

Report to Corporate Services Committee

To: Chair and Members
Corporate Services Committee
From: Anna Lisa Barbon, Deputy City Manager, Finance Supports
Subject: Considerations and Viability to Implement a Vacant Home Tax in London
Date: January 31, 2022

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) The staff report dated January 31, 2022, "Considerations and Viability to Implement a Vacant Home Tax in London BE RECEIVED for information;
- b) At this time, the Civic Administration TAKE NO ACTION; and
- c) That Civic Administration BE DIRECTED to continue to monitor implementation, execution, and experience of other Ontario municipalities of this tax.

Executive Summary

In response to Council motion "That Civic Administration be directed to undertake a review, including but not limited to gathering information from other Ontario municipalities advancing this option, to determine the potential scope and feasibility of developing and implementing a vacant residential property tax on the residential property class and report back to council," this report outlines steps taken by other municipalities, legislative requirements of a vacant home tax, challenges including obtaining accurate data, estimated revenues and costs of implementation, and the importance of community consultation. Based on what Civic Administration is aware of, a Vacant Home Tax would be challenged to achieve breakeven in the cost to implement and contribute to additional affordable housing programs, possibly creating an additional cost to the property taxpayer.

Linkage to the Corporate Strategic Plan

Council's 2019 to 2023 Strategic Plan for the City of London identifies "Leading in Public Service" as a strategic area of focus where the City of London is a leader in public service as an employer, a steward of public funds, and an innovator of service.

Analysis

1.0 Background Information

1.1 Legislated ability to initiate VHT

Under section 338.2 of the *Municipal Act, 2001*, municipalities can impose a tax on the assessment of vacant residential units. The Minister of Finance may, by regulation, designate the City of London as having the power to impose such a tax. The Province has 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

Once designated, 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

Currently, the only municipality in Canada charging a tax on vacant residential units is in Vancouver through their Empty Homes Tax, which came into effect in 2017. The cities of Toronto and Ottawa plan to begin taxation of vacant residential units in 2023. This report outlines relevant factors that must be considered prior to implementing a residential vacant unit tax in the City of London.

2.0 Discussion 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 rent out empty properties to increase the supply and affordability 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 established, 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 Other Municipalities Considering a Vacant Home Tax

In addition to Toronto and Ottawa, many municipalities have taken various actions towards potential implementation of a vacant home tax. Cities that have presented an initial report to Council include Niagara, Mississauga, Hamilton, Peel Region and Halton Region. The City of Hamilton has engaged in public consultation while the Regions of Peel and Halton have also issued a Request For Proposal for consultant services to prepare a feasibility study and public benefit review. It is recommended that, prior to implementing a VHT in London should Council wish to proceed in its analysis, the City of London hire a consultant to complete a similar study.

To date, none of these cities have approved the adoption of a vacant home tax.

2.3 Vancouver Empty Homes Tax

Vancouver's Empty Homes Tax (EHT) has been assessed since 2017. The stated goal of the EHT was to:

- 1) Shift vacant properties to being rented out or occupied by a long-term resident
- 2) Prevent additional properties from becoming vacant

Any surplus generated by the EHT to be spent on affordable housing initiatives such as grants for construction of affordable housing, support for city renter initiatives, and housing property acquisition.

The necessity of an EHT was determined based on several factors. Housing affordability was a major concern, private apartment rents rose as vacancy rates

remained low, and it was necessary to ensure that homes were used as housing rather than being left vacant.

All owners of residential class properties were required to declare property status online as:

Occupied: occupied for at least 6 months out of the year

Not occupied: Exempt or Vacant

Properties declared or determined to be vacant are subject to the tax.

Implementation costs, including technology build and support for tax administration and online declaration and audit capabilities, were \$7.4 million.

Annual operating costs, including additional staff of 15 to 20 people, costs \$2.9 million.

Based on an average single family home value of \$2.4 million and an average condo value of \$800 thousand, a 1% VHT has generated an average of \$37.8 million annually from 2017-2019 which resulted in greater than \$30 million to be applied to affordable housing initiatives. As the VHT has achieved the goal of reduced vacancies, the number of residential properties has gone down and the VHT rate has increased from 1% to 3%.

Major challenges from implementation and first year of operation included a lack of understanding regarding the exemptions, confusion as to who is required to complete the declaration and adhering to deadlines. The City of Vancouver reported that there were over 5,000 information line interactions about their tax over a seven (7) month period seeking clarification to the program. Further, based on experience to date, cost of this program has increased from early estimates and the revenue (EHT) realized for the program was less than initially anticipated.

2.4 Toronto Implementation of a 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.

The proposed timeline is to have the Vacant Home Tax by-law in effect for 2022 with declarations and taxation beginning in 2023.

2.5 Ottawa Implementation of a 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 estimates 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 would be 2022. Residents would declare vacancy at the beginning of 2023 for the 2022 calendar year. The properties that are deemed or declared vacant would be billed in 2023.

3.0 Financial Impact/Considerations

Based on the experience of other municipalities who are starting to explore this tool or who have implemented, a consultant was engaged by them to identify the estimated number of vacancies in the community to determine viability. Based on public information available, these consultant engagements would cost the City anywhere between \$100,000 to \$150,000. Given the cost, in accordance with the City's Procurement of Goods and Services Policy, a Request for Proposal (RFP) process would be followed. This process would take up to 5 months based on examples seen in Halton and Peel Region.

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

4.0 Key Issues and Considerations

4.1 How to Identify Vacant Residential Properties in London

Identifying vacant units is the most challenging piece for the implementation of the VHT.

There is currently no vacant property registry in the City of London. By Law Enforcement is able to identify vacant properties based on inspections and complaints

from the public. The current number of vacant residential properties identified is 54. Providing an accurate estimate of total vacant residential properties would require more detailed methods.

One potential method of identifying vacant units is through anonymous utility data. Using anonymized water consumption data, the City of Toronto estimated that between 2.0% and 5.7% of all properties analyzed had average water consumption levels at a level that could suggest the property is underutilized or vacant. The City of London could potentially use hydro and water data to estimate the rate of residential vacancy. A consultant would be needed to perform a thorough analysis.

The City of Ottawa estimated that between 0.25% and 1% of residential properties would be subject to a vacant unit tax and based their estimate on 0.5% of properties. Applying the same percentage to London properties would result in an estimate of 783 vacant residential properties in the City of London.

4.2 Projected Revenue Based on Estimated Vacant Properties

Based on the 54 vacant residential properties identified, the revenue generated by a 1% vacant home tax would be a modest \$66,268.

Applying an estimate that 0.5% of residential properties in London are vacant, the result would be a total of 783 properties at an average current value assessment of \$249,582. When applying a 1% VHT, the estimated revenue generated would be \$1,954,256 (783 properties * 249,582 * 1%)

Once the VHT program is successful in reducing vacant properties, the projected revenue will decrease. Data from Vancouver indicates there was a 21.6% decrease in vacant properties in year two of the Empty Homes Tax program.

Further analysis should be performed to verify whether an estimate of 0.5% vacancy is reasonable.

4.3 Projected costs

When estimating the cost of a VHT program, both implementation costs and operating costs must be considered. Implementation costs include public education, and technology build and support for tax administration, audit capabilities, and online declaration. Toronto based their estimated start-up costs on the Vancouver experience. As Toronto is approximately four times the size of Vancouver, they estimated an additional 50% over the \$7.4 million implementation costs reported by Vancouver. Using similar reasoning, since London is approximately half the size of Vancouver, the implementation cost estimate should be approximately 25% less than Vancouver start-up costs. The estimated implementation cost for London would be \$5.5 million. (\$7.4 million * 75%)

Given the nature of a vacant home tax, a large portion of operating costs would be spent to ensure compliance and to educate property owners about roles and responsibilities. Relevant operating costs would include salaries for inspectors, administrative and audit staff, IT services, and material costs associated with print, postage, and electronic services. Using a similar cost estimate in comparison to Vancouver's annual operating cost of \$2.9 million, the annual operating cost for London would be approximately \$2.1 million. (\$2.9 million * 75%)

Based on initial, high-level estimates, the projected costs of a Vacant Home Tax will exceed projected revenue. Procurement of a consultant would provide a more accurate estimate of both the number of vacant properties in London and the associated costs of administering a Vacant Home Tax. Further the cost estimates may not incorporate indirect or opportunity costs and impacts that this could have organizationally, such as the need to adjust priorities in various departments given already committed priorities.

4.4 Financial Viability and Sustainability – Breakeven Analysis

Outlined in the table below are the estimates from Section 4.2 and Section 4.3 which are summarized together to determine, at a high level the financial viability of the program.

Table 1: Financial Viability of VHT based on estimates.

Assuming 1% Vacant Home Tax	Assuming 783⁽¹⁾ vacant residential properties
Estimated ⁽²⁾⁽³⁾ Revenue from VHT	\$2.0 million ⁽⁴⁾
Estimated ⁽²⁾ On Going Costs (Administration)	\$2.1 million ⁽⁵⁾
Net Revenue (Net Cost) of Program	(\$0.1 million)
Estimated ⁽²⁾ One Time Implementation Cost	\$5.5 million
Payback of Costs	No payback
Year where \$ would be directed to increasing housing supply	No Contribution

Notes:

- (1) Assuming a 0.5% residential vacancy rate. Note the City of London is only aware of 62 vacant residential units.
- (2) While limited to date, based on other Canadian municipal experience, estimates on revenues have been overstated, whereas estimates on programs costs and start up costs have been understated.
- (3) Based on average current value assessment of \$249,582.
- (4) One of the objectives of a vacant property tax is to reduce the number vacant homes (under utilization) in a community. Should the program achieve the desired outcome, revenue from VHT would decline.
- (5) While efficiencies will be identified over time, costs to administer the program will increase regardless of volume as the annual process would still have to be done.

As highlighted above, based on the work done by other municipalities to date, and methodologies that they've provided, assuming that there are 783 vacant residential properties, this program would not breakeven to cover the annual ongoing operating cost of administration nor would it contribute towards the estimated one time cost of implementation. Assuming the high end of the range at 1% vacancy rate for a total of 1,566 vacant properties, it would take 3 years to pay back the implementation and operating costs. There is an inverse relationship between revenue generated and program success. As the goal of the VHT is realized and vacant residential properties are reduced, the revenue generated by the program will decrease. Meanwhile, based on inflationary pressure, the costs to administer the program will increase over time. Given an unknown volume of vacant residential properties and the expectation that expenses will exceed revenues, the financial viability and sustainability of a Vacant Home Tax in the City of London is highly questionable.

4.5 How to Determine Vacancy

Determining and defining what is considered a vacant home is not prescribed in the Act and is within municipal jurisdiction. Similar to the approach used in Vancouver, it is expected that those property owners in Toronto and Ottawa will be required to make a mandatory declaration by a specified cut off date as to whether their property was vacant. If a declaration is not made, it is then deemed to be vacant in accordance with the enabling bylaw.

There are several options for determining vacancy, as follows:

- **Mandatory Declaration**
 - Every residential property owner required to declare vacant or occupied
 - Residential property owners who do not report status would be deemed vacant
 - Residential property owners who declare occupied and are deemed vacant through audit will be subject to fines or penalties

- Vacant Property Declaration
 - Only self-identified vacant property owners required to declare
 - Those deemed vacant through audit will be subject to fines or penalties if they have failed to self-declare
 - Onus placed on vacant residential property owners
- Reported Vacancy
 - Vacant residential properties are identified through a complaints process
 - Commonly considered a less effective approach
 - Discourages a community environment

Regardless of which option is used, an audit process will be necessary to verify property status. Exemptions from the tax that have been identified in programs (i.e. City of Toronto) have included but not limited to; death of a registered owner, property undergoing redevelopment or major renovation, property of the owner in care, rental restriction or prohibition that prevents the unit from being occupied, transfer or legal ownership of property during the year, and court order.

4.5 Public Engagement

The cities of Vancouver, Toronto, and Ottawa participated in public engagement prior to implementing a vacant home tax. There are many methods used including surveys distributed through tax bill inserts and social media, as well as public meetings. Stakeholder consultations with organizations such as home builder associations, real estate boards and landlord associations would also be recommended.

Identifying the level of public support for a VHT is a necessary first step that should be taken prior to taking further action and incurring further costs.

4.6 Alternatives to a Vacant Home Tax

If it is determined that implementation of a Vacant Home Tax would result in higher costs than revenue generated, it would be deemed administratively burdensome and would not achieve the goal of providing funding for affordable housing initiatives.

Potential alternatives to a VHT include:

- Directly funding affordable housing initiatives
- Providing an incentive to developers in the form of a property tax rebate tied to affordable housing

4.7 Potential Challenges

Based on Vancouver's experience, major challenges from implementation and first year of operation included a lack of understanding regarding the exemptions, confusion as to who is required to complete the declaration, and adherence to deadlines. It is conceivable that many residential property owners will not be aware that they are required to declare their property occupied. This could result in overstated VHT revenue and many appeals after the VHT bills are issued.

The Vacant Home Tax is a policy tool aimed at changing homeowner behaviours, reducing speculative activities, and helping release more housing units to the secondary market. If successful, the Vacant Homes Tax would likely be a declining source of revenue as homeowners would occupy or lease out their homes to avoid the tax. This is evidenced in Vancouver where the number of vacant properties, as well as revenues collected has declined since their Empty Homes Tax was first implemented in 2017. Since expenses will remain constant or increase, it is necessary to calculate the long-term viability of a Vacant Home Tax program.

Conclusion

As only one Canadian city has implemented a vacant home tax, actual data regarding the success of this tool is limited to date. Toronto and Ottawa have committed to implementing a vacancy tax beginning in 2023, after which, actual data from an Ontario perspective should be available.

Currently, accurate estimates related to the number of vacant residential properties in the City of London are not available. Assuming that there are 783 vacant residential units, there would be no financial viability to this program. Further, as property owner behaviours change as a result of this tax, it should be expected that as the number of vacancies decrease, cost to the property taxpayer to maintain a vacant home tax program will remain.

Prepared by: Joseph McMillan, Division Manager, Taxation & Revenue
Submitted by: Ian Collins, Director, Financial Services
Recommended by: Anna Lisa Barbon, Deputy City Manger, Finance Supports