

Empty Homes Tax Update and By-law Change Recommendations

Presentation to City Council
June 28th, 2017

Report Purpose

To provide Council with an update on the implementation plans, timeline and budget for the Empty Homes Tax Program, and provide recommendations regarding amendments to support and clarify the intent of the EHT.



Presentation Outline

1. Report Purpose
2. Background: Overview of the EHT
3. Public Feedback
4. Recommended Amendments
5. Additional Clarifications Not Requiring By-Law Amendment
6. Additional Data on the Number of Homes that may be Impacted by the Empty Homes Tax (EHT)
7. Update on Implementation Plan and Project Budget

Background: Overview of the EHT

1. The EHT is a tax on empty and under-utilized Class 1 Residential properties in the city of Vancouver.
2. Empty homes are subject to a tax of 1% of the property's taxable assessed value.
3. The EHT will be applied annually. The first tax year began on January 1, 2017.

Background: Overview of the EHT

Most homes will not be subject to the tax, including those that are:

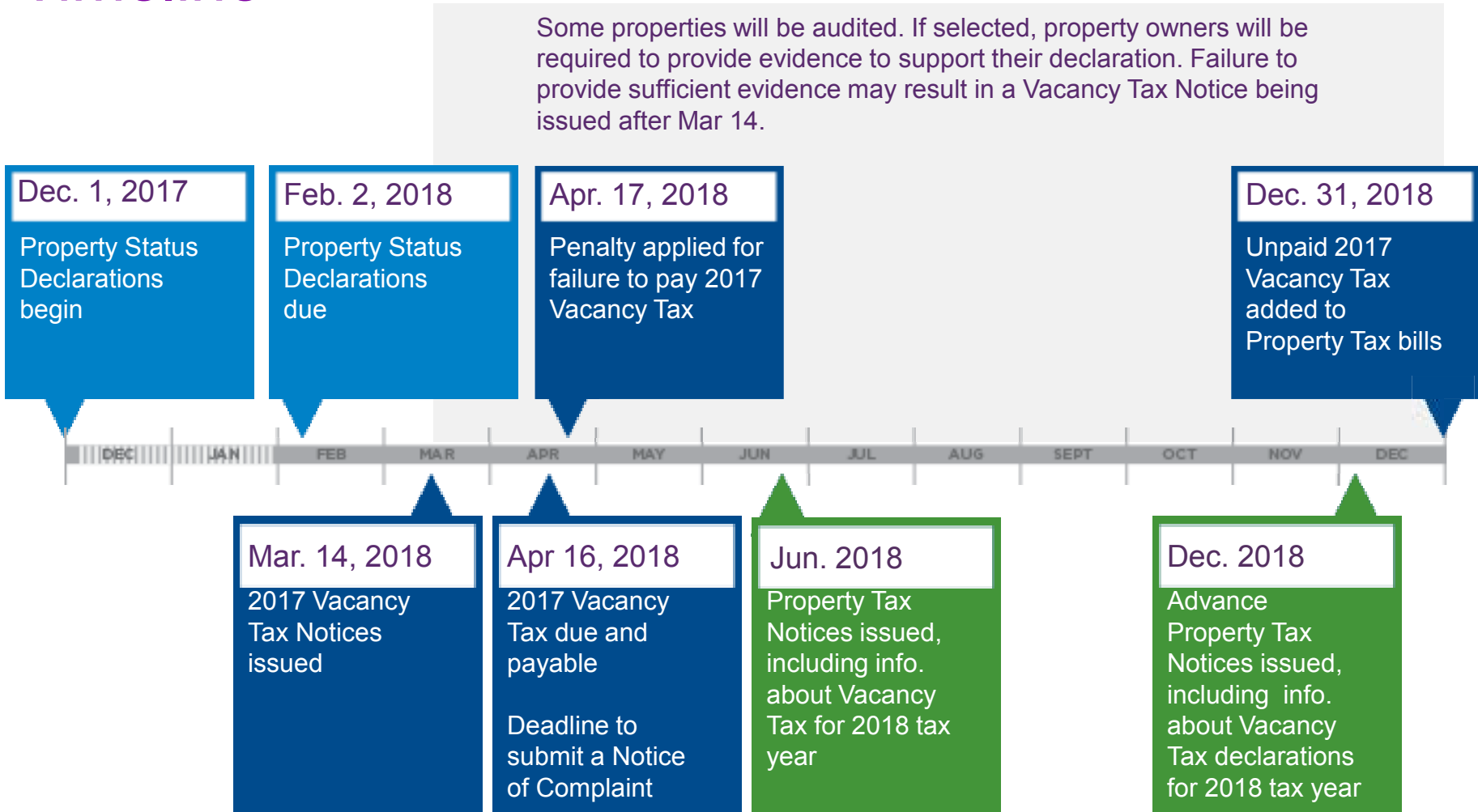
- Principal residences;
- Rented out for at least six months of the year; or
- Eligible for an exemption.

Net revenues from the program will be invested into affordable housing initiatives in Vancouver.



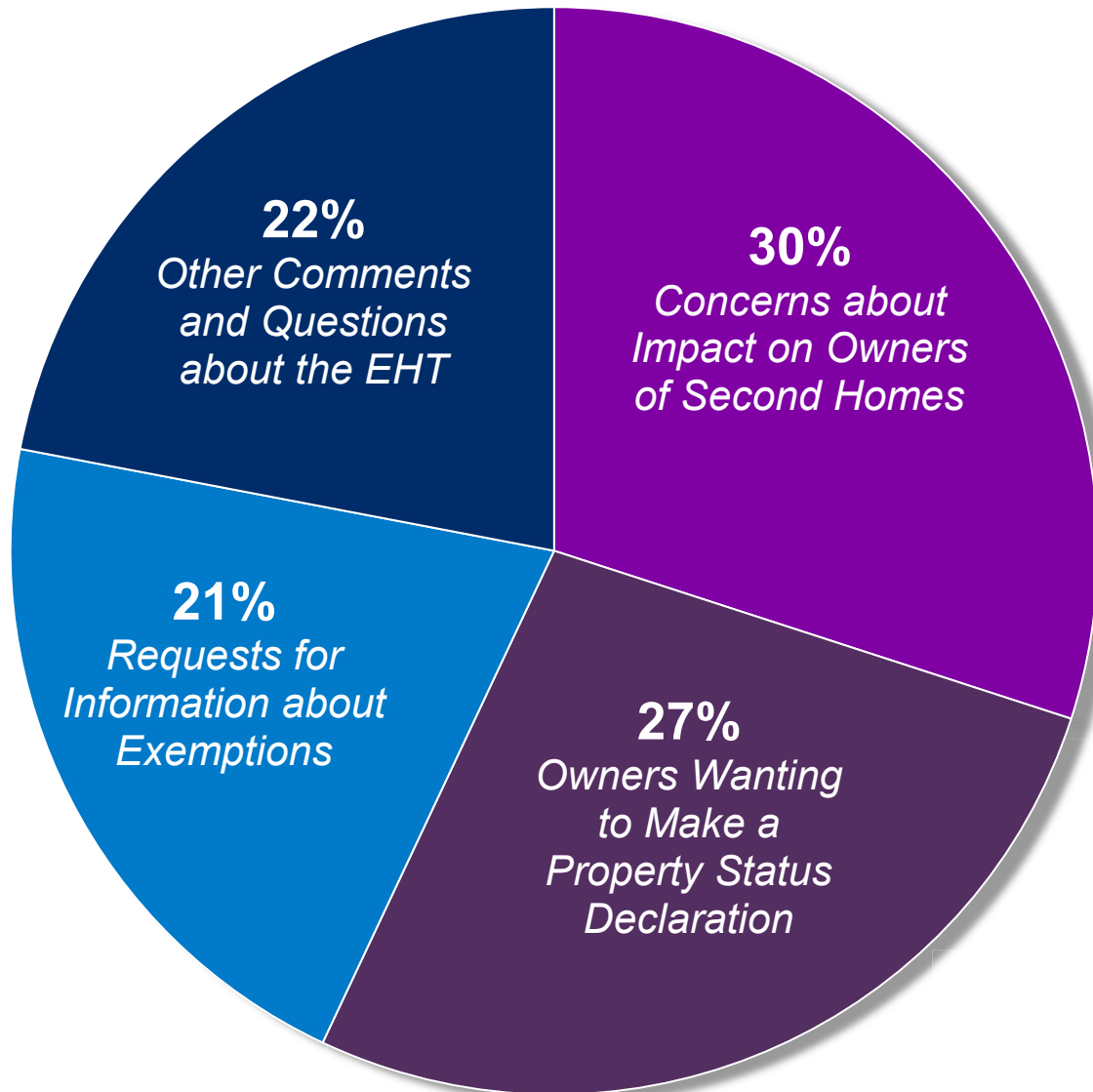
Background: Overview of the EHT

Timeline



Public Feedback:

Over 5,000 Interactions Through 3-1-1



Amendments to Support and Clarify the Intent of the EHT

Staff have identified a number of proposed amendments to support and clarify the intent of the EHT. These are based on:

- Additional program design and technical work
- Ongoing stakeholder feedback



Exemption for vacant unimproved lands IF application to create housing is under review

- Current by-law encourages owners to maintain occupancy for as long as possible, given the shortage of rental housing supply in the city.
- Vacant unimproved lands have no existing dwellings on-site so it is not possible for the property to be occupied while the owner awaits permit approval.
- Vacant unimproved lands without an active application will continue to attract the tax (unless another exemption applied). This encourages owners to move forward with the creation of housing supply.



Exemption for Heritage Properties IF application is under review

- The protection of heritage resources is an important objective of City Council
- Permit process for these projects can be more complex and time consuming compared to non-heritage projects
- Defined as property that, in the opinion of Council or the DoP, either “has sufficient heritage value or character to justify its conservation”, or “is protected heritage property” (Vancouver Charter).



Exemption for Vacant Land Parcels that are Part of a Phased Development IF another parcel within the development is moving forward with the creation of housing supply



East Fraser Lands

Change the Definition of Residential Property to Exclude Uses that Should Not Attract the Tax

- The current By-Law aligns with the Vancouver Charter’s definition for “residential property” which is ,subject to any applicable regulations, real property that is classified only as Class 1 property (residential) under the B.C. Assessment Act.
- However, the B.C. Assessment Act defines Class 1 property (residential) to include some property types that, by their nature, should not attract the EHT, such as day cares, preschools, nursing homes and rest homes.



Change the Definition of Registered Owner to Include Taxable Leasehold Strata Tenants

- Amendment would provide that leasehold tenants (as defined in the B.C. Strata Property Act) who are taxable on the real property tax roll are responsible for meeting the By-law requirements and making property status declarations, as opposed to the fee simple land owner.
- The proposed amendment to the By-law ensures consistency with the regular property tax program.



Minor Amendment Regarding the Process for Making a Declaration

- Staff have now confirmed that, to the greatest possible extent, property status declarations will be made online.
- December of each year, owners will receive instructions outlining how to complete their property status declaration.
- Owners will not receive the actual property status declaration form every year.
- Staff propose minor by-law amendments to provide clarity.

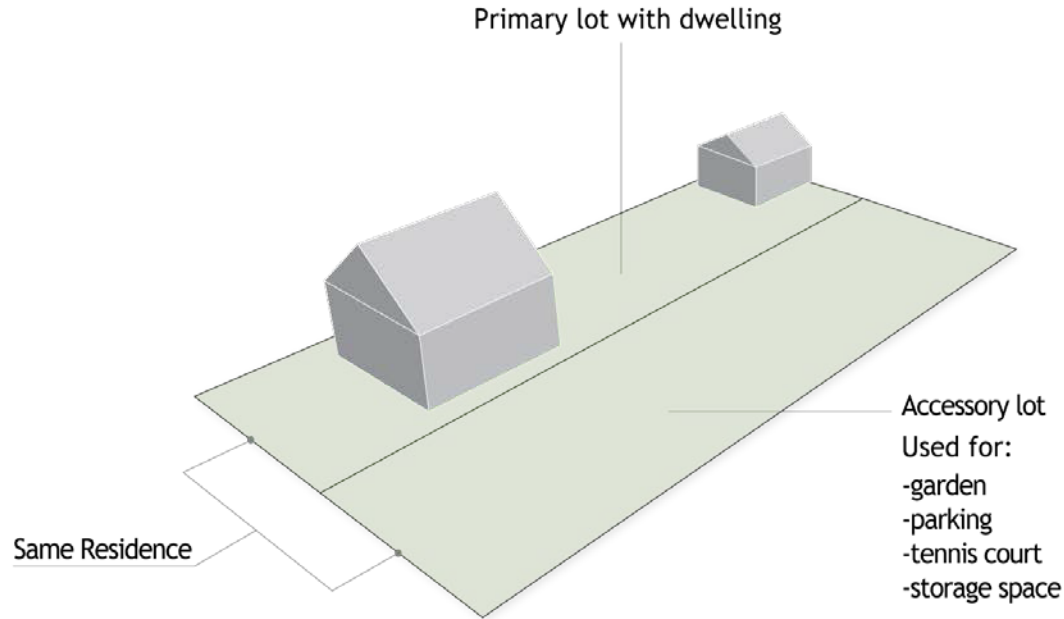


Minor Amendments for Clarification

Section	Topic Area	Recommended Amendment
3.4	Rental Restriction or Prohibition	Clarify that this exemption also applies to strata bylaws which prohibit rentals altogether (but must still have been in effect as of November 16, 2016)
3.7	Court order	Clarify that the exemption applies to court order, court proceedings prohibiting occupancy, or order of a governmental authority

Additional Clarifications Not Requiring By-Law Amendment

Contiguous Parcels



- Contiguous parcels of land that are used as one residence will be treated as one residence. So will strata units that are connected by a permitted connection (door or stairwell) which are used as one residence.
- The tax will not apply to any of the parcels provided that such contiguous parcels or connected strata units are a principal residence, rented out for at least six months of the year, or qualify for an exemption from the EHT.

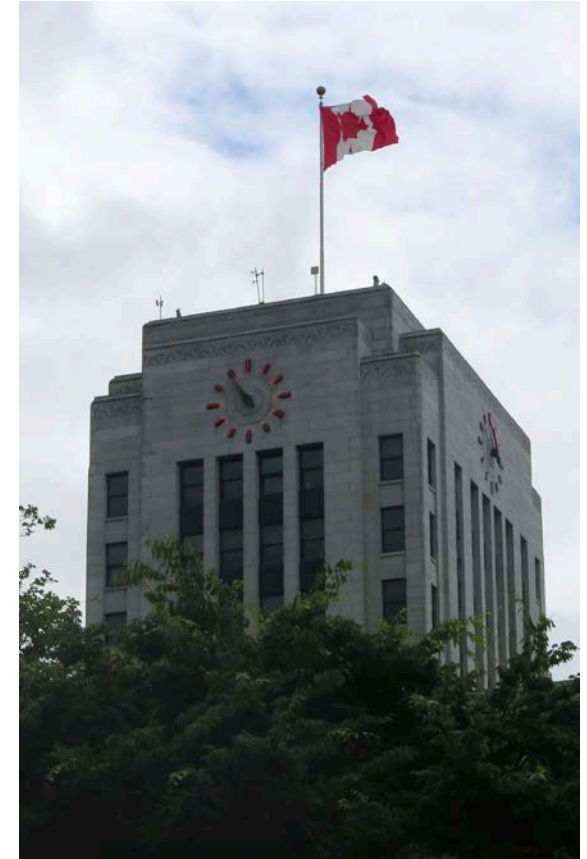
Second Homes

- 30% of feedback received during the implementation phase was about second homes
- Options for full or partial exemptions for second homes were assessed as part of developing the original by-law.
- Staff are not recommending that the EHT program include exemptions for second homes based on usage
 - Creates significant risks to the core objective of increasing rental units*.
 - Increased administrative burden to keep (by owner) and audit (by City) detailed records and greater opportunity to create and falsify proof of occupancy*.

* Advice from E&Y, CRA, Local Experts and Other Cities

Capping the Tax

- Staff have received requests to institute either a dollar value cap on the EHT, or a lower tax rate based on the value of a property.
- This request was made in order to shield empty luxury properties from a high EHT bill (for example a \$10 M home would be subject to an annual EHT of \$100,000).
- Staff are not recommending an amendment, as high value homes could be occupied or rented, in whole or in part, and thereby add to housing supply.



Homes Listed for Rent or Sale

Two key reasons for staff recommendation to NOT amend the by-law to exempt homes that are listed for rent or sale:

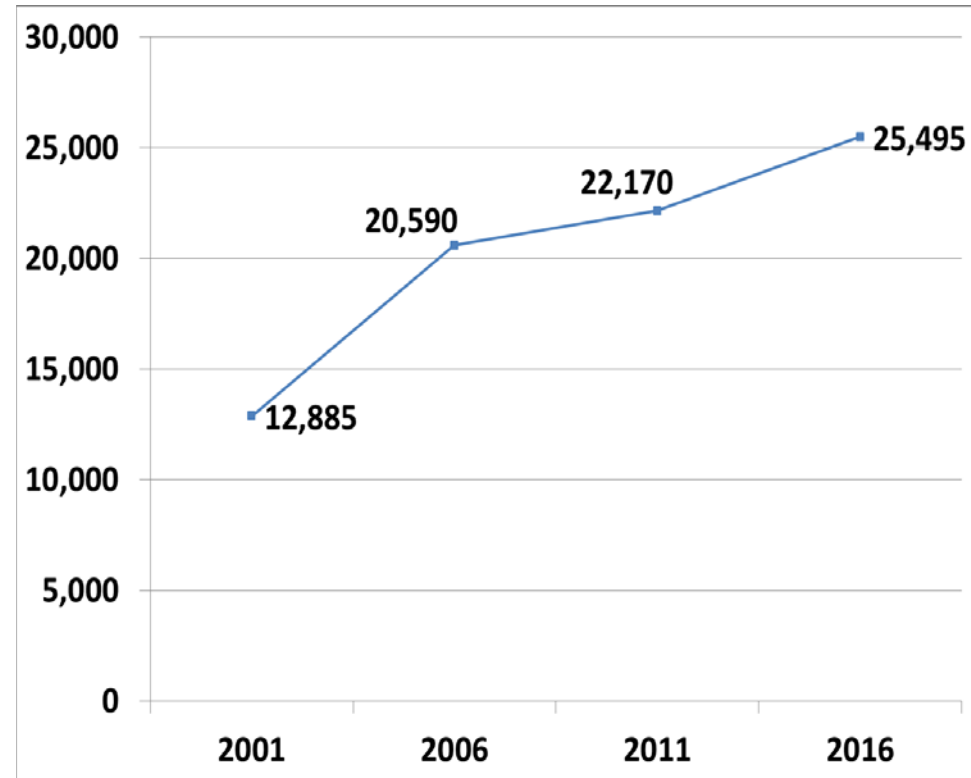
1. The current rental market vacancy rate is very low.
2. Current by-law allows up to 18 months for developers of new homes to sell the unit following construction

Timeline	2017												2018											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Property Status	Under construction until after July 1, 2017						Listed for sale and sold prior to December 31, 2018																	
Empty Homes Tax Implications	Exempt from the Empty Homes Tax for all of 2017 due to construction												Exempt from the Empty Homes Tax for all of 2018 due to change of ownership											

Staff will continue to monitor the real estate market and impacts of the EHT on the creation of new housing supply and may recommend policy changes if market conditions shift significantly.

Additional Data on the Number of Homes that may be Impacted by the EHT

- The number and percent of total dwellings that were either unoccupied or occupied by temporary and/or foreign residents has gone up over time.
- The number of homes with this status on census day increased from 12,885 in 2001 (5.2% of all dwellings) to 25,495 in 2016 (8.2% of all dwellings)



2001 - 2016 Census

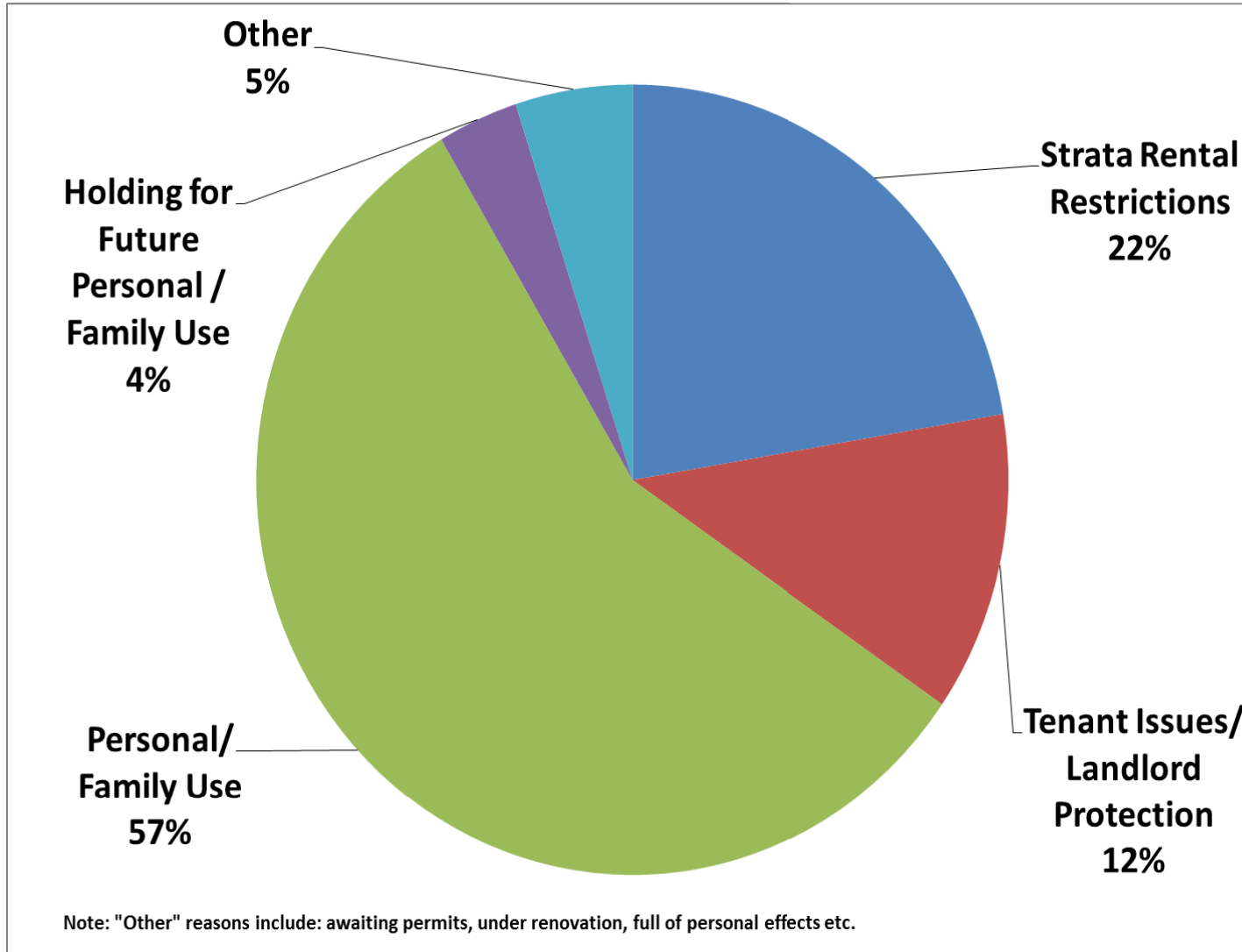
Additional Data on the Number of Homes that may be Impacted by the EHT

	Number of <u>Apartment</u> dwellings (Unoccupied or Occupied by Temporary and/ or Foreign Residents)	% of total <u>apartment</u> dwellings
City of Vancouver	15,280	8.00%
Rest of Region	16,870	6.90%
Metro Vancouver Total	32,150	7.40%

2016 Census

- The city of Vancouver's share of apartments that are unoccupied or occupied by temporary and/or foreign residences is 1% higher than the rest of the region

Reasons for not renting out non-owner occupied homes



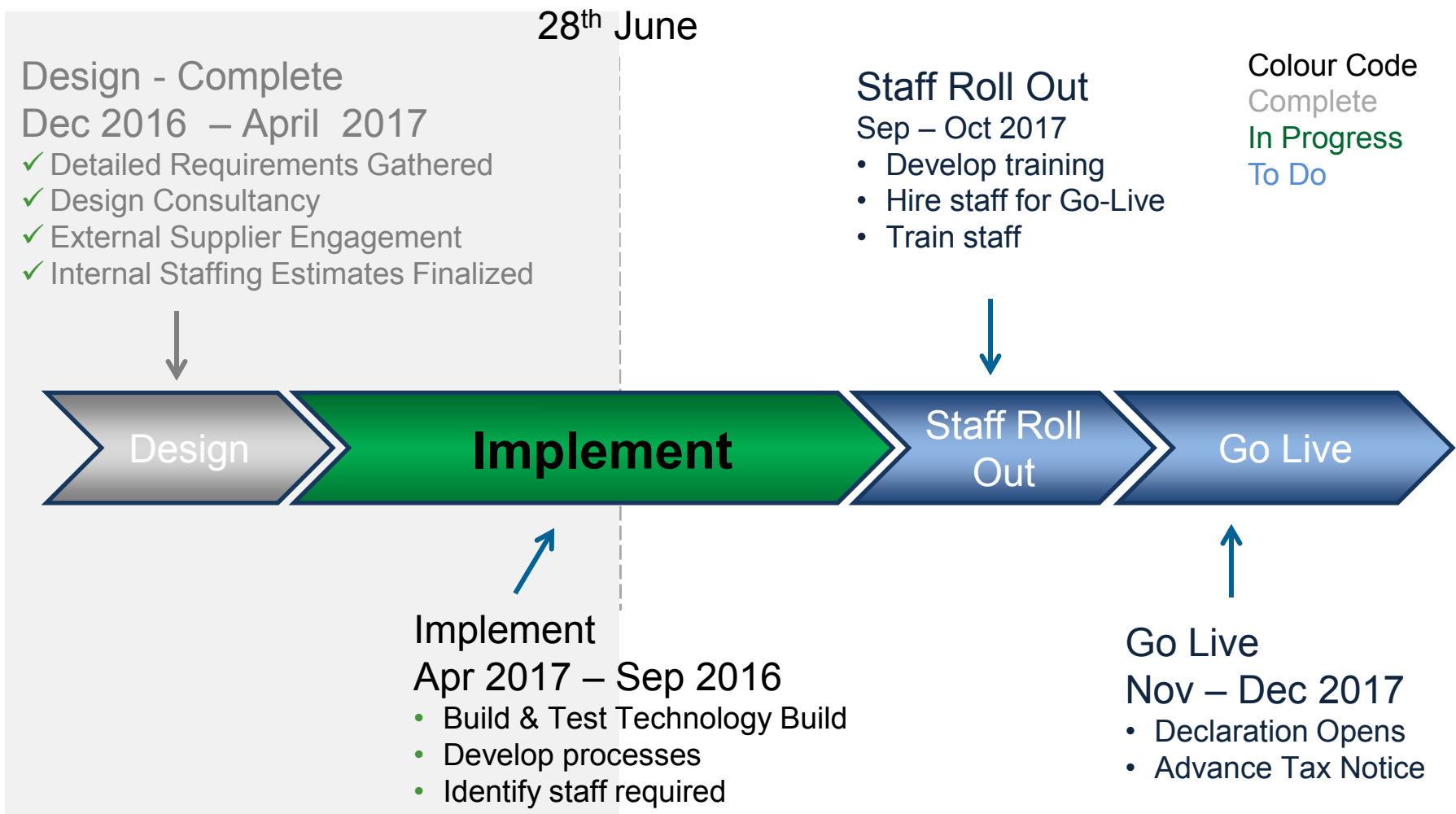
Recommendations

THAT Council approve the amendments to Vacancy Tax By-Law No. 11674 as described in this report and instruct the Director of Legal Services to bring forward a by-law to amend Vacancy Tax By-Law No 11674 generally as set out in Appendix A for enactment.

THAT Council receive for information additional data on the number of homes that may be impacted by the Vacancy Tax By-Law and the Empty Homes Tax (EHT) as described in this report.

- Staff are working to ensure the successful implementation of the EHT.
- The program requires annual self-declaration of property status by approximately 180,000 property owners and a robust audit program.
- Sizing the process, technology and people components of the solution is a challenge as there is no prior years' data.
- Solutions being built must be flexible with the ability to scale up and down based on feedback at each stage of the process during the year.

Implementation Overview



It is impossible to accurately predict the service requirements, given this is the first year of the implementation, communications, staffing and technology plans are being enhanced to prepare as best as possible for potentially high levels of enquiry by property owners. This is reflected in budget

- November 2016 council report, identified one-time incremental funding of \$4.7M over the next 3 years to set up the EHT program.
- The project budget has been revised to reflect the results of further implementation analysis and refining the requirements of the program.
- Technology solutions have been designed and implementation plans enhanced.
- Additional costs have been incurred in communications and system upgrades to ensure the city is well prepared should there be a large number of inquiries and questions regarding the implementation.

Updated Project Budget



	Nov 2016 Budget \$,000	Budget Change Required	Revised Budget \$,000	Changes
Project Team	\$880	(\$80)	\$800	
Business Support	\$180	\$670	\$850	Vacancy Tax Department needs to be substantially staffed and operational by 1 Nov
Technical	\$1,450	\$650	\$2,100	Based on higher estimates for 3-1-1 call volumes and interaction
Professional Services	\$1,400	\$1,350	\$2,750	Design consultancy identified higher software development costs. Added March mail out to all homeowners Added targeted advertising
Hardware and Software	\$100	\$300	\$400	Upgrades to infrastructure to ensure digital and phone channels are robust.
Contingency	\$690	(\$190)	\$500	
Total	\$4,700	\$2,700	\$7,400	

- While the primary purpose of the Tax is to increase the supply of rental homes within the City, it may generate revenues, net of administration and collection costs.
- The City's ability to generate net revenues will depend on several key factors, including:
 - The # of owners who change behaviours to avoid the tax (i.e. convert to occupancy)
 - The assessed value of properties that attract the tax
 - The number of properties that qualify for an exemption
- Hypothetical Example #1: Potential to Cover One Time Costs:
 - 740 homes X \$1M assessed value X 1% EHT = \$7.4M
 - 740 homes represents between 3% - 7% of the number of homes that could attract the tax (10,000 – 25,000)
- Hypothetical Example #2: Potential to Cover Annual Costs:
 - 150 homes X \$1M assessed value X 1% EHT = \$1.5M
 - 150 homes represents between 0.6% - 1.5% of the number of homes that could attract the tax (10,000 – 25,000)

- Program design and by-law amendments reflect ongoing stakeholder feedback and technical work by staff
- Significant work is underway to ensure smooth implementation of the program.
- June 28th report to Council provides an update on implementation plans, timeline and budget for the EHT, and recommendations regarding amendments to support and clarify the intent of the EHT.