Ontario
Home Builders'
Association

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Director General
Sales and Excise Tax Division, Tax Policy Branch
Department of Finance Canada
90 Elgin Street
Ottawa, Ontario K1A 0G5

Sent via email : VLT-TTV@fin.gc.ca

Re: Consultation on the Taxation of Vacant Lands

The Ontario Home Builders' Association

The Ontario Home Builders' Association (OHBA) is the voice of the residential construction industry in Ontario, representing 4,000 member companies organized into 28 local associations across the province, from Niagara to Thunder Bay and Windsor to Ottawa. Members include builders, developers, professional renovators, trade contractors, suppliers, and manufacturers serving the residential construction industry. The residential construction industry employed over 550,000 people, paying $38.8 billion in wages, and contributed over $83.8 billion in investment value across Ontario in 2023.

Please accept the below as our submission to the Government of Canada's request for feedback on consideration of a tax on residentially zoned vacant land, which is being submitted on behalf of OHBA and its 28 local associations including but not limited to the Building and Land Development Association (BILD), West End Home Builders' Association (WE HBA), Greater Ottawa Home Builders' Association (GO HBA), and London Home Builders' Association (LHBA).

Consultation Paper on the Taxation of Vacant Lands

Federal Budget 2024 announced that the government is considering a tax on residentially zoned vacant land, meant to encourage private sector landowners to develop their vacant land. It recognized that Canada is a vast country with differing local needs and land availability and that such a policy may need to be tailored to address the unique circumstances and requirements of each region.

The federal government is undertaking this consultation to:

1. Hear views from all stakeholders on the potential application of vacant land taxes, including feedback on their potential design and impacts; and
2. Gauge interest from provinces, territories, and municipalities on the potential introduction of vacant land taxes at the provincial, territorial, and municipal levels, with federal funding to support their implementation.

The federal government has requested us, as stakeholders, to provide comment on several questions and themes surrounding this topic which we have considered and addressed in our response.

OHBA Response

OHBA and our members acknowledge that in Budget 2024 and Canada's Housing Plan, the federal government announced their plan to build nearly 4 million new homes by 2031. Generally, we support the overall spirit and intent of any plan that aims to deliver more housing supply and choice to all Canadians.

To reach this ambitious target, the federal government has indicated an intent to roll out a suite of policies that are aimed at unlocking more land for new housing development, including surplus, underused, and vacant public lands. While many of the policies may be favorable to stimulate more housing supply, OHBA and our local associations are significantly concerned that a potential Vacant Lands Tax will only serve to erode affordability and is counter intuitive to the overall Housing Plan itself.

Our industry is strongly opposed to this tax, and we urge the federal government not to move forward with the introduction of a tax of this nature. While we recognize the intent is meant to encourage private sector landowners to develop their vacant land through the imposition of a financial penalty to deter holding onto lands for longer than necessary, and the objective being to incentivize construction and new housing supply, we fear the true result will be a negative impact on housing affordability and new supply.

Development Challenges faced by Homebuilders

Through various touchpoints, we have previously expressed significant concerns with this tax. The development pipeline in Ontario is already suffering from a lack of project feasibility. Adding additional costs to the proformas of a potential project only serves to make housing more expensive to the new homeowners of Canada.

It is common knowledge that the home construction sector has been hit particularly hard by high interest rates. But less known and what does not appear to have been considered in the introduction of this tax, is that prior to high interest rates, many projects could not move forward for a variety of reasons including, but not limited to: municipal approval processes, servicing infrastructure constraints (projects like subdivisions and large multi-unit buildings receive serviced land based on the schedule of the municipality and utilities), labour shortages, financing constraints (e.g. inflation, interest rates, required pro forma margins), lack of capacity and financing to undertake concurrent projects, the politicization of the approvals process, and constantly increasing government charges and fees that often increase faster than realized revenue (like development charges, which can increase in the time between a project's approval and issuance of a building permit).

Home builders are required to find solutions or be creative to address these challenges and constraints, but in some cases, must put projects on pause. Importantly, not all barriers to development are within the control of homebuilders. We would suggest that governments should be striving to determine why – in the case of vacant residential land – builders are not building, and work collaboratively with their development partners to unlock the potential of these lands and get projects moving.

Canada is undergoing an unprecedented housing affordability crisis, largely driven by a lack of affordable housing supply. The federal government recognized the negative impact of government-imposed costs on housing supply in September 2023 when it enhanced the GST/HST Rental Rebate to

100% on new purpose-built rental housing. It is concerning that the government would now consider facilitating the levying of additional taxes/fees onto new homes, which will make resolution of the crisis even more difficult. At its most basic level, any additional taxes or fees imposed at any stage in the development process, which includes the state of owning/holding vacant land pre-development, ultimately means that those fees and charges will continue down the process and be borne by the new home buyer. Increasing any government taxes, fees, and charges on housing (which ultimately are burdened by new home buyers and renters) is counterproductive.

Ontario Perspective

In February of this year, the Ontario provincial government held consultations on a possible “Use It or Lose It” (UIOLI) policy that, like this consultation, considered land speculation as a main driver of the current housing crisis. A report commissioned at the time by the OHBA and BILD titled “Use It: Optimizing Municipal Development Pipelines” released on behalf of the residential construction industry province-wide, showed that in 2023, the amount of housing units completed and the inventory of units currently under construction across Ontario reached highs not seen since 1990, each being 34-year highs, and demonstrated that the industry is not “sitting on supply”.

Provincial planning policy in Ontario requires that municipalities ensure that there is sufficient housing supply to meet demand for housing in Ontario at all times. Some of these considerations a municipality must account for include: minimum amounts of residential designated land at all times, including throughout periods of time between reviews of land needs and planning policies; minimum amounts of supply are necessary to avoid shortages which increase land and housing costs; and, municipalities need to incorporate a market contingency factor to offset risk of shortages developing from unanticipated events such as changes in the economy, changes in the housing market, landowners unwilling or unable to proceed with development.

The study ultimately determined that additional measures to facilitate the development of vacant lands were not necessary, and in fact could have very detrimental impacts on the future of housing supply in the province. We would go so far as to predict that Ontario municipalities themselves might also take significant concern to a potential vacant land tax as this would critically impact their required 15-year land supply being brought online faster than they can handle incorporating them, due to Ontario planning requirements, servicing constraints and additional development constraints already mentioned in this submission.

The City of Toronto already has a Vacant Homes Tax that caused significant upheaval with its roll out. It is unclear how a potential Vacant Lands Tax introduced at the federal level would ensure no double dipping occurs in terms of municipal tax collections.

Currently, the 2024 new home pre-sales market in the Greater Toronto Area are at historic lows. August sales were 464 (229 Single Family and 235 Condo) which is the worst August on public record. There were 759 new home sales in November, which was down 55 per cent from November 2023 and 77 per cent below the 10-year average, and condominium apartments accounted for 249 units sold in November, down 81 per cent from November 2023 and 90 per cent below the 10-year average. Through to the end of November 2024, there were 4,948 single family home sales, which was down 12 per cent from 2023. Inventory levels (in absolute terms) have almost remained flat in 2024, hovering around the 20,000-unit level.

Due to low sales levels, months of inventory is at 14.1 months based on average sales for the last 12 months. Physical remaining inventory has been basically stable across 2024 with very little inventory added given the challenging economic environment. The Greater Toronto Area is grappling with a major 'cost to build' challenge. Rising construction costs, coupled with escalating government fees, taxes, and charges, have made it increasingly difficult to deliver new homes at a price point the market can absorb. This cost imbalance has led to a sharp decline in both sales and housing starts, which poses a serious threat to the region's future housing supply.

Adding to this, the cost of ownership in Ontario is at its highest level in the last 33 years, and homeowners commit an average of 60% of their income to mortgage costs. When homebuyers purchase new homes, development charges alone make up 25-30% of the cost of a new home. The tax burden on new housing has significantly increased and now accounts for 31% of the purchase price of a new home in Ontario, twice that on the rest of the economy. The Ontario provincial government announced a goal of building 1.5 million homes by 2031 and set annual objectives for housing starts. For 2024, that goal was 125,000 new homes. However, now at the end of 2024, the latest projections show just over 80,000 new homes built, which is 35% below the government's target for this year. The top three reasons why builders are struggling to build more include: government fees and taxes, municipal bureaucracy slowing down approvals, and the current economic environment.

In support of feedback also provided by our federal counterparts at the Canadian Home Builders' Association (CHBA), no matter what tax rate might be ultimately chosen, it will only *add to* the cost of the purchase price. The evidence shows that the existing taxes and fees burden on the industry and new home buyers is crippling. It is illogical that the federal government is asking municipalities to freeze development charges (a move in the right direction) yet at the same time is asking provinces and municipalities to implement another tax on building new homes. We stress that a new tax will only further hamper the affordability challenges the country is facing, and a tax on a sector currently facing a stagnant business environment does not incentivize construction or new housing supply.

<u>One Size does not Fit All</u>

The consultation posting recognized that Canada is a vast country with differing local needs and land availability. It also recognizes that such a policy will need to be tailored to address the unique circumstances and requirements of each region. This is a true and defining statement, which would have significant unintended consequence if it were to be implemented generally and let alone implemented with local municipalities being the implementer, driving inconsistency and confusion across the provinces and country.

In the submission made by CHBA, it highlights that in addition to the industry's position that this tax is ill-conceived and will not yield the desired results of more housing supply, it should be noted that should it go ahead, it will inevitably result in a nationwide patchwork of definitions, lacking consistency and central direction, and leading to a myriad of implementation challenges across the country. Builders and developers operating in multiple jurisdictions will be faced with varying rules and regulations and will need to interpret each accordingly. This will only slow down development or result in an abandonment to develop entirely.

The federal government's consultation paper recognizes that a one-size-fits all approach to the taxation of vacant lands in Canada would *not* be appropriate. We also agree with this statement. Federal government support (i.e. funding) is envisioned for provincial, territorial, and municipal tax measures structured around a core tax base of land. But, simply providing federal funding through the housing plan has not stimulated the pipeline of housing needed for the residents of Canada, as evidenced by the Housing Accelerator Fund. Any funds that the Federal government releases to municipalities and provinces must be directly tied to (conditional on) the delivery of new housing supply. Systemic changes enabled by the housing accelerator fund are irrelevant if the cost to build is so high that projects cannot start. Adding another layer of taxation only compounds this error.

What must also be taken into consideration is the cost to the government to support municipalities in implementing this tax. The proposed Vacant Land Tax comes with unknown administrative and compliance costs. Accounting for these costs must be key considerations in discerning the efficacy of the policy. Scrutiny of recent comparable policies should also be undertaken.

For example, the 2022 Underused Housing Tax (UHT) which was advertised as a targeted tax measure to deter the underutilization of housing, especially real estate held by foreign investors, has failed to produce any meaningful results. As of June 2024, the CRA has reported that it assessed roughly 670,000 UHT returns and found that 98 per cent had no tax owing. The CRA has disclosed that it has spent $59 million in administering the tax since 2022.

While originally advertised as a policy to enhance housing affordability, the results of the UHT so far have demonstrated a negligible impact, high administrative cost, and a considerable yearly compliance cost for affected homeowners. This should be a cautionary lesson as the Government contemplates introducing an analogously structured Vacant Land Tax.

We strongly contend that there is no benefit to developers sitting on developable land, as developers are incurring daily carrying costs and inflation during the time that the land is sitting idle. There are also scenarios where projects have launched sales and yet they cannot achieve the 70% sales/bank financing requirement to start construction. Development only starts when the sales deposits are at a critical mass that the banks will accept and provide funding. We take significant concern to the lack of consideration and understanding being given to what it actually means to hold onto land, the financial implications of holding onto land, the real reasons why lands are not being developed, and the insinuations constantly made on the industry that developers are holding onto land simply to 'get rich'.

Conclusion

The Ontario Home Builders' Association and our local associations respectfully submits the feedback and recommendations contained within this submission regarding the proposed tax on residentially zoned vacant land being consulted on by the Government of Canada. We urge both the Ministry of Finance and the Ministry of Housing to take into consideration all content contained within this submission, as well as those submitted by our counterparts at the Canadian Home Builders'

Association and Greater Ottawa Home Builders' Association respectfully, as the government deliberates the implementation and efficacy of this potential tax.

To reiterate, OHBA and our local associations are strongly opposed to the introduction of a vacant lands tax. Canada is undergoing an unprecedented housing affordability crisis, largely driven by a lack of affordable housing supply. The federal government has recognized the negative impact of government-imposed costs on housing supply in the past, and it is critical that the government understand that any new tax added at any point in the development process – which includes the initial stages of purchasing and owning a parcel of land – means that those taxes and fees ultimately find themselves imposed on the cost of buying a home by the end user, the homeowner.

A punitive tax will not encourage homebuilding but rather add bureaucratic red tape to an already regulation-burdened industry. Reducing and simplifying government taxes, fees, and charges on housing and those who invest in housing development will help to build more homes, and a vacant land tax will not. We would encourage the Government to spend more time and resources on exploring the realities of the home building industry, what factors go into the process and costs of building a new home, and identify the actual reasons why homes are not being built and what delays and challenges currently face the industry, as outlined throughout our submission.

OHBA appreciates the opportunity to provide feedback on this proposal by the Federal Government and would be pleased to engage in ongoing dialogue and consultation with the government on this and other housing-related topics. We appreciate the opportunity to comment on this proposal and look forward to continuing our engagement to ensure that our collective efforts are fulfilling our shared goals of delivering housing supply that current and future Canadians can afford.

Submitted on behalf of the Ontario Home Builders' Association and our local associations,

Kirstin Jensen

Kirstin Jensen
Vice President, Policy, Advocacy & Relationships
Ontario Home Builders' Association
Kjensen@ohba.ca
(416) 606-3454