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Property Tax and Assessment News from Around the World

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Spectre of empty houses haunt Canada's two most expensive housing markets

Some believe vacant homes exist on a widespread basis, bought up by a stream of investors so consumed by speculation — or just a safe place to park their money — that they can't even bother to rent out their properties in markets in where the going rate can easily top $3 a square foot.

The vacant unit theory has enough backers that the city of Toronto demanded the power to levy an extra tax on vacant property owners, something that was granted by the Ontario government in April, and one that follows a similar path laid out in Vancouver by the British Columbia government in 2016.

It's "the vacant unit red herring," said Patricia Arsenault, executive vice-president of research at Altus Group Ltd. in a note about the data that seem to indicate there were as many as 66,000 vacant units in Toronto in 2016. That's equivalent to about 5.6 per cent of the city's total stock of 1.2 million private dwelling units.

You can count Toronto Mayor John Tory as one of the believers in the potential the tax has as another tool to deal with housing affordability in the city.

"We look at real estate as a place to live, first and foremost and investment as second," Tory said in March, while also acknowledging the lack of relevant data. "The data I've seen is that there are (about) 65,000 vacant homes in this area and that's a significant number. Those are homes not on the market and that has an impact."

Toronto wants to look at hydro accounts and water bills to try to get some indication of whether a unit is actually vacant.

The question is what are the unintended consequences of … a vacancy tax

As part of Ontario's sweeping changes on real estate rules in April, the province also altered how it will record data when land is transferred and taxed. In addition to forcing buyers to declare their citizenship, Ontario will require them to say whether they plan to occupy their residence — information that could be used to track whether housing ultimately gets rented.

Plenty of anecdotal tales exist of condo buildings where the lights never go on at night, but vacancy theory proponents often support their argument by citing a Statistics Canada release in February 2017 that looked at the total number of private dwellings in the country versus private dwellings occupied by usual residents.

The agency said that's just wrong.

"Sometimes, people believe that they can use the census counts to get a picture of unoccupied dwellings by subtracting total private dwellings from private dwellings occupied by usual residents," StatsCan said in an email response to a query.

"This is not the case since unoccupied dwellings only represents a portion of the remainder. In other words, the data should not be used to analyze unoccupied dwellings."

Arsenault at Altus said the gap between the total number of private dwellings and those occupied by usual residents includes units that were occupied full time at the time of the census by people whose regular residence is elsewhere.

Therefore, the number could include domestic students whose usual residence is elsewhere in Canada, foreign students who usually reside somewhere else abroad and other foreign residents temporarily in the country.

The gap would also be larger because "vacant" includes units occupied on a part-time basis as second homes by Canadian residents or foreign residents with principal residences elsewhere.

It's hard to miss the rise of Airbnb in most cities and those properties would also not count as occupied by usual residents, nor would other investment properties being rented out on a short-term basis.

But Andy Yan, a Vancouver planner and director of the city program at Simon Fraser University, believes that city's vacant home problem has transferred to Toronto.

"Welcome to what Vancouver has been saying for the last 10 years," Yan said. "I've always thought of Toronto as a market that does work. You have a thriving financial industry and to a certain extent a manufacturing industry.
There is an economy that powers real estate versus Vancouver."

But he said Toronto is now subject to global capital flows that drive demand for property from abroad and investors who are content to leave property vacant as housing prices rise.

Starting with the 2017 taxation year, homes in Vancouver deemed empty will face an additional one-per-cent tax of the property's assessed value.

The city plans to conduct random audits and failure to declare whether a property is occupied or rented will result in the tax being collected. A late penalty of five per cent on payments in arrears will also be levied and false declarations are subject to a fine of up to $10,000.

Non-principal residence owners have until July 1 to rent out their property through Dec. 31, 2017, to avoid paying the tax. Property owners must declare whether their property is a principal residence by Feb. 2, 2018, for the 2017 taxation year, or the property is declared vacant and subject to the tax.

The privilege of owning a home in Vancouver seems to include not living in it

The city of Vancouver examined electricity consumption from 2002 to 2014 and found 4.8 per cent of all housing types were unoccupied and that 10,800 homes were vacant for one year or more. Of the empty homes, 90 per cent were condos or apartments.

"The privilege of owning a home in Vancouver seems to include not living in it," said Yan, adding it's important to understand the patterns of why units are vacant.

To determine the number of empty units in Vancouver, Yan looked at more than hydro consumption or lack thereof. He also examined property assessment data to determine if letters were sent to the unit or elsewhere as well as homeowner grants that allow for a small waiver on property taxes for local owners.

His assessment was that five to eight per cent of downtown Vancouver condos were "dark" or empty.

But he adds that it seems harder to get data on Toronto than in Vancouver.

A survey of condo owners by Canada Mortgage and Housing Corp. in 2015 found that only 4.1 per cent of Toronto respondents said their units were vacant, down from 7.6 per cent in 2014. The Vancouver vacant condo number jumped to 4.1 per cent in 2015 from four per cent the year before.

Craig Alexander, chief economist at the Conference Board of Canada, said there is no simple way of identifying which properties are vacant.

"It won't be easy just to survey the market because I think the respondent rate will be pretty low. What are you going to say? Please tell us if your property is vacant so we can tax you," he said, adding you can indirectly monitor people through utility usage. "You can also have a snitch line, but if that is something policymakers have to have, that tells you how hard it is to identify vacant property."

Toronto-Dominion Bank economists said there are very few examples of a vacancy tax and Vancouver's is too new to properly assess. They note that in the borough of Camden in the United Kingdom, a 50-per-cent additional property tax on vacant units led to about one-third of the vacant units being brought to market.

"However, the tracking of vacant properties can be difficult and often subjective," the economists noted. "For instance, Camden relied on a hotline through which residents could call if they noticed property sitting empty, with the potential for increased underreporting and loophole usage.

Vacant units may be just the price cities such as Toronto and Vancouver pay for being so-called global cities where people want to own property.

"This is on people's minds in those cities that have been affected by investors and speculators," said Pamela Alexander, chief executive of Re/Max Ontario-Atlantic Canada.

"I think it is happening, but the question is to what extent (are properties vacant)? Then the question is what are the unintended consequences of something like a vacancy tax? It can really affect the unsophisticated investor who sees all this and thinks this is just too much red tape for me."

ALBERTA - Calgary residents need to stand up to property tax increases: Canadian Taxpayers Federation

Calgarians need to stand up to elected officials when it comes to staving off a possible property tax increase, says an Alberta taxpayer watchdog.

Paige MacPherson, Alberta director of the Canadian Taxpayers Federation, called council's move to delay a property tax hike until after this year's municipal elections a "Band-Aid" solution to staving off future pains for ratepayers.

"It's discouraging, but not surprising that councillors seem to be only concerned about property taxes when it's an election year," she said.

"It's one of the oldest tricks in the book."

In a report released late Friday by city brass, administration staff plan to recommend to council on Monday a big property tax hike for next year — this after a year-long rate freeze for the 2017 fiscal year.

"Since they seem to be putting off these tax increases, Calgarians could be looking at a five per cent property tax increase," MacPherson said.

"The pocketbooks and budgets of Calgarians are not going to change dramatically from this year to next. What will change is city council's willingness to cut back a little bit — and that's unfortunate for taxpayers."

She said politicians and city staff both overplay the seriousness of potential service cuts, and added that the city has more than enough fat to cut from the budget without affecting essential services.

"(Mayor Naheed) Nenshi did this even before they came out with their so-called property tax freeze," she said, calling high wages the "elephant in the room" in the municipal halls of power.

"Reportedly, (Nenshi) said it would be almost impossible to make cuts without touching fire, police or transportation. Then fast-forward to when they actually announced the freeze and said, 'well, we're comfortable but we could mow low-use playing fields a little bit less, or have slightly smaller growth in the number of hours of Calgary Transit to get spending in line.'"

"Yes, it involves difficult decisions but, luckily, the city has a lot of unnecessary spending kicking around," she said.

"We're still spending on golf courses and mandatory public art projects that we have written into policy that we have to be spending money on — these are changes that council could easily make, but instead they're looking at spending more money on things like an NHL arena."

She said Calgarians have made their voices heard about cutting unnecessary spending, but it's up to council to listen.

"It's really up to Calgarians to push their councillors to say they aren't going to stand for this," MacPherson said.

"It's completely possible for council to do, they're completely capable of that.

"They need to start thinking more about Calgarians, and less about their own bottom lines."

ONTARIO - Cities poised to terminate vacant unit rebate

Ontario grants flexibility to dismantle previously mandatory program

Stakeholder consultation on the future of property tax rebates for vacant commercial and industrial space has been a rote exercise in Toronto given that City Council had already voted to eliminate the program two months prior to a recent public meeting to discuss the issue. Elsewhere, municipal officials in Ottawa have proceeded in a more conventional sequence, but real estate industry advocates are preparing for the same result.

This follows the Ontario government's announcement last fall that municipalities would be given leeway to discontinue the rebate that was first introduced in 1998 in tandem with a province-wide overhaul of property assessment and taxation. Toronto and Ottawa are among what's likely to be a crush of local governments requesting provincial approval to dismantle the vacant unit rebate program.

"I guess we're not surprised, but we are disappointed," reflects Dean Karakasis, executive director of the Building Owners and Managers Association (BOMA) of Ottawa. "This is a change of tax policy, and the way it has been characterized seems to be a bit of an attempt to smokescreen what's really happening."

Past, present and would-be recipients bristle at suggestions that the rebate is a subsidy or a disincentive to improve the marketability of their properties. Rather, they point to the program's historical rationale. It was meant to mitigate the added liability that commercial/industrial ratepayers assumed when the former business occupancy tax (BOT), which had been charged directly to tenants, was rolled into a single property tax bill levied to landlords.

"It's a tax policy to acknowledge there is a vacant space where the business would otherwise reside," Karakasis says.

Under existing rules, landlords qualify for partial reimbursement of property tax paid on commercial or industrial space that's vacant for 90 or more days during a tax year. Applications with supporting documentation are typically submitted in February of the following year, and payouts — equivalent to a 30 per cent refund on vacant commercial space or 35 per cent on industrial space — occur after municipal officials verify the claims.

In theory, the revenue underpinning the rebate is collected upfront and then held in trust for the recipients, but many municipalities report discordance between their budget estimates for the program and the eventual expenditures. Ontario Ministry of Finance data shows that, province-wide, the value of the rebate jumped from $32 million in 2008 to $60 million in 2014 — suggesting that it could be problematic to base budget allocations on the previous year's costs. Notably, a report prepared for Ottawa councillors chronicles recent shortfalls of $10 million as “over the years, the budget has not kept pace with the actual use of the program”.

“It’s an obligation on the municipality. They have to make up that revenue in the budget and build it into their rate structure, but it’s unpredictable and it can be very hard to estimate these things with accuracy,” says Almos Tassonyi, executive fellow and director with University of Calgary’s School of Public Policy and a research associate with International Property Tax Institute. “For example, how many municipalities actually thought Target was going to go out of business?”

Decisions precede consultation

Based on the schedule endorsed in Toronto’s budget vote earlier this winter, the full rebate will still apply for vacancies in the first six months of 2017. It will then be cut to 15 per cent from July to December before it is eliminated entirely beginning in 2018.

However, the city still has to formally submit its request to the Ministry of Finance so opponents of the move — including REALPAC, NAIOP and many of the city’s business improvement areas — are pushing for a more gradual phase-out or a mechanism to enable commercial/industrial ratepayers to self-fund a rebate program. They note that Council had little opportunity to reflect on the industry’s concerns or consider alternatives before making its mid-February decision since the public meeting on the issue was not held until April 20.

“The mayor opined fairly early that he thought the rebate was a subsidy for big business and he wanted to kill it,” recalls Brooks Barnett, REALPAC’s manager of government relations and policy. “The Province also wanted municipalities to consult with the business community, and not all of them have done that to the extent we would like to see.”

Outside Toronto, commercial/industrial ratepayers in Mississauga, Brampton and Caledon have been invited to public meetings later this week to discuss Peel Region’s proposal to reduce the rebate to 20 per cent in 2018, and to 10 per cent in 2019, before eliminating it entirely beginning in 2020. Meanwhile, an early April report to Hamilton councillors promised “engagement will occur during April and into May of this year”, but the Chamber of Commerce, which is prominently listed as a group to be consulted, had not been contacted as of April 27.

“We suspect a lot of these consultations are just checking a box,” says Terry Bishop, president, property tax, with Altus Group Limited. “Municipalities know what they want to do.”

The city of Ottawa convened its public meeting in early March, and considered submissions from BOMA Ottawa and other stakeholders, but appears to have rejected BOMA Ottawa’s proposal that funds be levied specifically from the commercial/industrial property classes to support the rebate’s continuation. This week, the finance and economic development committee will consider recommendations for a two-year phase-out that would see it reduced to 20 per cent of property tax paid on vacant units in 2017 and down to 10 per cent in 2018. City Council will make the final decision later in the month.

Property tax consultants foresee a drop in applications as the rebate is phased out.

“At a 10 per cent rate, clients will likely not even bother because the cost to obtain it will outweigh the benefit unless it’s a significant amount of space,” predicts David Gibson, a director with Yeoman & Company Paralegal Professional Corporation. “These vacancy applications are incredibly arduous. I have claims from 2015 that are still in play and it will be mid-2017 before they will be settled.”

Passage of time obscures original rationale

Burdensome administration is one of municipalities’ frequently highlighted complaints with the program, but that’s also true of the forerunner business occupancy tax. A 1999 joint publication from the Ontario government and the Association of Municipalities of Ontario outlining the many details of what was known as local services realignment states: “Outdated and arbitrary, the BOT was the source of a large portion of municipalities’ tax arrears, and municipalities and businesses have long asked for its elimination.”

Proponents of continuing the rebate have offered some suggestions for curbing municipalities’ costs, including: scoping eligibility to at least 120 days of vacancy; placing limitations on the number of consecutive years a property could qualify; and drawing funds for the rebate solely from the commercial/industrial tax base.

"We recognize the administrative costs have become quite significant to administer the program and validate applicants' claims," Barnett affirms. "Changing the application fee structure so there's more cost recovery there for the city is something we could get on board with."

Other arguments for dismantling the rebate are seen as much more contentious. The real estate industry typically rejects the theory that the Municipal Property Assessment Corporation (MPAC) accounts for vacancy in evaluations, and highly resents the accusation that landlords aren't actively trying to lease space because the rebate offers an undue safety net.

Ontario's four-year assessment cycle makes it a clumsy instrument for addressing periodic vacancies in any case, but property tax experts stress that the rebate is an entirely separate mechanism from the vacancy allowance MPAC applies. It was specifically designed to address the extra tax burden assigned to property owners when the BOT was eliminated.

"The business occupancy tax might be gone, but the cost of this tax is still in place on a gross basis. So instead of the tenant paying the business tax portion and the landlord paying the realty portion, now the landlord is subject to both portions," Gibson explains.

Nevertheless, with the passage of time, there are fewer municipal officials who experienced the relief of shedding the administratively cumbersome BOT firsthand. In the intervening 19 years, they've become more focused on other financial pressures.

"There is no question that it (eliminating the rebate) is a change in tax policy, but this is now viewed as just a subsidy that is in the system," Tassonyi observes.

In practice, existing tenants will make up for the loss of the rebate as landlords pass through property taxes. Thus, Barnett urges decision-makers to take an economic development perspective.

"It's not a subsidy. It's something that keeps the industry relatively competitive if it sees a lot of vacancies," he asserts. "Removing this would be removing a major slice of the tax competitiveness pie."

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