



ADMINISTRATIVE REPORT

Report Date: September 13, 2016
Contact: Kathleen Llewellyn-Thomas
Contact No.: 604. 871.6858
RTS No.: 11621
VanRIMS No.: 08-2000-20
Meeting Date: September 20, 2016

TO: Vancouver City Council
FROM: General Manager of Community Services
SUBJECT: Encouraging Homes for Renters: Emerging Approach on Empty Homes

RECOMMENDATION

- A. THAT Council endorse in principle the approach described in this report for implementing a City-administered program to levy an annual tax on empty homes, the net proceeds of which will be used for affordable housing initiatives, and direct staff to undertake public consultation on the emerging approach.
- B. THAT Council approve a budget of \$220,000 for public consultation to be conducted in the fall of 2016 as described in this report; the \$220K consultation cost will be managed within the approved 2016 Operating budget.

REPORT SUMMARY

There are significant housing challenges in Vancouver and it is important that the City encourage the use and occupancy of the existing housing stock. Empty homes are a potential source of rental housing and Council has directed staff to report back on a program to levy a tax on empty homes in order to encourage owners to occupy or rent out their unit. This report describes recent amendments to the *Vancouver Charter* which allow the City to levy a tax on empty homes (the "Tax") and sets out a potential approach for implementing the Tax on empty residential property, noting that any net revenues from the Tax will be used for affordable housing initiatives. This report also describes a work program for consultation on the potential approach prior to reporting back to Council with a recommended policy and draft by-law.

COUNCIL AUTHORITY/PREVIOUS DECISIONS

On June 29th 2016 City Council directed staff to report back on a City-administered program to levy a tax on empty homes.

Part XXX (section 30) of the *Vancouver Charter* provides authority for Council to, by by-law, impose an annual tax on empty homes.

CITY MANAGER'S/GENERAL MANAGER'S COMMENTS

Vancouver is facing a housing crisis. Empty and underutilized housing represents a source of supply that could be made available immediately and owners should be encouraged to either occupy these units or make them available for rent. The Province of BC has amended the Vancouver Charter to provide the City with the authority to administer a tax on empty homes and this report describes a potential approach for implementation. The overarching goal of the program will be to encourage owners to rent out empty housing units. Council is asked to approve the emerging approach in principal and direct staff to continue public and stakeholder engagement before reporting back with a recommended policy.

The City Manager supports Council's approval of the recommendations set out herein.

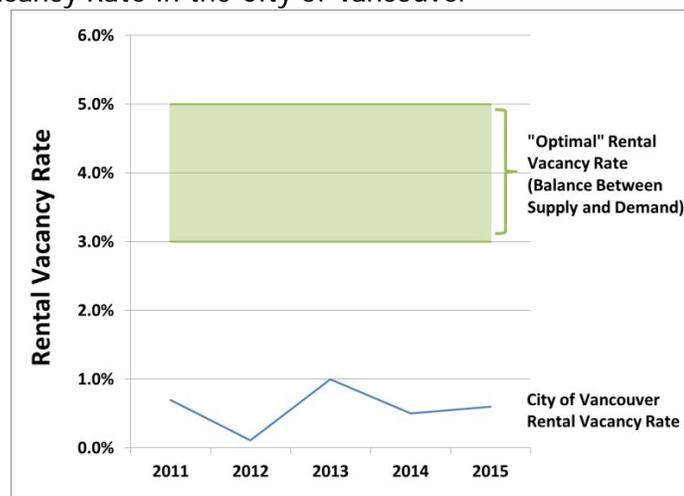
REPORT

Background/Context

1. There are significant housing challenges in Vancouver

Vancouver has one of the lowest rental vacancy rates in Canada, averaging 0.6% in 2015, 0.5% in 2014, 1.0% in 2013, 1.1% in 2012 and 0.7% in 2011. A rental vacancy rate between 3% and 5% is considered to be a "healthy" balance between supply and demand (Figure 1).

Figure 1: Rental Vacancy Rate in the City of Vancouver



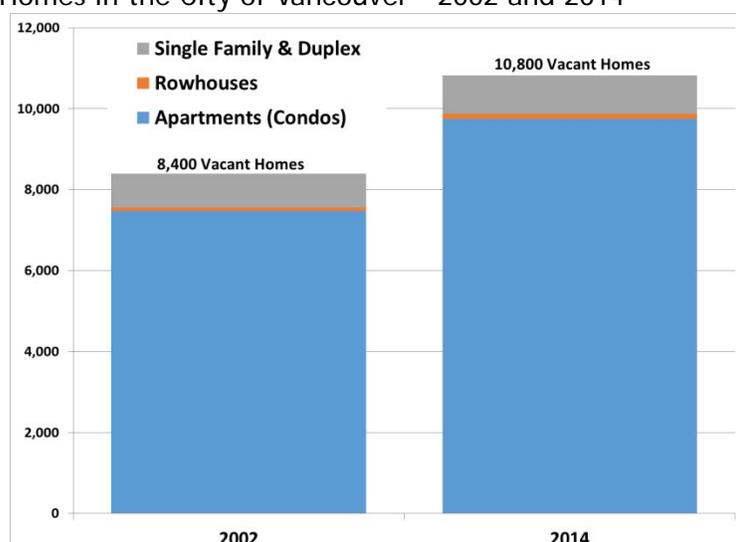
Low rental vacancy increases competition for housing among renters, putting upward pressure on rents and increased strain on renter households, especially those with low or

moderate incomes who may already be paying more than they can afford on rent. 34% of renters pay over 30% of their income on housing, with 14% paying over 50% of income on housing (CMHC Rental Market Reports and 2011 National Household Survey).

2. Empty Homes are a potential source of rental housing supply in the City and Council has directed staff to take action on empty homes

In March 2016, Council received a presentation from staff on the results of a consultant study which examined BC Hydro consumption data over time for housing units within the city. The study found that 4.8 per cent of housing units in Vancouver were unoccupied for 12 months or more in 2014. The study also found that this rate has stayed relatively stable since 2002. This represents ~10,000 long term empty housing units, of which nearly 90 per cent are condominiums and apartments (Figure 2).

Figure 2: Empty Homes in the City of Vancouver - 2002 and 2014



Recent polls indicate strong support for government action to address empty homes:

- 82% support for a vacancy tax (Angus Reid, 2015);
- 91% of people who completed the Talk Vancouver survey agreed that the number of empty homes in Vancouver is a problem (City of Vancouver 2016-Talk Vancouver voluntary survey); and
- 80% support for penalties on people who purchase property without the intention to live in it or rent it out (Insights West, 2016).

The May 2016 TalkVancouver survey on empty homes revealed that investor owners tend to have somewhat different opinions about the proposal to tax empty homes in Vancouver compared to the overall response. In general, investors were less likely to agree that the number of empty homes is a problem that merits government action (Table 1).

Table 1: Investor Responses to Key Survey Questions vs. Overall Response (City of Vancouver Empty Homes Survey - May 2016)

Statement	% of investors who agree or strongly agree	% of overall survey respondents who agree/ strongly agree
The number of empty homes in Vancouver is a problem	71%	91%
If a property owner wants to keep their home empty, that's their right	47%	23%
The City should advocate for senior government action on empty homes	64%	88%
The revenue generated from additional taxes on empty homes should be used to create affordable housing in the city	70%	87%
Owners who occupy or rent out their home should pay less tax than owners who leave their home empty	82%	87%

Note: the TalkVancouver survey received over 15,000 responses. Approximately 500 respondents indicated that they own more than one property, who are assumed to be investors for the purposes of the table above.

Empty homes take away from the supply of housing available to rent. Given the significant housing challenges in Vancouver, it is important to ensure that the housing stock is available to provide more opportunities for use by local residents and workers and not solely as investments that are not rented out or lived in on a full time basis. Council has directed staff to move forward with a City-administered program to impose a tax on empty homes in order to encourage owners to occupy or rent out their homes. Council directed staff to work with the Province to enable this program and the Province has responded with amendments to the *Vancouver Charter* to allow the City to move forward with the new tax.

3. The Province has amended the Vancouver Charter to allow the City to Levy the Tax

Effective as of July 28, 2016, the *Vancouver Charter* was amended by the *Miscellaneous Statutes (Housing Priority Initiatives) Amendment Act* to enable Council to impose, by by-law, an annual vacancy tax on a parcel of "taxable property". This authority is unique to the City and any vacancy tax program would be administered by the City in accordance with a by-law to be enacted by Council (see Appendix A for a copy of Part XXX (section 30) of the *Vancouver Charter* the enabling legislation).

The new vacancy tax sections in Part XXX of the Vancouver Charter set out provisions that must be included in a vacancy tax by-law, as well as provisions that may be included in a vacancy tax by-law at Council's discretion.

The by-law is required to, among other things:

- establish circumstances in which a property is to be considered vacant;
- specify a vacancy reference period and total length of time that apply for the purposes of determining when a residential property is vacant - the legislation is structured so that the tax will be levied on a residential property that is unoccupied for a certain period within a defined period of time;

- provide a process for administering and collecting the tax;
- establish the basis on which the tax is imposed and the rate of the tax;
- establish exemptions;
- establish notice requirements for registered owners that are subject to the tax;
- provide for a complaints and review process; and
- provide for annual reporting, which is to be made available to the public - any money raised by the tax must be spent on affordable housing initiatives and for the purposes of administering and collecting the tax.

The by-law may also:

- require registered owners to make a property status declaration and set out requirements and a process for doing so, which may include a fine or penalty for failure to make a declaration, making a false declaration or failing to provide sufficient information or evidence to substantiate the declaration;
- require a registered owner to provide information or evidence to confirm the status of the property or verify a property status declaration;
- establish penalties and interest for failure to pay, or pay on time;
- authorize City employees to enter onto residential property for which a property status declaration is required to determine the status of the property;
- provide that the vacancy tax is a levy to be inserted in the real property tax roll; and
- establish different categories of residential property, owners and vacancy and make different provisions for different categories so that, for example, a different rate could be applied to certain categories.

4. The emerging approach for Vancouver is informed by consultation with local experts and the broader public

In May 2016, the City ran a survey on the TalkVancouver platform to ask the public about the potential for a tax on empty homes, including high level questions about potential aspects of the Tax.

- 91% of respondents agreed that the number of empty homes in Vancouver was a problem;
- 88% agreed that the City should advocate to senior levels of government for actions to reduce the number of empty homes in Vancouver;
- 84% agreed that owners who occupy or rent out their home should pay less tax than owners who leave their home empty;
- 87% agreed that revenue generated from additional taxes on empty homes should be used to create affordable housing in Vancouver; and
- 62% agreed (and 32% were neutral) that the process for taxing empty homes should be administered in a way that is similar to what is currently in place for the Home Owner Grant.

On August 18, 2016, the City convened a working session on empty housing with local housing, real estate and legal public policy experts. The session provided an opportunity for local subject matter experts to comment on potential approaches that the City could take to impose the Tax.

Participants were asked to comment on the draft objectives for the Tax as well as the criteria for identifying which properties would be subject to the Tax, what the potential exemptions might be and how the Tax might be administered.

Key advice provided in the workshop includes:

- specifying clear objectives and targets for the Tax, including a framework for how funds will be used to support affordable housing initiatives, as required by the enabling legislation;
- integrating clear definitions and exemptions into the bylaw to deal with scenarios that could be problematic from a fairness or equity perspective, e.g. rented units being used as AirBNB instead of long-term rental; and
- identifying indicators to use as benchmarks to measure the success of the Tax in achieving its objectives. These indicators could also be used to define an 'exit strategy' for the Tax in the event that the Tax either successfully meets its goals or a change in the market context takes away the need for a tax.

The summary of notes from the August 18th workshop session are available in Appendix B.

5. Other initiatives that could impact the number of empty homes

Short-term Rentals

City staff are currently preparing policy recommendations for council relating to the regulation of short term rentals. These recommendations will be brought forward in a separate report to council later in the fall of 2016. The recommendations will be harmonized with the proposed approach to taxing empty homes as described below.

Strategic Analysis

1. Emerging directions

This section of the report identifies a general approach developed by staff for a potential tax on empty homes in Vancouver. This emerging direction is informed by:

- the amendments to the *Vancouver Charter* made effective as of July 28, 2016;
- research into best practices in other cities around the world;
- advice from local experts and consultation with the general public; and
- initial staff analysis of administrative feasibility.

If Council endorses the emerging directions in principle, staff will engage with the general public as well as local experts and stakeholder groups to refine the approach prior to a report back to Council with a final recommended program for imposing the Tax in Vancouver and a draft by-law. The project timeline and approach to consultation are discussed in the next steps section of this report.

A. *Draft Objectives of the Tax*

It is proposed that the Tax will:

- encourage owners of empty or underutilized homes to occupy or rent out their property;
- ensure any net revenues collected from the tax are used for affordable housing initiatives;
- ensure that owners are provided with notice of the potential tax each year and that owners who choose to rent out their homes have access to information and resources to support them as landlords; and
- ensure that the program to tax empty and underutilized homes is easy to communicate and administer.

The program to tax empty and underutilized homes will be based on and consistent with the provisions set out in Part XXX of the *Vancouver Charter*.

B. Indicators that can be used to Estimate the Impact of the Tax

There are several key indicators that the city can use to measure the impact of the Tax:

- number of empty homes and trend over time (repeat BC Hydro data methodology);
- number of condominiums in the rental pool and trend over time (CMHC annual survey);
- rental vacancy rate and average rent increases each year (CMHC annual survey);
- annual change in # of homes subject to the Tax (Tax data).

When these indicators show improvements in the rental market (e.g. the rental vacancy rates rises to between 3% and 5%), the Tax could be reduced or eliminated.

C. Potential Approach

It is proposed that the Tax will be administered using a process that is similar to the annual Provincial Home Owner Grant program. A parcel of residential property that serves as a principal residence for an owner, long-term tenant or long-term licensee (such as a family member) is not intended to be subject to the Tax. The potential approach includes the following key components:

- residential property that is not occupied as a principal residence by the registered owner, a long-term tenant or a licensee for a defined period of time within a defined period is intended to be subject to the Tax;
- the Tax will be administered using an annual self-declaration, audit and complaint response process;
- the rate of the Tax will be a percentage of the assessed value of the residential property;
- residential property that does not serve as a principal residence may still be exempt from the Tax if it meets certain criteria;
- there are certain types of properties in the city that will not be subject to the Tax - only residential Class 1 property can be subject to the Tax; and
- the Tax will be aligned with City policy regarding short-term rentals.

1. Proposed Definition of Principal Residence:

It is proposed that the definition of principal residence be adapted from the Provincial Home Owner Grant process, criteria and rules. The BC Government Home Owner Grant program describes a principal residence as “the usual place that you make your home. It’s where you live and conduct your daily affairs, like paying bills and receiving mail, and it’s generally the residence used in your government records for things like your income tax, Medical Services Plan, driver’s licence and vehicle registration”.

There is an important difference between principal residence and day-to-day occupancy. The proposed Tax allows for owners/ tenants to be away from home for extended periods so long as the home is their principal residence for the amount of time that Council specifies. The actual number of days that the property is physically occupied will not be used to define whether a home is subject to the Tax. Instead, the Tax may be applied to homes that are not an owner’s principal residence, nor are they the principal residence of a tenant or licensee (e.g. owner friend or family member), for a minimum number of days in the previous year (for example 9 months out of 12).

2. Proposed Administration of the Tax

It is proposed that the Tax be administered through an annual self-declaration, audit and complaint response process.

Identification of Empty Homes through Self Declaration

Each year, every residential property owner in Vancouver will receive notice from the City requiring that the owner declare the status of the property (Figure 3)

Figure 3: Example of Annual Self-Declaration Form

For at least 9 of the past 12 months, was the property:

- A The owner's principal residence? (Tax does not apply)
- B Rented to a long term tenant? (Tax does not apply)
- C The principal residence of a licensee (such as a friend or family member)? (Tax does not apply)
- D Neither A, nor B, nor C, but the property is eligible for a defined exemption from the Tax? (Tax does not apply)
- E Neither A, nor B, nor C, and the property is not eligible for a defined exemption from the Tax? (Tax applies) (e.g. long term empty homes, second homes that are used occasionally by the owner or family, or properties used for only for part of the year)

Owners will be asked to declare the status of the property over the course of the previous year. For example, owners filling out the declaration form in January 2018, will be asked to declare the property status throughout the 2017 reference period (Figure 4)

Figure 4: Proposed Process for Administration - Timeline for Year 1 Vacancy Reference Period (2017 Calendar Year)



Audit, Enforcement and Complaints

In addition to random and targeted audits, the City will accept and act on information about suspected empty homes. The legislation provides for the City to compel owners to provide substantiating evidence to support a property status declaration in order to be exempt from the Tax.

3. Setting the Tax Rate

It is proposed that the Tax be levied as a percentage of the assessed value of the property.

In order to provide Council with enough information to make an informed decision on where to set the rate, City staff will undertake scenario modelling to estimate the revenue collected and available to fund the administration of the Tax and provide for funds for affordable housing.

The overarching objective of the Tax is to encourage owners to rent out or occupy their home. The rate will need to be set at a level sufficient to encourage owners to change their behaviour and rent out or otherwise occupy their homes. Owners of empty homes are already foregoing a significant amount of revenue in annual rent and the Tax would need to add to this cost in a meaningful way in order to influence the behaviour of owners. For example, if the rate were set between 0.5% and 2.0%, owners of empty condominium units might be subject to an annual Tax bill of between \$3,000 and \$12,000 (based on an assessed value of \$600,000). Setting the rate in this range would also mean that owners would be foregoing between \$24,600 and \$33,600 annually with the Tax bill representing between 12% and 36% of this cost (Table 2). Potential floors, ceilings and tiers for the Tax have yet to be analyzed and are still under consideration.

Table 2: Estimated cost of leaving a home empty

	Tax Rate	Foregone Rent	Tax Bill	Total
Residential Strata	0.5%	\$21,600	\$3,000	\$24,600
	2.0%	\$21,600	\$12,000	\$33,600
Residential Single Family	0.5%	\$43,200	\$9,500	\$52,700
	2.0%	\$43,200	\$38,000	\$81,200

Estimates are based upon representative property values as follows:

- Residential Strata Unit: \$600,000 with monthly rental value of \$1,800
- Residential Single Family: \$1,900,000 with monthly rental value of \$3,600

Staff will consult with the public and stakeholders through the fall about the level to set the rate before reporting back to Council.

4. Proposed Exemptions

Exemptions could be adapted from the Provincial Home Owner Grant process, criteria and rules. The list of situations that may warrant exemption will be the focus of the next round of public and stakeholder consultation. There may be situations where staff would recommend exemptions other than those identified in the Provincial Home Owner Grant. Several potential exemptions identified for public consultation so far are outlined below:

- property is in probate;

- property is unfit for occupancy because it is undergoing major renovations with permits;
- the owner or tenant is in care;
- property is undergoing change in ownership;
- property is subject to rental restrictions; and
- owner or tenant uses home for the majority of the year (e.g. 9 of 12 months) for work/ study purposes but claims principal residence elsewhere.

As noted, the range of exemptions will be a major focus of the public consultation program in the fall of 2016. It will be important to hear from residents about the types of situations that should warrant an exemption. For example, if a home is not used as a principal residence, but it is occupied for 6 months of the year, should that home be treated differently than a home that is empty for nine months a year?

5. Types of Properties that will not be subject to the Tax

Certain types of properties in the City are not likely to be subject to the Tax even if there are empty housing units on the property. The enabling legislation allows the City to levy taxes on a parcel of residential property (including strata lots) and does not allow the city to go beyond the parcel level. For example, a house with a basement suite or laneway house would not be subject to the Tax if at least one of the units is occupied. Similarly, purpose built rental buildings are treated as one parcel (one property tax bill) so the tax would not apply if at least one unit on the parcel is occupied. This is considered acceptable to staff given the very low vacancy rate in purpose built rental buildings (0.6% in 2015).

6. Alignment with Short-Term Rental Policy

Concurrent to the development of this proposal, the City is exploring the definition and management of short-term rentals, of both personal residences and corporate rental properties. Accommodations for corporate short term rentals was discussed as part of the SME workshop and recognized as a necessary element of the housing mix to accommodate the needs of corporations to bring in top talent employees and/or consultants on a temporary basis. To meet the objectives of both proposals and ensure alignment on final outcomes, the project teams have been in discussions to ensure coordination on elements that will cross-over between both projects.

Next Steps

Public and Stakeholder Consultation

Further consultation with the public and key stakeholders is needed in order to ensure that action to implement a tax on owners of empty housing and under-occupied investment properties is appropriately targeted and fair. The consultation process may include a survey to gauge public opinion on the emerging approach identified thus far as well as public open houses to present the emerging approach and allow stakeholders an opportunity to discuss the proposal with City staff.

It will be important to hear from the wide range of stakeholders who could be impacted by the Tax such as renters struggling to find accommodation in Vancouver. It will also be

important to hear from existing investors about their motivations and intentions and the range of situations that should be considered in designing the Tax program.

Project Timing and Work Program

The work program to design and implement the Tax is provided below. Staff anticipate reporting back to Council with a recommended program and by-law to implement the Tax by the end of 2016.

Table 3: Project Timing and Workplan

Task	Timing
Report to council on emerging directions	Fall 2016
Outreach to owners and general public	
Public consultation on emerging directions	
Refine policies and report to council for approval of vacancy tax by-law	Winter 2016
If By-Law is Approved	
Owners receive notification that the vacancy reference period will be applicable starting January 1, 2017	December 2016
2017 vacancy reference period begins	January 1 2017
Owners receive reminder that the by-law is in effect	June 2017
Staff development of IT infrastructure and systems to administer the Tax	January 1 - Fall 2017
2017 vacancy reference period ends	December 31 2017
2017 self-declaration forms are mailed out with 2018 advance tax notice	December 2017

Budget for Public Consultation 2016

Should the Recommendation set out in this report be approved, the project team will commence public consultation and engagement with external subject matter experts (SMEs) to help refine the proposed model. Regardless of the final outcome of this proposal, there will be costs incurred to complete consultation.

The estimated cost for this consultation (beyond CoV staff time and resources) is \$220,000 and accounts for three elements:

1. Notification - September mailing to all home owners to notify them of public consultation and ways to engage/stay informed (\$210,000)
2. Open houses and workshops (\$7,500)
3. Data collation and summary of public survey results (\$2,500)

Details of the incurred costs will be reported back to council in the following report at the end of this year.

Implications/Related Issues/Risk (if applicable)

Financial

While the purpose of the Tax is to increase the supply of rental homes within the City, it is expected to generate revenues, net of administration and collection costs, to be used for affordable housing initiatives as required by the *Vancouver Charter*.

Rates must be set to encourage owners of empty or underutilized homes to rent or otherwise occupy their properties and to generate sufficient revenue to cover administration costs. Staff will undertake additional public consultation and incorporate feedback from key stakeholders in making final rate recommendations to Council. The program provides for annual reporting, which is to be made available to the public.

From an implementation and administrative perspective, the emerging approach is to develop a program that leverages the existing property assessment and taxation system. Council will have authority over the Tax including the determination of definitions of vacant properties, exemptions and rates.

If the program is successful in encouraging owners to rent out or occupy their homes, the revenue generated may be low and / or declining each year. As this is an annual tax, the tax rate and the program itself will be reviewed and adjusted on an annual basis.

The determination of financial outcomes cannot be reasonably estimated at this time as the detailed design of the program is not yet finalized. A more detailed financial framework will be included in the final staff policy recommendation report to Council.

The estimated cost for the initial consultation (beyond CoV staff time and resources) is \$220,000, and will be managed within the approved 2016 Operating budget.

Legal

Part XXX of the *Vancouver Charter* (Sections 615 - 622) now authorizes the City to impose, by by-law, an annual vacancy tax on a parcel of "taxable property" in Vancouver, being residential property that is determined to be vacant under the by-law, not otherwise exempt from property taxation under the *Vancouver Charter* and not exempt from payment of the Tax under the by-law itself. Subject to Council's approval of the Recommendations set out in this report, staff intend to bring a draft by-law forward to Council for consideration, following public consultation, in the fall of 2016. As set out earlier in this report, this by-law must include the provisions that are required to be in a vacancy tax by-law under Part XXX of the *Vancouver Charter* and will also include those additional provisions which may be included at the discretion of Council, following public consultation, to enable the Tax program to be implemented.

CONCLUSION

This report describes a potential approach for implementing a City administered tax on empty homes and a work program for consulting further on the potential approach prior to reporting back to Council with a recommended policy.

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Appendix A: Enabling Legislation

VANCOUVER CHARTER

[SBC 1953] CHAPTER 55

Part XXX — Vacancy Tax

Definitions for this Part

615. In this Part

"property status declaration" means a property status declaration required under section 618 (a) *[permissive vacancy tax by-law powers]*;

"residential property", subject to any applicable regulations, means real property classified as class 1 property (residential) under the *Assessment Act* ;

"status", in relation to a residential property, means whether the property is any of the following, as applicable:

- (a) in a category of residential property that is exempt under section 617 (f) [required vacancy tax by-law provisions] from the vacancy tax;
- (b) vacant property;
- (c) taxable property;

"taxable property", in relation to a vacancy tax, means residential property that is all of the following:

- (a) vacant property;
- (b) not exempt from taxation under section 373 [annual rating by-law];
- (c) not in a category of residential property that is exempt under section 617 (f) from the vacancy tax;

"vacancy reference period" means a period of time specified by a vacancy tax by-law for the purpose of determining whether residential property was unoccupied during the period such that it is vacant property;

"vacancy tax" means a tax imposed on taxable property by a vacancy tax by-law;

"vacancy tax by-law" means a by-law under section 616 (1) [vacancy tax];

"vacant property" means residential property that is unoccupied during the vacancy reference period for at least the total length of time specified by a vacancy tax by-law and in the circumstances established in the vacancy tax by-law.

Vacancy tax

- 616.** (1) The Council may, by by-law, impose an annual vacancy tax on a parcel of taxable property in accordance with this Part.
- (2) A registered owner of taxable property must pay the vacancy tax imposed on that parcel of taxable property by a vacancy tax by-law.
- (3) A vacancy tax, together with any applicable penalties and interest payable under section 618 (d) [permissive vacancy tax by-law powers], owed to the city is a debt due to the city and is a levy that
- (a) is a charge or lien on the real property on or in respect of which the vacancy tax is imposed,
 - (b) has priority over any claim, lien, privilege or encumbrance of any person except the Crown, and
 - (c) does not require registration to preserve it.
- (4) The city may use monies raised from a vacancy tax only for the purposes of initiatives respecting affordable housing and for the administration and collection of the vacancy tax.

Required vacancy tax by-law provisions

617. A vacancy tax by-law must do the following:

- (a) provide for a process for the administration and collection of a vacancy tax;
- (b) establish circumstances in which residential property is to be considered unoccupied;
- (c) specify a vacancy reference period and the total length of time that apply for the purpose of determining whether a residential property is vacant property;
- (d) establish the basis on which the vacancy tax is imposed, which may be any basis in relation to taxable property;
- (e) establish the rate or amount of the vacancy tax;
- (f) establish exemptions from the vacancy tax;
- (g) establish requirements respecting notice to a registered owner of a residential property that is subject to the vacancy tax;
- (h) provide for a record of taxable properties and for a process to correct and update that record;
- (i) provide for a process to hear and determine complaints respecting the imposition of a vacancy tax, including providing for a review process for determinations of complaints;
- (j) provide for a process to refund to a registered owner any excess amount of vacancy tax paid by the registered owner and any amount of penalty and interest paid under section 618 (d) [permissive vacancy tax by-law powers] on the excess;
- (k) provide for the preparation of an annual report respecting the vacancy tax, which report must include the amount of monies raised from the vacancy tax and how the monies were used;

(l) provide for making the annual report referred to in paragraph (k) available to the public.

Permissive vacancy tax by-law powers

618. A vacancy tax by-law may do any of the following:

(a) provide that a registered owner of a residential property must make a property status declaration;

(b) establish requirements and provide for a process respecting property status declarations;

(c) provide for requiring a registered owner of a residential property to provide information respecting the status of the property, including providing information to support a property status declaration and submitting evidence to verify the declaration;

(d) establish penalties and interest payable for failure to pay the vacancy tax and for failure to pay the vacancy tax by a specified date;

(e) authorize employees of the city or other persons to enter onto residential property in accordance with section 621 [entering onto residential property];

(f) provide that a vacancy tax is a levy lawfully inserted in the real-property tax roll and, if that provision is made, section 409 (2) and (3) [special charges that are to be collected as real-property taxes] applies.

Vacancy tax by-law variation power

619. The Council may, in a vacancy tax by-law,

(a) establish categories of residential property, registered owners and vacant property,

(b) make different provisions for different categories established under paragraph (a) in respect of the following:

- (i) different vacancy reference periods and different total lengths of time that apply for the purpose of determining whether a residential property is vacant property;
 - (ii) different rates or amounts of vacancy tax;
 - (iii) different exemptions;
 - (iv) different requirements respecting notices to a registered owner;
 - (v) different requirements respecting a property status declaration, including respecting any information or evidence required under section 620 [property status declarations];
 - (vi) different requirements respecting information that a registered owner must provide respecting the status of a residential property of the owner, and
- (c) make different provisions for different times, conditions or circumstances.

Property status declarations

620. (1) For the purposes of administering a vacancy tax, a vacancy tax by-law may do any of the following respecting property status declarations:

- (a) provide for requiring a registered owner of a residential property to provide information respecting the property and the identity and address of the registered owner and the individual occupying the property, if any, which may include information respecting the status of the property and the nature of its occupancy during the vacancy reference period;
- (b) require a registered owner of a residential property to submit evidence necessary to verify a property status

declaration and the status of the property during the vacancy reference period;

(c) specify the type and form of information that a registered owner must provide or of the evidence that a registered owner must submit;

(d) provide for determining the information and evidence that is to be considered satisfactory to demonstrate the status of a residential property;

(e) establish fines and penalties that may be imposed on a registered owner who, in relation to a residential property,

(i) fails to make a property status declaration,

(ii) makes a false property status declaration,

(iii) fails to provide required information or to submit required evidence,

(iv) provides information or submits evidence that is not considered satisfactory, or

(v) provides false information or submits false evidence;

(f) provide that, if a registered owner does anything listed in paragraph (e) (i) to (v), the residential property is considered to be vacant property and is subject to the vacancy tax.

(2) For certainty, a vacancy tax by-law may require a registered owner to provide information or submit evidence whether or not the owner makes a property status declaration.

Entering onto residential property

621. (1) The authority to enter onto a residential property may be exercised by an authorized employee of the city or other person authorized by the city only

(a) in relation to a residential property for which a property status declaration may be required under a vacancy tax by-law,

(b) for the purpose of determining the status of the property and whether the property is subject to the vacancy tax,

(c) at reasonable times and in a reasonable manner, and

(d) after reasonable steps are taken to advise the registered owner and the individual occupying the property, if any, before entering onto the property.

(2) An authorized employee of the city or other authorized person may enter into a residential property that is a private dwelling only if the individual occupying the property, if any, consents.

Regulations

622. (1) For the purposes of this Part, the Lieutenant Governor in Council may make regulations referred to in section 41 of the *Interpretation Act* .

(2) Without limiting subsection (1), the Lieutenant Governor in Council may make regulations for the purposes of the definition of "residential property" in section 615 [definitions for this Part]

(a) excluding real property that is expressly included as class 1 property (residential) under the *Assessment Act* , and

(b) including real property that is expressly excluded from class 1 property (residential) under the *Assessment Act* .

Appendix B: August 18th SME Workshop Notes

**Vacant Homes Tax
Subject Matter Expert Session (SMEs)
Meeting Notes**

Date: Thursday, August 18, 2016
Time: 1:00pm – 4:00pm
Location: City Hall, Main Floor Town Hall
Attendees: **Project Team:** David Nelson, Matt Bourke, Laura Wierenga, Sarah Ellis, Laura Barbir, Bonnie Penny, Heidi Granger
City Staff: Kathleen Llewellyn-Thomas, Grace Cheng, Abi Bond
SMEs:

- **Academics:** Andy Yan (SFU), Thomas Davidoff (UBC Sauder School), Tsur Somerville (UBC Sauder School); Joshua Gordon (SFU), Margot Young (UBC Law School)
- **Industry/Community:** Andrew Ramlo (Urban Futures); David Hutniak (Landlord BC); Karen Sawatsky (Renters' Advisory Committee); Aaron Robinson (Vancouver Board of Trade)
- **Government:** Margaret Eberle (Metro); Karen Hemmingson (BC Housing); Richard Sam (CMHC); Grant MacDonald (BC Assessment)

Facilitator: Vince Verlaan

OVERVIEW

On August 18th, 2016 the City of Vancouver (CoV) convened subject matter experts (SMEs) for an afternoon workshop on work to date developing a tax on empty homes. The session provided an opportunity for the SMEs to comment on potential approaches that the City could take to impose taxes on vacant homes. Participants were asked to comment on the draft objectives for the tax as well as the criteria for identifying which properties would be subject to the tax, what the potential exemptions might be, and how the tax might be administered.

The enabling legislation passed by the BC legislature on July 25th allows the City of Vancouver to set definitions and define a program to tax empty homes. The legislation also provides the City with the power to collect the tax and remedies for non-payment and requires that any revenues collected from the tax be put towards affordable housing.

Workshop participants were asked to comment on a set of draft objectives put forward for discussion by city staff:

1. Encourage the best use of the city's housing stock by encouraging owners of vacant or underutilized homes to occupy or rent out their property
2. Ensure that the program to tax vacant and underutilized homes is easy to communicate and administer
3. Ensure that proceeds from the tax are used for affordable housing initiatives

4. Ensure that the program to tax vacant and underutilized homes is consistent with the new provisions established in the Vancouver Charter

Workshop participants were also asked to comment on a potential approach for administering the tax. The current thinking is that the tax would be structured using definitions and processes that are similar to the BC Home Owner Grant program. Under this framework, a property must be used as a principal residence by the owner or a long-term tenant, if not then a vacant tax may apply.

WHAT WE HEARD: STRENGTHS

- Participants broadly supported the stated objectives to the tax, noting however that the objectives should be more specific and focused.
- Other strengths observed by participants:
 - The objectives of the tax are well aligned with public concern regarding empty properties and underutilized homes, like investment properties and second homes, that could be brought into the rental housing supply.
 - The proposed approach for identifying a home subject to the tax is generally well targeted and suited to the purpose of bringing under-occupied property back into the housing supply.
 - The approach avoids many of the pitfalls associated with trying to identify empty properties through utility data or physical property inspections, which would either require substantial administrative burden or would be difficult to enforce.
 - The proposed approach meets the objective of creating a tax that is easy to communicate, due to alignment with existing concepts like the Home Owner Grant.

WHAT WE HEARD: AREAS TO IMPROVE/REFINE

1) Objectives and Approach

- Objectives should be as specific and clear as possible, and specify clear targets and goals regarding impact, administration, and use of funds.
- Several participants noted that there should be greater emphasis on the goal of supporting owners in becoming landlords.
- Several SMEs suggested approaching other levels of government for data to ease administration of the tax - i.e. CRA data on declared primary residence and rental income.
- As proposed in the approach, the onus is on an owner renting out a unit to provide evidence that the unit is the primary residence for their tenant, but there is currently no standard format for doing this within existing leases. Participants suggested that the City explore other ways for an owner to prove long-term tenancy in their unit.

2) Exemptions and Scenarios to Consider

- Aligning empty homes tax concept of long-term occupancy with HOG concept of 'primary resident' works for having an easy-to-understand tax, but several scenarios may push the limits of this approach.
 - Example of a non-primary residence being rented to a person who has a principal property elsewhere. Is the property subject to the tax?
 - Another example was the issue of a second home being rented to a tenant who is then using the home for AirBNB.
- Other proposed exemptions by the group:
 - Strata subject to rental restrictions: Mixed feedback - some encouraged exemptions, others suggested they should still be subject to the tax to encourage strata to reverse their rental restrictions.
 - Properties in the process of being renovated or demolished
 - Properties being used by people who study or work in Vancouver but don't live in the City full-time (i.e. people who rent or own a second home to occupy during the work week).

3) Setting the Tax Rate

- Suggested that the tax rate should be high enough to influence behavior and encourage owners to rent out empty units, but not so high that potential taxpayers are incentivized to evade the tax.
- Also suggested that penalties for failure to pay should be at least as high as the actual level of tax, if not higher - otherwise, there will be strong incentives for owners to simply ignore the tax.
- Raised questions regarding what revenue is expected through the tax and how this will impact the tax rate over time.

4) How to Measure Outcomes

- Participants noted that it will be critical to track indicators to measure the effectiveness of the tax in achieving objectives. This is especially important given the limited existing evidence of the impact of empty homes taxes in other cities.
 - Some indicators proposed by Staff have limitations - i.e. CMHC rental vacancy rate does not use a consistent base year to year.
 - Suggest one indicator should be the share of vacant homes as a % of overall housing stock.
- Also strongly encouraged the City to make data collected from the tax available to the academic community to better understand housing market dynamics.

5) Options for Use of Revenue

- Several participants raised alternative proposals for use of revenue from the empty homes tax aside from using funds to create affordable housing. Some suggestions included a rebate to taxpayers or using the funds to buy down affordability in the City's rental housing programs.
- Given the direction provided in the enabling legislation regarding use of funds being put toward affordable housing, some of these approaches may not be

possible to implement. However, SMEs still suggested that staff be more specific about how funds will be used within the context of the authority provided to the City.

6) Other Issues and Challenges to Consider

- Suggested that staff ensure there are feedback mechanisms to address issues arising out of the first round of taxes in subsequent years.
- Suggested that staff consider an 'exit strategy' for the policy in the event that the rental vacancy rate increases beyond a specified level or the market context changes. Concern that this could become a permanent tax rather than a tax targeted to meet a defined purpose.
- Participants also emphasized the importance of privacy protections for individual owners, particularly if there are data sharing agreements with other levels of government.
- Several participants suggested coordinating the work with ongoing work at the City and Provincial level relating to AirBNB, Residential Tenancy Act reform, and the new increased Property Transfer Tax on foreign transactions.

Appendix C: Additional Research on Other Jurisdictions

In order to inform this report, Staff undertook research into the approaches and lessons learned from other jurisdictions that have adopted or are considering adopting policies taxing vacant residential property. Through an extensive online research process, Staff identified 11 other cities around the world that have adopted a form of tax on empty residential properties. For these cities, staff identified key characteristics of the tax, including the specific definition of vacancy, the tax mechanism and rate, any exempted properties, and enforcement processes.

In addition, staff reached out via email and/or telephone to representatives from 5 of the of the 11 jurisdictions surveyed via literature review, in order to gather additional information regarding the implementation, enforcement, and impact of each city's vacant homes tax.

Summary information about each tax drawn from the literature review and interviews is outlined in the table on the next page.

City	Tax Rate	Approx. Vacancy Tax on \$1M Property (converted to CAD)	How does the Tax Define Vacancy?	Does the Tax Impact Second Homes?	Exceptions	Declaration / Verification
France	12.5% of notional rental value for 1 st year vacant 25% for 2 nd year.	N/A	Property is empty and unfurnished for over a year as of January 1 st .	No - but jurisdictions that tax vacant homes may also levy a 20% property tax surcharge on second homes	<ul style="list-style-type: none"> • Vacancy beyond the control of the owner (is for rent or for sale) • Occupied housing more than 90 consecutive days (3 months) in a year • Housing in need of major work to be habitable 	Self-declaration
Jerusalem (Israel)	76.84/ m ² of floor space	\$5710.74	Residential structure in which no person has regularly resided during nine of twelve months (consecutive or cumulative) preceding December 1.	Yes	<ul style="list-style-type: none"> • Public housing 	Various, including info from water meters
Scotland	100% premium on Council tax	\$3999.87	Property is either not lived in at all or is lived in for less than 25 days in any twelve month period.	No - However, councils have authority to reduce an existing tax discount for second homes, and recently introduced a new stamp duty on purchases of additional residences	<ul style="list-style-type: none"> • Vacancy beyond the control of the owner (is for rent or for sale) • Housing in need of major work to be habitable • Housing owned by social housing • Owner death, for 6 months after probate; • Owner in prison; in a care home or hospital; • Home has been repossessed 	Various including utility bills, TV license and anything else that a local authority deems appropriate. Visiting officers may be utilised to follow up on individual properties.

					<ul style="list-style-type: none"> Dwelling is being structurally repaired 	
United Kingdom	Up to 50% premium on Council tax	\$1782.00 (in Council of Camden)	Home empty and unfurnished for over 2 years	No - However, councils have authority to reduce an existing tax discount for second homes	<ul style="list-style-type: none"> Dwelling is sole or main residence of a member of the armed services Dwelling is part of a single property that is being treated as part of the main dwelling Owner death, for 6 months after probate; Owner in prison; in a care home or hospital; Home has been repossessed; Home can't be lived in by law - e.g. home is derelict or has been compulsory purchased and will be demolished 	Self-declaration
Washington, DC (USA)	<p>Vacant homes \$5.00/\$100 in assessed value</p> <p>Blighted homes \$10.00/\$100 of assessed value</p> <p>\$250 registration fee</p>	\$50,000 for a vacant property	Residential building where it can be shown that there is no resident with an intent to return and occupy. Homes vacant over 30 days must be registered with the City.	No - Second homes are considered to be properties that owners have 'intent to occupy' and are not subject to registration requirement or tax.	<ul style="list-style-type: none"> Under active construction with valid building permits to make the building fit for occupancy Owner or agent has been "actively seeking in good faith" to rent or sell the building. - one year exemption, 	Building surveys, complaints, Self-registration

					<ul style="list-style-type: none"> with proof required • Subject of a probate proceeding or the title to the property is the subject of litigation. • Extraordinary circumstances and upon a showing of substantial undue economic hardship. 	
Brussels (Belgium)	500 € per meter of the longest front multiplied by the number of levels, does not include basements or attics, unless these are rentable units.	N/A	Vacant homes fine is applied to dwellings that have not been occupied for 90 days.	No – however, Belgium has a separate 1000 € annual tax on second homes not occupied by locals, defined as “any dwelling whose occupant is not registered in the registers of the population of the City of Brussels.”	<ul style="list-style-type: none"> • None identified 	Inspection by agents with authority to enter home; 90 days warning or fine is imposed.