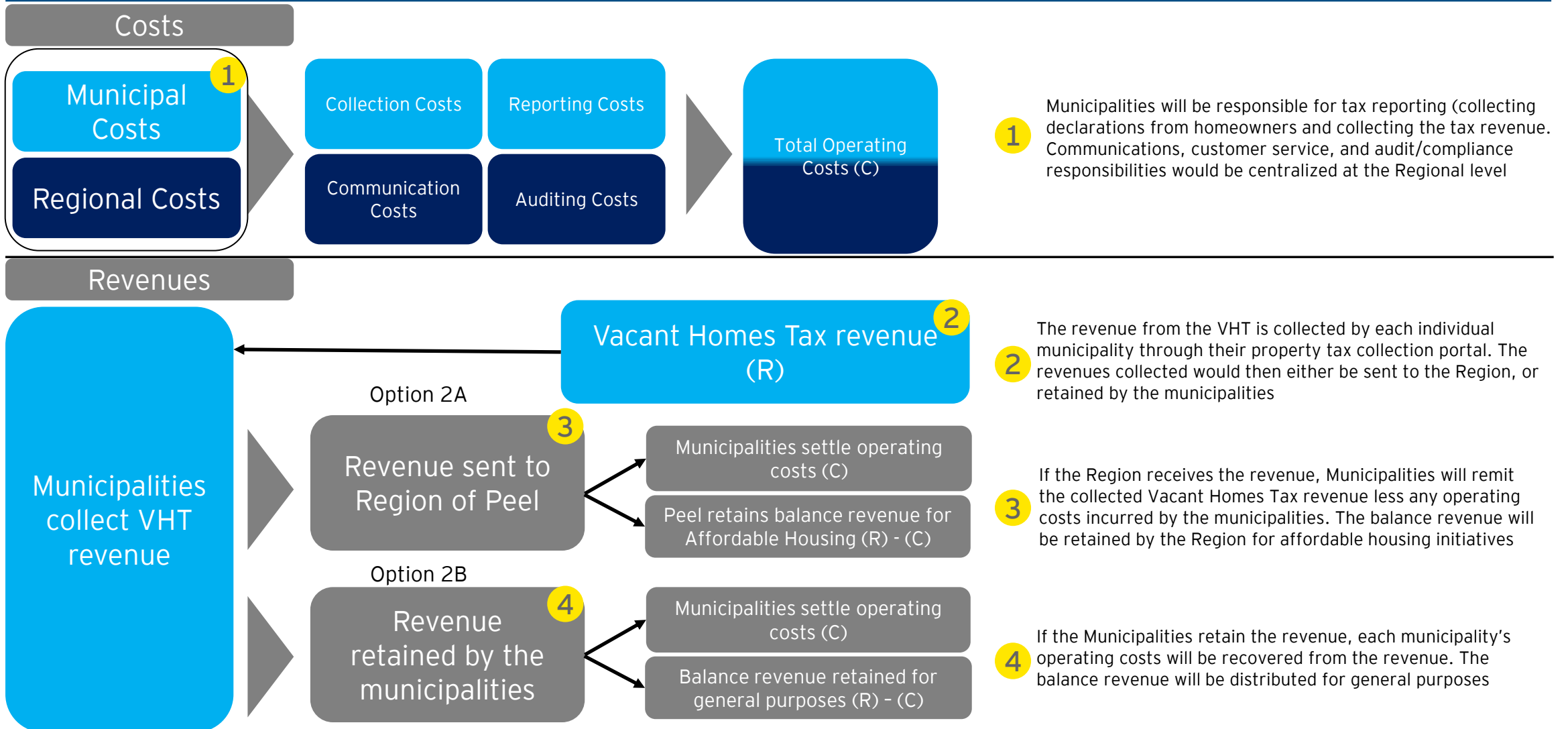
ONGOING OPERATING COSTS

\$4.68M

*Detailed cost calculations are provided in the financial analysis section

Option 2: Hybrid Delivery | Flow of Responsibilities

The hybrid delivery model assigns reporting and revenue collection responsibilities to the municipalities, in order to leverage existing property tax collection systems - while centralizing audit and customer service/communications responsibilities at the Regional level



Option 2: Hybrid Delivery | Summary

The hybrid delivery model seeks to eliminate duplication of effort for audit and customer service, while leveraging existing infrastructure and processes at the municipal level for tax collection

HOW IT WOULD WORK

- ▶ The lower-tier municipalities would be responsible for managing the reporting forms for self declaration, and collecting the tax from owners of Vacant Homes. The Region would be responsible for overseeing audit and compliance activities, and managing customer service for the residents
- ▶ The municipalities may leverage existing property tax collection systems to assess, impose, and collect a vacant homes tax on properties that have been declared as vacant by the homeowner.
- ▶ If the net revenue is to be allocated to the Region, the municipalities would settle their internal operating costs from the collected revenue, and remit the balance to the Region.
- ▶ While the Region would be responsible for auditing homes, it would coordinate with the municipalities to collect arrears using existing enforcement tools

WHAT WOULD NEED TO CHANGE

PROCESS CHANGES	TECHNOLOGY CHANGES
Design self-declaration forms and implement a reporting process for home-owners	Implement a portal for collecting information on the declaration of occupancy status
Design reporting mechanism to assess the status of declarations and collections and identify arrears	Implement upgrades to the existing property tax collection system to include a module for the vacant homes tax
Implement process changes to leverage municipal enforcement tools for collection of tax arrears	Implement systems to facilitate the audit and compliance process including status tracking
Upskill existing customer service staff to manage queries about the vacant homes tax	Implement systems to streamline the response process for audited homeowners to submit proof of occupancy or exemptions
Municipal Responsibility	Regional Responsibility

WHAT ARE THE RISKS

- ▶ Requires significant integration efforts between existing (and new) systems and processes in the Region and the municipalities to facilitate information sharing on tax payment status, arrears, status of enforcement actions etc. Breakdown in information sharing may lead to lost revenue
- ▶ Potential for duplication of effort if audit and compliance teams at the Region are unable to effectively pursue enforcement actions due to lack of support at the municipal level
- ▶ Creates multiple points of contact for the resident for resolution of queries and grievance redressal

HOW MUCH IT WOULD COST*

ONE TIME COSTS

\$12.99M - \$11.27M

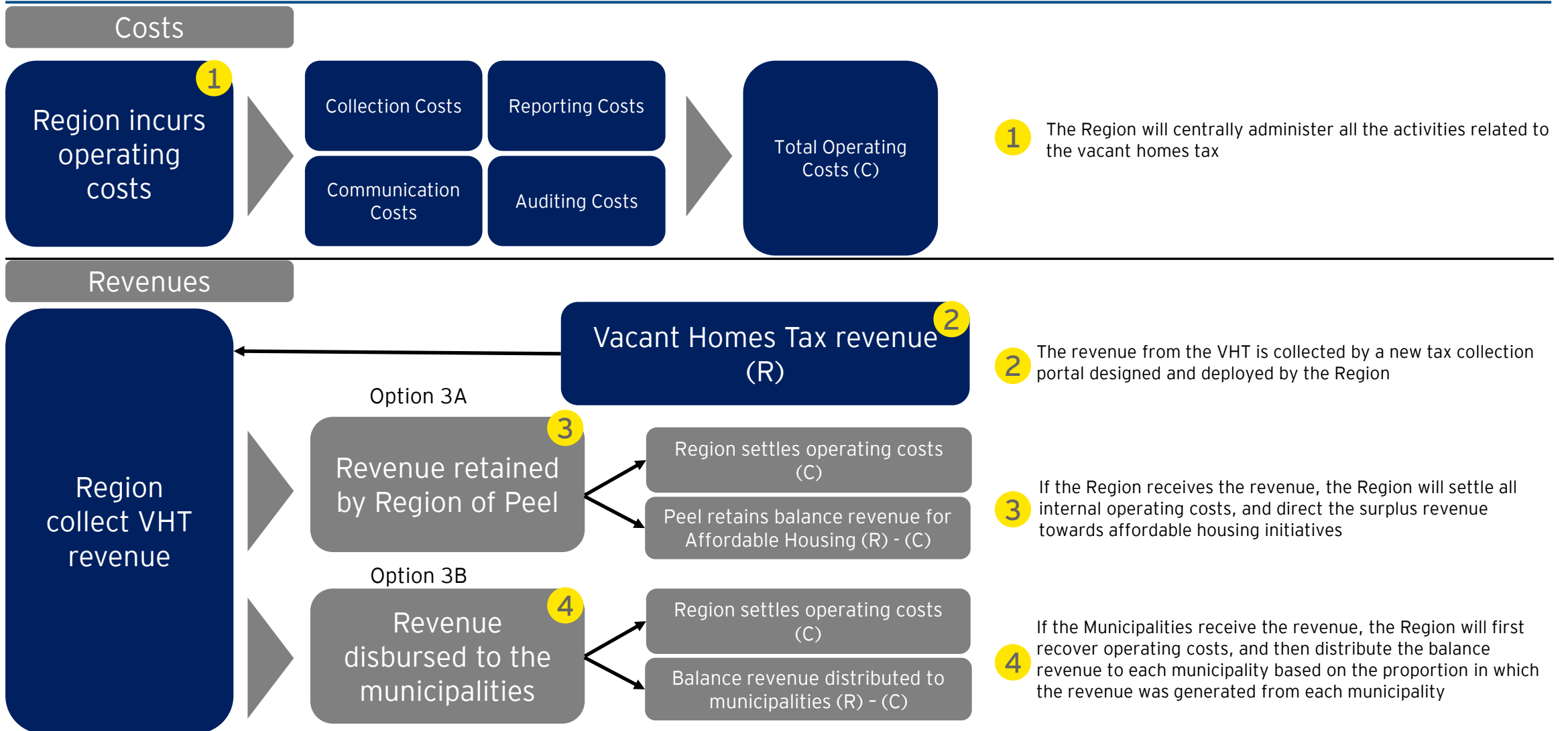
ONGOING OPERATING COSTS

\$4.30M

*Detailed cost calculations are provided in the financial analysis section

Option 3: Regional Delivery | Flow of Responsibilities

The regional delivery model assigns full responsibility of core operations to the Region of Peel



Option 3: Regional Delivery | Summary

The regional delivery model involves full centralization of all processes - however the Region would still rely on the municipalities to obtain data on property assessment values, and to conduct follow-up on enforcement actions, thus requiring continued collaboration

HOW IT WOULD WORK

- ▶ The Region would be responsible for all the operational activities for the Vacant Homes Tax - This includes administering the reporting forms for self-declaration, collecting taxes from vacant homes, managing the audit processes, and delivering customer service
- ▶ The Region would need to create a separate tax collection system, or enhance the functionality of existing fee collection systems (e.g. utility fee systems) to assess, impose, and collect a vacant homes tax on properties that have been declared as vacant by the homeowner. The Region would also need to create an audit and compliance team which would identify cases of non-compliance and work with the municipalities to initiate enforcement actions
- ▶ If the net revenue is to be allocated to the municipalities, the Region would settle its internal operating costs from the collected revenue, and remit the balance to the municipalities in the same proportion as it was collected (i.e. taxes from vacant homes in Brampton would be remitted to Brampton)

WHAT WOULD NEED TO CHANGE

PROCESS CHANGES	TECHNOLOGY CHANGES
Design self-declaration forms and implement a reporting process for home-owners	Implement a portal for collecting information on the declaration of occupancy status
Design reporting mechanism to assess the status of declarations and collections and identify arrears	Implement upgrades to the existing property tax collection system to include a module for the vacant homes tax
Implement process changes to leverage municipal enforcement tools for collection of tax arrears	Implement systems to facilitate the audit and compliance process including status tracking
Upskill existing customer service staff to manage queries about the vacant homes tax	Implement systems to streamline the response process for audited homeowners to submit proof of occupancy or exemptions
Municipal Responsibility	Regional Responsibility

WHAT ARE THE RISKS

- ▶ Requires extensive legislative changes as the Municipal Act (Part X - Sections 340, 343, and 345) allows only the local municipalities to collect taxes, and not the Region
- ▶ Requires large upfront investments in building a new tax collection system. The system would also need to be integrated with the property tax collection systems at the municipal level in order to conduct enforcement follow-up for non-payment
- ▶ Significant integration efforts between existing (and new) systems and processes in the Region and the municipalities to facilitate information sharing on taxation amount, arrears, status of enforcement actions etc.
- ▶ New systems developed at the Region to collect taxes may be redundant if the Vacant Homes Tax program is wound down, leading to sunk costs

HOW MUCH IT WOULD COST*

As indicated above, this option would require extensive and time-consuming legislative changes, that are beyond the control of the Region, thereby rendering it improbable to implement. Hence, detailed costing has not been done for this option.

Delivery Model Options Compared

The regional delivery model may provide efficiencies through centralization, and lower implementation costs, however it presents a number of unknowns related to the complexity of creating a new tax collection system at the Region

A high level summary of the delivery model options discussed earlier is presented below. Based on the findings, the Region may consider exploring the hybrid delivery option in order to leverage synergies of existing systems and processes (e.g. payment collection systems), while avoiding duplication of effort through centralization of staff wherever possible (e.g. audit and enforcement staff)

	Municipal Delivery	Hybrid Delivery	Regional Delivery
Pros	<ol style="list-style-type: none"> 1. Municipalities can upgrade their existing property tax portals to add a new module that can assess and collect taxes for Vacant Homes. 2. Municipalities can also use their own by-law officers for compliance monitoring to decrease implementation and operational costs 	<ol style="list-style-type: none"> 1. The Region can rely on the municipalities to collect the vacant homes tax by upgrading their existing property tax system 2. Synergies may be realized by centralization and standardization of audit teams 3. Centralizing communications at the Region also facilitates consistency of messaging and helps the Region realize synergies in staffing levels 	<ol style="list-style-type: none"> 1. No duplication of effort is required as all tasks are centralized within one area 2. If the net financial benefit is used towards affordable housing initiatives, Peel can internally settle up costs and disperse funds towards affordable housing projects directly 3. As communication is handled at the Regional level, information given to the public can be standardized
Cons	<ol style="list-style-type: none"> 1. Potential duplication of effort and higher staffing levels as each municipality would need to have separate tax administration and enforcement teams 2. Procedures related to assessing exemptions, addressing grievances etc. may be varied leading to lack of standardization 3. Communication to the public on the Vacant Home Tax may be inconsistent due to different procedures and standards followed in the contact centres of each municipality 	<ol style="list-style-type: none"> 1. Creating multiple points of contact may lead to confusion among residents regarding processes for grievance redressals, assessing exemptions etc. 2. Significant collaboration would be required between the Region and the municipalities to implement streamlined processes for audits and customer service 3. The Region may have to create a new compliance and enforcement team as those capabilities currently do not exist in the Region 	<ol style="list-style-type: none"> 1. Requires provincial legislative changes to the Municipal Act which could be time-consuming and entail significant lobbying efforts 2. The Region will need to build a new collection system to process taxes from owners of vacant homes. This will require integration with the tax portals of the municipalities which could lead to significant start-up costs. 3. The Region may have to create a new compliance and enforcement team as those capabilities currently do not exist within the Region
Costs	Implementation costs - \$13,287,868 Annual Operating costs - \$4,686,899	Implementation costs - \$12,126,791 Annual operating costs - \$4,302,575	Costs for this option were not assessed as it was deemed to be improbable to implement due to the complexity of legislative changes required, and the low likelihood of provincial support.

Vacant Homes Tax Operations | Summary of Findings

There are no major operational challenges foreseen for the implementation of the Vacant Homes Tax - even in a two-tier municipal model. However, detailed analysis may be required to choose a delivery model option that suits the Region.

Key takeaways from the analysis of processes to operate the vacant homes tax are summarized below



Feasibility of methods to identify vacant homes

- Based on the experiences of municipalities that have implemented the Vacant Homes Tax, self declaration (either universal declaration by all homeowners, or exception-based declaration only by owners of vacant homes) may be the most appropriate mechanism for identifying vacant homes in the Region
- Other methods (e.g. utility monitoring) may lead to privacy concerns or may not be comprehensive enough to cover all types of homes in the Region



Division of responsibilities for implementation and delivery of the vacant homes tax

- Decisions on delivery models may be made in a manner that enables the Region and lower tier municipalities leverage existing systems and processes. E.g. If the responsibility of tax collection is assigned to the lower tier municipalities, the existing property tax collection systems may be utilized (with the required functionality enhancements) to calculate the tax amount based on property assessment information. Existing processes and resources may also be leveraged for enforcement of the tax and for customer service
- Additional processes, and resources may be required for audit and compliance processes, as existing by-law staff may not have the capacity to conduct audits of homes to verify if the occupancy status quoted through self-declaration is correct



Objectives for the revenue raised

- While provincial legislation does not mandate what the revenue raised from the vacant homes tax must be used for, the Region and the lower-tier municipalities would need to agree-upon, and clearly articulate the objectives for the revenue before developing the vacant homes tax by-law. This is required for public communications so the public knows the rationale for the tax, and what the revenue would be utilized for, and for the submission to the Ministry of Finance for the approval of the by-law
- It is recommended that revenue generated from vacant homes is allocated towards affordable housing initiatives so that the Region's policy is consistent with those of other jurisdictions, thereby generating buy-in and support from the public



FINANCIAL ANALYSIS

"How much revenue can be expected from the Vacant Homes Tax? And at what cost?"

Financial Analysis - Overview

Financial analysis was conducted using data available with the Region and the municipalities, and leveraging findings from Vancouver's experience in implementing the vacant homes tax

In order to estimate the feasibility of the Vacant Homes Tax in the Region of Peel, a high-level quantitative analysis was conducted to understand the potential budgetary impact to the Region and the lower tier municipalities. The analysis comprised of two components:



- Revenues from the Vacant Homes Tax would come from two sources:
 - Tax Levy - Revenue earned from homeowners who declare/report their homes to be vacant
 - Audit Revenue - Revenue from homeowners who have been found to be non-compliant or fraudulent in their declaration/reporting and are charged a penalty



- These costs incurred for implementing a vacant homes tax falls under two categories:
 - One Time Costs - Upfront costs associated with implementing the tax (e.g. software costs to upgrade tax collection systems)
 - Ongoing Costs - Ongoing costs associated with operating the tax (e.g. salaries of compliance and audit staff)

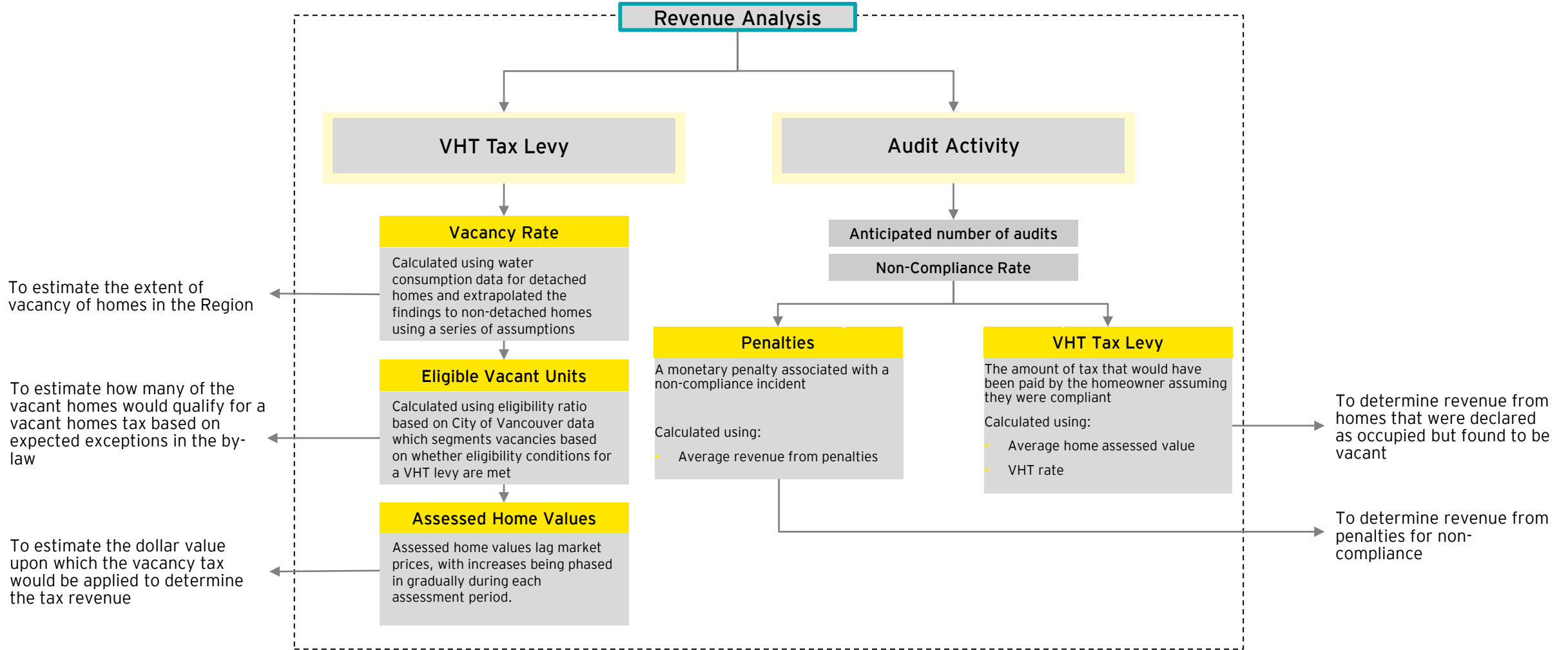
This section provides details of the data sources, methodology, and assumptions for the financial feasibility analysis conducted to determine the financial impact of implementing the vacant homes tax.

Note: Analysis of costs has been conducted only for the Municipal and Hybrid Delivery Options as it was concluded in the previous section that the Regional Delivery Option is less viable owing to the legislative changes required.

Financial Analysis | Revenue Estimation

Revenue from vacant homes would be obtained in two streams - taxes remitted by home owners who declare their homes to be vacant, and taxes and fines levied from homeowners who did not declare their homes to be vacant, but were identified through audits / complaints

The methodology used to calculate the potential revenue from the vacant homes tax is discussed below.



Financial Analysis | Revenue Estimation | Assumptions*

In order to develop financial estimates using limited data, we had to leverage assumptions based on observations from the vacant homes tax implementation in other jurisdictions

Vacancy Rates:

- Vacancy rates for single detached units were calculated using the Region's data on water consumption levels, applying a threshold of **50L/day** of water usage as a determinant for vacancy in a house. Water consumption data is not available for semi-detached units and townhouses, however, we assume the vacancy rate would be identical to single detached homes, hence the same vacancy rate was applied to these units.
- For condos, the City of Vancouver data was used as a proxy to estimate the proportion of total vacancies in condos to detached homes
- Note - While Government of Canada estimates the average water consumption per person in a household to be at least 250 L/day, we have applied a very low threshold of 50 L/day for conservatism - This estimate is expected to address differences in water usage in homes based on demographics (e.g. water consumption may be lower in homes with elderly individuals) and other factors (e.g. energy and water conserving/conscious households).

Eligible Vacant Units:

- Used the City of Vancouver data to determine eligibility ratio of vacant units, since the same exemption/eligibility criteria applied by Vancouver was found to be acceptable for the Region of Peel during stakeholder consultations

Audit Activity:

- Used City of Vancouver data to determine total number of audits that occur, as a percentage rate of the total housing supply which was then applied to each of Peel's municipality's total housing supply. This assumes that Peel and City of Vancouver have identical non-compliance rates.

Growth Rates:

- Assumed that historical growth rates of housing supply would hold constant into the future

Assessed Values of Housing Units:

- The assessed value for the purposes of determining a tax base was derived from MPAC Current Value Assessments, based on the valuation date of January 1, 2016.

Sensitivity Analysis:

- A sensitivity analysis was performed by varying the tax rate on VHT from 0.5% to 3%, and varying the annual behavior response rate (% of vacant homes placed on the market for sale or rent) from 3% to 15%

* Detailed assumptions are provided in Appendix 2

Financial Analysis | Revenue Estimation | Overview of Methodology and sources

Parameter	Description	Estimation Methodology and Sources
Vacancy Rate	The number of homes (condos, detached, semi-detached/townhouses) that are expected to be vacant in the Region of Peel	<p>Detached Homes - Water consumption data with a cut off of 50L/day to indicate vacancy Semi-Detached - Water consumption data not available for these units - hence assumes a similar vacancy rate as detached homes Condos - Leveraged City of Vancouver data to determine vacancy proportion of condos in relation to detached homes, while adjusting for differences in demographics, housing composition, and speculative activity</p> <p>[Source: Data obtained via e-mail August 20th, 2021]</p>
Housing Supply	The number of homes by type in the Region of Peel.	[Source: Property count submitted by the Region of Peel on October 8 th 2021]
Assessed Value*	The assessed value of properties based on MPAC values	Assessment values are derived from MPAC current value assessments with the valuation date of January 1, 2016 (the most recent property assessment update for Ontario). Weighted average of assessment values across property types (detached, semi detached, townhomes, and condos) was used to determine revenue Source - MPAC Data
Eligible Vacant Units	The number of homes which are vacant, which can be deemed eligible for collection under a VHT	Use the City of Vancouver data which compiles total number of reported vacant homes and number of vacant homes which are eligible under a VHT to develop an eligibility ratio. It is assumed the eligibility ratio will remain unchanged as the two VHT are assumed to have similar exemptions and populations identical in the reasons they would leave homes vacant. [Source: City of Vancouver Annual Report, 2019 , Page 11 of PDF]
Anticipated Number of Audits	The number of audits which would be carried out to ensure compliance with the VHT among residents	Use City of Vancouver data to compare the number of audits completed relative to the number of housing units in the region, and apply a similar ratio to the Region of Peel [Source: City of Vancouver Annual Report, 2019 , Page 6 of PDF for Number of Audits Completed Housing Data: 2016 Census Results]
Non-Compliance Rate	The rate at which audits capture non-compliant residents with respect to the VHT	Use City of Vancouver data to derive a non-compliance rate, averaged out over three years. Assume non-compliance rate between Vancouver and Peel will be identical. [Source: City of Vancouver Annual Report, 2019 , Page 6 of PDF for Non Compliance Rate over Three Years]

* MPAC current value assessments with the valuation date of January 1, 2016 were used since the province-wide assessment update was not conducted as scheduled in 2020 due to the COVID-19 pandemic.

Financial Analysis | Revenue Estimation | Steps

Revenue estimates were developed through a four step process leveraging data submitted by the Region's water and housing teams, and assumptions leveraged from the City of Vancouver (adjusted wherever applicable)

The steps involved in estimating the revenue from vacant homes is discussed below:

Step 1: Estimating Number of Vacant Units based on analysis of water consumption data (low threshold of 50 litres/day)

Jurisdiction	Number of Homes	Vacant Homes			
		Detached	Semi Detached and Townhouses	Condos	Total Vacant Homes
Mississauga	204,503	3,168	1,354	3,200	7,722
Brampton	158,339	2,927	1,300	660	4,887
Caledon	21,296	489	101	2	592
Total Vacancy in Region of Peel					13,202

Step 2: Estimating Number of Eligible Vacant Units (eligibility ratio is 41% for condos, 18% for other units)

Jurisdiction	Number of Vacant Homes Eligible for the Vacant Homes Tax
Mississauga	2,130
Brampton	1,014
Caledon	104
Estimated total eligible vacant homes in Peel in 2021	3,248* (or 0.8% of the total housing supply**)

Note: Average rental vacancy rate at the Region of Peel (2.4%) is similar to that of Vancouver (2.6%), and both jurisdictions have the similar demographic compositions (13% of Peel residents are over the age of 65 compared to 16% at Vancouver). Hence eligibility ratio for vacant homes at Peel can be reasonably assumed to be similar to Vancouver

* - In comparison, Vancouver had 2,538 vacant homes when the vacant homes tax was first implemented in 2017

** - In comparison, Ottawa and Toronto estimate that 0.5% and 1% of the total housing supply are eligible to be taxed under the Vacant Homes Tax regime respectively 10.1-54

Financial Analysis | Revenue Estimation | Steps (Cont'd)

Step 3: Estimating extent of audit activity that would occur in order to identify non-compliant homeowners (Extrapolated from City of Vancouver Data)

Percentage of Audits (as a share of total homes)	0.35%
Estimated Non Compliance Rate	7.00%
Estimated Penalty Per Non-Compliance Incident	\$2,000

Step 4: Estimating behavioral response to tax rates (Percentage of homes that are placed on the market for sale or rent if a certain tax rate is applied on vacant homes). The behavioral response rate was estimated using both real-world observations from the City of Vancouver (trends of homes being converted from vacant to non-vacant since the implementation of the tax), and independent literature review.

Scenario	Tax Rate	Behavioral Response Rate (% of vacant homes placed on market)
Scenario 1	0.5%	1.50%
Scenario 2	1.0%	2.50%
Scenario 3	1.3%	3.00%
Scenario 4	1.5%	4.00%
Scenario 5	2.0%	5.00%
Scenario 6	2.3%	5.50%
Scenario 7	2.5%	6.00%
Scenario 8	3.0%	6.50%

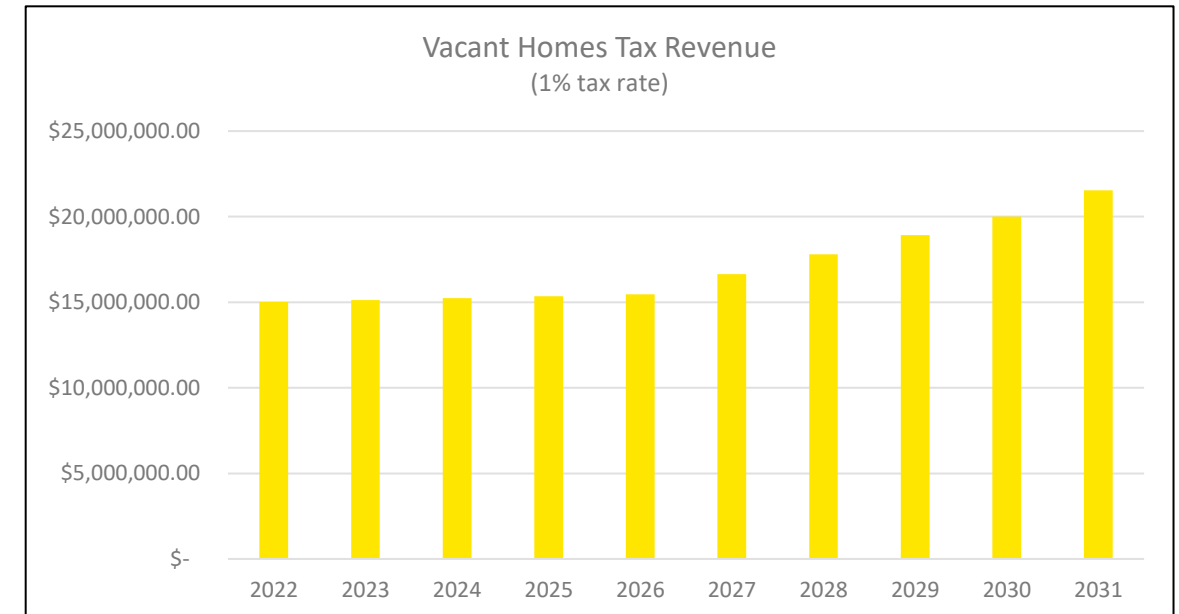
Financial Analysis | Revenue Estimation | Results

Conservative estimates indicate that the Region may generate an average annual revenue of \$17M over 10 years with a 1% tax rate using available MPAC assessment values from 2016

After completing the steps discussed previously, we obtained revenue estimates from eight different situations involving various different tax rates, and their associated ABRR*. The tax rates represent a continuum from a low of 0.5% to a high of 3.0% (rate that is currently being considered for implementation at the City of Vancouver), and are multiplied by the average assessment value of homes to obtain the revenue from the tax levy.

	Tax Rate	ABRR*	Average Revenue/Year (10 years)	
			Self Declaration	Audit Activity**
Scenario 1	0.50%	1.50%	\$8,598,232	\$476,400
Scenario 2	1.00%	2.50%	\$16,359,562	\$750,825
Scenario 3	1.25%	3.00%	\$19,948,452	\$888,037
Scenario 4	1.50%	4.00%	\$22,786,290	\$1,025,249
Scenario 5	2.00%	5.00%	\$28,931,706	\$1,299,673
Scenario 6	2.25%	5.50%	\$31,767,071	\$1,436,886
Scenario 7	2.50%	6.00%	\$34,453,494	\$1,574,098
Scenario 8	3.00%	6.50%	\$40,361,032	\$1,848,522

10 year revenue projections for a 1% tax rate (most common rate chosen by cities)



Revenues are projected to increase year-over-year even post implementation of the vacant homes tax due to the growth in housing stock and the rise in assessment values - both of which help recover any revenue loss from vacant homes that are released back to the rental market. This is consistent with the observations at the City of Vancouver which saw revenue rising from \$23.3M in 2018 to \$27.9M in 2019.

Note: Revenues may be higher once the tax is implemented based on updated MPAC property counts and property assessments, which have not been revised since 2016

*Annual Behavioral Response Rate: The expected total number of units that will be returned back to the rental or for sale market on an annual basis.

**Audit activity: Audit activity captures revenues from the levy which should have been collected in the event of tax payer compliance, and an additional penalty 10.1-56

Financial Analysis | One-Time Costs | Methodology

One-time implementation/start-up costs would differ based on the delivery model option chosen by the municipalities (municipal delivery or hybrid delivery) due to synergies (or duplication of effort) that may exist across different cost categories

An overview of the implementation costs and the associated assumptions and rationale is provided below.

Category	Description	Calculation Methodology and Assumptions	Estimates	Rationale
Project Management	Team responsible for overseeing the day-to-day activities related to the implementation and delivery of the project	Estimated project team size required to oversee implementation of the project at a cost of \$110K per team member	<ul style="list-style-type: none"> Municipal Delivery - 15 members Hybrid Delivery - 12 members 	Municipal delivery is expected to require the highest project management support due to upgrades required in three different tax collection systems. Hybrid delivery may require a smaller team due to synergies involved in overseeing the components of implementation that are centralized at the Region
Subject Matter Advisors	Internal or external advisors from domains such as legal, tax, regulatory policy, legislative services, and communications to provide guidance and advice for the delivery of the project	Estimated number of subject matter advisors required to provide guidance to the project team at a cost of \$150K per advisor	<ul style="list-style-type: none"> Municipal Delivery - 4 advisors Hybrid Delivery - 3 advisors 	Similar to the project management team above, the municipal delivery model may require the most advisors due to policy and legislative changes to be made across three different municipalities
Technical Support	Team responsible for designing, developing, implementing, and testing the upgrades to existing tax payment systems in order to collect the vacant homes tax	Used City of Vancouver implementation cost data from 2017 adjusting for differences in costs in the Region and accounting for inflation	Same costs for both delivery models - \$3.6M (expected range of +/- 20% based on complexity on implementation)	Without a detailed assessment of existing systems, and extent of changes required, it is not possible to accurately estimate the costs for upgrading the existing tax systems. Hence, costs incurred for Vancouver were used as a baseline

Financial Analysis | One-Time Costs | Methodology (Cont'd)

Category	Description	Calculation Methodology and Assumptions	Estimates	Rationale
Professional Services	Costs for process re-engineering and service design for the operations of the vacant homes tax	Used City of Vancouver implementation cost data from 2017 adjusting for differences in costs in the Region and accounting for inflation	<ul style="list-style-type: none"> Municipal Delivery - \$5.7M Hybrid Delivery - \$5.1M 	Municipal delivery is expected to have the highest costs due to duplication of effort in process and service re-design across three entities. Hybrid delivery is expected to see minor efficiencies as some of the processes to be redesigned would be owned by a central entity
Infrastructure costs	Costs associated with deploying hardware (e.g. computers, servers etc.) and software (e.g. licenses) for the operations of the vacant homes tax	Used City of Vancouver implementation cost data from 2017 adjusting for differences in costs in the Region and accounting for inflation	<ul style="list-style-type: none"> Same costs for both delivery models - \$657K (expected range of +/- 20% based on complexity on implementation) 	Similar to technical support costs discussed earlier, the same cost is applied to both delivery models due to a lack of data of the extent on infrastructure investments
Contingency Costs	Costs set aside to cover unforeseen expenses that may occur due to events that were not specifically accounted for in the above line-items	Determined contingency budget for City of Vancouver relative to the rest of the costs, and applied an identical ratio to the implementation costs for both delivery models	Contingency costs amount to 7% of the total project cost	Contingency ratio is assumed to be constant for both delivery models

Note:

- It is assumed that all one-time costs would be borne by the Region, irrespective of the delivery model option, as it would be more efficient for implementation to be overseen and coordinated by a single, central entity. Decentralization of implementation would result in varying project schedules, lack of coordination between project teams operating at each municipality, and differences in quality of implementation.

Financial Analysis | One-Time Costs | Result

Based on the currently available inputs, the hybrid model has the lowest implementation costs - however, detailed systems analysis is required to improve the degree of certainty of the technical support costs

One-time implementation/start-up cost for both delivery model options is provided below*.

Category	Cost	
	Municipal Delivery	Hybrid Delivery
Project Management	\$1.65M	\$1.32M
Subject Matter Advisors	\$0.60M	\$0.45M
Technical Support	\$2.9M- \$4.4M	\$2.9M- \$4.4M
Professional Services	\$5.79M	\$5.19M
Infrastructure costs	\$0.52-\$0.78M	\$0.52-\$0.78M
Contingency	\$0.89M	\$0.81M
TOTAL	\$14.10M-\$12.41M	\$12.99M-\$11.27M

- Differences in implementation costs are driven by the level of complexity involved in each model. E.g. Implementing the municipal delivery model requires changes in processes and systems across three municipalities, and hence requires a higher number of resources to manage, thereby potentially escalating costs related to project management and professional services. However, the hybrid model involves centralization of some processes at the Regional level, thus creating efficiencies for the project management and professional services teams

The Hybrid Delivery option has the lowest costs due to efficiencies that may be realized through centralization of functions such as compliance and communications, thus entailing lower effort for implementing those processes. However, detailed systems and process analysis will be required to obtain a higher degree of certainty for the costs estimated above.

*In comparison, Vancouver's one-time implementation cost was \$7.4M, and Toronto's estimated implementation cost is \$11.1M

Financial Analysis | Ongoing Operating Costs | Methodology

Ongoing costs would differ based on the delivery model option chosen by the municipalities (municipal delivery or hybrid delivery) due to synergies (or duplication of effort) that may exist across different cost categories

Ongoing costs, similar to start up costs, would differ based on the delivery model option chosen by the municipalities (municipal delivery or hybrid delivery) due to synergies (or duplication of effort) that may exist across different processes for operating the vacant homes tax. An overview of the costs and associated assumptions is given below.

Category	Description	Calculation Methodology and Assumptions	Estimates	Rationale
Tax Administration	Staff responsible for overseeing the reporting of vacant homes, and tracking and reviewing the receipt of payments from owners of vacant properties	Scaled up the tax administration staffing level at Vancouver, adjusting for the population difference	<ul style="list-style-type: none"> Municipal/Hybrid Delivery - 18 staff 	Both models would have the same staffing requirements as tax administration is done at the local municipality level
Compliance	Staff responsible for conducting audits, investigating complaints, and conducting follow-up for non-reporting or non-payments	Scaled up the audit staffing level at Vancouver, adjusting for the population difference	<ul style="list-style-type: none"> Municipal Delivery - 18 staff Hybrid Delivery - 15 staff 	Assumes a 15% efficiency gain through centralization of audit and compliance staff at the Regional level in the Hybrid delivery model
Communications	Costs associated with public awareness and outreach (e.g. advertising) and information notices to owners of vacant properties	Scaled up the annual communication costs incurred at Vancouver, adjusting for the population difference	<ul style="list-style-type: none"> Municipal Delivery - \$410K Hybrid Delivery - \$360K 	Assumes a 10% efficiency gain through centralization of administrative effort required for issuing notices and advertising through the centralization of communications at the Regional level in the Hybrid delivery model

* EY experience in shared service reviews indicate that centralization of functions lead to a 10%-15% efficiency gain

Financial Analysis | Ongoing Operating Costs | Methodology (Cont'd)

Category	Description	Calculation Methodology and Assumptions	Estimates	Rationale
IT Support and Maintenance	Costs associated with maintaining the technical infrastructure (hardware and software) placed for the operations of the vacant homes tax	Scaled up the costs incurred at Vancouver for IT support and maintenance by adjusting for volume of calls expected at the IT helpdesk by a factor of the size of the operations team	<ul style="list-style-type: none"> Municipal Delivery - \$460K Hybrid Delivery - \$400K 	Assumes a 10% efficiency gain through centralization of administrative effort for IT support at the Regional level
Customer Service	Costs associated with managing information calls and service requests (e.g. through 3-1-1 or other channels) from residents as part of the vacant homes tax	Scaled up the costs incurred at Vancouver for call centre support by adjusting for volume of calls/enquiries expected at 3-1-1/helpdesk by a factor of the size of Peel's population relative to Vancouver	<ul style="list-style-type: none"> Same costs for both delivery models - \$588K 	The same costs would be incurred for both delivery models as the driver of costs is call volume, which is a function of Peel's population, and remains constant irrespective of the delivery model

Financial Analysis | Ongoing Operating Costs | Result

Based on the currently available inputs, the Hybrid Delivery model has the lowest operational costs due to efficiencies that may be realized by centralization of functions

Annual operating costs for both delivery model options is provided below*. The cost differences between the options are relatively minor as the cost drivers are based on the volume of outputs (e.g. number of tax notices to be processed, number of audits to conduct etc.) which do not vary between options. Differences in costs, if any, are due to administrative efficiencies through centralization of different functions.

Category	Cost	
	Municipal Delivery	Hybrid Delivery
Tax Administration	\$1.61M	\$1.61M
Compliance	\$1.61M	\$1.37M
Communications	\$0.41M	\$0.36M
IT Support and Maintenance	\$0.45M	\$0.36M
Customer Service	\$0.59M	\$0.59M
TOTAL	\$4.68M	\$4.30M

Annual operating costs for both models (\$4.7M - \$4.3M) are lower than the expected annual revenue through a 1% tax rate (\$17M), which indicate that the benefits of a vacant homes tax could exceed the costs of operation

The hybrid delivery model has the lowest annual operating costs due to efficiencies realized in the centralization of staff for various operational processes. Centralization of operations may also help in accelerating the benefits of future digitization/automation of processes (e.g. automated verification of documents for audits) thus resulting in further efficiencies.

*In comparison, Vancouver's ongoing operating costs are \$2.9M and Toronto's estimated ongoing operating costs are \$5.8M



FEASIBILITY ANALYSIS

"Should the Region consider implementing the Vacant Homes Tax?"

Feasibility Analysis - Overview

This section provides an summary of the findings related to the feasibility of implementing a Vacant Homes Tax within the Region. Feasibility was assessed through a quantitative comparison of projected revenues and estimated costs (discussed in the previous section) and a qualitative evaluation of risks (developed through stakeholder consultations and learnings from Vancouver). These components are summarized below:



Net Financial Impact

Estimation of net revenue and the breakeven point (minimum number of vacant homes required in the region to recoup operating costs)



Sensitivity Of Tax Rates

Assessment of conversion ratio of homes as a result of various tax rates



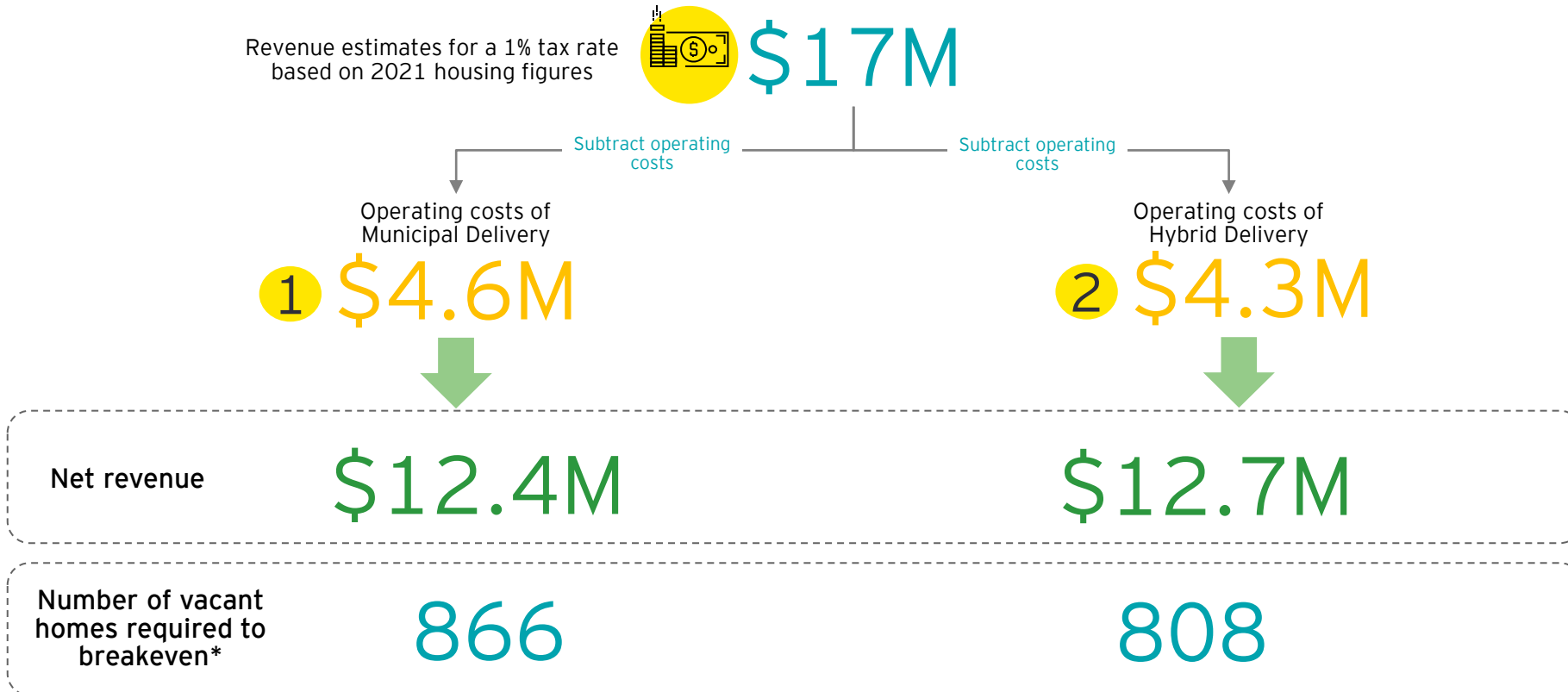
Risks

Key risks that the Region may encounter while implementing the vacant homes tax - along with mitigation options

Feasibility Analysis | Net Financial Impact

In spite of conservative estimates used for revenue projections, it is expected that the vacant homes tax will generate a positive budgetary impact at the Region of Peel

Findings related to the financial feasibility of implementing a vacant homes tax in the Region of Peel is summarized below. This was done by comparing the net revenue (revenue less operating costs) and assessing the breakeven point for each delivery model option (minimum number of vacant homes required to generate tax revenue that is greater than the operating costs)



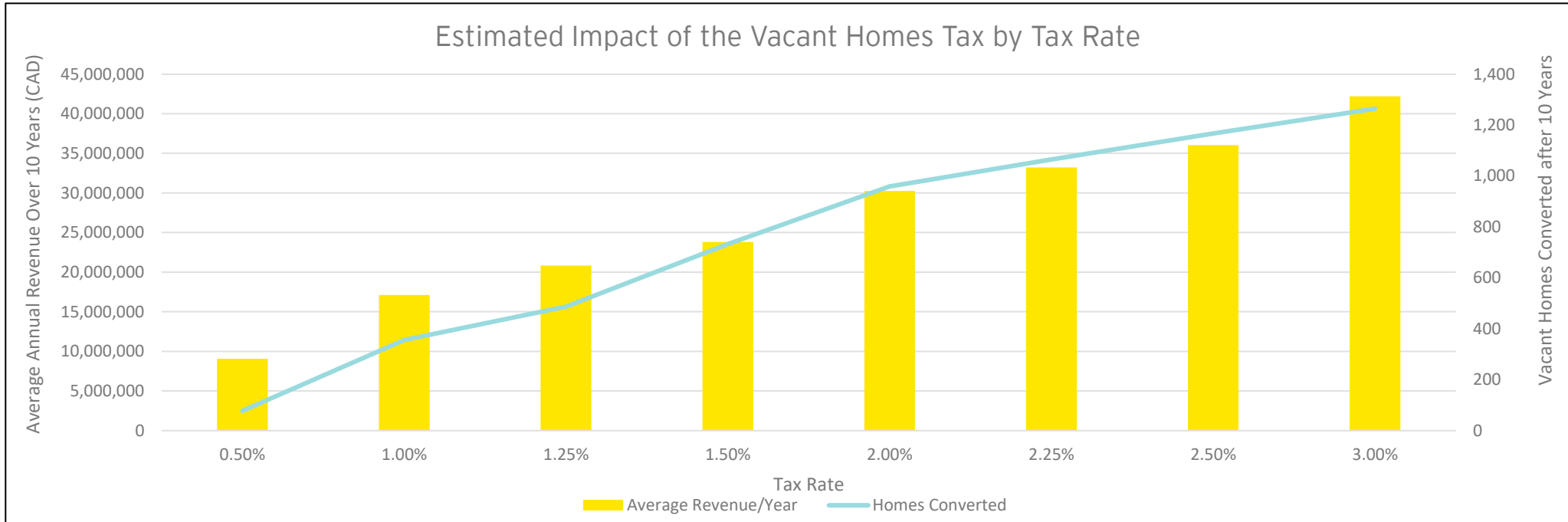
The findings above indicate that, irrespective of the chosen delivery model option, the vacant homes tax is expected to generate net positive financial benefits for the Region, and hence, is a feasible tool to be explored in further detail.

*As indicated in the revenue estimates, the estimated number of vacant homes is over 3,000

Feasibility Analysis | Sensitivity of Tax Rates

Tax rates are expected to generate a directly proportionate impact on conversion of vacant homes to rental properties which may ease affordability by improving supply

By modeling various tax rates, and their associated behavioural response rate (% of vacant homes sold or converted to a rental property to avoid paying the tax), we estimated the revenue projections and number of vacant homes converted corresponding to each tax rate. Findings are illustrated below.



This indicates that the Vacant Homes Tax has positive benefits in improving housing affordability by increasing the supply of homes, and in supporting the Region’s Affordable Housing programs by generating surplus revenue to be invested in these programs to improve outcomes to the residents of Peel.

Feasibility Analysis | Risks

Risks identified below may be mitigated by leveraging learnings from municipalities such as Vancouver, which had implemented this tax, and had to address similar risks as part of their journey

	Lack of revenue	Systems Challenges	Process Challenges	High Non-Compliance Rates	Poor Public Reception
Risk Description	<ul style="list-style-type: none"> Revenue from Vacant Homes Taxes are inadequate to cover the implementation and operating costs of the program 	<ul style="list-style-type: none"> Technology challenges with updating vacant homes tax collection and enforcement functionalities on existing systems (e.g. property tax collection systems) 	<ul style="list-style-type: none"> Inability to implement standardized processes related to reporting, collection, and enforcement across the three municipalities thereby leading to inconsistent application of the vacant homes tax 	<ul style="list-style-type: none"> High instances on non-compliance through fraudulent declarations of occupancy status or applications for exemptions 	<ul style="list-style-type: none"> Residents of Peel may not welcome the tax for varied reasons (e.g. intrusiveness, privacy concerns, disagreement with the tax as a tool for improving affordability etc.)
Mitigation Approach	<ul style="list-style-type: none"> Region to validate the findings of the feasibility study during the public consultations to gauge the extent of prevalence of vacant homes in the Region prior to launching the tax Infrastructure and staffing investments to be phased in stages to assess volume of revenue prior to full-scale implementation 	<ul style="list-style-type: none"> Perform detailed systems planning in advance to identify scope and complexity of upgrades required. Engage with technology implementation teams at Toronto and Vancouver to learn about approach and leading practices for systems enhancement 	<ul style="list-style-type: none"> Conduct detailed process mapping exercise through inclusive consultations with impacted stakeholders to identify and address potential challenges and pain points Leverage learnings from other jurisdictions like Vancouver to understand leading practices in process design to facilitate a vacant homes tax 	<ul style="list-style-type: none"> Design and implement a rigorous, risk-based, and data driven audit process that leverages learnings from Vancouver's techniques to minimize non-compliance rates without being intrusive to the public 	<ul style="list-style-type: none"> Conduct extensive public consultations to gauge the level of public support prior to making decisions about the vacant homes tax Design communications to convey benefits of the tax, along with success stories from other jurisdictions to help residents understand the social outcomes
	Legend Low Medium High				

Feasibility Analysis | Key Takeaways

Preliminary estimates based on available data and assumptions from Vancouver's case study indicate that it is financially feasible to implement the Vacant Homes Tax at the Region - generating revenue for affordable housing programs and increasing housing supply

Key takeaways of the feasibility analysis is discussed below



Vacant Homes Tax is expected to generate a net positive revenue*

- Despite conservative estimates around vacancy rates based on water consumption thresholds, and a low tax rate, the vacant homes tax is still expected to generate revenues that are greater than the operating costs for the program
- While upfront investment for implementing the vacant homes tax is >\$10M for both delivery model options, the Region is expected to recover the investment within the first two years of implementing the tax, with a tax rate of 1%
- In addition to generating revenue for affordable housing purposes, the vacant homes tax is also expected to improve the housing supply if homeowners put up their homes for rent/sale



Hybrid Model expected to provide highest benefits

- Preliminary analysis indicates that the hybrid delivery model has the lowest implementation and operating costs. However, additional analysis is recommended to ascertain the costs by conducting an analysis of the tax systems in all three municipalities to estimate the effort required to create a module for the vacant homes tax.
- The Region and municipalities may benefit from leveraging existing tax collection/administration capabilities at the lower-tier level through a hybrid delivery model, while realizing efficiencies through centralizing activities such as compliance and communications.



Need for continuous monitoring of net revenue to inform future decisions

- The Region would need to continuously monitor net revenues from the vacant homes tax to make decisions around the future of the program. For e.g.
 - Continued prevalence of vacant homes may require decisions around increasing tax rates to enforce behavioral changes (e.g. City of Vancouver is tripling the tax rate from 1% to 3%)

*These revenue estimates are based on a 0.8% vacancy rate as indicated on Page 43. In comparison, Ottawa and Toronto estimate a 0.5% and 1% vacancy rate respectively. If we were to assume similar vacancy rates for Peel, we would see revenues of ~\$10M to ~\$21M (on a 1% tax rate on current MPAC assessment values).



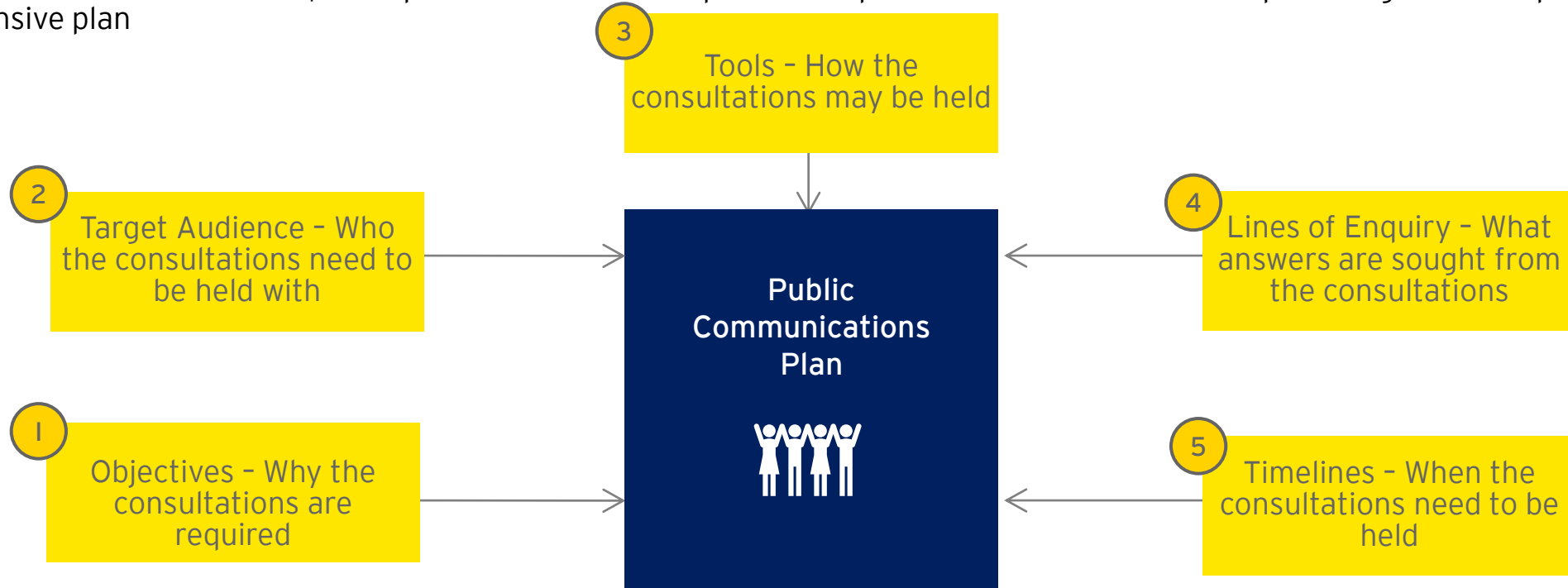
PUBLIC COMMUNICATIONS PLAN

"How, and from whom, should the Region solicit additional inputs to support the design of the Vacant Homes Tax?"

Public Communications | Introduction

Feedback from the public is critical to help the Region make decisions about if, and how, the Vacant Homes Tax is to be implemented

Post ratification of this feasibility review by Regional Council, the Region of Peel, in collaboration with the lower-tier municipalities may initiate public consultations to help obtain inputs for the development of the vacant homes tax by-law and the design of the implementation and operation. This is consistent with the approach followed by Vancouver and Toronto prior to introduction of the vacant homes tax. In this section, we explore the various components of public communications to help the Region develop a comprehensive plan

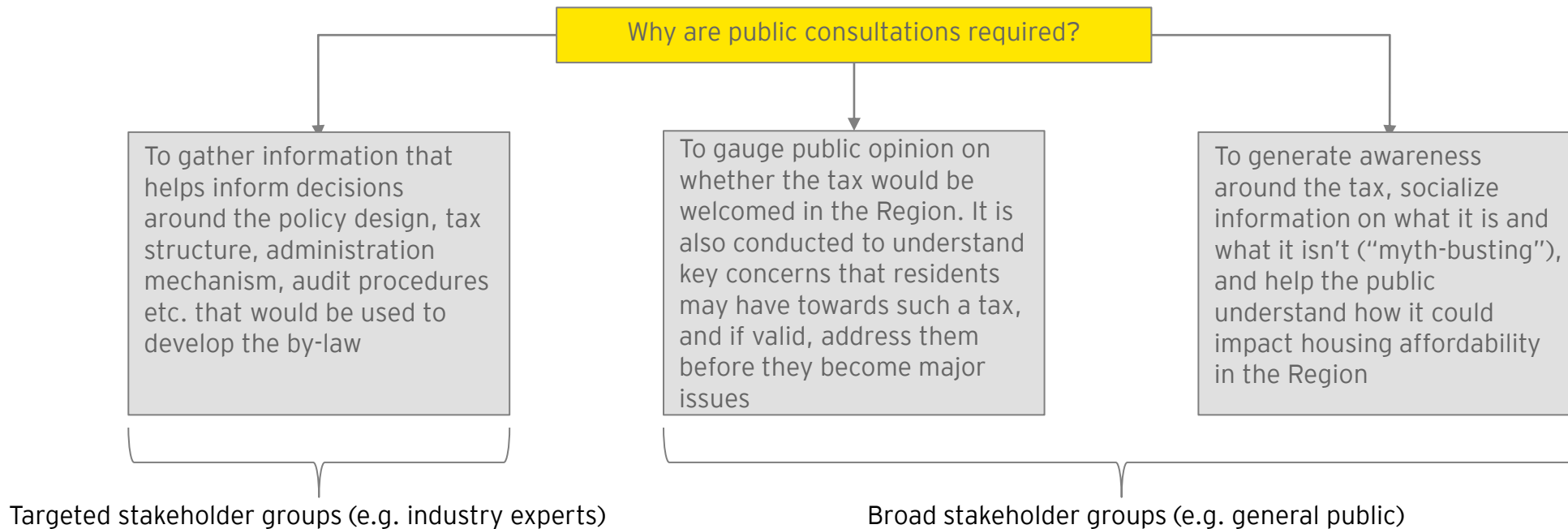


Feedback from the public consultations would help the Region make informed decisions related to the design of the Vacant Homes Tax as it would provide insights into the level of public support, public policy implications, potential effectiveness of the tax in increasing the supply of housing and its impact on affordability, and privacy-related concerns about implementing the tax. Also, through consultations with the Ministry of Finance, we identified that the results of the public consultations are a key component in the submission to the Province for approval of the Vacant Homes Tax by-law.

Public Communications Objectives

Public communications has two objectives - building awareness and eliciting feedback - both of which are critical to the development of the vacant homes tax by-law

Consultation with the public and key stakeholders is a critical step, ensuring that the action to implement a tax on owners of empty housing is appropriately targeted and fair. Broad public consultations are needed to both inform the public of the process and implications of an empty housing tax and to understand the range of empty housing situations that may require taxpayer exemptions, and to obtain inputs from the public to finalize the design of the vacant homes tax. The consultation process will engage the public across a range of platforms such as surveys, public events and other forms of outreach and the objectives of the consultation are illustrated below.



Public Communications Target Audience

Public communications are directed towards two audience groups - general public and specialized advisors

The objective of the Region's public communications/consultations program is to ensure all residents and impacted stakeholders are informed about the potential changes being explored, and are able to express their opinions to inform decisions around the tax policy/by-law design. Based on interviews with the Region's communications team and key stakeholders within the lower tier municipalities, and observations from other municipalities that have implemented the vacant homes tax, it is recommended that the Region holds at least two streams of public consultations, one for the general public, and the other for targeted group of experts to properly assess viability of the tax.

GENERAL PUBLIC CONSULTATION DESCRIPTION AND OBJECTIVES



At the general public consultation, residents would be able to voice their opinions and express support (or not) of the tax. It also provides the Region an opportunity to gauge interest and work with the public to address potential areas of concern to mitigate unintended consequences. These consultations would help the Region understand:

- Whether or not the residents of the Region support the Vacant Homes Tax as a mechanism to address home affordability
- Preferred methods of identification or audit - and potential concerns associated with each
- Preferred objective for the revenue raised from vacant homes (i.e. directed towards affordable housing or general purposes)

TARGETED CONSULTATION DESCRIPTION AND OBJECTIVES



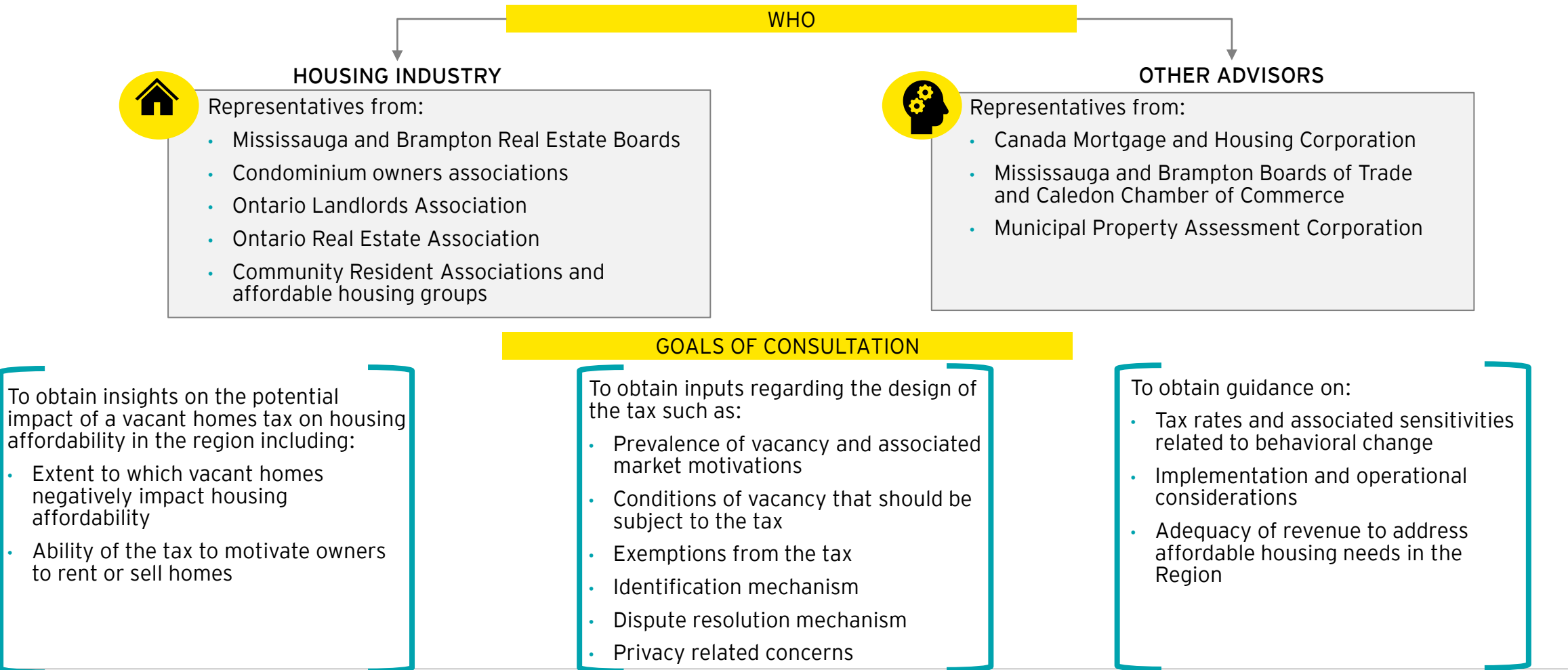
At the targeted consultations with industry/sector representatives, the Region engage with groups of academicians, tax advisors, economists, real estate experts, developers etc. to elicit their opinions, considerations and reservations about the tax. The objective is to gather multi-disciplinary views from across sectors to understand:

- Relevance and impact of a vacant homes tax in the Region
- Optimal tax structures and their associated impact on vacancy rates
- Implementation options and their associated pros and cons
- Risks associated with implementing a vacant homes tax, including impact to the local economy

Public Communications Target Audience (Cont'd)

Understanding the key subject matter advisor groups and industry representatives whose inputs are required for designing the tax

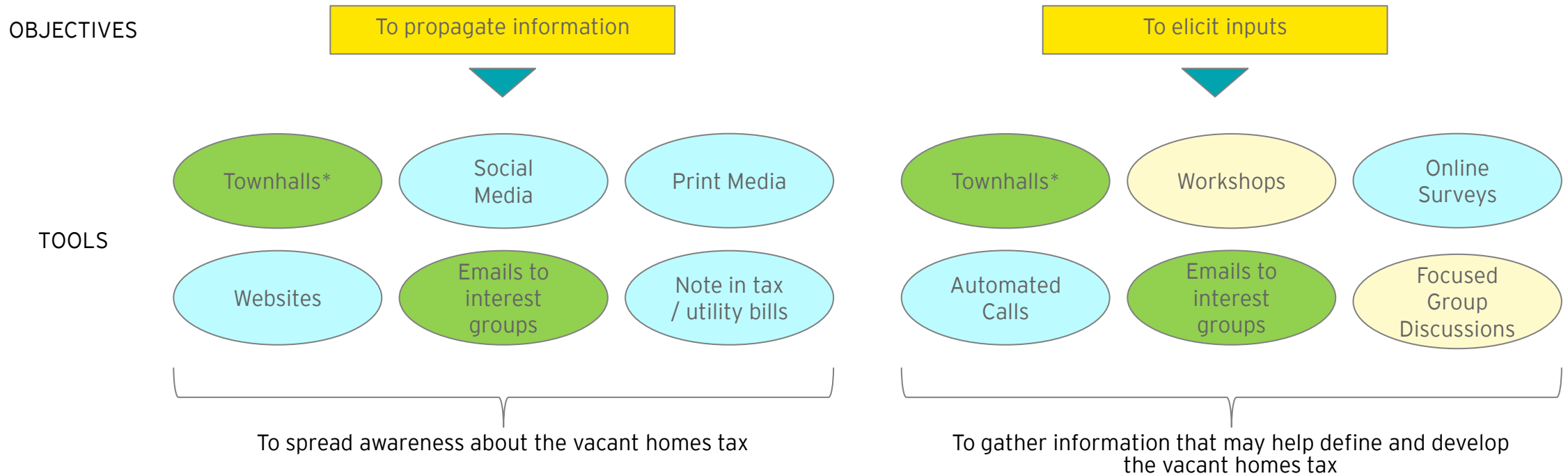
Indicative list of stakeholders to be engaged for the targeted consultations is listed below:



Public Communication Tools

Exploring “how” the Region can communicate and consult with stakeholders - based on the intended objectives

Based on the intended objectives of the consultation, and the target audience, the following tools may be considered by the Region as part of its public communications strategy



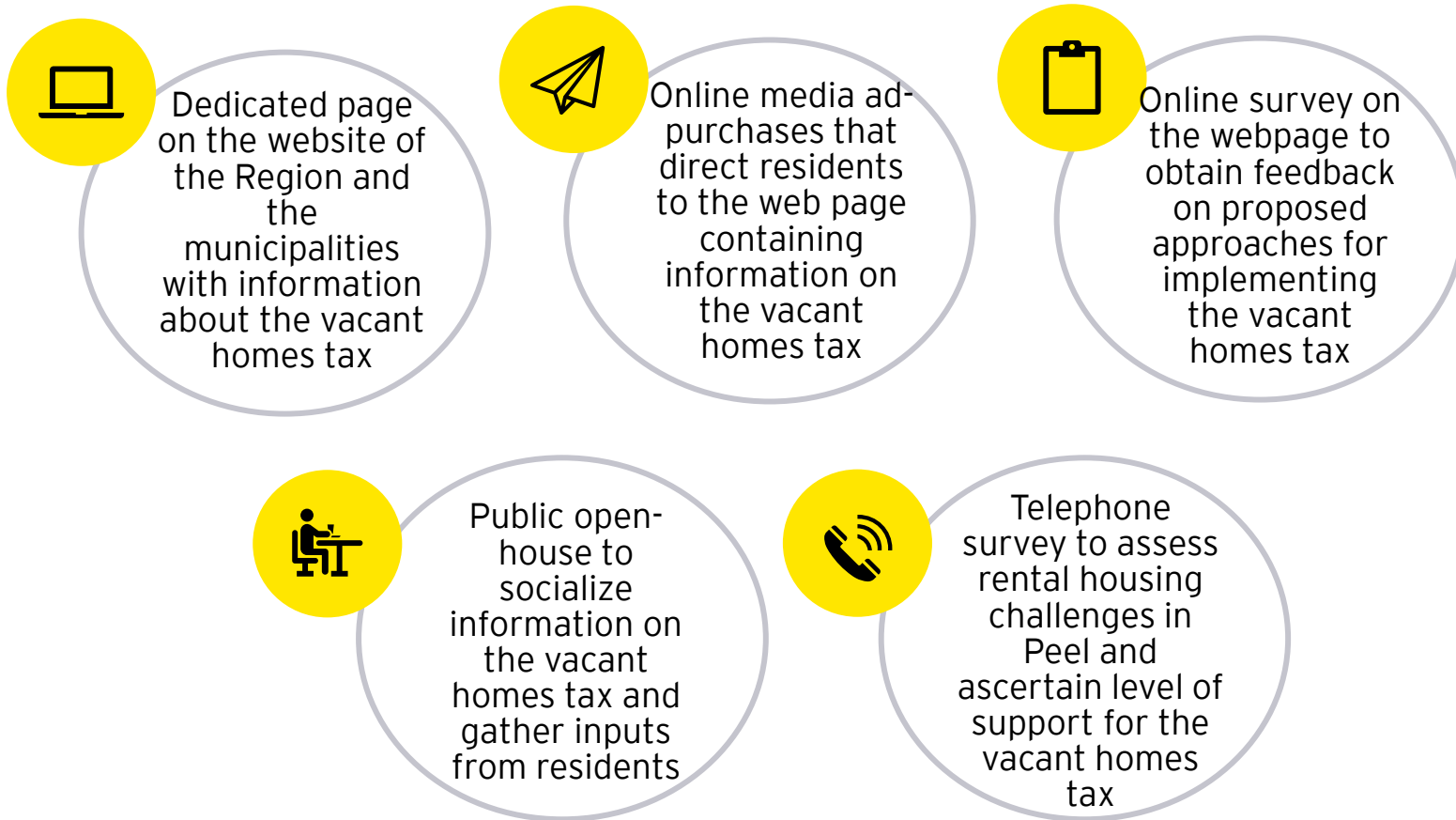
- Suitable for general public
- Suitable for specific/targeted stakeholder groups
- Suitable for both general public and specific stakeholders

*In-person or virtual

Public Communication | Proposed Tools for Mass Engagement

Exploring “how” the Region can communicate and consult with the general public - and what information is sought from them

Based on learnings from Toronto and Vancouver, the following methods are recommended for mass engagement with the general public to obtain inputs and gauge public opinion on the vacant homes tax



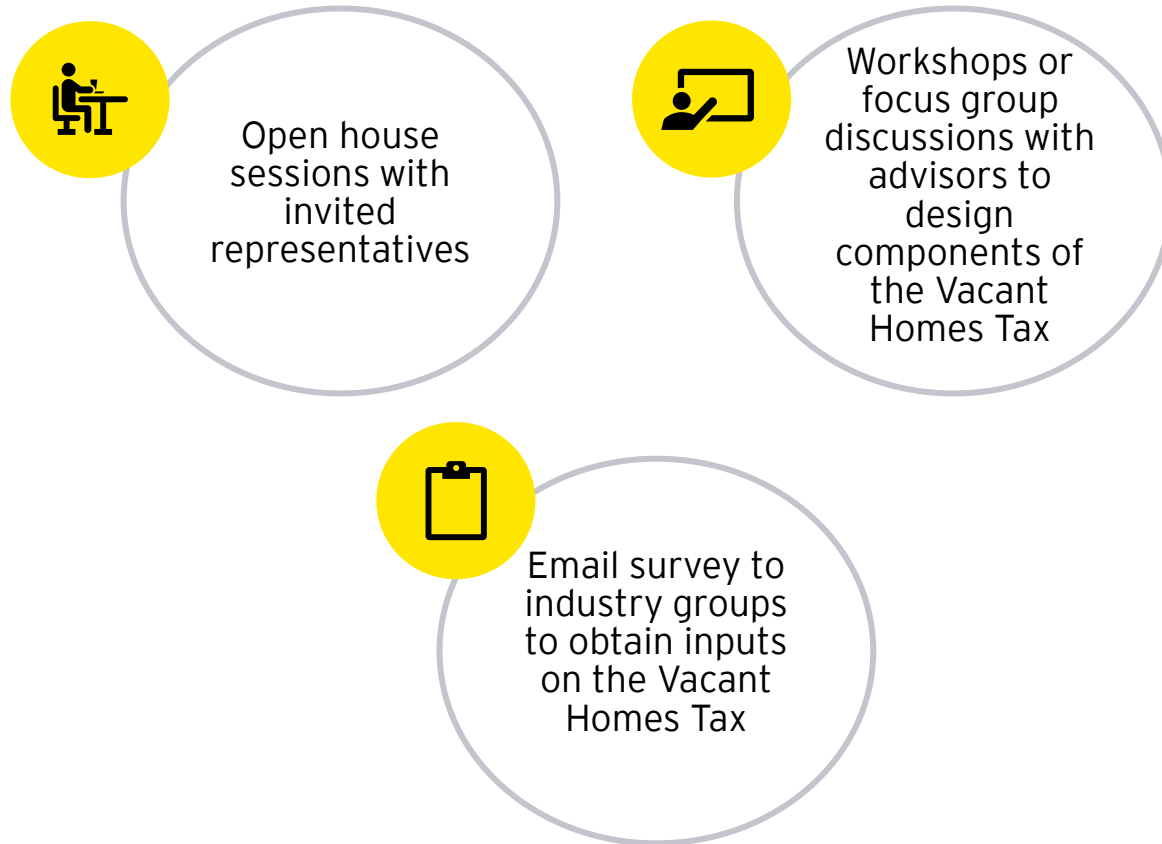
Possible Lines of Enquiry

- Are vacant homes a problem within the Region of Peel?
- Should the Region advocate to reduce the number of vacant homes?
- Should owners who occupy or rent out their home, pay lesser taxes than owners who leave their home empty?
- Is there an insufficient amount of affordable housing options within the Region?
- Would implementing a tax on vacant homes help improve housing affordability in the Region?
- What is the preferred tax rate to be applied for Vacant Homes?
- What are the preferred methods to identify vacant homes?
- What should the revenue generated from the vacant homes tax be used for?

Public Communication | Proposed Tools for Targeted Engagement

Exploring “how” the Region can communicate and consult with the industry representatives and subject matter advisors - and what information is sought from them

Based on learnings from Vancouver, the following methods are recommended for engagement with targeted stakeholder groups



Possible Lines of Enquiry

- What are the definitions and exemptions to be considered for the Vacant Homes Tax bylaw to deal with scenarios that could be problematic from a fairness or equity perspective?
- What indicators can be used as benchmarks to measure the effectiveness of the vacant homes tax?
- What is the most feasible approach for implementing the vacant homes tax? How can responsibilities such as identification of vacant homes, collection, compliance and auditing be delivered in the most optimal manner?
- What is the most suitable tax rate for vacant homes? How would the tax rate influence a change in behaviour in those who own vacant homes?
- What changes (if any) in existing by-laws/legislation are required to support the Vacant Homes Tax implementation?
- What is the “exit strategy” for the vacant homes tax? (To be implemented when the tax either successfully meets its goals, or is not deemed to be effective, or a change in market conditions changes the need for the tax)

Public Communications Timelines

Understanding key activities and indicative timelines for the communications plan

Below is a sample timeline that the Region can use to guide their communications strategy. This is an ideal timeline that assumes minimal disruptions to day-to-day activities.

Implementation Activities	2022				2023			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Feasibility study submitted to Council for approval and endorsement of the public consultation								
Prepare updated public consultation plan and assign ownership to Regional communications staff								
Region conducts procurement for service providers to assist with the public consultation sessions, as required. (E.g. market research companies to conduct phone surveys)								
Deploy webpage with information on the Vacant Homes Tax and online survey to submit responses to questions about the vacant homes tax								
Deploy telephone survey to assess public opinion of, and support for, the vacant homes tax								
Conduct public open-house sessions to gather inputs for the vacant homes tax								
Schedule and conduct targeted information gathering sessions (e.g. workshops, focus group discussions) with subject matter advisors and industry experts								
Summarize inputs from public consultations and present to Council								
Consolidate inputs from public consultations to develop by-law for submission to Province								
Initiate public communications activities for education and awareness building about the Vacant Homes Tax								



RECOMMENDATIONS AND NEXT STEPS

Conclusion and Next Steps

As indicated in the financial analysis, the vacant homes tax appears to be a feasible policy and revenue tool to address housing affordability at the Region of Peel. However, prior to making decisions around the implementation of the vacant homes tax, the following steps are to be undertaken at the Region and the lower tier municipalities



In-depth assessment of implementation costs by conducting a review of the functionality of the existing payment collection systems, and determining level of effort required to implement upgrades to collect a vacant homes tax



Assessment of the key processes that need re-engineering, and new processes that are to be deployed to facilitate the implementation of the vacant homes tax



Deployment of public communications and consultation tools to elicit feedback from the public to gauge support for the tax, and obtain inputs to help design the tax



Develop draft framework for the Vacant Homes Tax by-law and submit for Council approval

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2021 EYGM Limited.
All Rights Reserved.

1801-2543904

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.

ey.com



APPENDIX A - Jurisdictional Scans

Jurisdictional Findings - Domestic

To help inform decisions around tax policy design, the EY team analyzed the tax structure, exclusions, tax rates, compliance methods, and, if available, results from the implementation of a Vacant Homes Tax within selected domestic and international jurisdictions. In all six jurisdictions analyzed, the policy objective and rationale behind the tax is to increase total number of units on the market and provide municipalities with revenue to tackle homelessness and housing affordability initiatives. A summary of the learnings from this scan can be found below:

	Vancouver	Toronto	Ottawa
Definition of Vacancy	6 months, each stay must be 30 consecutive days in length	Unoccupied for more than 6 months of the year	Unoccupied for more than 184 days of the year
Exclusions / exemptions	<ul style="list-style-type: none"> - Redevelopment or major renovations - Medical care (up to 2 consecutive years) - Rental restrictions or prohibition - Change of 100% of ownership during the year - Court order prohibiting occupancy - Limited use of property (e.g. property used exclusively for parking) - Death of the property owner 	<ul style="list-style-type: none"> - Property under renovation - Owner in medical care - Owner deceased - Property owned by a snowbird (must live in house for a minimum of 4 weeks every year) - Final report and tax bylaw not yet published 	Final report and tax bylaw not yet published
Tax Rate	1% in 2017, 1.25% in 2019, 3% in 2021 of total assessed property value	1% of assessed property value	1% of assessed property value
Declaration / Identification Method	Self-declaration and complaints based	Self-declaration and complaints based	Self-declaration and complaints based
Audit / Compliance Check Method	Random audit	Random audit	Final report and tax bylaw not yet published
Results	25% decrease in vacant units and \$61.3 Million in cumulative revenue as of 2017	Expected outcome to be similar to Vancouver. Estimated revenue to be \$55-65 Million in first year	Expected outcome to be similar to Vancouver. Estimated revenue to be \$6.6 Million in the first year

Jurisdictional Findings - International

	Melbourne	New York	Paris
Definition of Vacancy	Unoccupied for more than 6 months of the year	To be determined if Law is approved	Occupied for less than 3 months of the year
Exclusions / exemptions	<ul style="list-style-type: none"> - Change of ownership during the period - Property was rezoned into a residential property during the year - Property used as a holiday home (property must be occupied for at least 4 weeks of the year) - Property used and occupied for work purpose for at least 140 days of the year - Properties undergoing significant renovation or construction - Properties that form part of an estate of a recently deceased - COVID-19 exemptions to all vacant land/property's are currently in place, indefinitely 	To be determined if Law is approved	<ul style="list-style-type: none"> - Units who's vacancy is of no fault of the owner - Secondary residences of owners - Illegally occupied accommodation (e.g. squatters) - The accommodation is being sold, or process of being sold - Unit is planned for significant renovation (more than 25% of the value of the unit) or demolition - Premises are uninhabitable - Furnished accommodations, such as second homes
Tax Rate	1% of assessed property value	0.5%-4.15%, dependant on home value 10%-13.5% on condos over \$300,000 in value	20% of fair market value of rent in 2015, 60% of fair market value of rent in 2017. Expected to be 250% of fair market rent in the future
Declaration / Identification Method	Self-declaration and complaints based	To be determined if Law is approved	Self-declaration
Audit / Compliance Check Method	Random audit	To be determined if Law is approved	Random audits. City has also shut off water or electricity to test if a unit is vacant
Results	Expected to generate \$90 Million annually to fund affordable housing programs	Expected to generate \$232 to \$650 Million in revenue which will be used to fund affordable housing, improve public transportation and other City infrastructure projects	Generated €21 Million (Approximately \$30 Million CAD) at the 20% rate. At the 60% tax rate, the City is expected to triple total earnings to around €60 Million (Approximately \$90 Million CAD) at the 60% fair market rate

Jurisdictional Analysis - Vancouver

	Vancouver
Policy Objectives	To return empty or under-used properties to the long term rental/for sale market to Vancouverites who live and work within the City
Implementation date	January 1 st 2017
Definition of Vacancy	<ul style="list-style-type: none"> - Unoccupied for more than six months during the calendar year - Periods of occupation must be at least 30 consecutive days in duration
Exclusions / exemptions	<ul style="list-style-type: none"> - Redevelopment or major renovations - Medical care (up to 2 consecutive years) - Rental restrictions or prohibition - Change of 100% of ownership during the year - Court order prohibiting occupancy - Limited use of property (e.g. property used for exclusively parking) - Death of the property owner
Tax Rate	Began at 1% at time of implementation, increased to 1.25% in 2019. In 2021, the rate has increased to 3% of the property's assessed value
Declaration / Identification Method and potential penalty	<ul style="list-style-type: none"> - All property owners are required to declare if their property is vacant or not - If the property owner is caught falsifying the claim, they are subject to a 1.25% tax on the assessed value of the property and a \$250 by-law ticket for the 2020 year - If the property owner does not fill out declarations, they will be subject to the 1% tax regardless of vacancy
Audit / Compliance Check Method	<ul style="list-style-type: none"> - Random checks on properties selected based on internal risk assessment profile
Results	The net revenues of the Vacant homes tax of \$61.3 Million has been allocated to support affordable housing initiatives within the City and the total number of vacant property's has fallen 24% since the taxes implementation in 2017

Jurisdictional Analysis - Toronto

	Toronto
Policy Objectives	The goal of the tax is to change the behaviours of vacant home owners, encouraging them to sell or rent out their homes, therefore increasing total housing supply. It is estimated the City will generate between \$55 to \$66 Million in revenue from this tax which will be used to help increase affordable housing funding.
Implementation date	January 1 st 2022, with first payments being due May 1 st 2023* (*Subject to change)
Definition of Vacancy	<ul style="list-style-type: none"> - Unoccupied for more than six months in the previous calendar year - The final report and tax bylaw will be prepared for council's review by the end of 2021 for final details
Exclusions / exemptions	<ul style="list-style-type: none"> - Property under renovation - Owner in medical care - Owner diseased - Property owned by a snowbird (must live in house for a minimum of 4 weeks every year) - The final report and tax bylaw will be prepared for council's review by the end of 2021 for final detail
Tax Rate	1% of the total assessed value of the home
Declaration / Identification Method and potential penalty	<ul style="list-style-type: none"> - Property owner to self-declare - The final report and tax bylaw will be prepared for council's review by the end of 2021 for final details
Audit / Compliance Check Method	<ul style="list-style-type: none"> - Random checks on properties selected based on internal risk assessment profile
Results	The expected result is similar to the Vancouver outcome, which brought 5,000 condos to the market and reduce vacancy rates by 24% since the taxes implementation in 2017

Jurisdictional Analysis - Ottawa

	Ottawa
Policy Objectives	The main objective of the tax is to increase the total housing stock within the City and encourage owners to rent out or sell their vacant units. It is estimated that the City will generate around \$6.6 Million in revenue in the first year based on the assumption of 1,500 vacant units. The City's vacancy rates rose to 3.9% in 2020 from 1.8% largely due to COVID-19 related factors, such as lower student rentals.
Implementation date	To be finalised - Final report and tax by-law will be prepared for Council's review in Spring 2022
Definition of Vacancy	<ul style="list-style-type: none"> - The unit is vacant for more than 184 days (around 6 months) of the year - The final report and tax bylaw will be prepared for council's review by Spring 2022
Exclusions / exemptions	<ul style="list-style-type: none"> - The final report and tax bylaw will be prepared for council's review by Spring 2022
Tax Rate	1% of assessed property value
Declaration / Identification Method and potential penalty	<ul style="list-style-type: none"> - All 307,000 homeowners will need to declare if their unit is occupied or not
Audit / Compliance Check Method	<ul style="list-style-type: none"> - The final report and tax bylaw will be prepared for council's review by Spring 2022
Results	The expected result is similar to the Vancouver outcome, which brought 5,000 condos to the market and reduce vacancy rates by 25%

Jurisdictional Analysis - Melbourne

	Melbourne
Policy Objectives	Originally, the tax targeted land owners who left their lot vacant hoping they can sell the land to a developer for a profit. In 2020, the City approved the extension of this tax to empty residential properties within the greater Melbourne region.
Implementation date	January 1 st 2018
Definition of Vacancy	- Unoccupied for more than six months during the calendar year
Exclusions / exemptions	<ul style="list-style-type: none"> - Change of ownership during the period - Property was rezoned into a residential property during the year - Property used as a holiday home (property must be occupied for at least 4 weeks of the year) - Property used and occupied for work purpose for at least 140 days of the year - Properties undergoing significant renovation or construction - Properties that form part of an estate of a recently deceased - COVID-19 exemptions to all vacant land/property's are currently in place, indefinitely
Tax Rate	1% of assessed property value
Declaration / Identification Method and potential penalty	<ul style="list-style-type: none"> - Self identification by property/land owners by January 15th of the calendar year - The City also has a form that encourages homeowners or residents to "tip-off" City officials if they believe a property owner is not complying with the law - If the property owner is caught, the City will levy a 5% assessed property value if the vacant property owner admits before the investigation, a 20% levy if the owner admits during the investigation or up to 90% of the total value if the owner intentionally disregarded the law and hindered the investigation
Audit / Compliance Check Method	- Random checks on properties selected based on internal risk assessment profile
Results	In 2017, it was estimated that the City had 82,000 homes that were not being used and estimated to generate \$90 Million dollars, however media outlets have reported revenues were as low as \$5.4 Million in the first year, far lower than the intended revenue. While water usage data indicates 4.1% of Melbourne homes were vacant in 2019, the Vacant Residential Land Tax was only levied on 2.6% of homes. Vacancies within the Greater Melbourne area have risen by 13.3% between 2017 and 2019 - before and after the tax.

Jurisdictional Analysis - New York

	New York
Policy Objectives	There were three main objectives of the tax, first to bring down the total number of short-term vacation rental units which represented 2.1% (75,000 units) of total housing within the City. Secondly is to increase availability of affordable house. Finally, the City looked to increase total revenue to help fund its public transit system.
Implementation date	The tax has not been approved and is in the City's Senate Local Government for deliberation as of February 2021
Definition of Vacancy	- To be determined if law is approved
Exclusions / exemptions	- Condos less than the \$300,000 market value - Primary resident and/or immediate family members residing within the property
Tax Rate	0.5% to 4.15% of the assessed value on homes with a 5-year average of more than \$5 million dollars. 10%-13.5% on condos above \$300,000 in market value.
Declaration / Identification Method and potential penalty	- To be determined if law is approved
Audit / Compliance Check Method	- To be determined if law is approved
Results	The City estimates that the tax could bring between \$232 Million to \$650 Million in annual revenues which will be split between affordable housing, funding public transportation and other public projects. A Wall Street Journal analysis suggested the tax could drop the value of properties assessed more than \$25 Million by 46%.

Jurisdictional Analysis - Paris

	Paris
Policy Objectives	The objective of the tax is to help bring the estimated 100,000 vacant units, representing, in some estimates, 8% of Paris' total available units to the market. It was found that 40,000 units were disconnected from the electrical grid, implying that the units were most probably used for speculative purposes.
Implementation date	January 1 st 2015, revised in September 2017
Definition of Vacancy	- Occupied for less than 90 consecutive days of the year (approximately 3 months)
Exclusions / exemptions	<ul style="list-style-type: none"> - Units who's vacancy is of no fault of the owner (unable to find a suitable occupant) - Occupied for more than 90 consecutive days in a year - Secondary residences of owners (these units are subject to an alternative tax called the owner tax) - Illegally occupied accommodation (e.g. squatters) - The accommodation is being sold, or process of being sold - Unit is planned for significant renovation (more than 25% of the value of the unit) or demolition - Premises are uninhabitable - Furnished accommodations, such as second homes
Tax Rate	Originally set at 20% of fair market value of rent, which tripled to 60% in September of 2017. Some media outlets are reporting the local government is considering to increase it to 250% in the future.
Declaration / Identification Method and potential penalty	<ul style="list-style-type: none"> - Self declaration - The City also runs a "rent solidarity" program in which the owner will entrust the vacant unit to a partner agency for 3-6 years. The partner will select a tenant, guarantee the owners will be paid on time and any damages will be paid for by the City. In exchange, the owner will receive 70-80% of the market rent. Currently this program accommodates 902 units housing 2,900 tenants. - Delayed payment of the vacant home tax will result in a 10% penalty in addition to the tax
Audit / Compliance Check Method	- Random checks on properties selected based on water and utility usage. City may also shut off water or electricity supply to test if unit is vacant
Results	The City's original 20% of fair market value of rent rate had a 0.13% impact on the vacancy rate, which means it was largely ineffective. However, it did bring the City more than €21 Million (Approximately \$30 Million CAD) at the 20% rate. At the 60% tax rate, the City is expected to triple the total earnings to around €60 Million (Approximately \$90 Million CAD)



APPENDIX B - Financial Estimates

Financial Analysis | Revenue Estimation | Overview of Assumptions

Vacancy Rates

- ▶ Vacancy rates for single detached units were calculated using the Region's data on water consumption levels, applying a threshold of 50L/day of water usage as a determinant for vacancy in a house.
 - ▶ 50L was selected based on thresholds used in our jurisdictions
- ▶ Water consumption data is not available for semi-detached units and townhouses, however, we assume the vacancy rate would be identical to single detached homes, hence the same vacancy rate was applied to these units.
- ▶ For condos, the City of Vancouver data was used as a proxy to estimate the proportion of total vacancies in condos
 - ▶ For the purposes of the modelling, City of Vancouver data was used due to its comprehensiveness
- ▶ As condos are a unique asset class from the perspective of investment (foreign and domestic), and there are differences within each municipality with regards to how many condos exist relative to the total number of housing units (e.g. Caledon has very few condos in its housing supply whereas Mississauga has a sizable portion of its housing supply in the form of condos), the following adjustments need to be made:
 - ▶ Adjusted for differences between number of condos and overall housing supply in a Peel municipality and Vancouver
 - ▶ E.g. If the Peel municipality has 20% fewer Condos when compared to Vancouver, the number of condo vacancies falls by 20% in the Peel municipality
 - ▶ Assumed that the differences in historical housing growth rates from 2015 - 2019 between each Peel municipality and the City of Vancouver represents a proxy for investments made in condos for primarily to generate a return due to market conditions
 - ▶ E.g. If housing prices in Vancouver rose at double (percentage wise) the rate of a Peel municipality, assume there are half as many condos in the Peel municipality which are vacant due to investor activity

Eligible Vacant Units

- ▶ Used the City of Vancouver data to determine eligibility ratio of vacant units, since the same exemption/eligibility criteria applied by Vancouver was found to be acceptable for the Region of Peel during stakeholder consultations
 - ▶ E.g. If City of Vancouver sees 40% of vacant units as non-exempt to the tax, then 40% of total vacant units within each municipality can be assumed to be eligible for a VHT
 - ▶ The calculations were performed based on housing unit type. E.g. an eligibility ratio for condos and non-condos was separately calculated.

Financial Analysis | Revenue Estimation | Overview of Assumptions (Cont'd)

Audit Activity

- ▶ Used the City of Vancouver data to determine the number of audits that occur as a percentage (rate) of the total housing supply
- ▶ Take the rate calculated in the previous step and apply it to each Peel municipality's total housing supply
- ▶ Assume an identical non-compliance rate as observed in the City of Vancouver
- ▶ Penalty per non-compliance incident was determined by calculating the average penalty imposed in the City of Vancouver, and applying an identical penalty per non-compliance incident in each Peel municipality

Growth Rates

- ▶ Throughout the course of the analysis, growth rates needed to be calculated to estimate current or future values of key parameters
 - ▶ E.g. Housing prices during the forecast period
 - ▶ E.g. Housing supply in 2021 as the last census was conducted in 2016
- ▶ Historical growth rates were calculated for each parameter, and then are assumed to hold constant into the future
 - ▶ E.g. If housing supply grew 25% between 2001 and 2016, an annual growth rate was calculated and applied in the projections

Assessed Values of Housing Units

- ▶ The assessed value for the purposes of determining a tax base was derived from MPAC Current Value Assessments, based on the valuation date of January 1, 2016.

Sensitivity Analysis

- ▶ A sensitivity analysis was performed by varying the tax rate on VHT from 0.5% to 3%, and varying the annual behavior response rate from 3% to 15%
 - ▶ The scenarios considered under the sensitivity analysis are developed based on the project team's experience implementing other vacant home taxes and observations which can be derived from City of Vancouver data

Financial Analysis | Revenue Estimation | Overview of Methodology and Data Sources

Parameter	Description	Estimation Methodology and Sources
Vacancy Rate	The number of homes (condos, detached, semi-detached/townhouses) that are expected to be vacant in the Region of Peel	<p>Detached Homes - Water consumption data with a cut off of 50L/day representing vacant homes Note - While Government of Canada estimates the average water consumption per person in a household to be at least 250 litres per day, we have applied a very low threshold of 50 litres/day in order to be conservative while determining vacancy of homes - This conservative estimate is expected to address differences in water usage in homes based on demographics (e.g. water consumption may be lower in homes with elderly individuals) and other factors (e.g. energy and water conserving/conscious households)</p> <p>Semi-Detached - Water consumption data not available for these units - hence assumes a similar vacancy rate as detached homes</p> <p>Condos - Leveraged City of Vancouver data to determine vacancy proportion of condos in comparison to detached homes, while adjusting for differences in demographics, housing composition, and speculative activity [Source: Data obtained via e-mail August 20th, 2021]</p>
Housing Supply	The number of homes by type in the Region of Peel.	[Source: MPAC Data]
Assessed Value	The estimated market value of a property for the purposes of calculating the VHT owed by residents	Assessment values are derived from MPAC current value assessments with the valuation date of January 1, 2016 (the most recent property assessment update for Ontario). Weighted average of assessment values across property types (detached, semi detached, townhomes, and condos) was used to estimate revenue.

Financial Analysis | Revenue Estimation | Overview of Methodology and Data Sources

Parameter	Description	Estimation Methodology and Sources
Eligible Vacant Units	The number of homes which are vacant, which can be deemed eligible for collection under a VHT	Use the City of Vancouver data which compiles total number of reported vacant homes and number of vacant homes which are eligible under a VHT to develop an eligibility ratio. It is assumed the eligibility ratio will remain unchanged as the two VHT are assumed to have similar exemptions and populations identical in the reasons they would leave homes vacant. [Source: City of Vancouver Annual Report, 2019 , Page 11 of PDF]
Anticipated Number of Audits	The number of audits which would be carried out to ensure compliance with the VHT among residents	Use City of Vancouver data to compare the number of audits completed relative to the number of housing units in the region, and apply a similar ratio to the Region of Peel [Source: City of Vancouver Annual Report, 2019 , Page 6 of PDF for Number of Audits Completed Housing Data: 2016 Census Results]
Non-Compliance Rate	The rate at which audits capture non-compliant residents with respect to the VHT	Use City of Vancouver data to derive a non-compliance rate, averaged out over three years. Assume non-compliance rate between Vancouver and Peel will be identical. [Source: City of Vancouver Annual Report, 2019 , Page 6 of PDF for Non Compliance Rate over Three Years]