

Fair taxes for all Londoners

In Carling, more than half of residents are renting, and one quarter of all residents are spending more than 30% of their income on housing, which is the threshold for affordable housing. In East London, we see a similar situation, with over 40% of residents renting and more than half of those renters spending over 30% of their income on housing.

Part of the problem — which is within our power to fix — is that **tenants of apartment buildings are bearing an unfair property tax burden**, which drives up the cost of renting.

Through rent, tenants are paying **twice the property tax rate** that homeowners pay.¹

Beyond making housing less affordable for tenants, this policy also makes apartment buildings more expensive relative to residential homes, which works against our intensification goals of more Londoners living in existing neighbourhoods. Equalizing our tax rates will help us achieve the London Plan intensification target of 40% for new residential growth.



Impact for Tenants

Here's what fair taxation means for a tenant in **1203 Huron**, one of the Huron Street Apartment buildings along the north edge of Ward 4²:

For a one bedroom unit in 1203 Huron, a tenant indirectly pays **\$1,307** per year in property taxes (buried in the rent they pay). If the property tax rate on these buildings were the same as it is for residential homeowners, the property tax for that unit would be **\$673**.

¹ 2.366781% for multi-unit residential (7 or more units) vs. 1.155937% for residential. Source: <https://www.london.ca/residents/Property-Matters/Property-Taxes/Documents/2013%20tax%20rates.pdf>

² See the [worksheet](#) for sources and calculations for these figures.

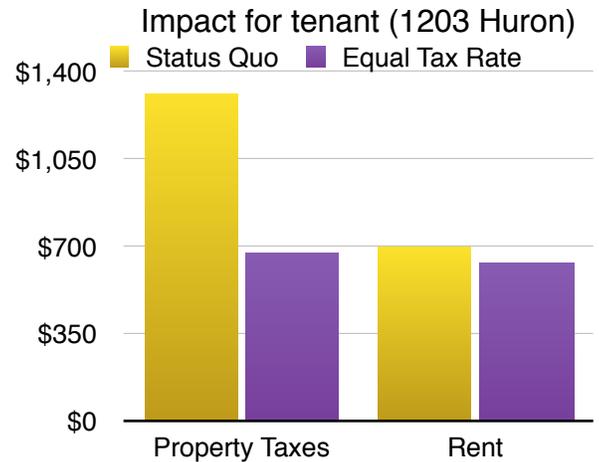
But tenants don't pay property taxes directly, so what matters in terms of affordability is rent. Fortunately, **landlords are required by the provincial Residential Tenancies Act** to reduce rent for most properties when property taxes are reduced significantly.³ This automatic rent reduction does not apply to buildings built after 1 Nov 1991.

Here's an example for that two bedroom apartment at 1203 Huron, rented at \$700/month.⁴

If the property tax bill for each unit dropped from **\$1,307 to \$673**, then the percentage tax decrease is 48%. That means the rent must be decreased by 48% x 20% = 9.6%. For that \$700/month unit, the rent would decrease by \$67.97/month to \$632/month. **That's \$816 per year.**

You can apply the same 9.6% rent reduction to various rents:

- \$600/month rent would be reduced to \$542/month (annual savings of \$691)
- \$750/month rent would be reduced to \$678/month (annual savings of \$864)
- \$900/month rent would be reduced to \$813/month (annual savings of \$1,048)



Impact for Homeowners

What does making our property tax system more fair mean for residential homeowners? To equalize the tax rates and ensure that multi-residential and residential are taxed at the same rate, it would likely mean a 5.37% increase in the residential tax rate. For a homeowner of an average residential property of \$208,000, that means a \$129 increase, which is slightly less than \$11/month.

Since fixing this problem in our property tax system is a relatively significant change, I would work with my council colleagues to implement the change over the course of several years. If we implemented the change over four years, it would mean savings of \$204 in the first year for tenants of multi-residential buildings paying \$700/month in rent and an average increase of \$32.25 for residential homeowners in the first year.

³ Source: Landlord & Tenant Board http://www.ltb.gov.on.ca/stdprodconsume/groups/csc/_ltb/keyinfo/documents/resourcelist/170611.pdf

⁴ Source for rent at 1203 Huron from <http://www.skylineliving.ca/residential-home/residential-details-page/details/811>. Average rent in London for a two bedroom apartment is ~\$920. Source: <http://www.cmhc.ca/en/corp/nero/nere/2013/2013-06-20-0815.cfm>.

Questions & Answers

Q: Who benefits from the rent reductions? Are they permanent?

A: Tenants of multi-unit residential buildings will be the immediate beneficiaries of rent reductions, saving ~9.6% of their current rent once the rates are equalized.

Property owners are required by the provincial *Residential Tenancies Act* to reduce rent according to a formula when property taxes are decreased by more than 2.49%. However, the automatic rent reduction doesn't apply to all multi-unit residential buildings:

Automatic rent reduction **only applies to buildings that are rent regulated**. Importantly, it does not apply to buildings built after 1 November 1991. It also does not apply to non-profit housing co-operatives or public housing.

The rent reduction only applies to current tenants for the duration of their tenancies.

Expanding the coverage of the automatic rent reductions to include a wider range of properties — for example, buildings built after 1 November 1991 — would require a change to the provincial *Residential Tenancies Act*.

Q: What are the longer term implications of this shift in the tax burden?

A: The existing tax rates make multi-unit residential more expensive and residential less expensive. Equalizing these rates will reduce one part of the operating costs of multi-unit residential and will remove one existing disincentive to the construction of more multi-unit residential buildings, which could help bring more people to Ward 4 and other core areas of the city. Some municipalities have addressed this issue by creating a “new multi-residential” tax rate at a 1:1 ratio with residential, but London has not.

Q: Does the automatic rent reduction apply for people living in condos?

A: No, we've already solved this problem for condos. Condos are taxed as individual residential units at the residential tax rate.

Q: Does the automatic rent reduction apply for people living in retirement homes?

A: No, we've already solved this problem for retirement homes. Retirement homes are already taxed at the residential tax rate.

Q: Does the automatic rent reduction apply for people living in non-profit housing co-ops?

A: No, we've already solved this problem for non-profit housing co-ops. Non-profit housing co-ops are already taxed at the residential tax rate.

Q: Does the automatic rent reduction apply for people living in housing owned by London & Middlesex Housing Corporation?

A: The property tax reduction applies, but the automatic rent reductions do not apply to LMHC buildings. Since the city is a net contributor to LMHC, the most likely outcome of a reduction in the taxes payable by LMHC buildings is a corresponding reduction in the grant from the city. So, on a net basis, there is unlikely to be any change for tenants of LMHC buildings.

Q: What qualifies as a multi-unit residential building?

A: To be classified as multi-unit residential, a building must have 7 or more self-contained units. This includes townhouse complexes with more than seven units. Apartment buildings with six or fewer self-contained units or units that are not self-contained are taxed at the existing residential tax rate, not the multi-unit residential tax rate.

Q: Is this a problem in other municipalities?

A: Yes, this issue is common to many municipalities, where the average multi-unit residential to residential tax ratio is in the neighbourhood of 2:1. Among mid-size cities in Ontario, only Barrie has a tax ratio within the provincial range of fairness⁵ of 1.0 to 1.1. The District of Muskoka and the Region of York also have a 1:1 ratio.

A selected list of municipalities and their multi-residential to residential tax ratios⁶:

Municipality	Multi-Residential Tax Ratio (2012)
Barrie	1.0197
London	2.07
Mississauga	1.7788
Peel	1.705
Ottawa	1.7
Waterloo	1.95
York	1

⁵ Source: <http://www.fin.gov.on.ca/en/publications/2002/acr2002-4.html>

⁶ Source: 2012 BMA Municipal Study, page 190.