

Report to Corporate Services Committee

To: Chair and Members
Corporate Services Committee

From: Anna Lisa Barbon, Deputy City Manager, Finance Supports

Subject: City of London Vacant Residential Property Study

Date: July 17, 2024

Recommendation

That, on the recommendation of the Deputy City Manager, Finance Supports, the following actions be taken with respect to the consideration to implement a vacant home tax in London:

- a) That the “City of London Vacant Residential Unit Study – Vacant Home Tax Feasibility Review Report” (Appendix A) BE RECEIVED for information.
- b) At this time, the Civic Administration TAKE NO FURTHER ACTION towards implementation of a Vacant Home Tax using the mandatory declaration model; and,
- c) That Civic Administration BE DIRECTED to further investigate the alternative strategies identified in the study to reduce the number of vacant residential units.

Executive Summary

In the fall of 2023, the City of London engaged Ernst & Young (EY) to undertake a vacant residential unit study to determine the viability of a vacant home tax. Based on the work undertaken, where EY examined the housing market, policy tools, and the feasibility of a vacant home tax, the payback period would be between 17 – 18 years. This conclusion was based on the predominant model used by other communities, as the mandatory declaration model. However, it was recently reported that the City of Windsor just recently introduced a vacant home tax using another approach altogether. As result, Civic Administration is recommending that no further investigation be taken to explore a mandatory declaration vacant home tax model, but rather investigate other strategies that the City could utilize.

Linkage to the Corporate Strategic Plan

Council’s 2023 to 2027 Strategic Plan for the City of London identifies “Housing and Homelessness” as a strategic area of focus where the City of London is a leader and builds partnerships to increase quality, affordable, and supportive housing options. Undertaking a study of vacant residential units and strategies to reduce this number helps support the goal to increase the supply, range, and depth of affordability of quality housing.

Analysis

1.0 Background Information

1.1 Definition of a Vacant Home Tax

A Vacant Home Tax (VHT) is an additional charge levied against any qualifying property in a municipality. The “Vacant” classification is determined by rules and parameters established by the individual municipality. The VHT is calculated in the same manner as property taxes, which is Assessed Value times the Tax Rate.

1.2 Previous Reports

- Corporate Services Committee, January 31, 2022, Consent Item # 2.2, Considerations and Viability to Implement a Vacant Home Tax in London
- Corporate Services Committee, September 11, 2023, Consent Item # 2.4, RFP 2023-124 Consultant Services for City of London Vacancy Residential Property Study Award – Irregular Result

1.3 Legislated Ability to Impose a Vacant Home Tax

On May 17, 2017, Bill 127 – *The Stronger, Healthier Ontario Act (Budget Measures), 2017*, received Royal Assent. The amendment to the *Municipal Act, 2001*, consisted of adding *Part IX.1 Optional Tax on Vacant Residential Units*.

Under section 338.2 of the *Municipal Act, 2001*, municipalities can impose a tax on the assessment of vacant residential units. Prior to the 2024 Ontario Budget, a designation by the Minister of Finance was required to allow the City of London as having the power to impose such a tax. The province indicated that the following steps would be required to seek 'designation':

- Provide evidence of public consultation
- Provide evidence of local and upper-tier engagement
- Illustrate revenue yields
- Enable a bylaw which identifies tax rate and conditions of vacancy as well as potential exemptions, rebates, etc.

The Ontario Budget, released in March 2024, has updated two aspects of the optional tax tool. The first is to eliminate the need for municipalities to obtain permission from the Minister of Finance (through designation) to implement a VHT. The second will be the publication of a "Best Practices" guide. Although designation is no longer required, the required steps previously in place to achieve designation are still recommended.

Prior to enacting a VHT, municipalities must pass a residential vacant unit tax by-law that includes the following:

- Vacant tax rate
- Conditions of vacancy
- Exemptions
- Rebates of tax
- Audit and inspection powers
- Dispute resolution mechanism

1.4 Vacant Home Tax Working Group

The Province of Ontario established a working group to facilitate sharing of information and best practices among municipalities related to a vacant home tax. Municipal staff from the City of London participated in this working group between December 2022 and March 2023. Additional meetings are scheduled to occur in late summer 2024.

Ontario extended the authority for all single- and upper-tier municipalities to impose a tax on vacant homes, effective March 27, 2024. Municipalities that choose to implement a VHT will be supported with a Provincial Policy Framework which provides best practices and clarity about the expected elements of municipal VHTs and promotes consistency in their application.

These "Best Practices" include:

- Definition of vacancy
- Recommended exemptions
- Tax rate guidelines
- Tax year, collection and administration

1.5 Other Municipalities

The first municipality in Canada to charge a tax on vacant residential units was in Vancouver through their Empty Homes Tax, which came into effect in 2017. In Ontario, using the mandatory declaration model, the City of Toronto and the City of Ottawa have both implemented and commenced a VHT in 2023, while the City of Hamilton will commence taxation in 2025. The City of Windsor initiated a VHT using a complaints-based model commencing in 2024.

1.6 Toronto's Vacant Home Tax

Toronto's Vacant Home Tax (VHT) was initiated based on several factors:

- 1) An affordability gap in the Toronto housing market
- 2) Ontario Fair Housing Plan 2017 – Legislative change to Toronto Act permitting the introduction of an optional tax on vacant residential units
- 3) May 2017 Council requested a report on the feasibility of implementing a vacant home tax

Public engagement took place in 2017 to gauge support for a potential VHT. Based on report findings that the public supported the concept of a VHT, a consultant was procured to provide professional advice in 2020. The consultant study resulted in approval of the tax and direction to report back on VHT design features. A July 2021 report set key tax concepts for refinement, further consultation, and a target of the end of 2021 for a final VHT by-law.

The implementation process, including consultation, produced the following findings:

- Housing market conditions and preponderance of homes left vacant justifies the implementation of VHT in Toronto
- Goal of the tax is to transition vacant homes back into actively occupied homes to improve housing availability.
- Prudent to follow the design and implementation approach employed in Vancouver
- Mandatory declarations required with permissible exemptions
- Start up costs estimated at \$11 million
- Estimated revenues of \$55-66 million annually
- Net annual revenues could be dedicated to affordable housing initiatives.

Toronto required mandatory declarations in 2023 which yielded 2,100 declarations of vacancy which represents 0.23% of the total residential units. As the initial revenue estimates were based on 1% of total residential units, the actual revenue of declared vacant units falls far short of the estimate.

Residential property owners who did not submit a declaration were deemed to have vacant properties and were sent a VHT bill. In 2024, over 170,000 VHT bills were issued, the majority of which were based on no declaration made by the property owner. This resulted in over 60,000 VHT related complaints and calls from the media to “axe the VHT.”

The lower than estimated revenue, public relations concerns, and increased cost of billing, mailing, and subsequently reversing tens of thousands of VHT charges illustrate the need for caution when deciding whether to implement a VHT.

1.7 Ottawa's Vacant Unit Tax

On June 9, 2021, the City of Ottawa Council approved a report from their Finance and Economic Development Committee on the implementation of a residential vacant unit tax.

Public engagement regarding a proposed Vacant Unit Tax (VUT) was completed using a survey which revealed 77% of respondents in support of a residential VUT. Based on Council approval and public support, a VUT framework was drafted.

Details of the initial framework are as follows:

Vacant Unit Definition: A residential unit would be considered vacant if it has been unoccupied for an aggregate of more than 184 days during the previous calendar year.

Mandatory Declaration: Every homeowner in Ottawa would be required to declare to the City if their home is occupied or vacant each year. Residents who do not report their status to the City would be automatically deemed vacant.

Tax rate: 1.0%

Estimated Revenue: Staff estimated that between 0.25% and 1.0% of the eligible residential properties in Ottawa will be subject to the tax, which equates to a number between 760 to 3,000. The estimated revenue in the first year would be \$6.6 M with an additional \$29.4 M estimated for the following five years.

Estimated Program Costs: Estimated start-up costs are \$3.5 M over 2.5 years after which the ongoing operating costs would be \$1.3 M annually. A complement of 8 full-time employees will be required for the administration of the program.

Timing: The first year of vacancy declaration was 2022. Residents were required to declare occupied or vacant at the beginning of 2023 for the 2022 calendar year. The properties that are deemed or declared vacant were billed starting in 2023.

At a Council meeting on June 12, 2024, in response to a Council Member Inquiry, administration disclosed that the total VUT expenses for 2022-2023, the first year of the VUT implementation, were 2.28 million. The VUT levied in 2023 was \$11.47 million. The net proceeds of \$9.2 million were invested into affordable housing initiatives in the City.

As of April 30, 2024, 3,368 units have been charged for the 2022 occupancy year. Initially, 6,104 were identified as vacant and charged the VUT. There were 3,206 (53%) appeals of which 2,736 were successful.

The VUT in Ottawa did receive some media scrutiny and survived a Councillor challenge to cancel it in 2023. Based on the number of eligible vacant properties and the resulting positive net revenue, the VUT program is viable and successful for the City of Ottawa.

1.8 Hamilton's Vacant Unit Tax

A February 25, 2021, City of Hamilton staff report, Considerations to Implement a Vacant Home Tax in Hamilton, provided analysis of Hamilton's Housing market, challenges related to identifying vacant units, the estimated cost and revenue associated with implementing a VHT and desired outcomes. This began the process of investigating and implementing a VUT in Hamilton.

In a follow-up report, a Residential Vacant Unit Tax Framework was provided on January 18, 2023 to Hamilton's General Issues Committee. That report provided the following:

- **Mandatory declaration:** All owners of eligible properties must submit an annual mandatory declaration on the status of their property. Failure to submit a declaration will result in the property being deemed vacant and made subject to the VUT
- **Tax Rate:** 1.0%
- **Exemptions:** Death of an owner, major renovations, sale of property, principal resident is in care, institutionalized or hospitalized.

- Fees, Fines, Penalties:
 - \$250 late mandatory declaration fee
 - Penalty of 1.25% on the first day of default and interest of 1.25% per month
- Estimated Cost:
 - \$2.6 million implementation cost
 - \$2.2 million annual operating costs including 16 full-time equivalents
- Estimated revenue: \$3.3 million in net revenue during the 2023 – 2028 period, based on 1,135 properties paying the tax.

After several years of analysis, consultation, and expenditures of approximately \$300,000, the VUT by-law to implement the tax was defeated at a November 2023 Council meeting. However, in January 2024, a resolution to prepare a Vacant Unit Tax by-law was reintroduced and carried and the VUT by-law was passed on April 24, 2024.

The first year the tax will be payable is 2025, based on the status of the property in 2024. Similar to other municipalities, Hamilton will set the VUT rate at 1% of the property's current value assessment for the effective year, and any net revenue generated will be reinvested into housing initiatives. All residential property owners will be required to submit a mandatory declaration of occupancy or vacancy.

1.9 Windsor's Vacant Home Tax

On June 11, 2024, the City of Windsor officially launched a separate tax on vacant municipal residential properties (VHT). The Windsor VHT program is a community-driven process that will not require all property owners to complete a mandatory declaration of occupancy status. Only those properties suspected to be unoccupied, based on resident complaints and staff observations, will require a declaration to be completed.

Windsor is applying a tax of 3% of the assessed value of the property for the "Vacancy Reference Year." In the 2024 Billing Year, the City of Windsor will calculate the VHT as 3% of the 2023 assessment value.

The estimated costs and revenues are significantly lower for this complaints-based model as opposed to the mandatory declaration model used by most municipalities and Windsor has budgeted net revenue of \$100,000 in the first year of the VHT. However, as stated in a staff report to council November 27, 2023, there is no ability for Administration to estimate the total revenue expected until more information is available.

City of London Administration will continue to monitor the VHT program in Windsor to identify whether this approach would be a viable option in London.

1.10 RFP Process and Selection

Request for Proposal 2023-124: Consultant Services for City of London Vacant Residential Property Study was issued in June 2023 with a closing date of July 13, 2023. The purpose of the RFP was to study and validate the number of vacant residential properties in the City of London and identify potential mitigation measures to reduce the number of vacant residential properties.

The key deliverables of this study were:

- To provide in a report the findings and analysis including key metrics relating to:
 - Housing supply and market conditions in the City of London
 - Methods used to identify vacant homes in the City of London
 - The extent to which vacant homes affect the supply of affordable housing and rental rates in the City of London
 - Identify potential strategies to reduce the number of vacant homes.

On September 26, 2023, Council approved the acceptance of the proposal for consultant services submitted by Ernst and Young (EY). In their proposal, EY demonstrated a thorough understanding of the challenges associated with the identifying vacant residential properties, and provided strategies to overcome potential challenges, confirming their suitability for this engagement. A key element of their proposal included demonstrating value to the Corporation through established expertise in understanding and assisting municipalities with extensive experience in analysis and implementation of a vacant home tax at various Canadian municipalities.

2.0 Key Findings and Considerations

2.1 Guiding Principles

A tax on vacant residential properties is designed primarily as a housing tool rather than a revenue tool. The main objective of implementing a Vacant Home Tax (VHT) is to encourage owners to occupy empty properties to increase the supply of housing. Costs to administer the program would be covered by the VHT, where any surplus resulting from a vacant home tax would then be used to fund programs which increase the supply of affordable housing. Prior to implementing a VHT, analysis is required to ensure such a tax would achieve the goal of an increased housing supply.

The implementation of a VHT must be fair and equitable. If adopted, the VHT should provide definitions of appropriate properties eligible to be taxed and identify exemptions.

The residential VHT should be implemented with the least administrative burden to the City of London and its residents.

2.2 Purpose of the Vacant Residential Unit Study

The City of London faces growing concerns with housing affordability. The increased cost of living has further exposed the urgency with which the City will need to focus on rising affordability challenges. London's population growth, sharp increases in house prices, and Ontario's housing development targets contribute to the urgent need for affordable housing in the City.

The objective of the consulting engagement was to understand London's housing market dynamics and the City's options for action, including:

- Studying and validating the number of vacant residential properties
- Identifying potential measures to reduce the number of vacant residential properties
- Conducting an initial feasibility review of a Vacant Home Tax (VHT) in London

2.3 Housing Market and Policy Tools

The consultant, EY, performed an analysis of the London housing market and policy tools to reduce vacancy. This analysis summarized and highlighted the City of London's residential real estate market dynamics, their implications on the potential for vacant residential units, and potential tools for the City's consideration to reduce the number of vacant residential units.

The key findings upon analysis of the real estate market are that housing demand is shifting towards rental and away from ownership, rental rates appear likely to grow faster than ownership values in the short term, and production of new housing has slowed, but the market direction is optimistic for new supply. The conclusion is that these market conditions and trends in London are disincentivizing property owners to keep residential properties vacant.

EY determined that demand in London's residential housing market is marked by several key trends, including rapid overall population growth and changes in sources of

population growth, including significant increases in internal migration, immigration, and non-permanent residents (students). Despite robust economic conditions, housing affordability challenges persist, marked by below-average incomes in London and high costs related to increased interest rates. The impact of these factors is that 70% of new household growth in recent years have been rentals. According to the report prepared by EY, the City of London is likely to remain an attractive location for immigrants and internal migrants in the long term.

Vacancy rates have been trending downward across all London submarkets, leading to significant increases in rental price growth. Simultaneously, ownership listings have increased as demand declines due to affordability challenges. Several factors contribute to an optimistic outlook for London's future supply production, including:

- Large supply of greenfield lands,
- Mature and active development sector,
- Increasing rental feasibility,
- New provincial policies, including improvements to timelines and feasibility,
- Increased federal government support for housing.

The City of London has significant approved but unbuilt housing supply, totaling between 11.5 and 17.5 years' worth of supply.

Understanding that market dynamics are very fluid and subject to change over the long term, these conditions suggest that there would be very little financial incentive for a property owner to maintain a vacant property. The cash flow associated with leasing a unit is already sizable, and market conditions suggest it will only continue to increase.

2.4 Eligible Vacant Properties

As part of the consultation, EY has estimated the scale of vacant residential properties in London to help provide an overview of the potential feasibility for a vacant homes tax (VHT), Appendix 'A' – Vacant Residential Unit Study, Vacant Home Tax Feasibility Review Report. The financial model considers two sources of VHT revenue: the vacant home tax levy and penalty revenues.

An estimation of the expected VHT levy requires an estimate of the vacancy rate using water consumption data, data in other municipalities, and other relevant market data. The eligible vacant units are calculated using eligibility rates, which is the expected share of vacant homes that are eligible for a VHT levy, based on other similar municipalities.

The number of eligible vacant units is a key parameter in the financial model to calculate the VHT revenue from the tax levy. Based on relevant inputs and assumptions, EY has estimated the number of current and expected eligible vacant units in the City of London over a 10-year timeframe. The total number of eligible units for 2023 is estimated at 408 which represents 0.3% of the total housing supply in London.

When determining if implementing a VHT makes sense, the process starts with developing an understanding of the extent to which there are properties which could be available for occupancy but are currently not. It must be determined whether the inventory is significant enough to warrant the time and expense that will be involved in implementing a VHT. Based on the analysis performed by EY, the best-case scenario is an increase to the housing supply of 408 residential units. This would only occur if the VHT was 100% successful and would result in no further revenue to fund the sunk implementation and on-going operating costs of administering the VHT.

2.5 Vacant Home Tax Feasibility Review

The purpose of the review is to provide an overview of the potential feasibility of a VHT in London. This analysis was conducted based on methodologies reviewed and

validated by City staff and customized to London's unique circumstances. The analysis is based on using the mandatory declaration model that has been used in Vancouver, Toronto, Ottawa, and in Hamilton.

Using the estimated number of eligible vacant residential units, the analysis completed toward the objectives includes:

- Analysis of potential revenue generated by a VHT using eligibility and tax rates observed in other jurisdictions,
- Conducting sensitivity analysis to determine the impacts of a range of potential tax rates and behavioural responses,
- Estimating potential implementation and ongoing operating costs related to a VHT in London

Upon completion of the analysis, the conclusion is that the number of eligible vacant homes in London may not support a VHT program. While a 1% tax rate is typically used for initial implementation, analysis shows a VHT in London may or may not break even at tax rates above 3%.

From a cost perspective, implementation and ongoing operations require incremental investment. Initial investment to establish a VHT is estimated to total \$2.6 million, largely driven by software-related implementation costs as observed in other jurisdictions. Ongoing operating costs are estimated to be \$1.9 million annually, primarily consisting of audit-related functions to enforce and maintain compliance.

The estimated revenues are insufficient to recover operating costs at the most common tax rate of 1%. At a 1% tax rate, total revenue based on the number of estimated eligible vacant homes was calculated to be approximately \$800,000, resulting in an annual loss of \$1.1 million. A VHT in London is estimated to break even at a tax rate of 3% or higher, when implementation costs are included. However, the payback period would be approximately 17-18 years. In the meantime, the objective of helping to fund affordable housing initiatives would not be met.

2.6 Strategies to Reduce Residential Vacancies

Based on the EY study, vacant homes have several potentially negative impacts on local housing markets. First, the homes may be neglected by homeowners and subsequently impact nearby property values. These units can be subject to theft, vandalism, and other forms of damage. Municipalities are often left to bear the costs to maintain, service, or even demolish vacant properties. Further, vacant homes can contribute to imbalances between supply and demand, exacerbating existing affordability challenges. Strategies to reduce the vacancy rate could encourage property owners to maintain, occupy, or rent their properties while increasing the housing supply.

A review of jurisdictions across Canada and internationally was conducted to identify strategies to reduce the number of vacant residential properties.

The review yielded four strategies focused on reducing the number of vacant residential units. The focus of many of the initiatives and strategies observed was to either increase housing supply or improve housing affordability.

Some jurisdictions have implemented programs to reduce vacancy. However, these were typically delivered by another level of government (provincial or federal).

Some strategies were observed that have been proposed but have not been implemented. Governments may introduce measures to make it more attractive for seniors to rent, sell, or renovate their existing homes into multiple apartment units, supporting low-rise housing stock and general affordability.

The four strategies that focus on reducing the number of vacant residential units are as follows:

1. Vacant Home Tax – a municipal tax applied on vacant residential units.
2. Renovation Incentive Programs – a financial incentive for homeowners to convert underutilized spaces into rental units.
3. Housing Conversion Initiatives – A financial incentive for homeowners to convert underutilized spaces into rental units.
4. Financial Penalties – A financial penalty in the form of increased municipal taxes on landlords who keep their residential units vacant.

The VHT strategy has been analyzed in detail throughout this report. Most of the analysis is based on the mandatory declaration model. Alternative models, such as the complaint-based one implemented by Windsor, will be monitored to determine the effectiveness, and the financial feasibility of this approach.

The renovation incentives program strategy aims to introduce programs that would leverage tax incentives and grants to preserve and improve aging, low-cost rental housing. The purpose is to prevent the deterioration of homes and mitigate potential reductions in rental supply. Municipalities are granted the authority to establish certain grant and loan programs under Part 3 of the *Municipal Act, 2001*. The federal and provincial levels of government currently offer programs to renovate residential programs. This type of program is currently being used in Ireland.

It is unclear whether the City of London can implement a renovation incentive program for vacant residential units. Provincial approval may be required to implement a renovation incentive program.

Housing conversion initiatives are currently in use in the Region of Peel and the City of Edmonton. This strategy focuses on extending financial or regulatory assistance to homeowners interested in converting underutilized spaces into secondary rental units. Part 3 of the *Municipal Act, 2001* provides municipalities with the authority to establish grant and loan programs. The Ontario Priorities Housing Initiative is a provincial program that uses this strategy and may help reduce vacancy in the City of London.

Some jurisdictions, such as Spain, imposed financial penalties on homeowners in the form of higher property tax rates for landlords who keep their residential properties empty for a specified period. This strategy would require legislative changes and is similar to a VHT in that it imposes a financial burden on property owners of vacant properties.

As the goal of a VHT is to increase housing supply and to use excess revenue to fund affordable housing, another strategy would be to directly fund affordable housing rather than risk implementing a VHT which may not recover implementation and operating costs.

3.0 Financial Impact/Considerations

A key financial consideration of this program is projection of potential revenues that would support the administration of the program including implementation and operating costs, as well as contribute to potentially increasing the supply of housing.

At a 1% tax rate, total revenue based on the number of estimated eligible vacant homes was calculated to be approximately \$800,000, resulting in an annual loss of \$1.1 million. A VHT in London is estimated to break even at a tax rate of 3% or higher. The average assessed value of residential properties in 2024 is \$252,000. This would result in a Vacant Home Tax bill of \$7,560 using a rate of 3%. It is probable that a property owner would appeal or otherwise try to avoid a bill in this amount.

The model used by EY estimates that, using a VHT rate of 3%, the payback period would be approximately 17-18 years. The capital invested in the program would not provide benefit for an extended period of time. Opportunity costs include foregone

interest revenue and loss of potential economic development if the capital were to be invested in a project with similar objectives and a shorter payback period.

Based on the analysis performed by EY, the best-case scenario is an increase to the housing supply of 408 residential units or 0.3%. The potential benefit is not sufficient to justify the risk of committing to implementation costs of \$2.6 million and annual operating costs of \$1.9 million.

Conclusion

The decision to implement a VHT involves consideration of the genuine cost consequences to implementing such a program and whether there is the potential to generate significant net revenue that could be applied to programs such as local affordable housing initiatives. Although the province has removed the requirement to seek designation prior to implementing a VHT, the decision to do so is still that of the jurisdiction with responsibility for Tax Policy.

Based on the feasibility review, the estimated number of eligible vacant properties would not generate enough revenue to cover the implementation and operating costs of administering a VHT using the mandatory declaration model unless the City is willing to wait up to 18 years and charge a VHT rate that is triple that of the normal starting rate.

Given that other communities implemented a VHT based on an estimated eligible vacant properties at 1% of the housing supply, the results of the EY study indicate that a Vacant Home Tax using the mandatory declaration model would not be viable given that estimated eligible vacant properties is 0.3% in the City of London.

Alternative strategies identified in the study, including conversion initiatives similar to an initiative recently approved for a commercial property in the City of London, appear to be a better use of resources.

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Submitted by: Ian Collins, Director, Financial Services

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City of London

Vacant Residential Unit Study

Vacant Home Tax Feasibility Review Report

5 July, 2024



Building a better
working world

Disclaimer

Ernst & Young LLP (“EY”) was engaged by the City of London (“the City”) to conduct a review and analysis of London’s housing market and potential tools for reducing the number of vacant residential units in municipalities. In preparing this document (“Report”), EY relied upon unaudited data and information from the City, Statistics Canada, and other third party sources (collectively, the “Supporting Information”). EY reserves the right to revise any analyses, observations or comments referred to in this Report, if additional Supporting Information becomes available to us subsequent to the release of this Report. EY has assumed the Supporting Information to be accurate, complete and appropriate for the purposes of the Report. EY did not audit or independently verify the accuracy or completeness of the Supporting Information. Accordingly, EY expresses no opinion or other forms of assurance in respect of the Supporting Information and does not accept any responsibility for errors or omissions, or any loss or damage as a result of any persons relying on this Report for any purpose other than that for which it has been prepared.

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Context and Purpose

Context

- The City of London faces growing concerns with housing affordability. The ongoing impacts of the COVID-19 pandemic along with the increased cost of living have further exposed the urgency with which the City will need to tackle its rising housing affordability challenges.
- London's population growth, sharp increases in house prices, and Ontario's housing development targets contribute to the urgent need for affordable housing in the City.
- The objective of this engagement is to understand London's housing market dynamics and the City's options for action, including:
 - Studying and validating the number of vacant residential properties
 - Identifying potential measures to reduce the number of vacant residential properties
 - Conducting an initial feasibility review of a Vacant Home Tax (VHT) in London

Purpose of this Report

- The purpose of this report is to provide an overview of the potential feasibility of a VHT in London. This analysis was conducted based on methodologies reviewed and validated by City staff and customized to London's unique circumstances.
- This report reflects analysis completed toward the above objectives, including:
 1. Estimating the number of vacant residential units in London based on the latest available water usage data
 2. Analysis of potential revenue generated by a VHT using eligibility and tax rates observed in other jurisdictions
 3. Conducting sensitivity analysis to determine the impacts of a range of potential tax rates and behavioural responses
 4. Estimating potential implementation and ongoing operating costs related to a VHT program in London

Executive Summary

Analysis shows a VHT in London may break even at tax rates above 3%; typically, a 1% tax rate is used for initial implementation.

The number of eligible vacant homes in London may not support a VHT program.

1

Implementation and ongoing operations require incremental investment

- ▶ Initial investment to establish a VHT is estimated to total \$2.6M, largely driven by software-related implementation costs as observed in other jurisdictions.
- ▶ Ongoing operating costs are estimated to be \$1.9M annually, primarily consisting of audit-related functions to enforce and maintain compliance.

2

Estimated revenues are insufficient to recover operating costs at the most common tax rate

- ▶ When initially implemented, municipalities have typically selected a 1% tax rate for the VHT program.
- ▶ At a 1% rate, total revenue based on the number of estimated eligible vacant homes was calculated to be approximately \$800,000, resulting in a net revenue of -\$1.1M.
- ▶ A VHT in London was estimated to break even at a tax rate of 3% or higher.

Note: the figures derived through this analysis are indicative estimates and may not accurately reflect real-world results, which can be influenced by factors including (but not limited to) macroeconomic shifts, housing market dynamics, and accuracy and quality of input data.

A row of white paper houses is shown on a light gray surface. One house in the foreground is colored blue, while the others are white. The houses are arranged in a line, receding into the background. A yellow trapezoidal shape is overlaid on the left side of the image, containing the text.

1. Introduction and Background

Introduction to the Vacant Home Tax

Typical definitions and exemptions for a VHT are provided below and were used to support eligibility rate estimates.

Definition

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. Presented below are select vacant home definitions from a scan of jurisdictions that have implemented a VHT.

Vacant Home Tax Definitions



Toronto

Unoccupied for more than 6 months within the reference period by the principal residence of the owner, any other permitted occupants or tenants



Vancouver

Unoccupied for more than 6 months of the reference period, and neither the principal residence of the registered owner, their family member or friend, nor occupied by a tenant or subtenant



Paris

Unoccupied for more than 3 months of the reference period

Exemptions

Not all homes that fall under the definition of “vacant” are eligible to be taxed, as jurisdictions exercise exemptions to vacant homes for various reasons based on policy decisions. Below is a list of exemptions used by the City of Toronto as an illustrative example.

Vacant Home Tax Exemptions (Toronto)



1

Death of a registered owner



2

Repairs or renovations



3

Principal resident is in care



4

Transfer of legal ownership



5

Occupancy for full-time employment



6

Court order



7

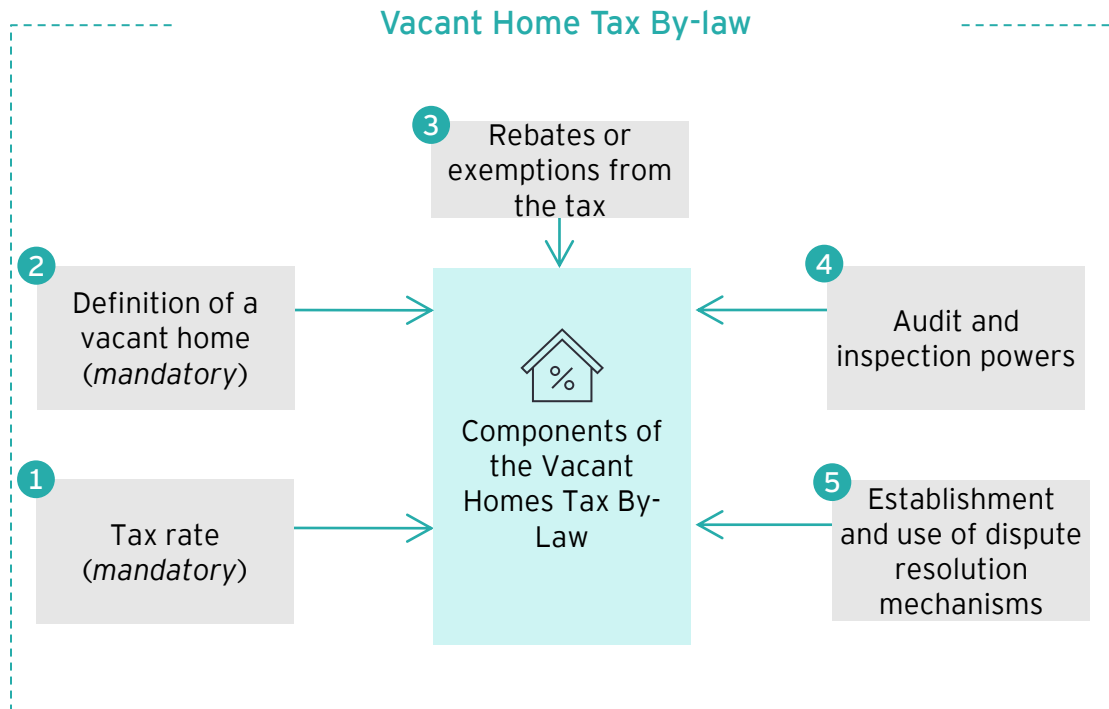
Vacant new inventory

Background

A VHT by-law typically has 5 key components supporting its purpose as a policy and revenue tool.

Vacant Homes Tax By-law

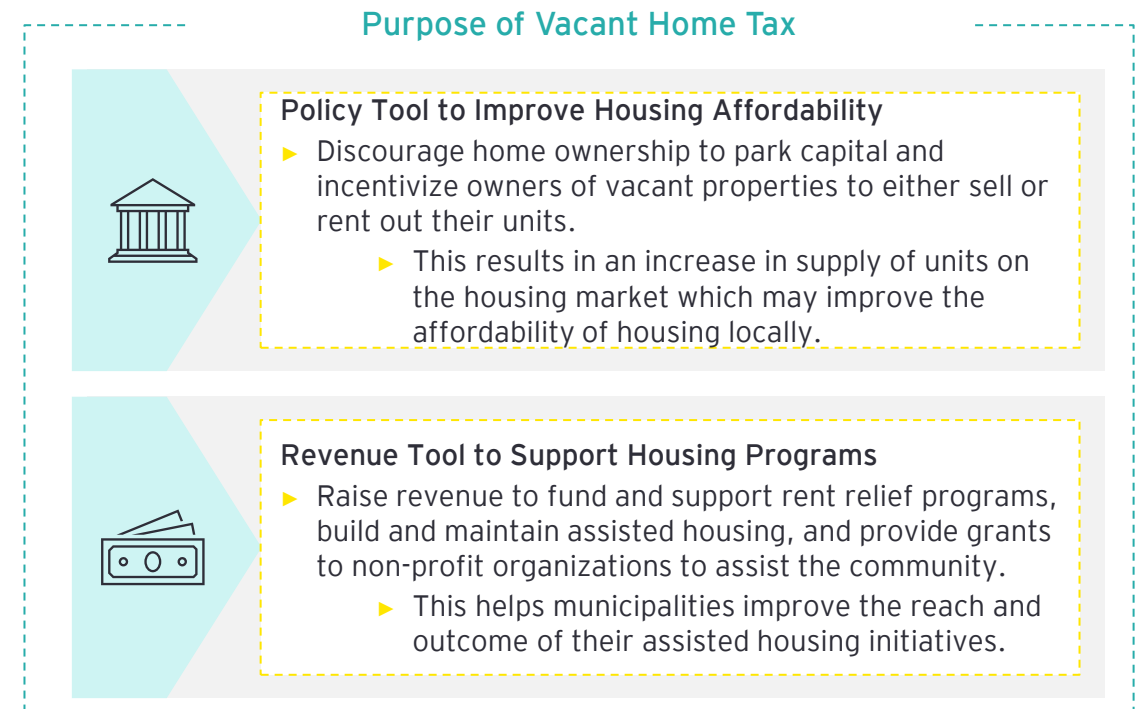
In 2017, the Government of Ontario promulgated Bill 127 (Stronger, Healthier Ontario Act), and Schedule 19 of this Act allows municipalities to implement a by-law to impose taxes on vacant residential units in certain circumstances. A typical VHT by-law includes the following elements



Note: the Ontario government is currently convening a working group with select municipalities to develop a defined VHT framework, which may differ from the above once complete.

Purpose and Objectives of Vacant Homes Tax

The VHT is commonly implemented in high-growth urban centres which face challenges related to housing such as rapidly appreciating home prices (at a rate higher than the growth in household income) or low availability of homes for sale or rent. The objectives of this tax are two-fold as illustrated below:



2. Methodology



Financial Model Overview

The financial model provides an estimation for 10-year projection for revenues and costs to calculate the VHT.

Key Parameters in the Financial Model

Revenue Model

The key parameters that were estimated for the revenue model include:

- ▶ **Vacancy rates** for each housing type
- ▶ **Housing supply**, which is the number of housing units by property type and historical growth rate
- ▶ **Current Value Assessment (CVA)** of a property for the purposes of calculating the VHT collected and historical growth rate
- ▶ **Eligibility rates**, which is the share of vacant homes that can be deemed eligible for collection under a VHT because they do not meet any prevailing exemption criteria (property under renovation, owner deceased, owner in medical care, etc.)
- ▶ **Annual behavioral response rate (ABRR)**, which is the share of vacant homes that are released to the housing supply for rent or sale owing to the VHT
- ▶ **Tax rates**, which is a range of potential VHT rates based on real-world observations from other jurisdictions and desktop research

Cost Model

The key cost categories that could be considered in the model include:

- ▶ **Implementation costs** (scoping engagement, development effort, building declaration and audit systems, etc.)
- ▶ **Operational costs** (staffing and compensation, marketing, overhead costs, etc.)

Feasibility and Sensitivity Testing

Sensitivity analysis with respect to key parameters will be conducted to:

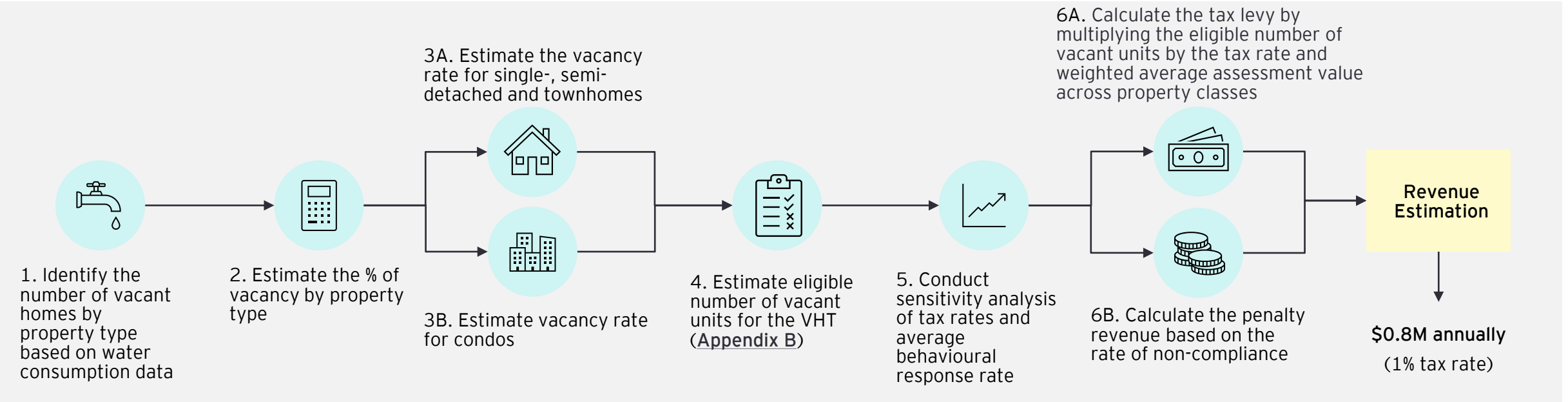
- ▶ **Estimate direct revenues** from the VHT and penalty revenues across different tax rates and behavioral response estimates
- ▶ **Understand the feasibility** of VHT by estimating breakeven point under various scenarios

Revenue Estimations

The process and inputs for estimating VHT revenues is outlined below.

Revenue Estimation Illustrated

The steps and calculations that flow through the financial model for estimating revenues for each scenario are presented below. A detailed overview of key inputs and assumptions for the model are included in [Appendix A](#).



Estimation of Eligible Vacant Residential Units				
Type of Property	# of Properties	Vacancy Rate	Eligibility Rate	Eligible Units
Single Detached	86,783	1.15%	10.6%	100
Semi Detached	5,109	1.15%	10.6%	6
Townhouse	1,062	1.15%	10.6%	1
Condos	54,325	1.35%	36.5%	267
Total	147,279	-	-	374

Estimation of Annual Revenues			
Type of Property	Average CVA	Additional Inputs	Avg. Annual Revenue
Single Detached	\$ 307,677	<ul style="list-style-type: none"> Eligible units CVA growth rates Supply growth rates Annual Behavioural Response Rate (4%) Tax rate (1%) 	\$328K
Semi Detached	\$ 180,851		\$11K
Townhouse	\$ 255,768		\$3K
Condos	\$ 157,818		\$461K
Total:			\$803K

Cost Estimations

It is estimated that implementation costs could total approximately \$2.6 million, with an annual operating cost of \$1.9 million.

Costs Estimation Illustrated

The cost estimations for implementing a VHT for London are based on a detailed review of similar programs in other jurisdictions, and corresponding by-laws. The estimations presented below reflect cost factors (housing market characteristics, demographics, etc.), including compensation estimates by role, specific to London.

Please note that the cost estimations shown are subject to change based on the City's final implementation plan, should the City move forward with the VHT.

Estimated Implementation Costs

Cost Category	Estimated Costs
Hardware and Software	\$ 0.22M
Contingency	\$ 0.41M
Technical support	\$ 0.60M
Professional Services	\$ 0.79M
Others (including business support services, public consultations, and project team)	\$ 0.51M
Total	\$ 2.6M

Estimated Operating Costs

Cost Category	Number of Positions
Compliance Analyst I	6
Compliance Analyst II	4
Supervisor, Compliance*	1
Customer Service Agent	1
Coordinator*	1
Data Analyst*	1
Manager	1
Compensation Total	\$ 1.4M
Other Costs**	\$ 0.47M
Total	\$ 1.9M

* The functions of these positions may be able to be performed by existing internal staff. However, the highly specific nature of a VHT has resulted in dedicated positions being created in municipalities implementing the tax.

** Other costs include rent, marketing, IT and support maintenance, overhead costs, and other minor expenditures.

3. Feasibility Review



Net Financial Impact

At a 1% tax rate, commonly used by municipalities when implementing a VHT, annual net revenues are estimated to be -\$1.1M.

Net Financial Impact (Annual)

Findings related to the financial feasibility of implementing a VHT in London is summarized below. The summary results show the net revenue (revenue less operating costs) for a 1% tax rate, the most common rate observed on implementation.

1

Revenues from the VHT 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

2

These **costs** incurred for implementing a VHT 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)

3

The **net financial impact** is an estimate of net revenue for the year. At the typical initial tax rate of 1%, net revenue is estimated to be negative. At rates of 3% or higher, net revenue may be positive.

4

The **payback period** refers to the period of time it takes to recover the initial investment where the VHT program is viable and can sustain itself without further investment.

1% Tax Rate

1

Annual Revenues

\$0.8 million

2

Annual Operating Costs

\$1.9 million

3

Annual Net Revenues

-\$1.1M

4

Payback Period

N/A

Source: Please see [Appendix A](#) for the inputs and corresponding sources for the financial model. Note: Please note that the estimations shown here are rounded to the nearest ten thousand.

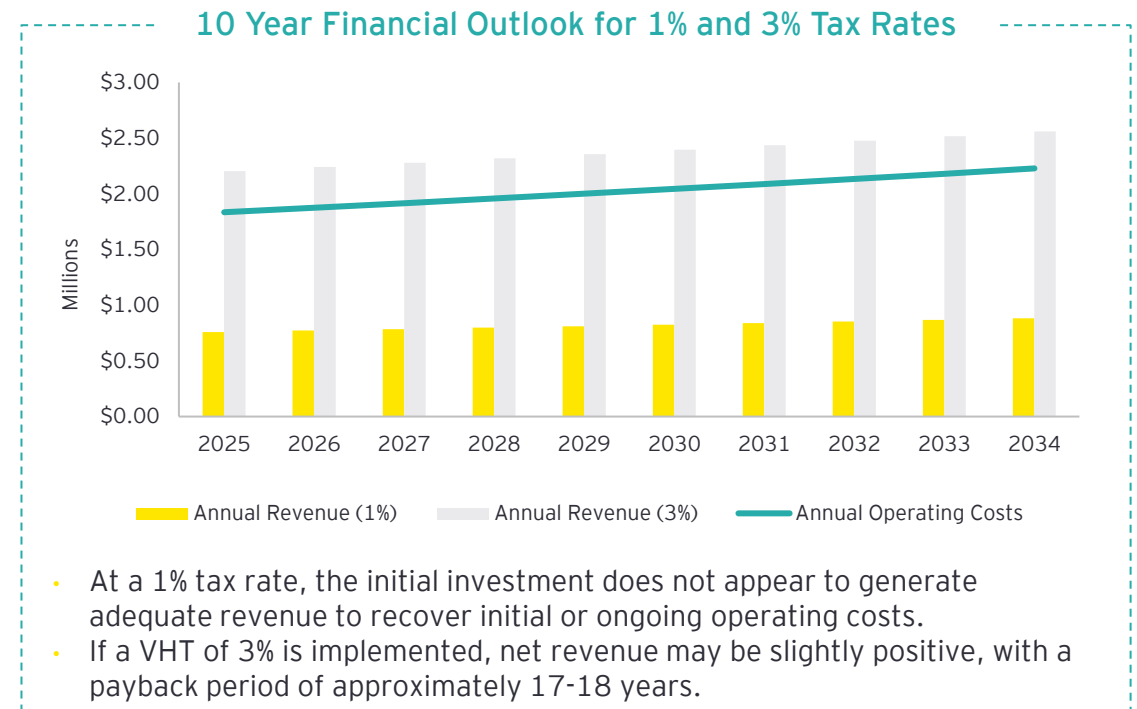
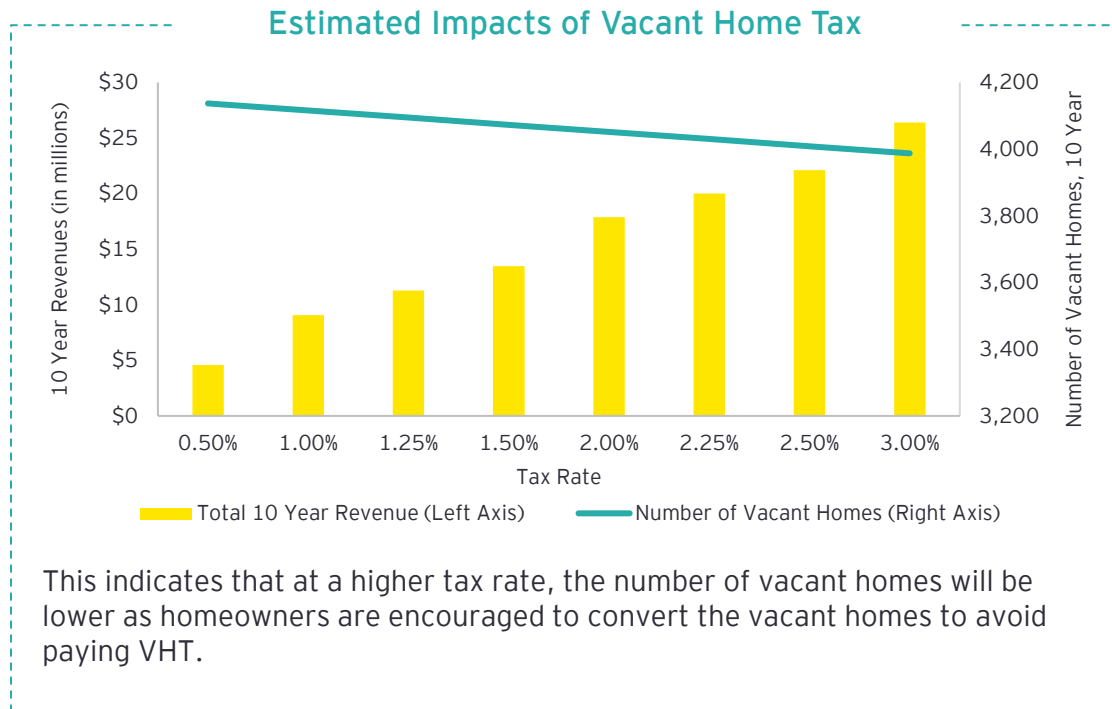
Financial Model Results

At tax rates of 3% or above, a VHT may pay back implementation costs within 17-18 years. At lower rates, the program may not generate positive net revenue.

Sensitivity of Tax Rates

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 revenue projections and number of vacant homes corresponding to each tax rate over a period of 10 years. The model also assumes a one-time implementation costs of approximately \$2.6 million and the expected annual operating costs are shown below.

Findings for two scenarios of tax rates 1% and 2% are illustrated below:



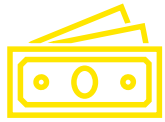
Source: Please see [Appendix A](#) for the inputs and corresponding sources for the financial model.

Looking Ahead

Though net revenues do not appear to be positive at a typical 1% tax rate, London may conduct further review to refine and validate estimates.

Conclusion and Next Steps

Given the inputs and assumptions ([Appendix A](#)) used in the current model, the results from the financial model indicate that a potential VHT could breakeven in 17-18 years based on a 3% tax rate. At tax rates lower than 3%, the VHT may not be feasible based on expected net revenues. However, to support decision-making on VHT implementation, the following steps could be undertaken by the City to refine and validate estimates.



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 VHT



Assessment of the key processes that need to be re-engineered, 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



Engage with Ontario to identify the provincial VHT framework and assess potential implementation considerations.

4. Appendix



Appendix A: Data Inputs for Key Parameters for Revenue Model

The table below outlines data inputs and considerations for the revenue model.

Parameter	Inputs	Assumptions	Sources	Estimated Inputs												
Vacancy Rate	<p><i>Semi- and single-detached:</i> Number of vacant units: 1,060 Vacancy rate: 1.15% Please see Table 1 for the vacancy rates for each property type.</p>	<p>i. The vacancy rate of 1.15% for single- and semi-detached properties will be applied to townhouses. ii. The vacancy rate for condos is assumed to be 1.35%, which is determined based on the ratio between the vacancy rate of condos and single-family houses in Vancouver.</p>	<ul style="list-style-type: none"> Water Consumption Data 2023, City of London Municipal Property Assessment Corporation 2023 Municipal Change Profile, City of London City of Vancouver, Empty Homes Tax Annual Report Vancouver 2023 	<p>Table 1: Vacancy Rate by Property Type</p> <table border="1"> <thead> <tr> <th>Type of Property (Property Code*)</th> <th>Vacancy Rate</th> </tr> </thead> <tbody> <tr> <td>Single Detached (301, 313)</td> <td>1.15%</td> </tr> <tr> <td>Semi Detached (311, 322)</td> <td>1.15%</td> </tr> <tr> <td>Townhouse (309)</td> <td>1.15%</td> </tr> <tr> <td>Condos (370)</td> <td>1.35%</td> </tr> </tbody> </table>	Type of Property (Property Code*)	Vacancy Rate	Single Detached (301, 313)	1.15%	Semi Detached (311, 322)	1.15%	Townhouse (309)	1.15%	Condos (370)	1.35%		
				Type of Property (Property Code*)	Vacancy Rate											
Single Detached (301, 313)	1.15%															
Semi Detached (311, 322)	1.15%															
Townhouse (309)	1.15%															
Condos (370)	1.35%															
Housing Supply	<p>2022-23: 147,279 Please see Table 2 for the breakdown by property type.</p>	<p>The number of housing units by property type is calculated based on the property codes defined in Table 1.</p>	<ul style="list-style-type: none"> Municipal Property Assessment Corporation 2023 Municipal Change Profile, City of London 	<p>Table 2: Housing Supply by Property Type</p> <table border="1"> <thead> <tr> <th>Type of Property</th> <th>2022-23</th> </tr> </thead> <tbody> <tr> <td>Single Detached</td> <td>86,783</td> </tr> <tr> <td>Semi Detached</td> <td>5,109</td> </tr> <tr> <td>Townhouse</td> <td>1,062</td> </tr> <tr> <td>Condos</td> <td>54,325</td> </tr> <tr> <td>Total</td> <td>147,279</td> </tr> </tbody> </table>	Type of Property	2022-23	Single Detached	86,783	Semi Detached	5,109	Townhouse	1,062	Condos	54,325	Total	147,279
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Single Detached	86,783															
Semi Detached	5,109															
Townhouse	1,062															
Condos	54,325															
Total	147,279															
Housing Supply Growth Rate	<p>Please see Table 3 for breakdown by property type.</p>	<p>The housing supply annual growth rate for townhouses calculated based on the MPAC 2023 report is negative. Therefore, the average of the annual growth rate for single- and semi-detached properties is preliminarily applied to townhouses.</p>	<ul style="list-style-type: none"> Municipal Property Assessment Corporation 2023 Municipal Change Profile, City of London 	<p>Table 3: Housing Supply Growth Rate (Annual Growth)</p> <table border="1"> <thead> <tr> <th>Type of Property</th> <th>2022-23</th> </tr> </thead> <tbody> <tr> <td>Single Detached</td> <td>0.62%</td> </tr> <tr> <td>Semi Detached</td> <td>0.14%</td> </tr> <tr> <td>Townhouse</td> <td>0.38%</td> </tr> <tr> <td>Condos</td> <td>0.69%</td> </tr> </tbody> </table>	Type of Property	2022-23	Single Detached	0.62%	Semi Detached	0.14%	Townhouse	0.38%	Condos	0.69%		
Type of Property	2022-23															
Single Detached	0.62%															
Semi Detached	0.14%															
Townhouse	0.38%															
Condos	0.69%															

Inputs for the Model

* The same property codes are applicable to all parameters hereafter.

Appendix A: Data Inputs for Key Parameters for Revenue Model (cont.)

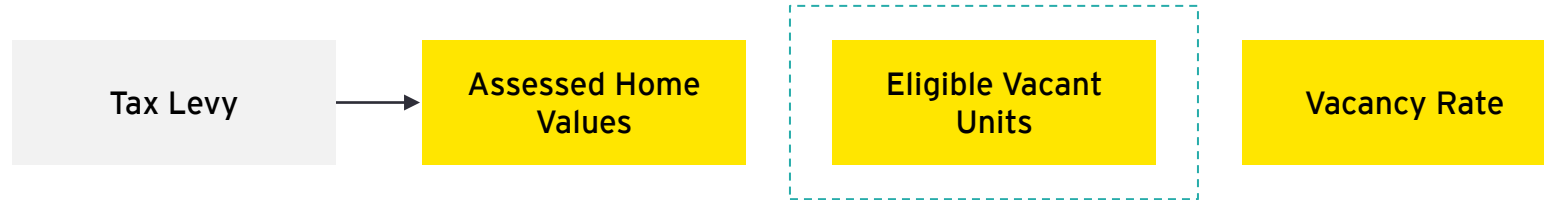
The table below outlines data inputs and considerations for the revenue model.

Parameter	Inputs	Assumptions	Sources	Estimated Inputs																					
Average Current Value Assessment	2016 CVA: \$ 224,884 2016 CVA Estimate: \$ 225,529 Please see Table 4 for breakdown by property type.	Average assessment values for each property type are estimated based on London's estimated growth by property type.	<ul style="list-style-type: none"> Municipal Property Assessment Corporation 2023 Municipal Change Profile, City of London 	<table border="1"> <thead> <tr> <th colspan="3">Table 4: Average Current Value Assessment</th> </tr> <tr> <th>Type of Property</th> <th>2016 CVA</th> <th>2016 CVA Estimate</th> </tr> </thead> <tbody> <tr> <td>Single Detached</td> <td>\$ 305,758</td> <td>\$ 307,677</td> </tr> <tr> <td>Semi Detached</td> <td>\$ 179,930</td> <td>\$ 180,851</td> </tr> <tr> <td>Townhouse</td> <td>\$ 256,783</td> <td>\$ 255,768</td> </tr> <tr> <td>Condos</td> <td>\$ 157,065</td> <td>\$ 157,818</td> </tr> <tr> <td>Average</td> <td>\$ 224,884</td> <td>\$ 225,529</td> </tr> </tbody> </table>	Table 4: Average Current Value Assessment			Type of Property	2016 CVA	2016 CVA Estimate	Single Detached	\$ 305,758	\$ 307,677	Semi Detached	\$ 179,930	\$ 180,851	Townhouse	\$ 256,783	\$ 255,768	Condos	\$ 157,065	\$ 157,818	Average	\$ 224,884	\$ 225,529
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Townhouse	\$ 256,783	\$ 255,768																							
Condos	\$ 157,065	\$ 157,818																							
Average	\$ 224,884	\$ 225,529																							
Assessment Value Growth Rate	Based on the 2016 CVA and 2016 CVA estimate, the assessment value growth rates are presented in Table 5 .	<p>The assessment value growth rate for townhouses calculated based on the MPAC 2023 report is negative.</p> <p>Therefore, the average of the growth rate for single- and semi-detached properties is preliminarily applied to townhouses.</p>	<ul style="list-style-type: none"> Municipal Property Assessment Corporation 2023 Municipal Change Profile, City of London 	<table border="1"> <thead> <tr> <th colspan="2">Table 5: Assessment Value Growth Rate</th> </tr> <tr> <th>Type of Property</th> <th>Assessment Value Growth Rate</th> </tr> </thead> <tbody> <tr> <td>Single Detached</td> <td>0.8%</td> </tr> <tr> <td>Semi Detached</td> <td>0.7%</td> </tr> <tr> <td>Townhouse</td> <td>0.7%</td> </tr> <tr> <td>Condos</td> <td>1.2%</td> </tr> </tbody> </table>	Table 5: Assessment Value Growth Rate		Type of Property	Assessment Value Growth Rate	Single Detached	0.8%	Semi Detached	0.7%	Townhouse	0.7%	Condos	1.2%									
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Single Detached	0.8%																								
Semi Detached	0.7%																								
Townhouse	0.7%																								
Condos	1.2%																								
Eligible Vacant Units	Please see Table 6 for the share of vacant homes that can be deemed eligible for collection under a VHT.	The share of eligible vacant units for condos and other property types are estimated based on the eligibility estimates in Vancouver.	<ul style="list-style-type: none"> City of Vancouver, Empty Homes Tax Annual Report Vancouver 2023 	<table border="1"> <thead> <tr> <th colspan="2">Table 6: Share of Eligible Units, Condos vs Other Property Types</th> </tr> <tr> <th>Type</th> <th>Eligibility Rate</th> </tr> </thead> <tbody> <tr> <td>Condos</td> <td>36.5%</td> </tr> <tr> <td>Non-Condos</td> <td>10.6%</td> </tr> </tbody> </table>	Table 6: Share of Eligible Units, Condos vs Other Property Types		Type	Eligibility Rate	Condos	36.5%	Non-Condos	10.6%													
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Penalty Revenue	Penalty Revenue = 2.69% of Revenues from Tax Levy Please see Table 7 for the calculation.	The ratio of revenues from penalties and tax levy in Vancouver will be used in the model as a proxy to estimate potential rate of non-compliance and penalties that could be expected in London.	<ul style="list-style-type: none"> City of Vancouver, Empty Homes Tax Annual Report Vancouver 2023 	<table border="1"> <thead> <tr> <th colspan="2">Table 7: Rate of Non-Compliance, Vancouver</th> </tr> <tr> <th>Type</th> <th>2022 (in millions)</th> </tr> </thead> <tbody> <tr> <td>Vancouver Revenue from Tax Levy</td> <td>\$ 67.0</td> </tr> <tr> <td>Vancouver Revenue from Penalties</td> <td>\$ 1.8</td> </tr> <tr> <td>Rate of Non-Compliance</td> <td>2.69%</td> </tr> </tbody> </table>	Table 7: Rate of Non-Compliance, Vancouver		Type	2022 (in millions)	Vancouver Revenue from Tax Levy	\$ 67.0	Vancouver Revenue from Penalties	\$ 1.8	Rate of Non-Compliance	2.69%											
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Rate of Non-Compliance	2.69%																								

Inputs for the Model

Appendix B: Eligible Vacant Units: An Overview

The number of eligible vacant units is a key parameter in the financial model to calculate the VHT revenue from tax levy.



Based on relevant inputs and assumptions, EY has estimated the number of current and expected eligible vacant units in the City of London over a 10-year timeframe. **Table 8** below presents the number of eligible units for each property type for 2023, 2028 (Year 5) and 2034 (Year 10).

Table 8: Number of Eligible Units by Property Type				
Type of Property	2023	2028F	2034F	Share of Housing Supply
Single Detached	100	104	108	0.1%
Semi Detached	6	6	6	0.1%
Townhouse	1	1	1	0.1%
Condos	267	276	290	0.5%
Total	374	387	405	0.3%

Sources: Water Consumption Data 2023, City of London; Municipal Property Assessment Corporation 2023 Municipal Change Profile, City of London; City of Vancouver, Empty Homes Tax Annual Report Vancouver 2023; and EY analysis.

Appendix B: Eligible Vacant Units: Calculations

Below is a step-by-step explanation of the calculations that are used to derive the final count of eligible units in London.

Step 1: Housing Supply

The housing supply is calculated by extrapolating the 2023 housing supply from the Municipal Property Assessment Corporation 2023 based on the housing supply growth rate from the same, for each property type (Table 2 and 3, page 18). The growth rate is assumed to be constant for every year in the projection timeframe.

$$\text{Housing Supply in Year X} = \text{Housing Supply of Year (X-1)} * (1 + \text{Housing Supply Growth Rate})$$

Step 2: Vacant Units

The number of vacant units is calculated based on the vacancy rates shown in Table 1 (page 18). Similar to above, the vacancy rate is assumed to be constant for each year.

$$\text{Number of Vacant Homes} = \text{Vacancy Rate} * \text{Housing Supply}$$

Step 3: Eligible Vacant Units

The share of eligible vacant units for condos and other property types are estimated based on the eligibility rates in Vancouver (Table 6, page 19). Eligible vacant units are those which are vacant, but not deemed exempt* from the vacant home tax. The eligibility rate for each type of property is applied on the number of vacant units calculated in Step 2 to get the final number of eligible vacant units (Table 9).

$$\text{Eligible Vacant Units} = \text{Number of Vacant Homes} * \text{Eligibility Rate}$$

Type of Property	2023	2028F	2034F	Share of Housing Supply
Single Detached	100	104	108	0.1%
Semi Detached	6	6	6	0.1%
Townhouse	1	1	1	0.1%
Condos	267	276	290	0.5%
Total	374	387	405	0.3%

Sources: Water Consumption Data 2023, City of London; Municipal Property Assessment Corporation 2023 Municipal Change Profile, City of London; City of Vancouver, Empty Homes Tax Annual Report Vancouver 2023; and EY analysis.

* A property may be exempt from the vacant home tax due to several reasons such as death of a registered owner, repairs or renovations, etc.