

Intelligence MEMOS



From: Jack Mintz
To: Municipal Housing Watchers
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Re: **LET'S ABANDON VACANT PROPERTY TAXES**

The latest fashion in tax grabs is the vacant property tax (VPT). In Vancouver it's called the "empty home tax." In Toronto it's the "vacant home tax." Whatever the name, taxing residential property that is not occupied for a government-prescribed minimum number of days each year is pernicious.

Toronto is tripling its version of the VPT to 3 percent of the home's assessed value. Residents had until February 29 to file a declaration or pay a fee of \$21.24 and possible penalty of \$250. The idea is to free up vacant homes and land in high-priced housing markets. Some politicians believe underused property is a dead weight on an economy, helping ruthless speculators enrich themselves by flipping property.

That's hogwash. Property is held vacant, often at a substantial economic cost, because people find it makes sense for them to do so. The short-run impact on housing availability is close to negligible. In the long run, it could well lower the housing stock, since developers, paying the tax on land inventory, will be discouraged from investing in residential property. For such reasons, a paper for the New Zealand Productivity commission [rejected](#) having a VPT, and it has not been adopted there.

In Canada, governments generally define "vacant" as used fewer than six months in a year. Other countries are more generous. French VPT does not apply if residential property is used for at least three months in a year, while Oakland, California, lets you off so long as your property is occupied 50 days a year.

Like Toronto's, Vancouver's VPTs are assessed at 3 percent of value. In addition, B.C.'s "Speculation and Vacancy Tax" is 2 percent on property owned by foreign residents, though just 0.5 percent on Canadian residents. The federal government, which really should leave property taxation to the municipal governments that depend on it almost exclusively, levies its "Underused Housing Tax" on foreigners at a rate of 1 percent a year.

As shown in Table A, a Vancouver resident could pay 3.5 percent in combined B.C. and city tax. On the median Vancouver home, value \$1.2 million, that would be \$42,875 *per year*. A foreign commuter working part-time for a Vancouver business could pay up to 6 percent – 3 to the city, 2 to the province and 1 to the federal government – \$73,500 at the median house value.

Of course, the tax is on top of the maintenance, insurance, depreciation, financing and municipal taxes that need paying even when a property is vacant. For a Vancouverite living in the median-valued single home, that could be \$101,625 a year. Add in the 3.5-percent provincial and municipal VPT, and the cost zooms to \$144,550. At the 6 percent VPT rate, it becomes a head-spinning \$171,600 – again *per year*.

Who in their right minds would develop residential property given the time it takes to assemble land, build or renovate homes and find buyers? Some economists have argued – erroneously – that investors hold empty homes in hot markets so they can earn fat capital gains on flipped property. The evidence that speculation causes housing price bubbles is mixed. Speculation itself can provide information to markets to allocate more resources to build houses. Given the very high gross opportunity cost holding vacant property, an owner would prefer, if possible, to rent the home or have family or friends use it. Leasing has its risks (including damage). Short-term rentals are feasible such as through Airbnb, but they do not qualify as occupancy in Vancouver and Toronto.

Even if we consider capital gains as an offset to opportunity costs, it still leaves a substantial cost to the owner. In Vancouver the average annual capital gain on housing over the last decade was just 5.32 percent for a single home and 7.66 percent for a townhouse, which is about half the total carrying costs per year. Subtract expected capital gains, the net opportunity cost for a resident holding a vacant home is \$79,380 for a single home and \$34,362 for a condo. Again, *per year*.

It used to be said people's homes were their castles. There are all sorts of perfectly reasonable motives for holding a property vacant.

- Matching buyers and sellers on housing markets takes time – some may have to move before a sale closes. As one recent [UK study](#) showed, these taxes can disrupt well-functioning housing markets, resulting in markets taking longer to clear.
- Many people buy cottages as second homes that they use fewer than six months a year. (Not all cottages are winterized!)
- Non-residents may want to live part-time in a city to be close to grandchildren, ailing family members or having an option to move later (especially if they come from politically risky jurisdictions).
- Homeowners can fall ill for a long time or even, alas, die.
- Extensive renovations take time, requiring families to move out for more than six months.
- Commuter workers from outside the city are willing to bear occupancy costs so that they can leave personal and business effects when commuting regularly for work.
- Developers may hold land and build homes for years before ultimately finding buyers.
- Houses become dilapidated in areas with little demand and are abandoned.

With both the Vancouver and Toronto VPTs, various exemptions are provided from the vacancy tax. The most important ones have been related to property transfers and renovations. Unlike other jurisdictions, no exemption is given for secondary homes and commuter workers.

If vacancy taxes can be costly for taxpayers, they're also costly for governments to collect. All residents have to report that their property is being used – 99 percent won't pay the tax. If they fail to file, pay penalties for late filing, as in Toronto. If they end up being audited, homeowners face onerous filing requirements (e.g., submitting utility receipts for a whole year) even if their property has been in continuous use.

Have vacancy taxes had much impact on rental and housing prices? In Table B, I calculated vacancies fell by an almost imperceptible 0.19 percent of the overall rental stock in Vancouver after the tax was introduced – although the pandemic and rising interest rates presumably played a role, too. As for affordability, the typical vacant property released to the market is more expensive than the median home (Table C). And earmarking VPT revenues for social housing is simply hokum: Money is fungible; governments can move existing social housing funds to other priorities.

These days politicians everywhere are desperate to improve housing affordability. They may levy VPTs with the best of intentions but if, as seems likely, such taxes discourage long-run residential development, their effect will be the exact opposite of what proponents intended.

Table A: Estimate of the Annual Opportunity Cost of Vacant Single-Family and Strata Homes for 2023

	Single Family	Strata/Townhouse Homes
Maintenance	0.4%	0.4%
Depreciation	0.36%	0.36%
Opportunity Cost of Financing (mortgage and homeowner equity)	7.24%	7.24%
Municipal Property Tax	0.3%	0.3%
Provincial and City of Vancouver Vacancy Taxes	3.5%	3.5%
Total: Gross Opportunity Cost*	11.8%	11.8%
Average annual capital gains on housing 2012-2023	5.32%	7.66%
Opportunity Cost of Capital net of Capital Gains	6.48%	4.14%
Property Assessment Value	\$1,225,000	\$830,000
Gross Opportunity Cost for Median Home	\$144,550	\$97,940
Net Opportunity Costs for Median Home	\$79,380	\$34,362

*Gross opportunity cost includes maintenance, depreciation, property tax, EHT and opportunity cost of capital.

Source: Statistics Canada, Bank of Canada, City of Vancouver EHT annual reports. Canadian Real Estate Association, Benchmark Pricing Data.

Table B: Occupied, Exempt and Vacant Homes in Vancouver

	2017	2018	2019	2020	2021
Occupied	178366	182799	186129	189865	190603
Principal Residence	131432	132,723	132,153	133205	133422
Tenanted	46934	50,076	53,976	56660	57181
Total Unoccupied	7672	6363	5988	6147	5838
Exempt	5479	4327	4226	4392	4440
Vacant	2193	2036	1762	1755	1398
Total Housing Units	186038	189162	192117	196012	196441
Percentage Vacant	1.18%	1.08%	0.92%	0.90%	0.71%
Actual Vacancy Change		157	274	7	357
% of Total Homes		0.0830%	0.1426%	0.0036%	0.1817%
Per 1000 homes		0.8300	1.4262	0.0357	1.8173

Source: City of Vancouver, EHT annual reports.

Table C: Average Assessed Value of Vacant Property 2018-21

		Single Family (\$ millions)	Condo (\$ millions)
2018	Vacant	3.41	1.4
2019	Vacant	3.5	1.5
2020	Vacant	2.5	1.26
2021	Vacant	2.5	1.2

Source: City of Vancouver, Empty Homes Annual Reports, various years.

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