



REPORT

Report Date: November 15, 2019
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Meeting Date: November 26, 2019
[Submit comments to Council](#)

TO: Vancouver City Council

FROM: Director of Finance

SUBJECT: Report Back on Review of Fairness and Effectiveness of the Empty Homes Tax

RECOMMENDATIONS

- A. THAT Council approve amendments to Vacancy Tax By-law No. 11674 (the "Vacancy Tax By-law") as described in this report and instruct the Director of Legal Services to bring forward for enactment a by-law to amend the Vacancy Tax By-law generally as set out in Appendix A.
- B. THAT Council receive for information the results of the Empty Homes Tax consultation with key experts, stakeholders, and members of the public as contained in Appendix B.
- C. THAT Council receive for information the 2018 Empty Homes Tax Annual Report, including key impact indicators and a summary of expenditures to date, as contained in Appendix C, with future Annual Reports to be posted on the City of Vancouver website.
- D. THAT Council instruct staff to request an information sharing agreement between the City and the Province, as represented by the Ministry of Finance, pursuant to the provisions of the Provincial Speculation and Vacancy Tax Act.
- E. THAT Council direct staff to further explore the creation of a new category of residential property under the Vacancy Tax By-Law for split-class buildings where the residential portion of the buildings is classed as class 1 residential and designated as Single Room Accommodation ("SRA-designated") under the SRA By-law, and report back to Council on this potential amendment to the Vacancy Tax By-law in a future report back on the SRA By-law.

- F. THAT Council direct staff to further explore the creation of a new category of residential property under the Vacancy Tax By-Law for split-class property where the residential portion of the property is classed as class 1 residential which includes improvement over land, and the remaining portion of the property is classed as class 8 recreation/non-profit which includes, in whole or in part, some form of community garden or public park space, and report back to Council on this potential amendment to the Vacancy Tax By-law.

REPORT SUMMARY

On March 5, 2019, Council approved a plan for an Empty Homes Tax (EHT) review following two full years of the tax being in place, as outlined in the staff report dated February 6, 2019, entitled "Improving the Effectiveness of the Empty Homes Tax."

This report outlines the results of the EHT review, including proposed directions on the EHT rate, exemptions, and coverage of the tax. After two years, staff have observed trends in the number and rate of empty and tenanted properties that are in line with the original objectives of the tax. Staff have found that key stakeholders, as well as housing and tax experts, are generally in agreement that the tax is performing as intended, and that the existing rate, exemptions, and coverage are appropriate at this time. The tax has also collected revenue to support affordable housing initiatives in Vancouver. Additional years of experience and data are required to provide a more fulsome understanding of the effect of the tax on housing in the city, as well as the impact of additional factors including new initiatives like the Provincial Speculation and Vacancy Tax.

COUNCIL AUTHORITY/PREVIOUS DECISIONS

Part XXX (Sections 615-622) of the *Vancouver Charter* provides authority for Council to impose, through by-law, an annual vacancy tax.

On November 16, 2016, Council approved and enacted the Vacancy Tax By-law to levy a tax on empty and under-utilized class 1 residential properties within the City of Vancouver. The first tax year was 2017.

On July 11, 2017, Council enacted By-law No. 11855 to amend the Vacancy Tax By-law following program design and public feedback.

On October 30, 2018, Council enacted By-law No. 12287 to further amend the Vacancy Tax By-law in order to provide clarifications to existing exemptions following the commencement of the first year of declaration, audit, and compliance work.

On January 30, 2019, Council approved a motion directing staff to report back to Council with a plan to review and improve the fairness and effectiveness of the EHT, further detailed in a policy report dated February 6, 2019 and approved by Council on March 5, 2019.

CITY MANAGER'S/GENERAL MANAGER'S COMMENTS

The City Manager recommends approval of the foregoing.

REPORT

Background/Context

1. Objectives of the Empty Homes Tax

The EHT is a tax on empty and under-utilized class 1 residential properties in the City of Vancouver. Homes or land determined or deemed to be vacant are subject to a tax of 1% of the property's assessed taxable value. The EHT is applied annually, with the first tax year having begun January 1, 2017. Most residential properties are not subject to the tax, including homes that are principal residences or rented out for at least six months of the year; or homes that are eligible for one of eight exemptions as set out in the by-law.

The core objectives of the EHT are:

- To return empty or under-utilized properties to use as long-term homes for people who live and work in Vancouver
- To prevent additional properties from becoming empty

In addition, net revenues from the EHT may only be used for the purposes of initiatives respecting affordable housing. The EHT was the first tax of its kind in North America.

2. Why an Empty Homes Tax?

The idea of a tax on empty homes was first brought forward to Council in May 2016, as the City's housing affordability crisis was escalating to the point where a growing share of Vancouver households were struggling to access the housing they needed to remain in the city. At that time, the price of homeownership had already far outpaced local incomes, with the benchmark price of east-side single detached homes rising to over \$1.4 million. Furthermore, a growing renter population and limited supply of new rental units were contributing to rising rents and very low vacancy in purpose built rental housing, with CMHC reporting a primary rental vacancy rate of 0.6% in 2015.

In the context of Vancouver's housing crisis, there was significant concern among Vancouver residents that housing being under-utilized or held empty as a source of investment was contributing to a shortage of homes available to people who live and work in the city. A poll by Insights West in spring 2016 showed that the vast majority (80%) of British Columbians supported penalties on people who purchase property without the intention to live in it or rent it out. The City also conducted a Talk Vancouver survey on the topic of empty homes. Out of 15,000 total responses – one of the highest response rates to date - 91% of respondents also agreed that empty homes were a problem in the city.

3. Continued Need for an Empty Homes Tax

Since the EHT was approved in 2016, there have been some signs of price moderation in Vancouver's housing market, particularly at the high end of the market, with home prices falling from their peak levels in summer 2017. From August 2017 to August 2019, the benchmark price for single detached homes fell 13.5% in Vancouver's westside and 21% on Vancouver's eastside. A lower impact was noted in condominium apartment prices which fell roughly 4% for the westside and 0.6% for the eastside during the same period. These trends could be indicative of measures like EHT impacting the investment value of homes in Vancouver.

However, even as home prices have moderated in the past two years, many of the conditions that supported the creation of the EHT in 2016 in Vancouver are still in place today. Demand for rental housing from existing and new households continues to drive very low rental vacancy rates and rising rents, with CMHC reporting a 0.8% rental vacancy rate in purpose built rental housing in 2018. A healthy rental vacancy rate is considered to be 3-5%. There are significant affordability issues in the city's rental stock, with only one-third of the city's purpose built rental stock renting at rates affordable to households earning less than \$50,000 per year.¹

It is clear that action is still required to address the city's housing challenges. While no single action or policy is sufficient on its own to address housing affordability in the city, the EHT plays an important role along with additional city actions under the Housing Vancouver strategy, including creating new supply of housing affordable to a broad range of incomes, protecting the existing stock of affordable housing, and ensuring strong protections for our most vulnerable residents.

4. Recent Action from Senior Government

In addition to the EHT, there has been new action from the province and federal government aimed at addressing speculative demand for housing, vacant and under-utilized properties, and the high cost of housing and debt facing Canadian households. These actions, all taken in the last three years, have together resulted in changes in Vancouver's housing market. These have created new challenges in terms of understanding the specific impact of the EHT on Vancouver's housing market, as well as understanding the combined burden of these new policies on Vancouver property owners.

On November 27, 2018, the Provincial Budget Measures Implementation (Speculation and Vacancy Tax) Act, 2018 (the "Provincial Speculation Tax") came into force, which is aimed at preventing housing speculation and helping to turn vacant and under-utilized properties in certain regions of the province into homes for people who live and work in B.C. This act applies in Vancouver and homeowners are now required to make an annual declaration to the province by March 31 of each year, in addition to the EHT declaration.

The Provincial Speculation Tax applies more broadly to areas outside Vancouver and aims to reduce housing speculation in the BC housing market in order to provide homes for people who live and work in BC. The Province released initial data on its Speculation and Vacancy Tax declarations in September, which showed that 1,904 properties in Vancouver had declared as non-exempt for the 2018 tax year. The Province has not yet released data on specific properties subject to the tax; however, it is likely that some properties subject to EHT are also subject to the Provincial Speculation Tax.

For the 2018 tax year, all properties subject to the Provincial Speculation Tax were taxed at a rate of 0.5% of the assessed value of the property. This rate is set to increase for the 2019 tax year to 2% for foreign owners and satellite families.

Prior to the Provincial Speculation Tax, the previous provincial government had introduced the Foreign Buyers' Tax, an additional property transfer tax (now 20%) on residential property transactions involving foreign purchasers, in July 2016, as well as new rules on tracking and disclosure of pre-sale agreements.

¹ Housing Vancouver Annual Progress Report and Data Book, 2019.

In addition to new measures at the provincial level, the federal government has taken recent action to address investment demand and speculation in Canada's high-cost housing markets. Included among these measures are new mortgage stress test requirements from CMHC, as well as recent CRA investigation of tax evasion in Vancouver real estate transactions.

There is also a discussion of a potential new federal 1% tax on foreign owners of empty un-tenanted properties, though details on how this tax would be implemented are limited at this time.

5. Conclusion

After two years, the EHT continues to be an important tool to address vacant and under-utilized properties in the City, as part of the broader 10-year Housing Vancouver strategy. Recent action from other levels of government and ongoing shifts in Vancouver's housing market mean that the City must continue to monitor the environment and adapt to a changing context, while continuing to ensure a strong focus on addressing Vancouver's housing affordability crisis.

Strategic Analysis

1. Overview of Empty Homes Tax Review Process

On March 5, 2019, Council directed city staff to report back to Council with the results of a review of the fairness and effectiveness of the EHT in achieving its core objectives of returning empty and under-utilized properties to the market as long-term rental homes and preventing new properties from becoming empty.

The motion directed staff to consider the following items:

- Evaluate options to increase the tax rate in order to shift more properties from vacant to occupied while considering the impact of the new Provincial Speculation Tax;
- Analyze current exemption categories in the by-law for clarity, effectiveness, and fairness; consider new exemptions if required (e.g. second homes used occasionally);
- Explore options to expand coverage of the tax to additional residential properties not currently included such as split-class SRA-designated properties and explore actions for use of vacant land;
- Assess the impact of the EHT to date, including data on the number of under-utilized homes that have been returned to the market as rental along with metrics to track the number of properties being made available for long-term rental; and
- Report on use of EHT revenue to date.

As part of the review, staff have gathered information, feedback, and data through several key initiatives:

Previous EHT Engagement	
Review of previous public engagement	<ul style="list-style-type: none">• 2016 survey on goals of an Empty Homes Tax (15,000 participants, 59% renters)• 2017 Housing Vancouver public engagement (over 10,000 participants, approx. 50% renters)• 2018 public consultation on objectives for EHT revenue (5,000 interactions)

2019 Review Engagement Activities	
Targeted engagement with property owners impacted by EHT	<ul style="list-style-type: none"> 311 phone survey of Vancouver residents (875 responses, typically property owners)
Housing Policy Expert consultation	<ul style="list-style-type: none"> June workshop with housing policy experts Separate discussions with key experts
Tax Expert consultation	<ul style="list-style-type: none"> Engagement of Ernst and Young for a Phase 3 Retrospective report on EHT
Engagement with Key Industry, Academic, and Community Stakeholders	<ul style="list-style-type: none"> September workshop with key stakeholders Additional consultation with development industry (UDI) and condo homeowners (Condo Home Owners Association)
Ongoing interactions with property owners	<ul style="list-style-type: none"> Ongoing Staff review of complaints, phone calls received via 311, inquiries through an online form, and through regular interactions with property owners as part of the audit and compliance program
Analysis of EHT property status declarations	<ul style="list-style-type: none"> Review of EHT property status declaration data to date
Review of EHT revenue	<ul style="list-style-type: none"> Review of EHT revenue committed to affordable housing initiatives

Several aspects of this review are extensions of regular and ongoing work performed by staff as part of the ongoing administration of EHT. Regular updates on EHT property status declarations, audits, and use of EHT revenue are part of the EHT annual report. This report is required to be prepared under the *Vancouver Charter*, and it is posted to the City of Vancouver website no later than December 1 each year pursuant to the provisions of the Vacancy Tax By-law.

The results of the initial review, including what staff heard, key considerations, staff recommendations and next steps, are outlined below.

2. Review of Tax Rate

Council directed staff to provide information on the potential impact of increasing the EHT rate. The EHT rate is currently 1% of taxable assessed value and Council directed staff to look at whether increasing the rate would be more effective in encouraging conversion of properties to rental.

Key trends in property status data to date: Progress toward EHT objectives

As part of the review of the tax rate, staff analyzed key trends in property status data from the 2017 and 2018 tax years to date. With only two years of data from the tax, and in the context of many additional changes in Vancouver's housing market, it is difficult to isolate the specific impact of EHT. However, data to date indicates positive trends in line with the objectives of the EHT of returning empty properties to use as long-term homes, and preventing additional properties from becoming empty. The emerging trends are as follows:

Trend 1: Reduction in vacant and exempt properties from 2017 to 2018	<ul style="list-style-type: none"> - In 2018, 6,245 properties were vacant (declared, deemed or determined) or exempt (approximately 3.3% of all properties); this is 1,676 fewer units than in 2017, a 21% reduction - In 2018, 1,989 properties (approximately 1.1% of all properties) were vacant; this is 549 fewer units than in 2017, a 22% reduction.
Trend 2: Increase in declared tenanted properties from 2017 to 2018	<ul style="list-style-type: none"> - In 2018, there was an overall net increase in properties declared as tenanted of 3,332 compared to 2017; this includes a net increase of 2,277 tenanted condominiums, and a net increase of 760 tenanted single family homes²
Trend 3: 2017 vacant properties converting to occupied	<ul style="list-style-type: none"> - Out of 2,538 properties declared vacant in 2017, 1,199 (47%) were occupied in 2018 (641 tenanted, 448 principal residences, and 110 principal residences of a permitted occupants. .)

Additional detail on these trends is available in the 2018 EHT Annual Report Key Indicators in Appendix C.

Analysis of the types of properties currently subject to EHT indicates that the majority of properties paying the tax are high-value condominiums, with the bulk of the remainder made up of single family homes. Seventy-seven percent of properties paying EHT are condos with average assessed value of \$1.4 million (average for all condos is \$0.9 million), 19% are single family homes with average assessed value of \$3.5 million (average for all single family homes is \$2.4 million), and the remainder are a mix of other types of properties. For properties that declared vacant or were determined to be vacant after an audit, 34% of the owners also owned at least one other property in Vancouver, 13% of properties were worth over \$3 million and 18% have mailing addresses outside of Canada.

Feedback on Increasing the Rate of EHT

The question of whether to increase the EHT rate was a key topic for discussion with key stakeholders, housing policy and tax experts, and Vancouver residents including property owners. Staff included questions about the tax rate as part of engagement for the EHT review. Key feedback is outlined below; additional detailed feedback received as part of the review is available in Appendix B:

- Housing policy and tax experts observed that based on data to date, the EHT at the current rate of 1% appears to be performing in line with its stated policy objectives. Property owners, experts, and key stakeholders including the Condo Home Owners Association and LandlordBC indicated overall support for the goal of the EHT. The Condo Home Owners Association in particular indicated that condominium residents are supportive of City efforts to discourage strata properties from being held empty for investment purposes, due to the impact of empty properties on strata communities.
- Experts also strongly cautioned that an increase in EHT rate at this stage would likely increase the potential for noncompliance and evasion, particularly for properties that are

² Significant flows were observed between tenanted and other declaration categories between year, so net trends are reported.

³ Analysis is based on mailing address

also paying the new Provincial Speculation Tax. There was a suggestion that before increasing the tax rate, staff should consider opportunities to enhance compliance with the tax, potentially in collaboration with the Province.

Risk of an increased tax rate encouraging non-compliance or avoidance

As noted above, housing policy and tax experts engaged by staff during the review expressed strong concern about the potential for an increase in the tax rate to incentivize non-compliance and avoidance. Experts identified at least two potential ways that an increase in the tax rate could lead to increased avoidance:

- *Incentive to transfer properties instead of paying EHT:* Currently, the tax rate under the Property Transfer Tax (PTT) Act (1% for the first \$200,000, 2% for remainder up to \$2 million and 3% on amounts greater than \$2 million) exceeds the EHT rate of 1% for most transactions in Vancouver and it is unlikely that owners would intentionally sell properties in order to make use of the property transfer exemption available in the EHT by-law. If the EHT rate was increased to exceed the PTT rate, transferring properties between numbered companies or relatives on an annual basis would emerge as a viable way to avoid EHT. A rate higher than 2% could effectively push EHT revenue, which must be used for affordable housing initiatives, to the Province in the form of PTT, which goes to general Provincial revenues.
- *Incentive to re-class properties as commercial instead of paying EHT:* At the current EHT rate of 1%, a property paying residential tax rates plus the EHT pays approximately the same amount of taxes as a similarly valued commercial property. As the EHT only applies to solely class 1 residential property, it is possible that increasing the rate would result in property owners attempting to re-class their property to be scoped out of the EHT entirely. BC Assessment determines the taxable assessed value of each property based on highest and best use and assigns each property to a property class based on its actual use in accordance with the BC Assessment Act. Unlike the valuation process, the classification process is not governed by zoning or land use decisions made by Council. Given that properties could be re-classed regardless of zoning, it is clear at an EHT rate higher than 1% (which would put EHT + residential tax higher than the commercial rate) could incentivize property owners to convert residential units to commercial for assessment purposes. To the extent this conflicted with City zoning requirements, additional enforcement costs would be incurred.

The introduction of the Provincial Speculation Tax also means that certain Vancouver property owners will have to pay both taxes. It is important to understand how the Provincial Speculation Tax may impact Vancouver policy objectives as well as the risk of the combination of both taxes further increasing the risk of non-compliance. The impact of the Provincial Speculation Tax and additional initiatives from other levels of government was a key topic of the Ernst and Young Phase 3 Retrospective Report, contained in Appendix B. The key recommendation from that report is that given the Provincial Speculation Tax is still in its first year of implementation, staff would benefit from collection of more information about the impacts of this new tax on Vancouver property owners.

Housing policy and tax experts also emphasized the need for a robust enforcement program and suggested potentially higher penalties for property owners who are determined to be vacant and subject to the EHT after an audit. Housing policy and tax experts suggested working with the Province to potentially strengthen the compliance program and to seek amendments to the

Vancouver Charter, if required. There may be opportunities to work collaboratively with partners in the province on information sharing and compliance moving forward.

Recommendation

Staff do not recommend an increase in the EHT tax rate at this time, but will continue to monitor the impact of the Provincial Speculation Tax and other measures and re-assess as needed. Staff will also explore options to work with the Province to enhance compliance with EHT, including pursuit of an information sharing agreement with the Province.

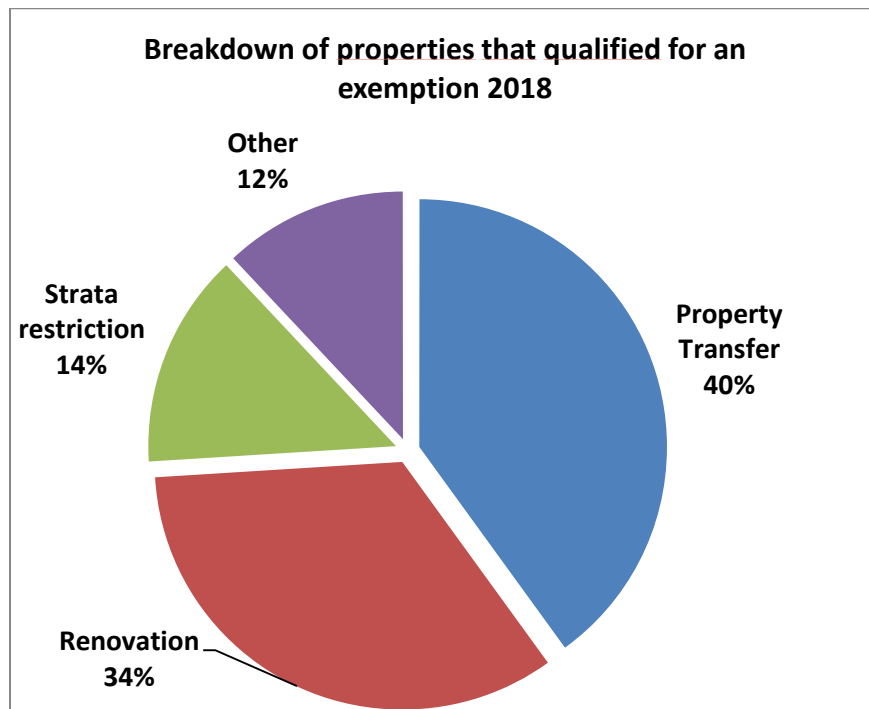
3. Review of Exemptions

As part of the EHT review, Council directed staff to review the clarity, fairness, and effectiveness of existing exemptions and consider new exemptions if required. Specific issues considered as part of the review included:

- Identifying circumstances where property owners are unintentionally impacted by the tax;
- A request from the development industry to align the EHT exemption for property under development with the parallel exemption category in the Provincial Speculation Tax; and
- Consideration of changes to the existing strata rental restriction exemption to align with potential action from the Province.
- Evaluating the possibility of an exemption for owners of second homes that are being used occasionally/part of the year;

Key Trends in Exemptions to Date

Data from the 2017 and 2018 tax years indicate that the property owners are claiming exemptions as required, and that the current exemption categories are serving the needs of most property owners. The largest share of exemptions claimed for the 2018 tax year was property transfers that took place during the tax year. Other major exemption categories were for properties with permits issued for renovations and properties with strata rental restrictions in place prior to 2016. The distribution of exemption claims is relatively consistent with 2017, though strata restriction and renovations have both increased. Note that properties continue to be subject to audits for 2 years after the applicable vacancy reference period.



Previous changes to exemptions

The analysis of exemptions as part of this review builds on previous and ongoing work to enhance the clarity and fairness of existing exemptions and ensure that the exemption categories in the Vacancy Tax By-Law are aligned with the objectives of the EHT. Previous Council-approved amendments are listed below.

Exemption	Action / timeline
Property transfer	Amended March 5, 2019 to align with Provincial SVT
Redevelopment or renovation	Amended October 30, 2018, no further amendment anticipated at this time
Strata Rental restriction	Amended October 30, 2018, and further reviewed below
Limited use	No further review recommended at this time
Owner in care	Amended October 30, 2018, no further amendment anticipated at this time.
Estate of the deceased	Amended March 5, 2019 to align with Provincial SVT
Full-time employment	Amended October 30, 2018, and further reviewed below
Court order	Amended October 30, 2018, no further amendment anticipated at this time

What we heard from Property Owners, Stakeholders, and Housing Policy and Tax Experts

Staff posed questions about the clarity, effectiveness, and fairness of existing exemptions and potential for new exemptions in consultation as part of the review. Key feedback is outlined below; additional detail feedback received as part of the review is available in Appendix B.

Housing policy, tax experts, and key stakeholders agreed that the current exemption categories are generally appropriate and in line with the intent of the EHT. Specific feedback related to key issues related to new exemptions are included in the discussion below.

a) Second Homes Used Occasionally During the Year

Staff heard from several property owners who maintain second homes in Vancouver in order to visit the city, visit family, or for professional purposes for less than six months out of the year. Many of these owners have communicated to staff and Council that they are unfairly subject to EHT, since they feel their properties can't be rented out since they contain their belongings and personal items or because they want to maintain their properties for unplanned visits. Some property owners have explained that they have not made their Vancouver residence their principal residence (which would exempt them from EHT) because they are keeping the principal residence status for a larger, more valuable property outside the city for the purposes of the federal capital gains tax exemption or for residence requirements of other countries.

While staff and Council have heard from several individual owners of multiple properties who feel they are being unfairly taxed, until recently there has been very limited statistical data about the population of multiple property owners in BC. Recent new data released by Statistics Canada has provided staff with additional information about owners of multiple properties in BC.³ Nearly 80% of owners of multiple BC properties maintain a principal residence in the province; 50% maintain a principal residence in the Metro Vancouver region. Most of these owners own just two properties. Property owners of one or more properties in the City of Vancouver while maintaining a principal residence elsewhere in the Metro Vancouver region would be subject to EHT unless they rented out the property long-term or qualified for an exemption.

When asked whether owners of second homes used occasionally should be exempt from EHT, housing policy experts indicated that taxation of these properties is in line with the objectives of the tax of encouraging vacant and under-utilized properties to be occupied long-term. It was suggested that in a city like Vancouver with extremely low rental vacancy and high cost of housing, it is appropriate for owners who wish to maintain a secondary residence to pay a progressively higher tax rate. In practice, staff have observed that many owners in this category who were subject to EHT in 2017 were not subject in 2018 as they were able to tenant the property or find a permitted occupant or made the property their principal residence. .

A review by Ernst and Young (EY) of the tax to date emphasized the original advice to the City and provided to Council in 2016 that an exemption for second homes used occasionally would be extremely challenging to implement and would likely undermine the overall viability of the EHT. EY noted substantial risks related to this type of exemption and recommended avoiding exemptions that are linked to length of physical occupancy because such determinations not only involve an administrative burden and cost to the City, but also place an onus on the owner to maintain logs (activity, travel, etc.), receipts of local expenditures, and other information. This type of evidence would be burdensome to collect and to audit. EY's assessment of the sufficiency and auditability of this type of evidence was that it is weak and prone to falsification.

Housing policy experts and some property owners also suggested that there could potentially be some kind of deferral of taxes for second homes in the event they are needed for medical

³ Statistics Canada. Residential Property Ownership: Real Estate Holdings by Multiple-Property Owners <https://www150.statcan.gc.ca/n1/en/catalogue/46280001201900100001>

purposes. However, the review by EY advised that creating a medical exemption could be abused and pointed to the controversy surrounding programs like the disability tax credit that require proof of a medical condition. The implementation of this type of exemption would likely require very significant staff resources to make difficult judgements on which medical conditions qualify.

b) Exemption for Properties Under Development

Key feedback from the development industry regarding EHT is that the exemption for property under development in EHT should more closely align with the exemption for building activity in the Provincial Speculation Tax Act. There was specific concern raised about the potential of a cooling market resulting in significantly more new unsold inventory on the market, which could be subject to EHT if it is not rented out.

The development exemptions in the Provincial Speculation Tax are generally much broader than the exemptions in the EHT and can be claimed significantly earlier in the development process, starting at the project financing stage. The EHT exemption for redevelopment of land without any existing residential units applies once a rezoning enquiry or development permit application is submitted to the city. The EHT exemption for renovation or redevelopment of land with existing residential units applies in most cases only after permits have been issued, with the intent that properties with existing residential buildings in the City should be occupied or rented out until all permits are in place, in line with the Residential Tenancy Act. This also ensures that properties do not become empty and derelict as the owner is going through the development process, which has been an issue in Vancouver in the past, especially when residential land is being assembled for future development. The Province also provides an exemption for any vacant unsold inventory, while EHT does not. For the 2018 EHT reference period staff did not see any evidence that vacant unsold inventory was a significant issue for the development community. Generally, most newly constructed properties would be exempt from EHT in the year that they are completed either because of the renovation and redevelopment exemption, or the transfer exemption.

Staff understand that an exemption for development at the Provincial level needs to accommodate a diversity of housing markets across BC, and must therefore be more flexible and broad than one developed specifically for Vancouver. The view of staff is that at this stage aligning with the Province with regards to this exemption would be detrimental to the effectiveness of the tax in the Vancouver market. However, staff will continue to monitor data from EHT property status declarations and broader market data to determine whether this exemption should be re-evaluated in future years.

An additional concern with the existing EHT development exemption was that in the lead up to a renovation or redevelopment project, some tenants proactively find a new home and end their tenancy, leaving the property vacant in the months before permit issuance and qualification for the exemption. In the instance that the tenant leaves on their own accord in the first half of the year and the permit is issued in the second half of the year, a property owner may not have six months of tenancy or six months qualifying for the development exemption. The same would occur if a property was being redeveloped or renovated in the first half of the year under issued permits and the work was complete prior to June 30th, and the tenancy started some time after July 1st. This concern was evident in the audit data from the first year enforcement program.

c) Exemption for Full-Time Employment

In February 2019, staff recommended the full-time employment exemption be reviewed as it is claimed by very few individuals and was costly to administer. It is also likely that homes being used very frequently for full-time employment could qualify as a principal residence in any case, which is likely why this exemption is used relatively infrequently. However, in the second year of enforcement of the program the exemption appears to be operating more as intended with the high enforcement costs incurred in the first year being caused by property owners needing additional clarity on the exemption and when it is applicable. It appears the amendments to this exemption approved by Council in October 2018 provided needed clarity.

Another issue that has arisen during the consultation process is that there are many residential properties being used entirely as office space as opposed to for residential purposes. This issue is evident in our enforcement data as many property owners attempted to claim the employment exemption for properties used as office space. The by-law amendment in October 2018 clarified that properties must be used for residential purposes to qualify for an exemption but it remains that use of the City's housing stock for commercial purposes is a common choice in the City that historically has potentially allowed many property owners to pay lower residential property tax rates instead of business property tax rates.

d) Strata rental restrictions

The Provincial Speculation Tax, like the EHT, has an exemption from the tax in the case that the by-laws of a strata prohibit or restrict units that may be rented. However, the Provincial exemption applies only in 2018 and 2019, while there is no current time limit on the EHT exemption. At the Provincial level, staff understand that there is consideration being given to removing a strata's ability to ban owners from renting strata units. During consultation, housing policy and tax experts were supportive of the City removing the exemption for properties with existing strata rental restrictions if the Province decides to do so. Staff have heard similar feedback from renters and some property owners as well. However, the Condo Home Owners Association informed staff that some stratas are concerned about impact on strata community if strata rental restrictions are removed.

Staff Recommendations

Based on the advice received from housing and tax policy experts at the implementation of the EHT and again during this review, staff do not recommend a new exemption for second homes that are used occasionally during the year on the basis that it would be both inconsistent with the intent of the tax and challenging to enforce to the extent that it would could undermine the tax.

Staff recommend an amendment to the EHT by-law as shown in Appendix A to allow property owners to qualify for an EHT exemption by adding together tenancy and time qualifying for the renovation or redevelopment exemption for a combined total of six months in the applicable tax year. Staff do not recommend aligning the EHT development exemption with the Provincial Speculation Tax exemption for development activity, but will monitor the issue of vacant unsold inventory in upcoming 2019 declarations.

Staff also recommend continuing to monitor Provincial actions with regard to the strata exemption.

4. Review of Tax Coverage and Options for Vacant Land

As part of the review, Council directed staff to consider changes to the tax to expand the coverage of EHT, including:

- Expanding coverage of the EHT to include all private SROs containing class 1 residential property;
- Increase the threshold for non-stratified multi-unit properties in order to declare as occupied for residential purposes; and
- Considering options for vacant land not under development.

These items were addressed as part of the analysis and consultation undertaken during the review process. Feedback, analysis, and staff recommendations are summarized below.

1. Exploring New Category in Vacancy Tax By-Law for SRA-Designated Properties

The current Vacancy Tax By-law defines residential property as real property classified only as class 1. Currently, only 30 of the City's 174 SRA-designated properties (963 rooms) are designated as 100% class 1 property and are therefore required to declare for EHT. In 2018, none of these properties declared as vacant; and all of these were subject to audit.

An additional 62 SRA-designated properties (3,160 rooms) either contain no class 1 residential property or are eligible for a property tax exemption under the *Vancouver Charter* (i.e. due to being owned by the Province or the City), and therefore are not subject to EHT. These tax exempt properties are typically class 3 supportive housing buildings owned by non-profits.

As part of the EHT review, Council directed Staff to explore expanding the scope of the EHT to include split-class SRA-designated properties, as a possible additional tool to deter the emptying of existing properties or to return under-utilized properties to use as much needed housing for low-income residents. Eighty-two privately-owned SRA-designated properties (3,962 rooms) are split-class (primarily, class 1 - residential and class 6 - business) which are currently scoped out of the by-law. Many of these properties have some commercial use at-grade, such as a restaurant or bar, and those portions of the property are classed as class 6 – business and other.

Vacancy Rates in SROs

The Low Income Housing Survey is administered by the City biannually and is used to understand vacancy rates in private SRO buildings in Vancouver's Downtown Core. The most recent Low Income Housing Survey was completed in 2017. Staff are currently preparing to administer the 2019 survey. Vacancy rates in the SRA-designated stock are low, with the 2017 survey showing a vacancy of less than 1% in private SRAs. Vacancy rates in SRA-designated buildings are low because of the high demand for low-income housing across the City and in the Downtown Eastside. While there is considerable upward pressure on SRA-designated rents, many privately owned SRO Hotels still offer rents at or near the shelter component of income assistance (\$375 per month), making them a viable option for those earning lower incomes.

While overall vacancy rates are low, staff and community advocates observe concerning periodic spikes in vacancy in individual privately-owned SRA-designated buildings. A drop in building tenancy can be indicative of any or all of the following: draw-downs proceeding or subsequent to a building sale, unaddressed building maintenance issues, building management

efforts to shift existing tenant community to higher-paying, less marginalized tenants, etc. There also is also a small subset of SRA-designated buildings that are currently closed and untenanted.

Projected Impact of Empty Homes Tax on Existing Private Split-class SRA Properties

Due to the nature of vacancy in SRA-designated buildings and existing property tax exemptions, staff do not project that extension of the EHT to this split-class of SRA-designated properties would have significant positive impact on SRA room availability or re-tenanting of existing SRAs. As many of the 96 privately run split-class SRAs are currently at, or close to, full occupancy, the majority of SRA-designated buildings would be exempt under an extended EHT. The EHT as an annual, self-reported tax is also a poor fit to address the periodic low-vacancies as described previously. Staff would need to determine a new minimum tenancy threshold and implementation and monitoring would be administratively burdensome for owners and staff with potentially limited positive impact in enabling housing. Additional to the publicly-owned SRAs, which are an exempt category, buildings closed by court order or SRA By-law driven closures would not be exempt from the EHT, and buildings proceedings with renovations or redevelopment with permits in place would be exempt.

Stakeholders consulted as part of the EHT review were generally supportive of the City covering additional SRA-designated properties via EHT, noting that it is important to discourage long-term, low vacancy in this key stock of affordable housing for the city's most vulnerable residents. Some owners raised concerns about the lengthy process involved in applying for permits to upgrade currently vacant SRA-designated properties, and suggested that staff consider this in creating exemptions for this property type.

Next Steps

Staff are currently planning for the 2019 Low Income Housing Survey and will use this data collection as an opportunity to better evaluate the impact of extension of the EHT to split-class SRA-designated properties. Staff anticipate bringing an update of the SRA By-law in 2020, and staff will complete additional consultation work on the potential to expand the scope of the Vacancy Tax By-Law beyond class 1 properties to include a category for split class SRA-designated buildings, which could have different exemptions and a different tax rate.

2. No change to Occupancy threshold in non-stratified multi-unit rental buildings

EHT is currently administered at the parcel/folio level. As a non-stratified rental building is only one folio, if any unit in the building is occupied then the building would not be subject to EHT. This may theoretically result in situations where owners or developers might leave a building mostly empty and not be subject to EHT. Staff were directed to consider increasing the threshold for declaring as occupied in these properties as a means to discourage long-term vacancy. However, analysis and consultation with rental owners indicated that given the very low vacancy rate in purpose-built rental buildings in Vancouver, it is unlikely that a higher EHT threshold would have a meaningful impact on vacancy rates in these types of properties. There was also concern that a higher threshold might penalize rental owners opting to keep units empty as tenants transition to alternate accommodations under a City-approved tenant relocation plan in advance of redevelopment. Currently, staff do not recommend amending the by-law at this time, but will continue to monitor potential future incidences of long-term vacancy in these buildings.

3. Continue to Monitor Issues with Unimproved Vacant Land

As part of the review, Council directed staff to explore creative options for owners of vacant unimproved land to provide housing accommodation in order to avoid being charged with EHT. Twenty-five parcels of unimproved land have been declared vacant to date in 2018. Vacant properties that are part of a phased development process or with a submitted development permit application or rezoning enquiry are already eligible for an exemption from EHT and staff are aware that many of the previously vacant parcels of land are now pursuing development and will be exempt from the tax in 2019.

Staff consulted directly with property owners of vacant land who are not already pursuing development in order to determine if there is any appetite to consider creative uses for their vacant land, such as Temporary Modular Housing (TMH) or a tiny home. There were three responses to City outreach on this topic and staff assessed those sites in consultation with VAHA. If an owner was to erect TMH or a tiny home on vacant land and entered into a valid tenancy with an individual to occupy the unit as a tenant, the property may not be subject to EHT under the provisions of the Vacancy Tax By-law. The same would be the case if the owner had validly submitted a complete development permit application or rezoning enquiry or application for such use. However, such a use of property, including installation of TMH or a tiny home, would need to meet the requirements of all other City by-laws including the Building By-law and the Zoning and Development By-law. There are currently several limitations to either of these options on the sites currently determined to be vacant who responded to the City's outreach:

- TMH was found not to be suitable on any of the five sites due to the size of the sites and current zoning which would have necessitated a rezoning; and
- For tiny homes, currently infill units such as laneway homes may only be developed as an accessory unit to a primary dwelling and are not permitted under current by-laws.

At this time, staff do not anticipate recommending TMH or tiny homes on any of the unimproved parcels but will continue to monitor this category of properties.

4. Continue to Monitor Emerging Issues with Potential Empty Homes on Split-class Property that are not subject to EHT

City staff has been notified by BC Assessment that certain residential properties with improvement on land (e.g. a single family detached home) have applied for split class by turning a relative small portion of land into community garden. Staff is not aware of similar situations before as class 8 tax rate is typically higher than class 1 tax rate (2019 – class 8 \$3.8629 vs. class 1 \$2.56116).

Should Council desire to pursue this issue, staff will further explore the creation of a new category of residential property under the Vacancy Tax By-Law for split-class property where the residential portion of the property is classed as class 1 residential which includes improvement over land, and the remaining portion of the property is classed as class 8 recreation/non-profit which includes, in whole or in part, some form of community garden or public park space, and report back to Council on this potential amendment to the Vacancy Tax By-law.

5. Review of Tax Administration and Deadlines

In addition to the items above, staff have also reviewed key issues related to administration of the tax and key deadlines based on many escalated complaints received in this area. Many of the deadlines in the Vacancy Tax By-law are tight, resulting in the need for staff to use discretion to extend the timelines to avoid property owners being levied EHT for missed deadlines. This makes it more difficult to ensure the application of the by-law is fair and equal for all Vancouver property owners.

The key deadlines in the by-law and how they have been enforced by staff using the limited discretion under the by-law are as follows:

	By-law deadline	How enforced?
Declaration	2 nd business day in February	2 nd business day in February
Late declaration	Not specifically referenced	Treated the same as a Notice of Complaint
Notice of Complaint – late declaration	10 th business day in April of the year in which the EHT is due	Extended at discretion of Vacancy Tax Review Officer, in most cases only up to December 31 of following year.
Notice of Complaint – determined vacant after audit	34 days from date of issue of the supplementary EHT bill	Extended at discretion of Vacancy Tax Review Officer
Request for External Review	30 days from deemed receipt of Vacancy Tax Review Officer determination (effectively 34 days)	Determined by Vacancy Tax Review Panel on case by case basis

It is possible to extend the deadlines above, and this would have the advantage of fewer individuals being charged the EHT for missing deadlines as opposed to having a vacant property. It would have the downside of significantly increasing program administration costs and wait times for the vast majority of population who do meet the timelines. It would also likely decrease compliance with the deadlines as more residents would start to ignore the tax and “catch up” later. While there have been a number of escalations due to missed deadlines, they relate to a very small portion of the population (less than 1%), compared to the 10% - 12% that are late every year for property tax payments. So in general, compliance with EHT deadlines has been excellent.

Longer deadlines also mean that revenue collected from the tax would not be available for allocation to affordable housing initiatives as it would remain subject to refund for a longer time period. EHT is a tax on property and typically with property tax administration the deadlines for appeal are well defined and rigidly enforced as municipalities need the money to be available for expenditure the following year. For example, the deadline to appeal a property tax assessment is January 31 and when this date passes, the right to appeal is lost. Exceptions in property tax administration are quite rare as it is very difficult to treat everyone fairly and equally by doing anything other than administering the tax in accordance with the bylaw.

The other issue with long deadlines is that the by-law currently only allows two years to request additional information and supporting documents for the property owner as part of an audit. With longer timelines to declare and complain, the by-law would also need to be extended to make the audit period longer or there would be a significant advantage to declaring late as it would decrease the chance of the City having time to select the property for audit. The difficulty with a very extended timeline for audit is that properties change hands and certain documents such as driver's licences that are used to support an audit expire and are not necessarily available many years later. In addition, extended timelines would diminish the utility of enforcement tools like inspections of the property to verify use if a long time period has elapsed. This is a tax on a property and not a person which practically makes extended deadlines and time periods quite difficult.

Based on the above analysis, staff do not recommend that deadlines be extended further than the operation deadlines noted above but do recommend making the standard deadlines longer to make compliance easier for property owners. Staff recommend by-law amendments to:

- State that any time extensions granted by the vacancy tax review officer for submission of a notice of complaint regarding vacancy tax notices, including late declarations, may only be granted up to December 31 of the year in which the tax is due;
- Increase the time allowed to file a notice of complaint from a supplementary vacancy tax notice to 90 days, and state that any time extensions granted by the vacancy tax review officer for submission of a notice of complaint regarding supplementary vacancy tax notices may only be granted for a period of up to one year from the date of issue noted on the supplementary vacancy tax notice
- Increase the time allowed to file a request for external review to 90 days and eliminate any discretion to accept late review requests.

6. Review of Tax Impact

As part of the EHT review, Council directed staff to report back on the impact of the tax to date on its core objectives:

- To return empty or under-utilized properties to use as long-term homes for people who live and work in Vancouver; and
- To prevent additional properties from becoming empty.

Early Trends in EHT Impact to Date

With two years of the tax complete, it is possible to assess the status of properties from the 2017 and 2018 tax years in order to identify possible early trends. As demonstrated in Section 2 above, initial data shows movement in the right direction in terms of vacant and exempt properties shifting to occupied, as well as an overall increase in the number of units declared as tenanted. As indicated in the Background section, there have also been signs of improvement in other key market affordability indicators such as benchmark home prices, though rental vacancy rates and rents continue to indicate extremely challenging conditions for renters in Vancouver.

Challenges Involved in Determining Specific Impact of EHT

While it is possible to demonstrate early trends in EHT data and additional indicators, consultation with housing policy experts in June and September as well as analysis from E&Y

confirmed several key challenges involved in determining the specific impact of the EHT on achieving its core objectives:

- There is no source of comparable data on empty homes for 2016, the year the tax was introduced. This is a challenge because it means that there is no 'baseline' against which staff can compare data from each subsequent year of the tax in order to report on progress. Housing policy experts noted that sources of data that are commonly reported in the media such as 2016 Census un-occupied dwellings or dwellings occupied by a temporary or foreign resident are not appropriate for comparison with EHT data.⁴
- Many additional factors beyond EHT may be influencing trends observed in property status, including the impact of additional policy measures like the new Provincial Speculation Tax and federal mortgage measures; the introduction of new housing supply; and other drivers of change in Vancouver's dynamic real estate market.
- There are limited sources of data on vacant properties aside from EHT property status declarations that can be used as a comparison on an ongoing basis. Several potential sources of data were suggested for staff to pursue for a future in-depth comparison study, such as additional years of BC Hydro consumption data; data from the Provincial Speculation Tax; or data on property use from the new Statistics Canada/CMHC Canadian Housing and Statistics Program. Staff are working with partners at these organizations to pursue potential data partnerships moving forward.

Additional Work on Reporting EHT Impact

Staff are committed to refining the approach to reporting on EHT data on an ongoing basis. Several new tools and partnerships have been developed as outcomes of the EHT review, including:

- **EHT annual progress indicators:** As part of the EHT Annual Report, staff will report on several indicators related to performance of the tax on key metrics, including the number of properties converted from vacant to occupied; the number of new properties reported as vacant; and the number of properties declared as tenanted. These indicators were developed in partnership with housing policy experts. The first set of indicators is included in the Annual Report, contained in Appendix C. Staff intend to expand this list of indicators over time to include additional metrics suggested by academic partners. One example of a future indicator is tracking the level of vacancy among properties that were recently constructed or sold, to determine if the tax is impacting the behavior of new property owners.
- **Open data release:** Staff are currently working in partnership with UBC academic partners to develop an EHT data set that can be included in the City's Open Data portal for public and academic access.
- **Additional ideas for assessing EHT impact:** Several ideas are under consideration by staff for future evaluation of EHT impact after the tax has been in place for additional years.

⁴ On Census day, **May 10, 2016**, Statistics Canada identified **25,495** dwelling units in the City that were either unoccupied, or occupied by temporary and/ or foreign residents. However, Census data tells us about the status of a home on Census day in May 2016. It does not provide insights into the length of time that the home had a particular status, which means that it is not directly comparable with EHT property status data, which tracks occupancy for the full tax year. Additionally, Census data refers to dwelling units, whereas EHT is applied only to class 1 property. There may be multiple dwelling units on a property (i.e. a non-stratified rental building or a home with a basement suite) or dwelling units on property that is not solely class 1. The number of properties requiring declaration in 2019 was just over 189,000.

These include additional surveys of Vancouver residents including owners and renters, targeted engagement with specific groups being impacted by the tax, and further partnership with the Province on data sharing.

7. Additional review items

Council also directed staff to consider two additional items in the report back on the EHT Review:

- Council requested staff to provide any information or recommendations that may come from the review the provincial government is undertaking, to prevent and deter money laundering in real estate and how this may apply to the EHT. This request will be addressed as part of the larger suite of motions on money laundering in a separate report.
- Council also requested that staff consider an incentive-based program, to meet the mandate of the EHT and consider providing modest property tax rebates to homes that are rented, that would otherwise be empty. This request is being investigated as part of ongoing work on secondary suites, along with a separate motion in the 2019 budget related to EHT funds being used to incentivize legalization of secondary suites.

8. EHT Revenue Expenditures to Date

The amount of EHT revenue currently available to support affordable housing is \$39.7 million and is comprised of amounts collected to date, less program setup, operating costs, and reserves. Available EHT funds have been either allocated by Council or are recommended for allocation by staff based on Council motions and the public engagement undertaken in 2018. The recommended allocation is consistent with the *Vancouver Charter* requirement that all EHT net revenues be spent on initiatives respecting affordable housing, direction received via public consultation in 2018 on spending priorities for EHT revenue, and key housing priorities outlined in the 10-year Housing Vancouver strategy.

The EHT Annual Report in Appendix C includes a summary of direction received from Council and feedback from Vancouver residents on funding priorities for EHT, as well as providing a more detailed description of the specific funding allocations approved to date and some new recommended allocations for the remaining available EHT funds. These new recommendations will be brought to Council for approval through upcoming Council reports or the 2020 proposed budget. Some highlights include:

- The purchase of Ross House, a Single Room Occupancy Hotel in good condition and 85% vacant.
- Funding for new Renter Office team to improve support renters across all City functions and a grants program both focused on providing additional advocacy and support services for Vancouver renters.
- Recommending a funding allocation for multi-year housing capital grants, as part of a Community Housing Incentive Program to support our non-profit and co-op partners to deepen affordability in new social/co-op housing projects, and deliver on the affordability targets set out in the Housing Vancouver strategy. Staff's recommendations on these new grants will be coming forward to Council later in fall/winter 2019.
- Additional City funding to support implementation of actions on private SROs in the City's SRO Revitalization strategy, aiming to attract funding from other levels of government, as well as the community and private sector.

- New funds to support the City's on-going actions and partnership with the Province on homelessness, including new shelter capacity and protection of existing low-income housing. Staff aim to bring forward updates on specific initiatives to Council later in fall/winter 2019.

Implications/Related Issues/Risk

Legal Implications

Part XXX (Sections 615-622) of the *Vancouver Charter* provides authority for Council to, by by-law, impose an annual vacancy tax. Council may amend the by-law at its sole discretion at any time. These amendments would come into force upon enactment of the amending by-law, a draft of which is attached as Appendix A, and would apply immediately unless otherwise noted.

CONCLUSION

Council has made a number of amendments to the Vacancy Tax By-law since the implementation of EHT in order to improve the clarity and effectiveness of the tax. At this point, based on consultation with tax experts, housing experts, the public, and other stakeholders, the tax is working mostly as intended and minimal further amendments are recommended at this time. The data also supports this conclusion with key indicators showing trends that point to the tax working to encourage occupancy. Staff will continue to monitor key indicators and data on an ongoing basis to bring any further issues forward for consideration by Council.

* * * * *

**DRAFT By-law to amend the Vacancy Tax By-law No. 11674
regarding a new exemption and notice periods for complaints and reviews**

Note: A By-law will be prepared generally in accordance with the provisions listed below, subject to change and refinement prior to posting.

1. This By-law amends the indicated provisions of the Vacancy Tax By-law No. 11674.
2. Council adds a new section 3.9 as follows:

“Combined period of redevelopment or renovation and occupation by tenant

3.9 A vacancy tax is not payable under this by-law for a parcel of residential property if the residential property was, for a combined period of at least six months during the vacancy reference period:

- (a) unoccupied in order to redevelop or safely carry out of major renovations to the property:
 - i. for which permits have been issued by the City, and
 - ii. which, in the opinion, of the Chief Building Official, are being carried out diligently and without unnecessary delay; and
- (b) occupied for residential purposes by an arm's length tenant under a tenancy agreement, or by an arm's length subtenant under a sublease agreement, for a term of at least 30 consecutive days either:
 - i. prior to the issuance of such permits by the City, where the tenant or subtenant gave notice to end their tenancy, or
 - ii. after the redevelopment or renovation work has been completed.”.

3. Council strikes out section 6.3 and substitutes the following:

“Complaint process

6.3 A registered owner may submit a complaint to the vacancy tax review officer by submitting a notice of complaint:

- (a) in the case of a vacancy tax notice, on or before the 10th business day of April of the year in which it is due and payable, unless such time period is extended by the vacancy tax review officer, except that no such extension will be granted beyond December 31st of the year in which the tax is due and payable; and
 - (b) in the case of a supplementary vacancy tax notice, within 90 days of the date of issue of the supplementary vacancy tax notice, unless such time period is extended by the vacancy tax review officer, except that no such extension will be granted beyond one year from the date of issue noted on the supplementary vacancy tax notice.”.
4. In section 6.11, Council strikes out “30” and substitutes “90”.

5. In section 6.12(b), Council adds “or” after “telephone number”.
6. In section 6.13, Council:
 - (a) strikes the words “6.11 or”; and
 - (b) strikes the words “6.11 or” from the section heading.

Empty Homes Tax Review Engagement Summary

Summary of Consultation Process

The consultation process for the Empty Homes Tax review took place from April 30 to October 3, 2019. Staff consulted several stakeholder groups on key review topics including the tax rate, exemptions, coverage, and tax impact. Stakeholders consulted included housing policy experts from academic institutions including UBC, SFU, and independent consultants; individual property owners impacted by the tax representatives from the development industry and landlords; and government partners. Feedback was gathered through workshops, meetings, surveys, and written correspondence.

Stakeholder Group	Engagement Format
Housing Policy Experts	<ul style="list-style-type: none"> • 2 Workshops + Individual Meetings
Vancouver property owners impacted by tax	<ul style="list-style-type: none"> • 311 survey • Review of issues and complaints
Condo Home Owners Association	<ul style="list-style-type: none"> • Meeting
LandlordBC	<ul style="list-style-type: none"> • Workshop
UDI	<ul style="list-style-type: none"> • 2 Workshops
CityHive	<ul style="list-style-type: none"> • Workshop
BC Housing	<ul style="list-style-type: none"> • Workshop
BC Assessment	<ul style="list-style-type: none"> • Workshop

Feedback from engagement during the review was supplemented with findings from previous public engagement in 2016-2018, including the following initiatives:

- 2016 survey on goals of an Empty Homes Tax (15,000 participants, 59% renters)
- 2017 Housing Vancouver public engagement (10,000 participants, 50% renters)
- 2018 survey on EHT and objectives for revenue (1,004 responses)

Consultation Schedule and Events

Format	Stakeholders	Date
Workshop	Housing Policy Experts	June 19, 2019
Phone Survey	Vancouver residents/property owners	April 30-June 26, 2019
Review of audit complaints/issues	Property owners	Ongoing
Workshop	Housing Policy Experts and Key Stakeholders	September 29, 2019
Phone call	Condo Home Owners' Association	October 1, 2019
Meeting	Andy Yan, SFU	2019
Workshop	UDI	October 3, 2019

Summaries of feedback from each engagement initiative are provided below.

Summary of Workshop #1 with Housing Policy Experts

Workshop Date: June 19th, 2019 9:00AM – 11:00AM

Attendees

Tom Davidoff	UBC Sauder
Jens von Bergmann	MountainMath
Margot Young	UBC Law
Tsur Somerville	UBC Sauder
Andy Ramlo	Urban Futures
Eric Bond	CMHC

*Note – participants were selected based on participation in previous Empty Homes Tax academic consultation workshops and related City of Vancouver housing consultation efforts.

Discussion Topics and Questions

1. Analysis of the Impact of EHT
 - a. Are the original objectives of the EHT still the right ones?
 - b. What does ‘success’ look like for each EHT objective, and how do we measure this?
 - c. How do we account for the influence of other market, policy, and human behavior factors?
2. Ideas for Improving EHT
 - a. What are the benefits and trade-offs of options for improving the effectiveness of the Empty Homes Tax?
 - b. Are there issues of fairness that should be addressed?
3. Interest in further engagement and collaborating with academic community

What we heard – Analysis of the Impact of EHT

1. Validating EHT Objectives

- **The original objectives of the EHT are still valid:** The group agreed that the original objectives of the tax – shifting vacant homes to being rented out or otherwise occupied and preventing new homes from becoming vacant - are still valid today.
- **Caution connecting EHT to systemic housing market outcomes:** The group cautioned against connecting EHT to systemic housing market objectives like addressing speculative demand. They also noted that other market factors (e.g. prices, pre-sale volumes) are much stronger drivers of speculative demand. However, the group was supportive of connecting EHT with expanding the overall supply of rental in the secondary market.

2. What does ‘Success’ look like for each EHT objective, and how do we measure this?

Tax objective	What would 'success' look like?	What are key metrics? Any data gaps?
Reduce the number of empty homes	<ul style="list-style-type: none"> • Success <u>does not</u> look like zero empty homes, as some owners will always opt to keep their homes empty and pay the tax • After a few years of the tax we will likely get to a low point in the number of empty homes – at which point the goal should be no increase from that point • More housing units available for rent in the secondary rental market 	<ul style="list-style-type: none"> • To understand whether EHT has been successful in reducing the number of empty homes, you need to compare reduction in vacant/exempt declarations with a second, comparable source of data – e.g. repeating Ecotagious BC Hydro study or using the new Canadian Housing Statistics Program data on residential property ownership • If the Province provides access to Speculation Tax declarations data, it may also be possible to compare Vancouver vs. non-Vancouver properties to isolate the marginal impact of EHT • Census unoccupied homes metric is not appropriate to use to compare EHT data against in Vancouver. 'Comparing apples to automobiles'.
Prevent additional properties from becoming vacant	<ul style="list-style-type: none"> • Newly created properties are declared as vacant at a lower rate than existing properties – this indicates that the tax is encouraging new homeowners to occupy or rent out properties 	<ul style="list-style-type: none"> • Look at declaration status of properties that are new to the assessment roll for a year, comparing annually • Could also look at completions, lagged by a year to account for transfer time • Nuance this with more expensive / less expensive

3. How do we account for the influence of market, policy, and human behavior?

- **It is very challenging to separate the impact of EHT from other factors:** The housing market in Vancouver is very dynamic, and is influenced by many trends apart from EHT, including market trends (e.g. the current downward trending market) as well as the impact of other government interventions such as the Speculation Tax, mortgage rules, etc. It will generally be very challenging to isolate the impact of EHT on owner behavior, especially with so few years of data.
- **We need data from BC Hydro/CMHC to compare with Empty Homes Tax declaration trends:** The best way to determine if EHT is working is to compare against other data sources measuring residential occupancy. There are currently limited options for this – one would be to replicate the BC Hydro Ecotagious Study for 2015-2019 (and beyond), though Staff noted that this may be challenging due to issues obtaining additional years of data from BC Hydro. There may also be opportunities with the new Canadian Housing Statistics Program data on residential occupancy, currently being developed by CMHC and Stats Can. The City would need to request special data for Vancouver going back to 2016 and subsequent years.
- **It is challenging to establish a 'baseline' number of empty homes for the purposes of evaluation:** Data on 2017 property use from 2018 declarations is likely somewhere in between the baseline number and the final 'steady state' number of empty homes. A baseline could potentially be derived from BC Hydro data for 2016 and/or CHSP data for 2016 for Vancouver – but both would involve senior government data requests.

What We Heard: Ideas for Improving EHT

1. Evaluation of options to improve EHT

General Feedback

- **Analysis of ideas to improve EHT should be evaluated based on three criteria: Effectiveness, Efficiency, and Fairness:**
 - Effectiveness - does this option help to better achieve tax objectives?
 - Efficiency - does this option make it harder to implement and/or enforce the tax?
 - Fairness - does this tax have a disparate impact on a particular group?
 - These criteria are connected – e.g. an action intended to improve effectiveness like increasing the tax rate could detract from efficiency or fairness
- **Actions to improve tax compliance (e.g. penalties for evasion) are advised rather than increasing the tax rate:**
 - There was general consensus in the group that raising the tax rate – either across the board or escalating based on years vacant - is more likely to encourage non-compliance with the tax, and could have unintended consequences (e.g., if the rate is raised above 2% it may encourage owners to sell and pay the Property Transfer Tax in order to get an exemption from EHT).
 - Rather than increase the tax rate, the group recommended taking action to improve compliance with the tax and penalize evasion

Specific feedback on options to improve EHT

- ✗ **Raise tax rate**
 - Group did not advise raising the tax rate – either across the board or based on length of time vacant.
 - Rationale:
 - If you raise the tax above 2% it would be better to transfer and pay PTT; this means Province gets the revenue not the City.
 - Also encourages re-classification and payment of commercial rate which is currently about the same as residential + EHT (~3% of assessed value)
- ✗ **Exemption for second homes occupied part of the year**
 - Group did not advise creating a blanket exemption for second homes that are occupied for part of the year.
 - Rationale:
 - Trying to establish which set of circumstances is acceptable is extremely difficult e.g. recreation vs education
 - The group did consider the possibility of an exemption due to need for proximity to specialized medical care, though some participants noted that this raises concerns about staff or auditors making judgements on medical needs

- There were also questions regarding whether the tax may be deferred similar to property taxes
 - There was a suggestion of removing the existing exemption for strata with rental restrictions; Staff noted that the Province is currently working on this, and the City would follow Provincial action
- ✓ **Extension of tax to other dwelling units**
 - The group advised that it would be worth considering extending the tax to dwelling units within parcels in certain circumstances, but did not advise taxing secondary suites.
 - Rationale:
 - Taxation of individual units within SRA designated properties or Purpose Built Rentals (which are currently not taxed individually if the property is not stratified or is mixed-use) may help to discourage vacancy in these properties
 - However, taxation of secondary suites (and potentially laneways) was seen to be an incursion into private space and potentially excessive. This would also be very difficult to implement.
- ✓ **Ensure continuing improvement with respect to tax compliance, including penalties for evasion**
 - The group advised expanding and improving the existing audit program in order to identify instances of tax evasion.
 - The group also suggested further action to demonstrate and increase the consequences of evasion, such as reporting the number of tickets issued for evasion and/or increasing the penalty for evasion.
 - There was also discussion of opportunities to introduce penalties that do not require prosecution

2. Dealing with issues of fairness

General Feedback

- **Actions to address fairness concerns could have a detrimental impact on the effectiveness and efficacy of the tax:** Overall, the group cautioned that introducing new exemptions or other measures to address tax fairness could introduce complexity to the audit process, with a potential negative impact on the overall effectiveness of the tax program and the administration of the tax.
- **There should not be a broad exemption for second homes occupied for part of the year:** Several members of the group noted that a progressive tax like EHT is intended by design to impact taxpayers with second homes that are not being used year-round. It would be difficult (and potentially against the intent of the tax) to create a broad exemption for this group of taxpayers.

Summary of Workshop #2 with Housing Policy Experts and Key Stakeholders

Empty Homes Tax Update: Presentation to Subject Matter Experts

September 19, 2019

Participants:

Name	Organization
Tom Davidoff	UBC Sauder
Jens von Bergmann	MountainMath
Margot Young	UBC Law
Tsur Somerville	UBC Sauder
Eric Bond	CMHC
Margaret Eberle	Independent Consultant
Craig Jones	UBC SCARP
Karen Hemmingson	BC Housing
Erin Laroque	CityHive
Bill Kessels	Ernst and Young
Ed Shum	BC Assessment
Jeff Fisher	UDI
David Hutniak	LandlordBC

*Staff consulted Andy Yan (SFU) in a follow up discussion

SECTION 1: OVERVIEW

The *Empty Homes Tax Update: Presentation to Subject Matter Experts* workshop was hosted by the City of Vancouver on Sept. 19, 2019, at Vancouver City Hall (453 W 12th Ave). The purpose of the workshop was to share progress on the implementation of the Empty Homes Tax after two years, and to collect feedback from industry experts. Attendees included academic stakeholders and industry experts.

SECTION 2: MEETING OBJECTIVES

- 1) Share the results of consultation and analysis in response to Council's request to review the Empty Homes Tax.
- 2) Seek feedback on policy options.
- 3) Re-convene key stakeholders after two years of the tax.

SECTION 3: PRESENTATION

Council Direction for the Empty Homes Tax Review

- Evaluate options to increase the tax rate in order to shift more properties from vacant to occupied.
- Analyze current exemption categories in the by-law for clarity, effectiveness, and fairness; consider new exemptions if required (e.g. second homes used occasionally)
- Explore options to expand coverage of the tax to additional residential properties not currently included and explore actions for vacant land.
- Assess the impact of the Tax to date.

PART 1: TAX RATE AND EXEMPTIONS

TOPIC 1: INCREASE THE TAX RATE

Suggested Approach (To Increase the Tax Rate)

- Maintain current 1% tax rate and continue to monitor the impact of speculation tax.
- Consider opportunities to increase compliance with EHT.

Discussion Summary

- Participants agreed with overall approach of maintaining the current tax rate, given introduction of SVT and potential for a higher overall tax rate to incentivize evasion.

Discussion Highlights:

- Participants suggested that Staff should monitor the impact of the speculation tax on Vancouver and the region. This should be an additional recommendation along with maintaining the current tax rate and exploring enhanced compliance.
- Staff should be coordinating with the Province and Federal government around the overall impact of policies with similar policy goals. This can inform whether the tax rate needs to be changed in the future.
- There may also be opportunities to work with the Province to share data and work together on compliance and enforcement
- There appear to be considerable incentives to evade the tax and risk paying a penalty later. Staff should continue to explore opportunities to enhance compliance and enforcement for EHT – i.e. partnership with the Province or request for new authorities
- Staff should consider the scenarios in which the EHT might be phased out – i.e. if rental vacancy rates increased beyond 3%.

Continued need for an Empty Homes Tax

- An additional reason for continued need for an Empty Homes Tax is the changing nature of Vancouver's property market – that a share of Vancouver properties (and other cities) are increasingly being held for investment.
- Suggest the City may consider an empty storefronts tax to address vacancy in commercial properties

TOPIC 2: EXEMPTIONS

Suggested Approach (For Exemptions)

- Address issues with existing exemptions that do not align with intent of the bylaw – allow stacking of renovation and tenanted

- No new exemption for properties being used occasionally/part of the year
- Continue to monitor for future changes – strata rental restriction based on action from province, property under development/unsold inventory, medical exemption

Discussion Summary

- Overall support for proposed approach of maintaining existing exemptions and avoiding new exemptions for second homes that are used occasionally. Development and real estate industry stakeholders emphasized need to continue monitoring the need for adjusting development exemptions in case there is an economic downturn. Also urge coordination with Provincial and other City policies i.e. tenancy protections.

Discussion Highlights:

- Participants recommended that staff demonstrate the breakdown of major exemption categories by property type and value, in order to show whether high- or low- end properties are claiming exemptions.
- Several participants asked about the interaction between the EHT and Speculation Tax exemptions for properties under development and City and Provincial tenancy rules, particularly given uncertainty around timelines for permit issuance and ending tenancies. It was explained that developers applying for redevelopment were previously using fixed-term tenancies to bring in new tenants on turnover so that they could quickly begin work once permits are issued instead of waiting for 4 months. However, this is no longer an option due to changes to the Residential Tenancy Act, so units may be left empty instead.
 - o Staff explained that the intent of EHT is for a property awaiting permits to be tenanted for as long as possible, in line with Provincial tenancy law. The City's Tenant Relocation and Protection Policy has flexibility built in so that developers aren't penalized if they bring in new tenants, particularly for secondary rental involving lot consolidations.
- Concern was also raised about unsold new inventory being taxed in the event of an economic downturn. The Province currently exempts these properties from the Speculation Tax, and also has a longer timeline for its development exemption. There have been few if any instances of unsold inventory being taxed in Vancouver, however staff noted that they will continue to monitor this in the future. Several participants suggested that the City should consider taking away the exemption for properties subject to strata rental restrictions rather than waiting for action from the Province. This could encourage stratas with rental restrictions to take away those restrictions.
 - o Other participants noted that this could penalize owners who would like to rent out their units but have not been able to achieve a majority strata council vote.
- Some participants suggested that a medical treatment exemption may not be necessary if a property owner could rent or stay in a hotel for treatments instead, rather than maintaining a second home for this purpose.
- Participants emphasized that an exemption for pied-a-terre properties would go against the intent of the Empty Homes Tax

PART 2: TAX COVERAGE AND IMPACT

TOPIC 3: EXPLORE OPTIONS TO EXPAND COVERAGE OF THE TAX

Suggested Approach (To Expand Coverage of the Tax)

- Broaden policy coverage to SROs
- No increase in occupancy threshold for non-stratified multi-unit properties (i.e. purpose built rentals)
- Continue monitoring vacant land

Discussion Summary:

- General support for broadening EHT coverage to include all private SRA-designated properties
- Support as well for maintaining the current occupancy threshold for for purpose-built rentals
- No specific issues regarding suggestion on continuing to monitor vacant land that is currently subject to the tax

Discussion Highlights:

- Several participants supported the idea of broadening coverage of the EHT to include mixed-class SRO properties. There was a suggestion to describe the intent of the policy for SROs as encouraging owners to fix up empty properties and rent them out. Also suggested presenting the impact in terms of number of units that will be newly covered by the tax, rather than number of buildings.
- Participants also noted that the City must consider how the EHT would interact with other City policies (i.e. SRA Bylaw), and work with BC Housing and non-profits that are operating private SROs via a lease agreement with private owners.
- Participants agreed that there does not appear to be a strong case for increasing the occupancy threshold for other purpose-built rental properties. Staff can continue to monitor this if there is a need to change this in the future.
- Participants asked clarifying questions about the taxation regime for vacant land that is part of phased development but did not have other suggestions.

TOPIC 4: ASSESS THE IMPACT OF THE TAX TO DATE

Suggested Approach (To Assess the Impact of the Tax to Date)

- Undertake a new study once we have additional years of data and a good comparison dataset
- Develop a set of EHT impact indicators, to be updated each year via the EHT annual report
- EHT Open Data Release

Discussion Summary:

- Overall support for suggested approach
- Participants provided additional ideas for ways to report on the impact of EHT
- Suggestion that staff also report on revenue from the tax as a positive impact of EHT

Discussion Highlights:

- 2 years' data is not sufficient to draw conclusions about the impact of the tax so far; however data to date is promising and shows progress in the right direction
- Participants noted that while there may be limitations to reporting on the specific impact of EHT, overall market trends suggest a positive impact so far – nothing bad to report.

Travel and tourism data could help to supplement real estate and rental market data to indicate that the Vancouver economy is still strong and attracting people.

- Participants also emphasized that the revenue from EHT is a positive outcome of the tax.
- Participants had several suggestions for how Staff can report on the impact of the Empty Homes Tax on achieving its objectives
 - o Consider opportunities to compare BC Hydro data with Empty Homes Tax declarations – though this would require significant privacy measures
 - o Look at other jurisdictions with similar policies – have they reported on impact metrics that Vancouver can be compared with?
 - o Report on the type of units that are being converted from empty to occupied, in order to get a sense of the type of supply that is being made available and who it could be serving.
 - o Canada Housing Statistics Program data will be including information on occupancy, which could be compared with Empty Homes Tax data over time. This won't be available right away but could be available in the future.

Summary of Feedback from Additional Engagement

Initiative	Summary of Feedback
UDI Workshops	<p>Tax Rate</p> <ul style="list-style-type: none"> - Supportive of no increase to current tax rate, noting that an increase in the tax rate would necessitate more permissive exemptions for properties under development and unsold inventory - Note that Staff should indicate to Council and the public conditions under which the EHT would be ended (i.e. a rental vacancy rate above 3%) <p>Exemptions</p> <ul style="list-style-type: none"> - Continue to seek a broader exemption for properties under development i.e. aligned with the Speculation Tax which exempts property under development as soon as financing has been applied for - Also seek a broader exemption for new inventory that has not yet sold; noting that a one year time-limited exemption could be sufficient in the current market though a broader exemption could be required if inventory continues to accumulate. Note that charging tax on un-sold inventory could challenge the viability of new condominium projects in a down market by requiring developers to sell at lower prices than desired or renting out new units, which can have tax consequences. - Seek clarity on the exemption for vacant unimproved land – at what stage in the rezoning process does this exemption come in? <p>Tax Coverage</p> <ul style="list-style-type: none"> - Need to consider additional exemption requirements for SRA designated properties that are waiting for permits to bring currently vacant properties back into use <p>Other issues</p> <ul style="list-style-type: none"> - Issues and questions about the interaction between Provincial and City tenancy rules and Empty Homes Tax, particularly for properties that are being slowly emptied in anticipation of demolition. - Issues about the cost of bringing currently uninhabitable properties up to code in order to be rented out prior to demolition (i.e. Cambie Corridor homes, un-tenanted rental properties) - Need to consider EHT implications for stratas that are being wound up in order to redevelop - Need a better explanation of review panel decisions
311 Phone Survey	<p>From May to July 2019, 993 citizens calling 311 about property tax or Empty Homes Tax (EHT) also provided feedback about EHT. 94% of respondents told us they were home owners. The questions covered a variety of topics including feedback on the tax rate and exemptions.</p> <p>Declaration experience (579 responses), 95% positive</p>

	<p>312 comments were received 105 (34% were generally supportive of the tax.</p> <p>Other feedback fell into the following categories, declaration process(64) tax rate (29), exemptions (20), audit and complaint (22), communications (46)_ and particular circumstances (26)</p> <p>For the tax rate there were 4 themes, that foreign owners should be targeted (14), that the tax should be lower (8), that it should be higher (3) and that we should combine our tax with the speculation tax.</p> <p>For the exemptions, second homes registered 6 comments, 2 mentioned the renovation exemption, no themes were identified in the remaining responses.</p>
Review of audit complaints/issues	<p>Some common feedback from property owners who self-identified as unfairly impacted by the tax during the audit process is outlined below.</p> <p>Second homes – Some second home owners who were found non-compliance during the audit and charged EHT did not consider they should be subject to the tax as the property is used throughout the year, albeit not as a principal residence.</p> <p>Residential property used only as office space – Through audit it was identified that many class one residential properties are being used only for non-residential purposes as office space. In accordance with the by-law they properties were found non-compliant and charged EHT. Many property owners provided feedback that they considered this unfair as the property was being used.</p> <p>Property redevelopment – Some property owners at various stages of redevelopment did not qualify for an exemption in accordance with the bylaw as they did not yet have issued permits. Property owners raised that the redevelopment process takes some time and tenants often leave early leaving some properties unfairly subject to the tax.</p>
Condo Home Owners Association	<p>Tax Rate</p> <ul style="list-style-type: none"> - Condo owners who live in BC are happy to see people from out of Province or foreign owners pay a higher rate for vacant units; they are not interested in seeing condos held as investments since this has negative impacts for the strata community and services <p>Exemptions</p> <ul style="list-style-type: none"> - Does not believe that properties used occasionally/pied-a-terre properties should qualify for an exemption - Notes that in many cases the Vancouver property is a second home as a consequence of principal residence capital gains considerations <p>Strata rental restrictions</p>

	<ul style="list-style-type: none">- Agrees with City approach of seeing if Province makes a decision on rental restrictions then acting accordingly; still unsure what Province will do but anticipates an announcement in January- CHOA is not supportive of removing strata rental restrictions – concern that doing so would lead to developers acquiring more units and holding them to rent them out, impacting communities within strata.- Significant concerns about AirBNB and the impact on strata communities
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City of Vancouver

The Empty Homes Tax Program – Phase 3 Retrospective

Commentary

October 2019



EY

Building a better
working world

Executive Summary

The City of Vancouver's Empty Homes Tax (**EHT**), as periodically amended (by minor bylaw amendments in June 2017, September 2018 and February 2019), has now been in effect for two years.

Vancouver City Council (**Council**) has directed City Staff to review the EHT and return to Council with a report and recommendations in November 2019. To provide advice and assistance in the review, City Staff engaged the services of Ernst & Young LLP (**EY**).

The main issues to be addressed are the advisability and consequences of making changes to the tax rate and adjustments to the tax base (through modifications to existing criteria for exemptions from EHT).

A review of available evidence, including property declarations and revenues realized, as well as feedback obtained from academic and stakeholder workshops, indicates that the EHT has performed reasonably well in relation to its policy objectives and *a priori* program expectations.

All things considered, EY is of the view that the most prudent course for the City of Vancouver (**City**) to take at this point in time is to maintain both the existing tax rate and tax base and to monitor performance of the EHT for an additional period of time.

An additional consideration in support of this view is the fact that many of the empty properties in Vancouver subject to the EHT are also likely subject to British Columbia's new Speculation and Vacancy Tax, which will increase from 0.5% to 2.0% for certain property owners in 2019 and subsequent tax years. The cumulative effect of this additional tax could have unintended impacts on compliance with the EHT.

In this context, it would also be advisable for the City and the Province of British Columbia (**Province**) to work together to ensure an ongoing coordinated approach to the design, implementation and administration of these taxes; for example, by ensuring that the exemptions are aligned where appropriate so that compliance costs are minimized for administrators and taxpayers alike.

City of Vancouver's Empty Homes Tax

Phase 3 – Retrospective

Introduction and context

The EHT, as periodically amended with minor changes in the bylaw, has now been in effect for two years. The Council has directed City Staff to review the tax and return to Council with a report and recommendations in November 2019. To provide advice and assistance in the review, City Staff engaged the services of EY.

Questions sought to be addressed in the report and recommendations to Council include the following:

A. Modifications to the EHT program

1. Does the evidence support continuing the program as it is presently structured; or modifying the program in some ways?
2. In this context, the program includes both the tax rate and the tax base (i.e., the exemption criteria for imposing the tax) as well as the administrative functions that are resourced by the City (e.g., the audit function and the complaints and dispute resolution functions).

B. Assessing the effectiveness of the EHT program

1. Is there evidence to support whether the EHT program has achieved its stated policy objectives of increasing the supply of rental housing units and raising revenue for affordable housing initiatives?
2. What other factors may be influencing the impact of the EHT program on achieving its stated policy objectives?
3. What has been the experience of vacancy taxes in other jurisdictions?

EY Commentary

A. Modifications to the EHT program

Tax Rate and Tax Base Issues

Rate options, considerations and administrative impacts

Considerable planning and analysis went into the decision made by the City in the Phase 1 conceptual development of the EHT program to set the tax rate at 1% of assessed property value. The revenue raised in the first two years of operation appears to be consistent with *a priori* expectations and forecasts.

Having stated that, this decision needs to be validated by considering all available new evidence and revisiting the considerations underpinning the current 1% rate as well as the implications of maintaining it versus adjusting it higher or lower.

On the one hand, a higher rate could theoretically (and conceivably in practice) result in both higher revenues and a lower vacancy rate. However, any upward pressure put on the rate could also result in higher levels of noncompliance by owners in attempts to circumvent the application of the tax, thereby undermining the administrative and cost advantages of the voluntary declaration and compliance aspects of the EHT program.

More specifically, a rate increase could motivate greater numbers of property owners to falsely declare property either as occupied or exempt. Implementing a higher tax rate while at the same time maintaining the current level of compliance by owners would very likely entail increased EHT administrative pressures and costs to the City, through ramped up audit and enforcement workload and investigation of citizen tips and complaints.

An additional consideration, and one that could further exacerbate the risk of increased noncompliance with the EHT, is the challenge posed by the fact that many of the empty properties in Vancouver subject to the EHT may be subject to British Columbia's new Speculation and Vacancy Tax. This is especially relevant since the provincial Speculation and Vacancy Tax rate will increase from 0.5% to 2.0% for foreign owners and members of "satellite families" (those who earn a majority of income outside the province and pay little to no income tax in B.C.) in 2019 and subsequent tax years.

In this context, it would also be advisable for the City and the Province to work together to ensure an ongoing coordinated approach to the design, implementation and administration of these taxes; for example, by ensuring that the exemptions are aligned where appropriate so that compliance costs are minimized for administrators and taxpayers alike.

Lowering the EHT rate would likely have opposite effects in terms of these same considerations above. For example, EHT revenues would likely fall and the vacancy rate could rise, given that the "cost" to homeowners of leaving properties empty would fall.

All things considered, the option that appears to be most advisable at this time is to leave the tax rate unchanged at its present 1% level until the full impact of the Speculation Tax has been realized, and there has more experience and empirical data available upon which to make a more informed judgment concerning the “optimal” rate.

It might be noted here that there is less need to make periodic adjustments to the 1% rate since it is already “variable” in the sense that this is an *ad valorem* tax and not a specific tax, so that the monetary quantum of tax payable is a direct function of (and so varies over time with) the assessed property value. This mitigates any need to adjust the tax rate other than in exceptional circumstances in response to specific concerns regarding the program’s performance or changes in its objectives.

Tax Base options, considerations and administrative impacts

The size of the class I residential property base upon which the tax applies will change generically with the vacancy rate for rental properties and the number of exemptions from the tax. Currently, most of these residential properties are not subject to the tax, including homes that are principal residences for at least six months of the year; homes that are rented out for at least six months of the year; or homes that are eligible for one of eight exemptions as set out in the EHT bylaw.¹

EY has been asked to provide comments on two potential changes to the exemptions from the tax that have been raised by Council and the public:

1. Second homeowners who use the property occasionally

As noted in City staff’s report to Council in November 2016, the potential for exempting non-principal residences (**NPRs**) such as second homes and vacation homes was the number one issue raised in the public consultations that preceded implementation of the EHT. Most owners of NPRs felt that second homes used occasionally or regularly should not be treated in the same way as homes that are empty for 12 months of the year.

An analysis was completed on options to address NPRs. One of the challenges noted was how to verify any minimum required length of occupancy. EY noted substantial risks in this regard and we recommended avoiding exemptions that are linked to length of occupancy because such determinations not only involve an administrative burden and cost to the City, but also place an onus on the owner to maintain logs (activity, travel, etc.), receipts of local expenditures and other information. This type of evidence would be burdensome to collect and to audit. Our assessment of the sufficiency and auditability of this type of evidence was that it is weak and prone to falsification.

Based on this advice, at that time staff did not recommend that the EHT program include full or partial exemptions for NPRs based on usage.

¹ See Appendix 2. These exemptions include: Occupancy for full-time employment; Owner in care; Estate of deceased; Transfer of property; Undergoing redevelopment or major renovations; Strata rental restriction; Court order; and Limited use residential property.

There is no new evidence to the contrary or compelling reason to change that advice at this time. EY still believes that providing an exemption or discounted tax rate for second homes could have a significant negative impact on the core objectives of the tax program of increasing the available supply of rental units and raising revenue for affordable housing initiatives. It would also increase audit risk and administrative costs.

2. Second homeowners who specifically use the property for medical purposes

There has also been some interest expressed in creating an exemption for second homeowners who specifically use the property for medical purposes.

The current program includes an “owner in care” exemption for property unoccupied for more than six months because the owner or tenant was residing in a hospital, long term, or supportive care facility and had previously been using the property as a principal residence or occupying it as a tenant. This exemption is not allowed for more than two consecutive tax years and it does not apply to second homes that are used occasionally to receive medical care in Vancouver.

There is undoubtedly some appeal to creating a similar exemption for second homeowners on humanitarian grounds, but at the same time it must be recognized that it would also create an incentive for abuse. It would require the establishment of qualifying medical criteria and required evidentiary proofs of treatment, duration and occupancy, yet could still entail considerable audit risk that would involve increased audit coverage, activity and expense by the City.

A further consideration is the controversy that programs involving proofs of health conditions to qualify for tax benefits have often encountered. An example is the federal disability tax credit that is administered by the Canada Revenue Agency. What types of medical conditions would be sufficient for second homeowners to qualify for this exemption? Would regular checkups by a physician qualify? Would only treatment for “serious” medical conditions qualify? Who would decide what is “serious” and what isn’t and where would the line be drawn?

Strata condominium sublets

There has also been some speculation that the Province may pass legislation restricting or prohibiting current rental restrictions in condominium strata buildings. If so, this could broaden the tax base by making additional units available to the rental market on a sublet basis by owners of units that would otherwise be vacant.

Although not a given, the City should consider the implications of expanding the ambit of the tax to include such properties should the Province act.

<https://www.vancourier.com/real-estate/opinion-will-province-ban-rental-restrictions-in-strata-buildings-1.23521298>

Resourcing issues

Resourcing should be reviewed both from the perspective of cost-effectiveness to the City and the level of service provided to taxpayers who are subject to the provisions of the EHT program. Ideally, there may be changes that could benefit both, or at least improve one without reducing the other.

In addition to the overall resourcing level, the allocation of available resources between audit and compliance activities and the provision of information and services should be examined, including the appropriateness and adequacy of administrative approaches and tools.

B. Assessing the effectiveness of the EHT program

Data for 2018 and preliminary data for 2019 (not to be published until December 2019) suggest that the EHT program has largely performed according to expectations and supports continuation. However, additional years' data and experience with the tax will likely allow for greater insight on the performance of the EHT on achieving its objectives.

Although it is beyond the scope of this initial retrospective phase, the City may at some point wish to undertake or commission an in-depth study specifically designed to determine the effectiveness of the EHT in achieving its stated objectives of:

1. Shifting vacant properties to become rented or otherwise occupied by a long-term resident;
2. Preventing additional properties from becoming vacant; and
3. Collecting and allocating revenue to fund affordable housing initiatives.

Isolating the impact of any given policy measure, such as the EHT, is complex and fraught with potential methodological problems, even when current and historical reliable data are both readily available. This is because the residential housing market is influenced by the simultaneous interaction of many factors on both the demand side and the supply side of the market.

Some of these factors are national in scope and “macro” in nature (e.g., on the demand side, the level of domestic disposable income; the current level and expectations regarding the future direction and level of mortgage interest rates; general mortgage lending conditions and specific measures such as recently imposed “stress tests” for mortgage eligibility).

Other factors are local in nature (e.g., municipal bylaws affecting housing supply)

Some of these factors are endogenous to various policy makers as explanatory variables (i.e., they can be influenced or directly controlled by them), such as interest rates, lending conditions, municipal bylaws.

Others are exogenous (i.e., cannot be influenced or controlled directly), such as level of income, prices of housing inputs including materials and labour, business cycle swings.

Further complicating things, there can be a lag in responsiveness to any given policy change, so that the short-term and long-term market responses can be somewhat different.

Finally, the Vancouver housing market has the additional distinction of being influenced, in part, by international factors. Because of its geopolitical significance on the Pacific Rim, foreign buyers inject an additional “speculative” or “investment and store of value” dimension to the local housing market, where purchases may be made as a “safe haven” for offshored income and are subject to an additional property transfer tax for foreign entities & taxable trustees in the Greater Vancouver Regional District. The responsiveness of this source of demand to policy changes is more complicated to model and predict. This is because this demand also responds to policy changes and availability of housing supply in markets outside the Vancouver market proper. For example, there is anecdotal evidence that suggests some of the offshore buying that was going into the Vancouver housing market has shifted to the Calgary, Toronto or even Ottawa housing markets.

Anecdotal evidence in the first two years of its operation would suggest that the EHT has met with some success regarding both of its policy objectives referenced above, but further work would be needed to corroborate its impact on rental housing supply and vacancy rates.

This could be done using a selected standard quantitative method, of which there are many, ranging from relatively simple ones to quite sophisticated ones, possibly used in combination with qualitative methods such as stakeholder surveys and expert panels.

And like the approach that was taken during the conceptual development of the EHT in Phase 1, “sanity tests” could also be performed to identify possible leakages in the tax by comparing EHT declaration data with secondary data sources such as BC Hydro data (which was analyzed at that stage to establish a baseline estimate of vacant homes; see “Ecotagious Study”) or new federal data coming from the Canadian Housing Statistics Program.

Experience with an EHT in other taxing jurisdictions

This retrospective analysis of Vancouver’s EHT would benefit from an examination of evidence gained from similar taxes that have been imposed and are being administered in other taxing jurisdictions. Unfortunately, there is little such experience to draw upon from any other jurisdictions.

In the United States, only Oakland California and Washington D.C.² have adopted vacancy taxes. Oakland's tax does not come into effect until 2020 at the earliest and there are no publicly available evaluations of Washington's tax at this point.

The City of Los Angeles is considering implementing an empty homes tax to address similar concerns as in Vancouver, including a relatively low vacancy rate and high rents. According to U.S. census data³, the vacancy rate in the Los Angeles metro area (which includes Long Beach and Orange County) was only about 4% in 2018.⁴

Other cities considering such a tax at this time include Honolulu, San Diego, and San Francisco.⁵

These other jurisdictions are all looking to gain insights from Vancouver's EHT while monitoring their own situations closely.

² The "Fiscal Year 2011 Budget Support Act of 2010" created a Class 3 property tax rate for vacant commercial and residential properties and a Class 4 tax rate for blighted properties in the District of Columbia. Class 3, vacant property, is taxed at \$5.00 per \$100 of assessed value and Class 4, blighted property, is taxed at \$10.00 per \$100 of assessed value. The Department of Consumer and Regulatory Affairs (DCRA) receives complaints, identifies and processes the registration of vacant properties by owners, and administers certain fines if property owners do not register.

DCRA also inspects properties, completes an annual survey of vacant properties, and certifies a list of vacant improved properties to OTR. OTR then changes the classification for the properties on the tax roll to the correct status for the appropriate real property tax year. Source: <https://otr.cfo.dc.gov/page/otr-vacant-real-property>

³ <https://www.census.gov/housing/hvs/data/ann18ind.html>

⁴ Jenna Chandler, Curbed Los Angeles, Councilmember pushing to tax Los Angeles landlords who keep apartments vacant, 11 June 2019 <https://la.curbed.com/2019/6/11/18660735/vacancy-tax-empty-homes-penalty-los-angeles>

⁵ Source: Bloomberg Tax, U.S. Cities Look to Vancouver's Novel Empty Homes Tax, 24 July 2019 https://www.bloomberglaw.com/product/tax/document/XFNS3Q90000000?bna_news_filter=daily-tax-report-state&jcsearch=BNA%25200000016c0aead2bfad6d9bef2c7b0001#jcite See also: Larry Buhl, The American Prospect: Ideas, Politics and Power, Can Vacancy Taxes Bring Down Housing Prices?, 24 July 2019 <https://prospect.org/economy/can-vacancy-taxes-bring-housing-prices/>

Appendix 1 -- Background materials reviewed

City of Vancouver, EHT Stakeholder Workshop, Empty Homes Tax Update,
September 19, 2019

City of Vancouver, EHT Academics Workshop – Consultation Summary, 19 June
2019

City of Vancouver, Update to Council: Work Program on Improving the Effectiveness
of the EHT, February 27, 2019 [https://council.vancouver.ca/20190227/documents/pspc2-
Presentation.pdf](https://council.vancouver.ca/20190227/documents/pspc2-Presentation.pdf)

City of Vancouver, Administrative Report, February 8, 2019 (with Appendix A: Draft
Bylaw) <https://council.vancouver.ca/20190227/documents/pspc2.pdf>

City of Vancouver, Annual Report January 1, 2017 to December 31, 2018 (Activity to
November 1, 2018) <https://vancouver.ca/files/cov/empty-homes-tax-annual-report.pdf>

City of Vancouver, Administrative Report, August 31, 2018
<https://council.vancouver.ca/20180919/documents/cfsc1.pdf>

City of Vancouver, Vacancy Tax Bylaw, No. 11674, consolidated version as of July 11,
2017 <https://vancouver.ca/files/cov/vacancy-tax-bylaw-11674-july-11-2017.pdf>

City of Vancouver, Presentation to City Council: EHT Update and By-Law Change
Recommendations, June 28, 2017
<https://council.vancouver.ca/20170628/documents/pspc6-Presentation.pdf>

City of Vancouver, Administrative Report, June 20, 2017 (with Appendix A: Draft
Bylaw) <https://council.vancouver.ca/20170628/documents/pspc6.pdf>

City of Vancouver, Administrative Report, November 6, 2016 (with Appendix A: Draft
Bylaw; Appendix B: Talk Vancouver Summary of Quantitative Survey Results; Appendix
C: Talk Vancouver Summary of Qualitative Survey Results; Appendix D: Summary of
Feedback Received at Open Houses; and Appendix E: Vancouver Charter)
<https://council.vancouver.ca/20161116/documents/cfsc6.pdf>

EY Summary Report: City of Vancouver: Consulting Services for the Empty Homes Tax
Program, November 4, 2016 [https://vancouver.ca/files/cov/ey-consultants-report-empty-
homes-tax-nov-4-2016.pdf](https://vancouver.ca/files/cov/ey-consultants-report-empty-homes-tax-nov-4-2016.pdf)

City of Vancouver, Presentation to City Council: Encouraging Homes for Renters:
Emerging Approach on Empty Homes, September 20, 2016
<https://council.vancouver.ca/20160920/documents/rr1presentation.pdf>

City of Vancouver, Administrative Report, September 13, 2016 (with Appendix A:
Vancouver Charter; Appendix B: August 18th SME Workshop Notes; Appendix C:

Additional Research on Other Jurisdictions)

<https://council.vancouver.ca/20160920/documents/rr1.pdf>

City of Vancouver, Administrative Report, June 16, 2016 (with Appendix A: Ecotagious Study; Appendix B: Results of Talk Vancouver Survey on Empty Houses

<https://council.vancouver.ca/20160629/documents/pspc8.pdf>

City of Vancouver, Vancouver Housing Initiative Update, March 8, 2016

<https://council.vancouver.ca/20160308/documents/rr1presentation.pdf>

City of Vancouver DARCI Matrix for the EHT (Decider, Accountable, Responsible, Consulted, Informed)

Province of British Columbia, *Speculation and Vacancy Tax Act*, [SBC 2018] Chapter 46


<http://www.bclaws.ca/civix/document/id/complete/statreg/18046>


Appendix 2 – Exemption types and criteria

Source: <https://vancouver.ca/home-property-development/will-your-home-be-taxed.aspx#pdSection46591>

You will not be subject to the tax if you can meet one of the exemptions listed below.



If you claim one of the following exemptions, you must be able to provide evidence that validates your declaration if asked.


 Clarifications to the Vacancy Tax By-law were made on September 18, 2018. These changes are effective starting in the 2018 reference period (January 1 to December 31, 2018). Changes made in March 2019 are effective starting in the 2019 reference period (January 1 to December 31, 2019).

 Evidence documentation is not required at the time of declaration and will only be requested if the property is selected for audit.




Exemption types

Occupancy for full-time employment



Exemption details	Examples of acceptable evidence
<p>Your principal residence was outside of Greater Vancouver, but you occupied your property for residential purposes for at least six months because you were employed full-time in Greater Vancouver. The nature of the employment must require physical presence in Greater Vancouver.</p> <p> Greater Vancouver as defined in the Vacancy Tax Bylaw  (183 KB) refers to:</p> <ul style="list-style-type: none"> • Village of Anmore • Village of Belcarra • City of Burnaby • City of Coquitlam • City of Delta • City of Langley • Township of Langley • Village of Lion's Bay • City of Maple Ridge • City of New Westminster • City of North Vancouver • District of North Vancouver • City of Pitt Meadows • City of Port Coquitlam 	<ul style="list-style-type: none"> • Address of your principal residence • Contact information for Greater Vancouver employer • Letter from Vancouver employer confirming full time employment status and required physical presence for purposes of work

<ul style="list-style-type: none"> • City of Port Moody • City of Richmond • City of Surrey • Tsawwassen First Nation • City of Vancouver • District of West Vancouver • City of White Rock • University Endowment Lands • University of British Columbia <p> This exemption does not apply to properties that are being used solely as office space.</p>	
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Owner in care



Exemption details	Examples of acceptable evidence
<p>Your property was unoccupied for more than six months because you or your tenant was residing in a hospital, long term, or supportive care facility and had previously been using the property as a principal residence or occupying it for residential purposes as a tenant.</p> <p> This exemption does not apply to second homes that are used occasionally to receive medical care in Vancouver.</p> <p> All occupants must be residing in a care facility for the exemption to apply.</p> <p> This exemption is not allowed for more than two consecutive tax years.</p>	<ul style="list-style-type: none"> • Contact information for care facility • Letter from care facility confirming you or your tenant is undergoing medical/supportive care

Estate of deceased

Exemption details	Examples of acceptable evidence
<p>The property was unoccupied for more than six months because the last registered owner is deceased and a grant of probate or administration of the estate was pending.</p> <p> Effective for the 2019 tax year and going forward, the exemption for death of an owner could be used in the year of death and the year following only.</p> <p> This exemption does not apply if a grant of administration or probate was issued by a date that would</p>	<p>Death certificate of registered owner</p>

have allowed the property to have been occupied for six months of the calendar year. The property will otherwise be subject to the tax unless it was used as a principal residence or rented to a tenant or subtenant for at least six months.

Transfer of property


Exemption details	Examples of acceptable evidence
<p>Legal ownership was transferred during the reference period (the property was sold) and a new Land Title Number was issued.</p> <p>The use of “transfer” is based on the definition of “transfer” in the Land Title Act, being a conveyance, a grant, and an assignment.</p> <p> Effective for the 2019 tax year and beyond, the exemption for property transfer will be tied to proof of payment of the property transfer tax.</p> <p> This exemption does not apply to properties that were issued a new Land Title Number solely because of a name or address change.</p>	<ul style="list-style-type: none"> • Title search or certificate of title showing the date that title was transferred • Statement of adjustments • Copy of the filed property transfer tax form

Undergoing redevelopment or major renovations



Exemption details	Examples of acceptable evidence
<p>Your property was unoccupied for more than six months because:</p> <ul style="list-style-type: none"> • The property was undergoing redevelopment or major renovations where permits: <ul style="list-style-type: none"> • had been issued and were being carried out diligently and without delay in the opinion of the Chief Building Officer, or • were under review for redevelopment of vacant land or the conservation of heritage property. • Or, the property is vacant and part of a phased development which has: <ul style="list-style-type: none"> • A rezoning application under review 	<ul style="list-style-type: none"> • Short description of renovation/ redevelopment project • Building or development permit number

<ul style="list-style-type: none"> • Approved rezoning with permits under review • Approved rezoning where construction has commenced 	
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Strata rental restriction

Exemption details	Examples of acceptable evidence
<p>Your property was unoccupied for more than six months because it was subject to a strata rental bylaw as of November 16, 2016:</p> <ul style="list-style-type: none"> • that prohibited rentals or restricted the number of units that may be rented, and • the maximum allowable number of rentals had already been reached. <p> This exemption does not apply to properties where the number of permitted strata rentals decreased on or after November 16, 2016.</p>	<ul style="list-style-type: none"> • Copy of strata bylaws • Letter from strata council confirming the maximum number of units have been rented • Copy of waitlist confirming owner attempted to rent the property

Court order

Exemption details	Examples of acceptable evidence
<p>Your property was unoccupied for more than six months because the property was under one of the following:</p> <ul style="list-style-type: none"> • A court order • Court proceedings • An order of a governmental authority prohibiting occupancy <p>Actions to permit occupancy were carried out diligently and without delay, in accordance with any timelines in the order.</p> <p> This exemption applies to owners who were prohibited from selling, occupying, or renting their property.</p> <p> This exemption does not apply to properties that are</p>	<ul style="list-style-type: none"> • Copy of the court order • In cases where an order or a governmental authority prohibits occupancy, the owner must be able to show that they have acted diligently to meet the requirements of the order

uninhabitable due to inaction by the owner.

Limited use residential property

Exemption details	Examples of acceptable evidence
<p>Your property was unoccupied for more than six months because the use of the property was limited to one of the following:</p> <ul style="list-style-type: none"> • Vehicle parking • A result of the size, shape, or other inherent limitation of the parcel, a residential building could not be constructed 	<p>Land survey or legal description of parcel that clearly illustrates the limiting aspects of the property</p>

Empty Homes Tax Annual Report

January 1, 2018 to December 31, 2018 Tax Year

Activity to November 1, 2019



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INTRODUCTION

The City of Vancouver created the Empty Homes Tax (EHT), also known as the Vacancy Tax, to help return empty and under-utilized properties to the market as long-term rental homes for people who live and work in Vancouver as just one of the many actions in its 10-year Housing Vancouver Strategy. The EHT, the first of its kind in North America, is intended to help relieve pressure on Vancouver's rental housing market, which at less than 1% rental vacancy, has among the lowest rental vacancy rates and the highest rental costs of any Canadian city. With 53% of Vancouver households renting rather than owning (as of the 2016 Statistics Canada Census), low vacancy and high rents have real impacts on whether low- and moderate-income earners can afford to live and work in the city. The net revenue received from the tax is required to be used to fund affordable housing initiatives.

The EHT, the first of its kind in North America, is just one of the actions in our 10-year Housing Vancouver strategy

BACKGROUND

On November 16, 2016, Vancouver City Council approved the EHT program and enacted the Vacancy Tax By-law No. 11674 (EHT by-law) to levy a tax on empty and under-utilized class 1 residential properties within the City of Vancouver. As required in the Vancouver Charter, the EHT by-law requires the Collector of Taxes to prepare an annual report regarding the EHT which must include the amount of money raised by the EHT and how such monies were, or are intended, to be used.

Homes that are determined or deemed to be empty are subject to a tax of 1% of the property's assessed taxable value. Most residential properties are not subject to the tax, including homes that are principal residences for at least six months of the year; homes that are rented out for at least six months of the year; or homes that are eligible for one of eight exemptions as set out in the EHT by-law.

In order to determine which properties were subject to EHT, all homeowners were required to make an EHT

declaration for the 2018 reference period by February 4, 2019, confirming the status of their property as occupied, exempt or vacant. As all revenue and compliance activity related to the reference period occurs in the following year, the report includes revenue from compliance activities up to November 1, 2019.

PURPOSE OF THE EMPTY HOMES TAX

The EHT works in conjunction with a suite of actions that the City is taking to increase housing supply and to ensure that renters have access to safe, secure, and affordable rental housing in Vancouver. The City has committed to monitoring the effectiveness of the EHT as well as other actions to address housing affordability in the City's Housing Vancouver Annual Progress Report and Data Book. The 2018 report can be accessed at: vancouver.ca/housingdata

Who is subject to EHT?

The EHT applies to properties that are not being used as principal residences or rented for at least six months of the year, and do not qualify for one of the eight exemptions outlined in the EHT by-law. A residential property that is rented or serves as a principal residence for an owner or permitted occupier (such as a family member) is not intended to be subject to EHT.

Is the Empty Homes Tax working?

Isolating the effect of a single policy like the EHT in a market as dynamic as the City of Vancouver's is challenging. However, City staff have noted positive trends. We plan to monitor the following key performance indicators over time:

- Number of properties required to declare
- Change in vacant and exempt properties
- Breakdown of exemptions by type
- Change in tenanted properties
- Occupancy status of previously vacant properties
- Assessed value of properties subject to EHT

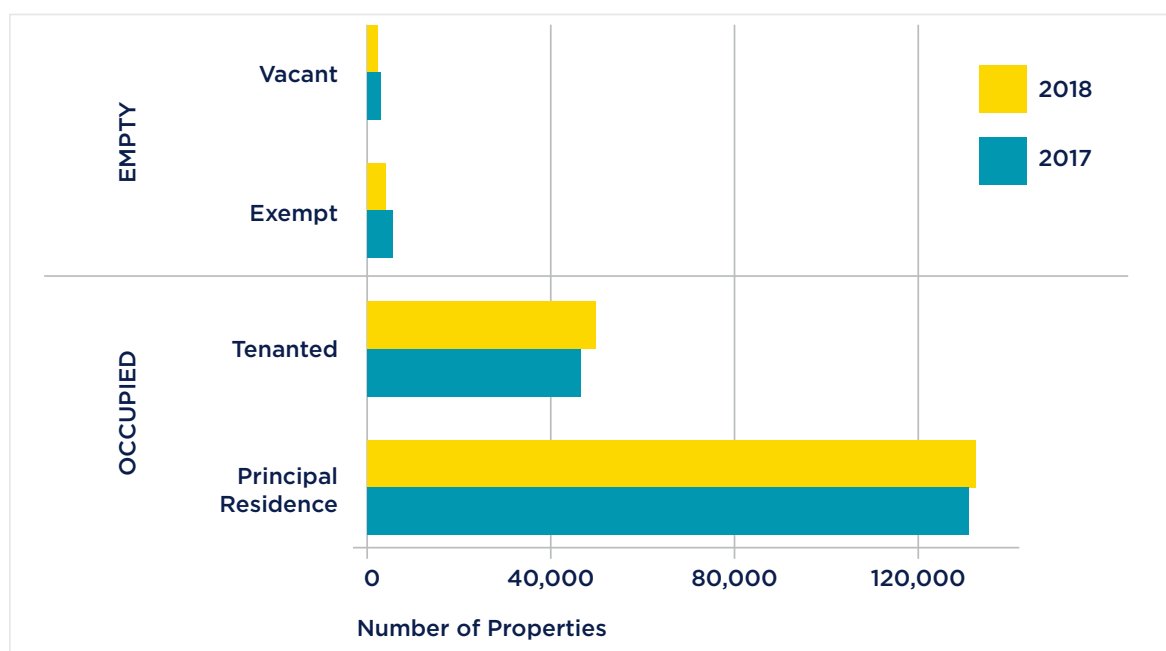
Data to date on these indicators and a discussion of trends for 2017 and 2018 is available in the data appendix to this report.



VANCOUVER DECLARATIONS: VACANCY AND GEOGRAPHIC DATA

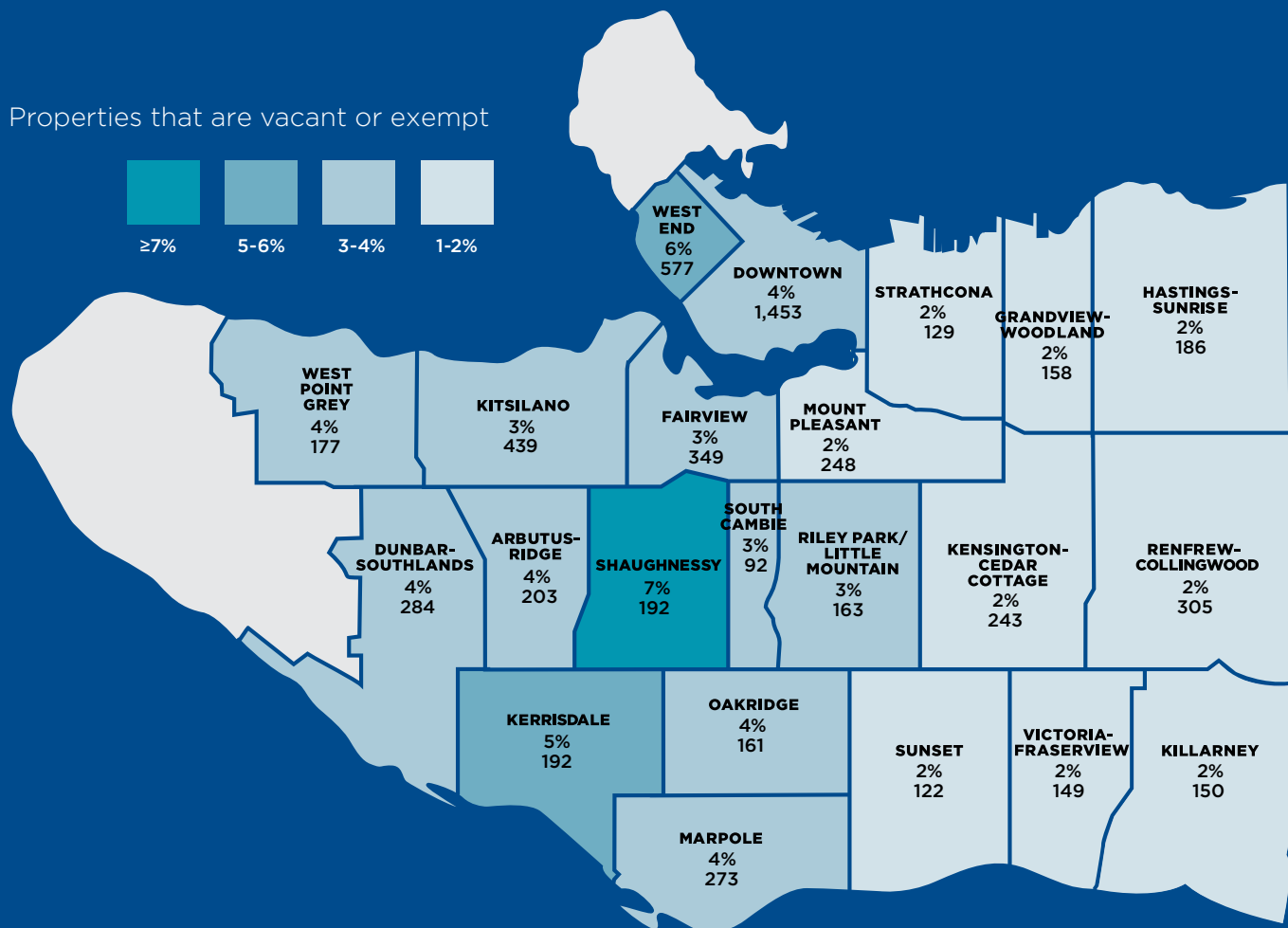
Property Status: 2017 and 2018 Tax Years

	2017	2018
EMPTY		
Exempt	5,383	4,256
Vacant	2,538	1,989
OCCUPIED		
Principal Residence	131,347	132,815
Tenanted	46,770	50,102
Total	186,038	189,162



2018 EHT VACANT & EXEMPT PROPERTIES

(6,245 total – shown as percentage of total/number of properties)



Like last year, the majority of the exempt and vacant properties are condominiums, which account for 58% of combined exempt and vacant properties.

Aligning with the high density of condos in the downtown core, the largest number of vacant and exempt properties was recorded in Downtown Vancouver. The West End recorded the highest percentage of unoccupied properties, relative to the number of residential properties in the neighbourhood that were required to declare.

MONIES RAISED

Revenue

	2017 \$ Millions	2018 \$ Millions
Revenue (Tax Levy)	\$38.0	\$39.4
Revenue (Penalties and Fines)	\$1.1	\$1.8
Collected	\$33.6	\$23.3

Revenue increased in 2018 compared to 2017 even though the number of vacant properties went down. Annual revenue for each year is estimated at November 1 even though late declaration and audit activities continue for a longer time period. Additional revenue after November 1 is rolled into the next year's revenue results.

If a payment for an EHT tax notice is not made by December 31 of the year it is levied, outstanding amounts may be added to the owner's property tax account and start accruing interest of approximately 7% starting January 1.



Audit activities

Using a risk-based approach, as well as random audits, the EHT program has a goal of verifying property status declarations and encouraging compliance with the new tax.

The EHT by-law equally applies to all property owners; therefore, all property status declarations are subject to the audit process, in line with best practices for provincial and federal tax programs. Audits completed from the period November 2, 2018 to November 1, 2019 are outlined below, along with a comparative for the prior year period ending November 1.

	Period to November 1	
	2019	2018
Total Audits Completed	8,457	6,231
Non-compliant Audits	892	331
Non-compliance Rate	10.5%	5%

Property owners who were found to be non-compliant were invoiced for the EHT. Revenue generated from audit activities during the period from November 2, 2018 to November 1, 2019 was \$22.1 million. Owners found non-compliant in their audits have the opportunity to submit a Notice of Complaint. If they are unsuccessful in their complaint, owners may request a review by an external review panel. Many audits are still in progress and additional audits may be initiated related to the 2018 reference year in the future. As a result, revenue generated from audit activities may be adjusted in future years.

Complaints

Complaints for the 2018 reference year were primarily triggered in the instance that a property owner was selected for audit and disagreed with the determination or declined to provide supporting documents and other information at the audit stage of the process. Complaint volumes decreased from 2017 because most of the complaints in that year were the result of property owners who failed to make a declaration on time, which required them to submit a Notice of Complaint to contest the tax levy and have the tax rescinded. In 2018, a new process to accept late declarations was created in order to help streamline and simplify this process for homeowners.

Total complaints received by the vacancy tax review officer to November 1, 2019, are as follows:

	Period to November 1	
	2019	2018 *
Accepted	346	1,207
Rejected	237	252
Total	583	1,459

* Most of the accepted complaints related to property owners who were originally deemed vacant because they failed to make a declaration.

Property owners whose complaints were rejected were required to pay the tax or request a review of their case from the external review panel.

Late Declarations

In 2017, the first year of EHT, property owners who missed the declaration deadline were required to submit a Notice of Complaint and go through the full complaint process in order to have the tax rescinded. For 2018, the City created a late declaration process that allowed property owners to submit a late declaration online after paying a required by-law fine for missing the declaration deadline. This made the process much more streamlined for property owners and more efficient for the City as it significantly reduced the number of complaints received.



Review panel

	Period to November 1	
	2019	2018
Accepted	35	8
Rejected	95	39
Total	130	47

All review requests go to an external panel for a property status determination. This is the last appeal stage to determine the property status and the status given by the review panel is considered final. The review panel activities are ongoing. For reviews that were accepted, the tax was rescinded.

USE OF FUNDS

In Spring 2018, Council instructed staff to embark on a public consultation effort to solicit input from Vancouver residents about how they would like to see the initial \$8 million in revenue from the EHT used to support affordable housing in the city. Council allocated a further \$20 million in December 2018 toward initiatives to address housing supply and affordability, to improve availability and supports for renters and vulnerable citizens, and to deepen affordability of social housing for people experiencing homelessness, people on social assistance and disability and people on pensions. Specific projects were not identified at that time, however Council has approved a number of initiatives throughout 2019 toward the \$20 million allocation.

In addition, the EHT revenue collected to date is sufficient to cover the one-time implementation costs of \$7.5 million and annual operating costs of \$2.5 million. Money collected from the EHT is first allocated to cover annual operating costs with the remainder being available for initiatives respecting affordable housing.

The tables below and on the following page summarizes direction received from Council and feedback from Vancouver residents on funding

priorities for EHT, as well as providing a more detailed description of the specific funding allocations approved to date and some new recommended allocations for the remaining available EHT funds. These new recommendations will be brought to Council for approval through upcoming Council reports or the Draft 2020 Budget. Funds shown as available for emerging priorities were recently collected and have not yet been recommended for a particular project.



Renters Advocacy and Services

In June 2019, the City added additional measures to improve support and advocacy for the needs of renters, and to better assist renters at risk of displacement. The following initiatives are already underway.

Renters Enquiry Line

- The City's Renters Enquiry staff are available to answer questions on renter protection policies and assist renters in finding building-specific information, such as the status of redevelopment or renovation permits.

Renter Services Grants

- Designed to support non-profit community-based programs that assist and empower Vancouver renters to understand their rights, pursue their rights, and/or secure their housing. Renter Services grants are intended to elevate and enhance, not simply maintain, an organization's capacity to support renters. The first round of grants closed for applications on October 25, 2019.

New Tenant Relocation and Protection (TRP) Policy

- The updated TRP Policy provides increased compensation and support for tenants and requirements for ongoing communication from landlords. The updates to the policy aim to reduce the impact of relocation on existing tenants, and provide enhanced supports to residents based on need.

City of Vancouver Renter Advocacy and Services Team

- A team which spans City departments is being established to identify opportunities to better support renters across all City departments and services.

Finally, City staff are developing a community-based Renter Centre (projected opening 2021) that can provide a location to gather key renter-serving organizations, including City services, so that Vancouver renters can access supports, education, and legal advocacy in one place.

Community Housing Incentive Program

The \$25 million 2019-2022 Community Housing Incentive Program will provide housing providers with grants that will increase the affordability of social and co-op housing projects.

The new program is a key way to deliver on the goals of Housing Vancouver by supporting the work of local non-profits, who play an important role in both operating and delivering affordable housing to low-income households.

The grants aim to put non-profit and co-op housing providers in a strong position to attract other funders, including federal and provincial partners. Each grant under the new program would be a capital contribution towards the development of non-profit or co-op housing projects, resulting in deeper affordability.

The new program replaces the Housing Infrastructure Grant Program, which between 2015 and 2018 supported 10 projects, provided \$10.8 million in grants, and enabled the delivery of 780 non-market homes.

Ross House

The City purchased Ross House, a Single Room Occupancy building at 313 Alexander Street, in July 2019. The building is a three-storey walk up with 24 rooms (including six self-contained units) in the Downtown Eastside which will offer non-market housing. An RFP will be issued shortly to find a non-profit operator. The RFP will support the implementation of Council priorities to maintain and increase housing options for LGBTQ and trans, gender diverse and Two-Spirit people (TGD2S), as well as enable creative partnerships to support Japanese-Canadian and Indigenous culture and heritage through public art, events and programming, and heritage rehabilitation.

Priority from Public Engagement	Project Description	Funding Allocation \$ millions
Acquire or provide land and resources for affordable non-profit and co-op housing	Increasing affordability to meet needs of local seniors.	2.00
	New multi-year housing capital grants, as part of a new Community Housing Incentive Program to deepen affordability of social housing and meet affordability targets in Housing Vancouver.	17.00
	Funding for staff working on affordable housing projects	4.47
Grants to update, improve, and build co-op housing	More co-op housing grants	1.00
Increase supply and improvement low income housing and shelter options	Purchase of Ross House	3.80
	Funding to implement the City's private SRO Revitalization Strategy including fire safety and more and quicker investment into rooms needing repair — three-year program	1.70
	Exploring new models and expanding shelter capacity, subject to Provincial partnership	2.75
Support for existing renters	Renters Advocacy and Services	5.65
	Rent bank	0.08
	New grants to build capacity with organizations to support renters including advocacy and services.	0.10
Funding for skills training & peer support in Supportive Housing	Implementation of Temporary Modular College	0.10
Emerging initiatives		1.0
TOTAL:		\$39.7



CONCLUSION

In the second year of the EHT, we are seeing some encouraging trends in our EHT Key Performance Indicators that indicate the tax is an important tool to tackle our City's housing crisis. We are also excited to be able to launch many new initiatives to improve living conditions and increase the supply of affordable housing. Staff will continue to monitor the impact of EHT on housing supply and affordability, as part of the City's broader set of actions in its 10-year Housing Vancouver strategy.

For additional information on the EHT program, please visit vancouver.ca/ehd.

DATA APPENDIX

As part of the EHT Annual Report, staff plan to report on several indicators related to performance of the tax on key metrics, including the number of properties converted from vacant to occupied; the number of new properties reported as vacant; and the number of properties declared as tenanted. These indicators were developed in partnership with housing policy experts. The first set of indicators is included below. Staff intend to expand this list of indicators over time to include additional metrics suggested by academic partners and other stakeholders.

Indicator	Key Trends for 2017 - 2018
1. Number of properties required to declare	Increase in properties required to declare EHT <ul style="list-style-type: none"> The number of 100% Class 1 residential properties required to declare increased by 1.7% (3,124 properties) between 2017 and 2018. This is driven by new properties being added to the BC Assessment tax roll
2. Change in vacant and exempt properties	Reduction in vacant and exempt properties from 2017 to 2018 <ul style="list-style-type: none"> In 2018, 6,245 properties were vacant or exempt (approximately 3.3% of all properties); this is 1,676 fewer units than in 2017, a 21% reduction In 2018, 1,989 properties (approximately 1.1% of all properties) were vacant; this is 549 fewer units than in 2017, a 22% reduction
3. Breakdown of exemptions by type	Property transfer is the largest exemption category, followed by renovation and strata rental restriction <ul style="list-style-type: none"> The majority (40%) of exempt properties in 2018 claimed the property transfer exemption; 34% claimed the renovation exemption, and 14% claimed the strata rental restriction exemption Most properties (70%) claiming transfer in 2018 were condos; most properties (82%) claiming renovation were single family homes
4. Change in tenanted properties	Increase in tenanted properties from 2017 to 2018 <ul style="list-style-type: none"> We now have a source of data to tell us about tenancy in the secondary rental stock (e.g. rented condos and single-family homes/suites) There was a net increase of 3,332 tenanted properties between 2017 and 2018; this includes a net increase in 2,277 tenanted condominiums, and a net increase in 760 single family homes This data doesn't tell us specifically about basement/secondary suites – since a tenanted single family home could refer to a fully rented house or just a rented suite in an otherwise empty house We also see significant flows between categories in and out of tenanted – indicating overall that this stock is less secure than PB rental
5. Occupancy status of previously vacant properties	2017 vacant properties are converting to occupied <ul style="list-style-type: none"> Out of 2,538 properties declared vacant in 2017, 1,199 (47%) were occupied in 2018 (641 tenanted, 448 principal residences, and 110 principal residences of a permitted occupant)
6. Average assessed value of vacant property vs. all properties	Vacant property has a higher assessed value than properties overall <ul style="list-style-type: none"> For 2018, the average assessed value of a vacant condo (\$1.4M) is 53% higher than the average condo (\$0.9M) The average assessed value of a vacant single family home (\$3.4M) is 40% higher than the average single family home (\$2.4M) Overall the average assessed value of vacant properties was \$1.8M compared to the average value of \$1.7M for all properties

DETAILED DATA

Indicator #1: Number of properties required to declare¹

Indicator	2017	2018	Change
Condo	95,734	98,566	+ 2,832
Single Family Including Duplex	80,687	80,638	-49
Other	9,617	9,958	+ 341
Total	186,038	189,162	3,124

Indicator #2: Change in vacant and exempt properties

Number of vacant and exempt properties by property type, 2017 and 2018

	Vacant 2017	Vacant 2018	Exempt 2017	Exempt 2018	Vacant + Exempt 2017	Vacant + Exempt 2018
Condo	1,981	1,535	2,750	2,082	4,731	3,617
Single Family	458	370	2,271	1,843	2,729	2,213
Other	99	84	362	331	461	415
Total	2,538	1,989	5,383	4,256	7,921	6,245

Vacant and exempt properties by property type, 2017 and 2018

Indicator	Vacant 2017%	Vacant 2018%	Exempt 2017%	Exempt 2018%	Vacant + Exempt 2017%	Vacant + Exempt 2018%
Condo	2.1%	1.6%	2.9%	2.1%	4.9%	3.7%
Single Family	0.6%	0.5%	2.8%	2.3%	3.4%	2.7%
Other	1.0%	0.8%	3.8%	3.3%	4.8%	4.2%
Total	1.4%	1.1%	2.9%	2.2%	4.3%	3.3%

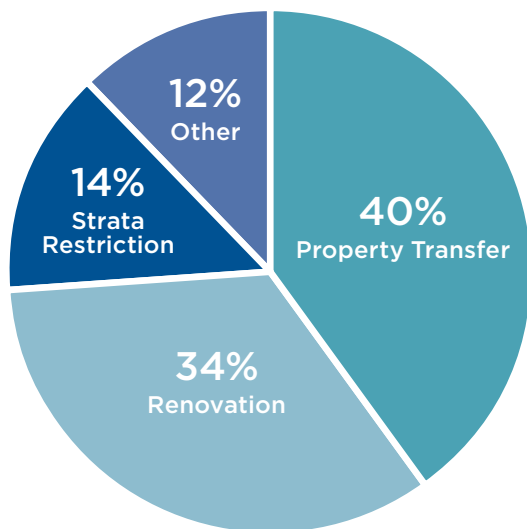
¹ Housing categories were developed by grouping BC Assessment Use Codes. Duplexes are included in the single family category, and row houses are included in the condominium category. Other includes non-stratified multi unit buildings and other miscellaneous codes e.g. strata parking stalls and vacant lots

Indicator #3: Breakdown of exemptions by type

Breakdown of properties by property type that qualified for exemptions in 2017 and 2018

	Property Transfer 2017	Property Transfer 2018	Redevelopment/ Renovation 2017	Redevelopment/ Renovation 2018	Strata Restriction 2017	Strata Restriction 2018	Other 2017	Other 2018
Condo	1,629	1,173	101	96	536	606	207	207
Single Family Including Duplex	805	493	1,195	1,193	1	0	120	157
Other	28	17	156	157	0	1	106	156
Total	2,462	1,683	1,452	1,446	537	607	642	520

Breakdown of properties that qualified for an exemption 2018



Indicator #4: Change in tenanted properties

	2017	2018	Change
Condo	28,809	31,086	+2,277
Single Family	10,549	11,309	+760
Other	7,412	7,707	+295
Total	46,770	50,102	+3,332

Indicator #5: Occupancy status of previously vacant properties

Status of 2017 vacant properties in 2018

2018 Status	Total
Occupied	
Principal Residence	558
Tenanted	641
Occupied Total	1,199
Exempt	
Exempt Total	225
Vacant Total	1,088
Total	2,512

Indicator #6: Average assessed value of vacant property vs. all properties

	Vacant 2018	2018 All Properties Declaring	% Higher Assessment
Condo	\$1.4M	\$0.9M	53%
Single Family	\$3.41M	\$2.4M	40%
Total	\$1.8M	\$1.7M	



For More Information:

Visit: vancouver.ca

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