



# POLICY BRIEF

## *Vacant Unit Tax*

---

A **Vacant Unit Tax** designed to encourage investors to rent or sell their vacant properties could help Ottawa residents have better access to housing

**April 2021**



# **POLICY BRIEF**

## ***Vacant Unit Tax***

---

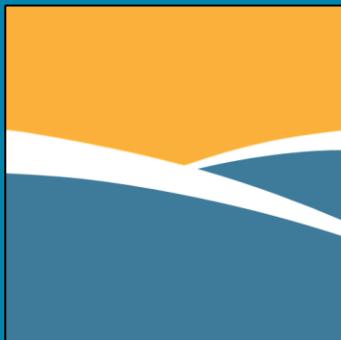
A **Vacant Unit Tax** designed to encourage investors to rent or sell their vacant properties could help Ottawa residents have better access to housing

**April 2021**

Horizon Ottawa is municipal-focused grassroots organization dedicated to creating a city that genuinely works for everyone.

Learn more at [horizonottawa.ca](https://horizonottawa.ca)

---



**HORIZON  
OTTAWA**

# **A Vacant Unit Tax designed to encourage investors to rent or sell their vacant properties could help Ottawa residents have better access to housing**

Recently, the City of Ottawa has [asked the public for feedback](#) on the idea of implementing a Vacant Unit Tax. This idea was presented as a solution to the city's low housing supply and rapidly increasing unaffordability. **In 2020, the city's rental vacancy rate was evaluated at a historic low of 1.6% while 20,000 properties were thought to be vacant; enough to house everyone on the city's centralized waitlist (over 10,000 names).**<sup>1</sup> Between 2020 and 2021, housing prices have increased by an average of almost 20% around the city, with some neighbourhoods seeing larger increases than others (Ottawa Business Journal, 2020). All of this while incomes have been stagnating (Gingrich and Rowlinson, 2020) and unemployment is on the rise in the wake of COVID-19 (Statistics Canada, 2021).

Around the world, this type of tax has become increasingly popular. Municipalities in the United Kingdom can charge units up to double the municipal tax rate for vacant units (Government of the United Kingdom, 2021). Jerusalem, Israel has doubled municipal taxes on vacant homes (Bassok & Mirovsky, 2015). In France, such a tax has been in place since 1999 (Journal du net, 2019). In Canada, Vancouver introduced a 1.25% tax in 2017.

The following year, that city added 11,118 units to its rental supply (Adair, 2020). Toronto has also approved such a tax. It will be implemented in 2022 (Passifume, 2020).

Recent studies have shown the efficiency of residential vacancy taxes. Kline and Moretti (2014) have argued that a vacancy tax creates residential capacity more rapidly than the construction of new units. A study by Segú (2020) conducted in France has shown that a tax on vacant units reduced the number of long-term vacancies. In this context, a large portion of previously vacant units became primary residences. In Vancouver, Hu (2018) observed that their tax had a positive impact on housing supply while also increasing the number of housing starts.

Since the city's announcement, Horizon Ottawa members have been at work. Recently, they voted unanimously in support of a Vacant Unit Tax that would encourage owners of vacant properties to rent or sell their property. This tax is perceived as one of many tools that can be used by municipal governments to correct and prevent the market failures that have led to Ottawa's housing crisis.

---

<sup>1</sup>The Vacant Unit Tax would not automatically provide the people on the waiting list with a home. This list is for individuals with a low income that need a more affordable home. That said, an increase in housing stock would force rental prices down through increased competition and has the potential to increase the number of homes accessible to low-income families.

## A tax that encourages home owners to rent or sell their vacant property

To regulate against vacant investment homes, Horizon Ottawa suggests that the City of Ottawa adopt a Vacant Unit Tax that is calculated according to unit type and neighbourhood. **A variable tax like the one we are suggesting would allow the city to impose a tax rate calculated according to the unit's increase in value.** While a fixed tax rate would provide an incentive for owners to rent or sell units that increase in value at a slower rate, units that increase in value at a faster rate would still provide its owners with a profit margin at the time of the sale regardless of whether they are vacant. Furthermore, a fixed tax rate would provide an incentive to build units that increase in value at a faster rate while disincentivizing the construction of units that increase in value at a slower rate.

Horizon Ottawa suggests that the Vacant Unit Tax be the result of a calculation that adds 0.5% to the annual increase in value for the property type in its neighbourhood. This would provide an incentive to all

vacant property owners to rent or sell their property regardless of the unit's characteristics. **This could also help the city control the increase of rental prices and promote better accessibility to the real estate market.**

**This approach would also allow the city to adjust its tax rates according to market fluctuations.** As mentioned above, Ottawa residential real estate prices have increased by almost 20% since last year. Our proposed tax would adjust to meet these realities to assure that owners do not sit on empty homes during times of large increases. In this situation, the average vacant unit tax would be around 20.5% of the property value. Under normal circumstances, however, Ottawa real estate increases in value between 1% and 7% yearly. This tax would therefore fluctuate with the market and be between 1.5% and 7.5%. For properties that see a decrease in value, we recommend that the tax be set at 0.5%.



Photo by ceedub13/Flickr.

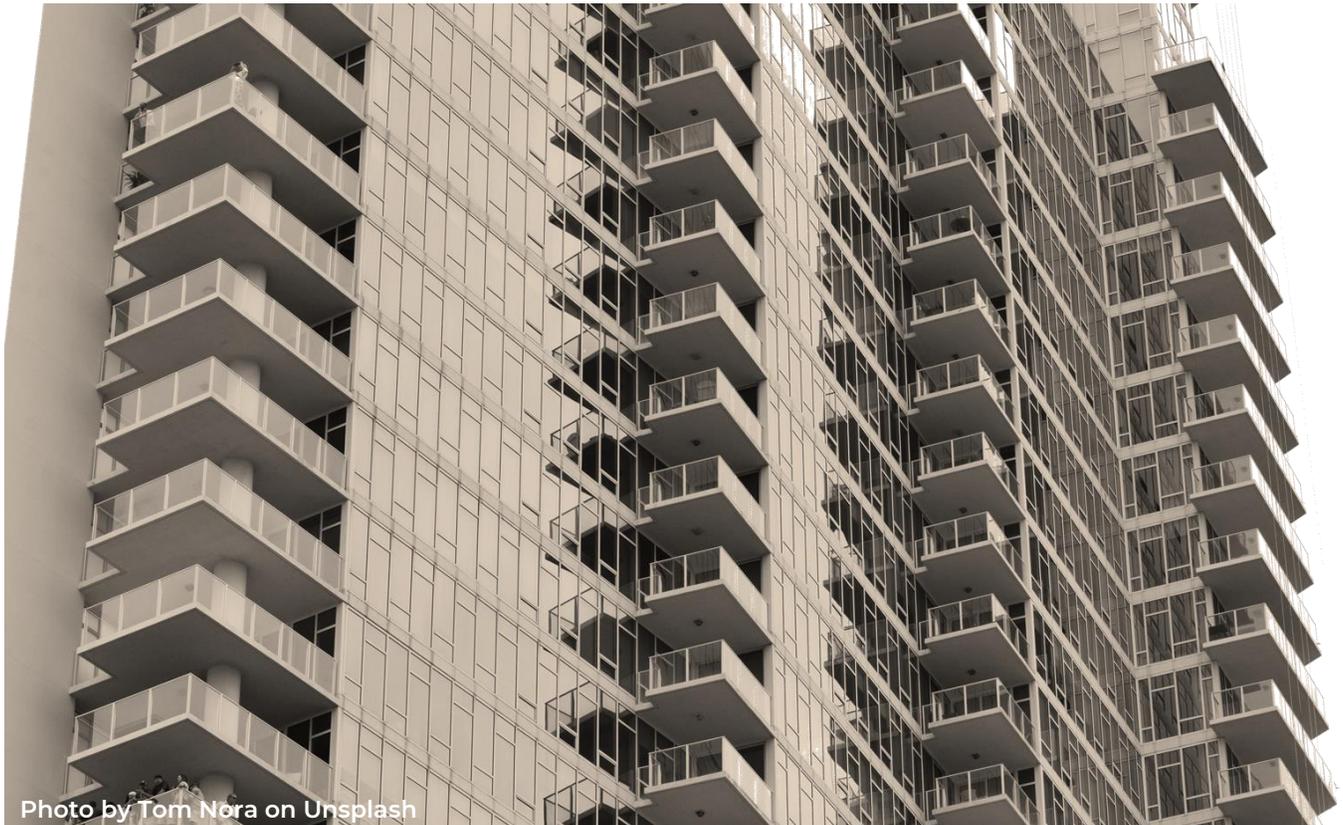


Photo by Tom Nora on Unsplash

## **An incentive to put units on the market**

**The objective of the Vacant Unit Tax is simple: assure that all units in the City of Ottawa are inhabited.** It would allow the city to tackle the housing crisis—in particular, a lack of affordable housing options—while also discouraging the speculative housing purchases that drive up real estate prices. As Gao, Sockin, and Xiong (2017) have observed, speculative housing purchases—that is, the practice of buying homes with the intent of profiting off of the sale of that home in the near or medium term—have led to a sharp increase in housing prices. These same authors also argue that this trend has destabilized our economy, making economic downturns more severe. It is the responsibility of all levels of government to

protect their residents against this. This tax would be a step in that direction.

That said, the Vacant Unit Tax should not be a tool for municipalities to generate more tax revenue. Ideally, the tax would be a sufficient disincentive for homeowners that they would not leave their homes empty. Instead of generating new money for the city, the tax should serve to regulate the market and provide better, more affordable, housing. A low, fixed tax rate would not provide this disincentive. A higher, variable tax would.

**All the money generated by the Vacant Unit Tax should be reinvested into the construction of social housing.**

# Imagining the Ottawa Vacant Unit Tax

**Any property vacant for a minimum of six (6) months during the previous twelve (12) months should have to pay an annualized Vacant Unit Tax for each month it was vacant.** This means that, at the time of the declaration, owners of secondary properties would need to declare the status (vacant or occupied) of their units for each of the 12 previous months. If a property is vacant for six months or more, its owner should receive a tax bill calculated according to:

- the average increase in price of the property type
- the neighbourhood in which it is located.

For example, if the value of single family homes in Alta Vista ward increased by 5% during the previous 12 months, a single-family home worth \$500,000 that was vacant for a total of 6 months during that time would be taxed \$2,291.67 for each month it was vacant:

$$\frac{\$500,000 \times 5.5\%}{12 \text{ months}} = \$2,291.67$$

At the same time, if the value of 1-bedroom apartments in that same neighbourhood increased by 1% during the previous 12 months, a 1 bedroom apartment worth \$175,000 vacant for at least 6 months during that time would be taxed \$218.75 for each month it was vacant:

$$\frac{\$175,000 \times 1.5\%}{12 \text{ months}} = \$218.75$$



## Exceptions

That said, not all properties should be subject to this tax and some exceptions should be considered.

- 1. Inherited properties should not have to pay the Vacant Unit Tax for a total of 12 months after the deed is transferred.** This would allow the person receiving the deed to grieve and decide what to do with the property without any added pressure.
- 2. New constructions should also be exempt for 12 months after the completion of the construction to allow proper time for the marketing and sale of the unit.**

Other exemptions may apply as long as they do not allow for property owners to benefit from the increase in property value through speculation.

## How to Obtain the Necessary Information to Calculate the Tax

The City should work with the Municipal Property Assessment Corporation (MPAC) and the Canadian Mortgage and Housing Corporation (CMHC) to calculate the property value increases by property type and neighbourhood. CMHC already gathers data separated by property type (Single-detached, Semi-detached, Row, Duplex, Low-rise apartment, High-rise apartment, and Other) and neighbourhood (See CMHC, 2021).

[This information](#) would allow the city to easily calculate rates.

## Enforcing the Vacant Unit Tax

The city should also be careful to adopt an enforcement strategy that does not penalize individuals that do not own vacant homes. This means that it should avoid asking all homeowners to do a mandatory declaration. Under this model, individuals that fail to declare their occupied home would likely be targeted with fines. Already marginalized populations may become overrepresented among the people that do not participate in the system; adding a new layer of systemic discrimination.

Instead, enforcement should be the responsibility of owners of vacant units. While the city should do all it can to remind residents about the tax, these owners would need to take responsibility or face reprisal. In the event that the owner of a vacant unit does not declare the vacancy, that owner should pay the

owed taxes along with an added fine. Any fine or tax wrongfully charged should be revoked upon receipt of proof of occupancy.

## Identifying the Owners of Vacant Units

To identify owners with vacant units, the city should adopt a two-fold strategy. Firstly, owners of secondary homes should be registered with the city along with the names and contact information of their tenants. The city should use this list to randomly verify the occupancy of units and unit owners should be required to keep proof of occupancy. Secondly, the community should be considered an ally in the enforcement of this tax.

To encourage this, the property assessment roll should be public (like it is the case in Montreal; City of Montreal, 2019). This would allow neighbours to know who owns properties and keep an eye on their neighbourhood.

## Other considerations

To encourage the construction of units that respond to the needs of the residents of Ottawa, the city should make vacancy rates by unit type and neighbourhood available to the public.

**The Vacant Unit Tax should potentially be extended to commercial units, brownfield land, and derelict buildings.**



# References

- Adair, J. (2020). Empty Home Taxes Are Becoming More Popular In Canada, Realty Time, <[>](https://realtytimes.com/real-industry-news-articles/item/1040516-empty-home-taxes-are-becoming-more-popular-in-canada#:~:text=The%20Globe%20%26%20Mail%20added%2C%20%E2%80%9C,they%20have%20made%20a%20difference.&text=In%20Vancouver%2C%20CMHC%20reports%20that,18.9%20per%20cent%20over%202018.></a>></p><p>Bassok, M. & Mirovsky, A. (2015). Jerusalem to Double Tax Rate on Vacant Homes That Stand Empty Most of the Year, <i>Haaretz</i>, <<a href=)
- Canadian Mortgage and Housing Corporation (2021). Housing Market Information Portal, [>](https://www03.cmhc-schl.gc.ca/hmip-pimh/#TableMapChart/3506008/4/Ottawa+(CV)+(Ontario))
- City of Montreal (2019). Consult the property assessment roll, <[>](https://montreal.ca/en/how-to/consult-property-assessment-roll)>
- Gingrich, M. & Rowlinson, M. (2020). *Revitalizing Canada's Manufacturing Economy for a Post-COVID World*, Public Policy Forum: Ottawa.
- Government of the United Kingdom (2021). *Council Tax: Second Homes and Empty Properties*, <[>](https://www.gov.uk/council-tax/second-homes-and-empty-properties)>
- Journal du net (2019). Taxe sur les logements vacants : logements et communes concernés, <[>](https://www.journaldunet.fr/patrimoine/guide-des-finances-personnelles/1202015-taxe-sur-les-logements-vacants-qui-la-paie/#:~:text=Le%20montant%20de%20la%20taxe%20sur%20les%20logements%20vacants%20d%C3%A9pend,est%20de%2012%2C5%25.></a>></p><p>Kline, P. & Moretti, E. (2014). People, places, and public policy: some simple welfare economics of local economic development programs, <i>Annu. Rev. Econ.</i>, 6, 629-662.</p><p>Ottawa Business Journal (2020). Average Ottawa home price to rise 7% in 2021, Re/Max forecasts, <a href=)
- Passifiume, B. (2020). Toronto council passes vacant home tax, *Toronto Sun*, [>](https://torontosun.com/news/local-news/toronto-council-passes-vacant-home-tax)
- Segú, M. (2020). The impact of taxing vacancy on housing markets: Evidence from France, *Journal of Public Economics*, 185, 104079.
- Statistics Canada (2021). Labor Force Survey, January 2021, *The Daily*, Catalogue no. 11-001-X, Statistics Canada: Ottawa.



Horizon Ottawa is municipal-focused grassroots organization dedicated to creating a city that genuinely works for everyone.

Learn more at [horizonottawa.ca](https://horizonottawa.ca)