

Subject: Vacant Unit Tax Program - Update on Year One Data and Improvements

File Number: ACS2024-FCS-REV-0006

Report to the Special Joint Finance and Corporate Services Committee and Planning and Housing Committee on 6 November 2024

and Council 13 November 2024

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Ward: Citywide

Objet : Programme d'impôt sur les logements vacants – Mise à jour sur les données de la première année et les améliorations

Numéro de dossier : ACS2024-FCS-REV-0006

Rapport présenté à la réunion conjointe extraordinaire du Comité des finances et des services organisationnels et du Comité de la planification et du logement

le 6 novembre 2024

et au Conseil le 13 novembre 2024

Soumis le 28 octobre 2024 par Joseph Muhuni, Trésorier municipal adjoint, Services des recettes, Direction générale des finances et des services organisationnels

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REPORT RECOMMENDATIONS

That the Joint Finance and Corporate Services Committee and Planning and Housing Committee recommend that Council:

- 1. Receive an update on the Vacant Unit Tax program.**
- 2. Approve enhancements to the program and by-law as outlined in this report.**

RECOMMANDATIONS DU RAPPORT

Que le Comité des finances et des services organisationnels et le Comité de la planification et du logement recommandent, pendant leur réunion conjointe, ce qui suit au Conseil municipal :

- 1. Recevoir une mise à jour sur le programme d'impôt sur les logements vacants.**
- 2. Approuver les améliorations apportées au programme et au règlement, comme décrit dans le présent rapport.**

EXECUTIVE SUMMARY

This report provides a summary of the first year of the Vacant Unit Tax (VUT) program as the full annual cycle, including audit and appeals, is complete. Recommendations for strengthening the program are included within the report, including responses to Council direction received since the program's launch.

First Year Results

As a result of the VUT, the first cycle of the program has generated \$12.6 million in revenue, with \$10.3 million directly allocated to the City's Housing Long Range Financial Plan. The primary objective of the VUT program is to return units back to the market. Preliminary analysis of the 2024 cycle indicates 1,785 properties which were vacant in 2022 are now occupied, and VUT appeals are down by 64 percent. The program successfully influences property owners to ensure that residential units are kept occupied.

The City received occupancy declarations for 99.6 percent of the 323,182 residential properties included in the VUT program in 2023. Upon completion of the appeal and audit phases of the 2023 cycle, 3,672 units, or 1.1 percent, were identified as vacant

and were charged the additional tax. The vacancy issue in Ottawa is more severe than initially anticipated and is in line with the vacancy rate in Toronto and Vancouver.

Strengthening the VUT Program

The City has made a commitment to the province to strengthen the VUT program as a condition of Ontario's A New Deal for Ottawa. Several improvements were implemented in 2024 in response to both public and Council feedback, including accessibility enhancements to the declaration form, expanding the declaration period, and leveraging the City's Client Service Centres to expand in-person declaration options.

Staff have determined that the annual mandatory declaration model is the preferred model that drives results in returning units to the market. Alternative declaration models, such as a periodical or voluntary declaration model, were explored by staff, but were found to significantly reduce public awareness of the program and diminish the importance of ensuring all eligible residential properties are contributing to the City's housing supply. Alternative declaration models would generate substantially less revenue while requiring similar administrative costs, resulting in an overall net cost to the city or insignificant contributions to housing initiatives.

Enhancements for 2025

With the completion of the 2023 VUT cycle, staff now have sufficient data and stakeholder feedback to recommend the following enhancements to the program:

1. Update property eligibility codes to include an additional 1,200 residential properties and to exclude farms from the definition of residential units.
2. Amendments to exemptions:
 - New exemption - Rural ineligible property
 - New exemption - Hazardous property outside of the owner's control
 - New exemption - Medical care property
 - Existing renovation exemption - remove the building permit requirement for one-time retrofit renovation per property and owner, where the unit is occupied within one year.
3. Implement a graduated VUT rate in which the rate is increased by one per cent per year for repeat vacancies, up to a maximum of five percent of the residential

assessed value. The base rate will remain at one percent for first-year vacancies.

4. Allow property owners to submit late appeals beyond the current appeal deadline. The proposed late appeal process will provide an additional 15-month window to file an appeal with an administrative fee.
5. Administrative updates including clarification of by-law terminology and updates to the accepted proof of occupancy documentation.

Financial Implications

The introduction of a graduated tax rate will generate up to \$4 million in additional revenue, based on preliminary analysis from the 2024 VUT cycle. The expansion of authorized exemptions and late appeals is not expected to have a significant impact on overall revenue and will be mitigated by an additional estimated \$600,000 in revenue from expanding the audit program.

Public Consultation

Staff have received feedback from both residents and Councillors since the inception of the program through various channels, including e-mail, in-person meetings, written correspondence, phone calls, and online feedback forms. The main themes of feedback received include a lack of program awareness and supporting access to online forms, rural properties and their eligibility for the program, criteria for claiming a renovation exemption, resident reporting of vacant properties, and requests for deadline extensions on appeals and late declarations.

RÉSUMÉ

Le présent rapport fournit un résumé de la première année du programme d'impôt sur les logements vacants (ILV), alors que le cycle annuel complet, y compris la vérification et les appels, est terminé. Des recommandations visant à renforcer le programme sont incluses dans le rapport, notamment les réponses aux directives du Conseil reçues depuis le lancement du programme.

Résultats de la première année

Le premier cycle du programme d'ILV a généré des revenus de 12,6 millions de dollars, dont 10,3 millions directement affectés à la plan financier à long terme pour les services du logement de la Ville. L'objectif principal du programme d'ILV consiste à remettre des logements sur le marché. Une analyse préliminaire du cycle de 2024 indique que

1 785 propriétés qui étaient vacantes en 2022 sont maintenant occupées, et que les appels en lien avec l'ILV ont diminué de 64 pour cent. Le programme réussit à inciter les propriétaires à veiller à ce que leurs logements restent occupés.

La Ville a reçu des déclarations d'occupation pour 99,6 pour cent des 323 182 propriétés résidentielles incluses dans le programme d'ILV en 2023. À la fin des phases d'appel et de vérification du cycle de 2023, 3 672 logements, soit 1,1 pour cent, ont été déclarés vacants et ont dû payer l'impôt supplémentaire. Le problème des logements vacants à Ottawa est plus grave que prévu initialement, et le taux des logements vacants à Ottawa correspond à celui de Toronto et de Vancouver.

Renforcer le programme d'ILV

La Ville s'est engagée auprès de la Province à renforcer le programme d'ILV comme condition du nouvel accord de l'Ontario avec Ottawa. Plusieurs améliorations ont été mises en œuvre en 2024 en réponse aux commentaires du public et du Conseil, notamment des améliorations apportées à l'accessibilité du formulaire de déclaration, la prolongation de la période de déclaration et l'utilisation des centres du service à la clientèle de la Ville pour élargir les options de déclaration en personne.

Le personnel a déterminé que le modèle de déclaration obligatoire annuelle est le modèle préféré qui donne des résultats en favorisant la remise des logements sur le marché. Le personnel a examiné d'autres modèles de déclaration, comme un modèle de déclaration périodique ou volontaire, mais il a constaté qu'ils réduisaient considérablement la sensibilisation du public au programme et diminuaient l'importance que revêt l'inclusion de toutes les propriétés résidentielles admissibles dans l'offre de logements de la Ville. Les autres modèles de déclaration généreraient beaucoup moins de revenus tout en exigeant des coûts administratifs similaires, ce qui entraînerait un coût net global pour la Ville ou une contribution négligeable à ses initiatives de logement.

Améliorations pour 2025

Étant donné l'achèvement du cycle de l'ILV de 2023, le personnel dispose maintenant de suffisamment de données et de commentaires des intervenants pour recommander les améliorations suivantes au programme :

1. Mettre à jour les codes d'admissibilité des biens immobiliers pour inclure 1 200 propriétés résidentielles supplémentaires et exclure les fermes de la définition de logement.

2. Modifications apportées aux exemptions:
 - Nouvelle exemption - Propriété rurale non admissible
 - Nouvelle exemption - Biens dangereux hors du contrôle du propriétaire
 - Nouvelle exemption - Propriétés offrant des soins médicaux
 - Exemption pour rénovation existante - Supprimer l'exigence du permis de construire pour des travaux de modernisation uniques par propriété et par propriétaire, lorsque le logement est occupé dans l'année qui suit.
3. Mettre en œuvre un processus de taux progressif de l'ILV où le taux est augmenté de 1 pour cent par année pour les logements vacants de façon répétitive, jusqu'à concurrence de 5 pour cent de la valeur de l'évaluation résidentielle. Le taux de base demeurera à 1 pour cent pour les propriétés qui sont vacantes pour la première année.
4. Permettre aux propriétaires de présenter des appels tardifs au-delà de la date limite actuelle. Le processus d'appel tardif proposé offrira un délai supplémentaire de 15 mois pour interjeter appel moyennant le paiement des frais administratifs.
5. Mises à jour administratives, y compris la clarification de la terminologie du règlement et la mise à jour des documents de preuve d'occupation acceptés.

Répercussions financières

La mise en œuvre d'un taux d'imposition progressif générera jusqu'à 4 millions de dollars de revenus supplémentaires, selon une analyse préliminaire du cycle de l'ILV de 2024. L'élargissement des exemptions autorisées et les appels tardifs ne devraient pas avoir d'incidence importante sur les revenus globaux et seront atténués par des revenus supplémentaires estimés à 600 000 \$ provenant de l'élargissement du programme de vérification.

Consultation publique

Depuis le début du programme, le personnel a reçu une rétroaction des résidents et des conseillers de plusieurs façons, notamment par courriel, réunions en personne, correspondance écrite, appels téléphoniques et formulaires de rétroaction en ligne. Les principaux thèmes des commentaires reçus abordent le manque de sensibilisation au programme et d'accès aux formulaires en ligne, les propriétés rurales et leur

admissibilité au programme, les critères pour demander une exemption pour rénovation, la déclaration par des résidents de propriétés vacantes et les demandes de prolongation de délai pour les appels et les déclarations tardives.

BACKGROUND

Committee and Council Report History

At the City Council meeting on December 9, 2020, Mayor Watson submitted a motion directing staff to study the effect of imposing a residential VUT, an analysis of potential revenue and the feasibility and viability of implementing such a tax.

Staff reported back to Council on the initial framework on June 9, 2021, in the Residential Vacant Unit Tax report ([ACS2021-FSD-REV-0004](#)). In this preliminary report, staff outlined best practices and implications related to the implementation of a residential VUT in Ottawa. The report identified guiding principles, an overall framework and a public consultation plan in pursuit of implementing a new vacant unit tax program in the 2023 billing year. Council approved the recommendations and directed staff to continue developing the vacant unit tax program and report back to council in 2022.

On March 23, 2022, Council approved the implementation of a residential vacant unit tax program through the Residential Vacant Unit Tax report ([ACS2022-FSD-REV-0001](#)) and the program was launched on January 4, 2023.

Overview of the Vacant Unit Tax

Each year, all eligible residential properties are required to complete an annual occupancy declaration indicating the occupancy status of their property during the previous calendar year. Eligibility for annual declaration is determined using property use codes provided by MPAC. Properties that have been declared vacant or those that do not complete a declaration are deemed vacant and are subject to the tax.

A unit is considered vacant if it has been unoccupied for an aggregate of more than 184 days during the previous calendar year and is not one of the following:

- A principal residence
- Tenanted properties
- Properties occupied by a family member, friend, or other resident using it as their principal residence; or,
- Properties qualifying for one of the exemptions.

Vacant Unit Tax exemptions:

- Property sale
- Court / government order
- Death
- Owner in care
- Construction / renovation
- Combination of tenanted and construction / renovation
- Cottage rental
- Newly built unit listed for sale

Properties subject to the tax are charged one percent of the current value assessment of the property. For properties with more than one unit, the charge is prorated according to the total number of vacant units. Residents wishing to appeal the charge have access to a two-stage appeal process. Further, audits are conducted to ensure the data received is accurate, and the charge is applied where warranted. Each year, staff produce an annual report on the program. The annual report for the 2022 occupancy year is included in Document 1 and will be published on [Ottawa.ca](https://ottawa.ca).

Motions and Direction

This report responds to staff's ongoing commitment to strengthen the VUT program and several motions received through Council since the inception of the program.

- C. Gower: [Motion No.2023 - 19-09](#) directing staff to improve and enhance the declaration process, consider a reduction in the frequency of the declaration, and look at other ways to streamline targeted or periodic declarations.
- C. Brown: [Motion ACS2024-OCC-CCS-0054](#) directing staff report back with options to exempt or exclude century homes and recreational hunt camps in the rural area, as well as rural properties which are not fit for occupation with no access to services or which can only be used seasonally.
- C. Kitts: Direction to staff during the [June 4, 2024 Finance and Corporate Committee](#) meeting to explore amending the VUT program to allow late

declarations after the established appeal deadlines have passed. This amendment should include a provision for a modest cost recovery fee.

DISCUSSION

Ottawa's Commitment to Strengthen VUT

On March 28, 2024, [the Province of Ontario and the City of Ottawa announced a \\$543 million deal](#) for numerous initiatives to strengthen Ottawa's economy, infrastructure, policing and housing. In return, the City made numerous commitments to the province. One of the commitments made by the City as a condition of the Ottawa Ontario Deal was to strengthen the City's VUT.

Strengthening the VUT is a priority not just to support the province's funding deal but also to ensure that housing is not underutilized during a housing crisis. The tax ensures homes remain occupied and unoccupied homes are returned to the housing supply. Increased supply has an impact on market pricing, leading to affordability of homes for sale and rent across Ottawa. In addition to helping make Ottawa more affordable, the net revenues from the tax all go toward affordable housing initiatives.

A strong vacancy tax program, as seen in Vancouver, has proven to reduce the number of vacant units and ensure properties are rehabilitated quickly and occupied. Abandoned properties are generally prone to illegal activity and pose a risk to public safety as they are at higher risk of receiving calls from police, fire or by-law. Strengthening this program communicates that housing is one of Council's top priorities this term.

Year One Results

The data in Document 1 details the first full cycle of the VUT program. The full VUT cycle includes the declaration period (including billing), appeals, and audits. This is the first time in Ottawa where we have been able to measure untenable vacancy in the City. The final data for the first year shows that Ottawa's vacancy issue is worse than anticipated with vacancy levels similar to cities facing significant housing issues, such as Vancouver and Toronto. The first full cycle has also allowed staff to recognize the true scope of the problem and understand why units are vacant. The information gathered in this first year forms the basis of the recommendations in this report.

Declaration Compliance

The City received declarations from 99.1 per cent of all eligible properties at the year one deadline. Through processing of appeals, additional declarations were received increasing the declaration compliance rate to 99.6 per cent of all eligible properties.

Declaration compliance is one of the key success measures for the VUT program, as it is an indicator of the overall usability and ease of access to the program for our residents. Declaration data is the cornerstone of the entire program, allowing the City to bill vacant units accurately and analyze changes in occupancy status year over year. A high compliance rate reduces the volume of deemed vacant properties, which in turn reduces the administrative burden through the processing of late declarations and appeals.

While Vancouver, Toronto, and the federal government each have an annual declaration program, Ottawa is the only program in Canada which did not require an extension of the final due date to achieve such a high compliance rate because the majority of residents responded well to the program. Furthermore, Ottawa's first year compliance rate was 99 per cent; higher than Toronto (95 per cent) and Vancouver (98 per cent). The high compliance rate indicates that communication efforts were effective in letting residents know about the program.

First Year Review

Although residents are still growing accustomed to the new program, the vast majority participated in the declaration process and a high compliance rate was achieved in the first year of the program.

As anticipated by staff, one issue was a high number of appeals, associated with a new program of this nature. Ottawa received 3,357 appeals in the first year, reflecting 55 per cent of properties charged VUT or one per cent of all properties included in the program. By comparison, Toronto received over 28,000 appeals in the first year, reflecting 59 per cent of properties charged VUT or three per cent of all properties in the Toronto program.

60 per cent of appeals received in 2023 were due to deemed vacancies or properties purchased in the reference year but failed to claim the property sold exemption. The design of the declaration form was improved for the second declaration year (2024) to address this issue. Preliminary results for the 2024 VUT cycle have shown a 64 per cent reduction in the number of appeals. Overall, the number of appeals is expected to

continue to decrease in future years as the program becomes more established and resident awareness increases.

The VUT program also brought some significant and unexpected benefits for the City. Revenue Services saw a nearly 400 per cent increase in registration to the My ServiceOttawa online property tax portal and paperless tax billing during the declaration period, enabling residents to access a variety of online services and simplify the declaration process in future years. The City's central resident portal now has a greater audience, ready and able to access other City services available online.

2022 Vacancy Rate

Data collection after the first full cycle of the program marks an important milestone for the City, as it has provided the first opportunity to accurately measure the vacancy rate in Ottawa. The data shows that Ottawa's vacancy problem is at 1.1 per cent - much larger than anticipated. Previously, the City and statisticians relied on estimates, anecdotes, speculative assumptions or other less-definitive or scientific tools to make predictions around vacancy. An annual declaration now ensures we have strong data to make fact-based decisions rather than decisions based on perceptions or assumptions. During consultations with stakeholders, while developing this program in 2022, staff heard that Ottawa's vacancy problem would not be as severe as Toronto or Vancouver. Many of the reasons provided were anecdotal and not based on data. The results from the first year, with accompanying data, show that Ottawa is certainly not immune to vacancy problems. Table 1 below provides a comparison of first year vacancy rates between Ottawa, Toronto and Vancouver.

Table 1 - Year One Vacancy Rate Comparison

Municipality	Ottawa	Vancouver	Toronto
Vacancy Rate	1.1%	1.17%	1.25%

Vancouver's Empty Homes Tax program was implemented in response to immense pressure to deal with housing issues in Vancouver, as housing affordability and vacancy problem was seen as one of the worst in the country. In 2017, the first year of Vancouver's program, staff reported 2,538 vacant properties. Vancouver has introduced many measures to help curb speculative behaviour and to deal with affordability and vacancy issues. These measures include Vancouver's Empty Homes Tax, British Columbia's Speculation and Vacancy Tax, the Federal Underused Home Tax, the

Federal foreign-buyer ban, and the property transfer tax of 20 per cent on foreign entities.

By comparison, in Ottawa's first year of reporting, there were 3,672 properties vacant - 1,134 more properties than Vancouver. When compared proportionally, Ottawa's vacancy rate was comparable to Vancouver, 1.1 per cent and 1.17 per cent respectively, indicating Ottawa is not immune to the vacancy issue and will benefit from the resulting impact of the VUT program.

Revenue and Program Costs

Revenue Sources

The city has generated \$12.6 million in net revenue from the first year of the VUT program. The City has generated more revenue than estimated in staff's 2022 report due to the higher than anticipated vacancy rate. Revenue generated by the VUT supports the City's affordable housing initiatives as further detailed below.

There are three main elements to the VUT revenue cycle: declaration, appeal, and audit. Each element either contributes to revenue (declarations, audits) or reverses revenue (appeals).

Table 2 - Year One VUT Revenue Summary

Revenue Source	Amount (\$ millions)
Declaration revenue (net of appeals)	\$10.8
Audit revenue	\$1.8
Total revenue	\$12.6

VUT Revenue from Audits

The audit phase is a critical component of the program in which City staff undertake comprehensive reviews of select declarations submitted by property owners, validating the accuracy of the occupancy status, in compliance with the VUT by-law.

The audit program has been successful in identifying vacant units that were not declared as vacant through the declaration process, yielding \$1.8 million in additional revenue.

The audit plan leveraged fair and equitable testing principles, including independence, representative samples, a risk-based approach and random sampling. Approximately 6,500 properties were selected for an audit, in which property owners were notified and required to provide documentation supporting the declaration submitted for the 2022 occupancy year.

In the first audit year, two dedicated City auditors performed all VUT audits. In addition to the self-serve options available to residents for completing any necessary VUT actions, additional resources were provided to support residents who wished to discuss the details of their audit in-person or over the phone. These resources fulfilled customer servicing requirements and ensured all necessary documentation was received and filed to complete audit functions.

Staff recommend continuing to invest in the audit component of the VUT which is crucial to continue to boost program compliance and deliver a fair VUT program for residents. Auditing and charging property owners who may have misrepresented their declaration ensures equity, provides assurance to those who have declared truthfully, and it discourages inaccurate declarations moving forward.

Additional resources will allow the audit program to expand in line with the support residents need, and meet program requirements. Each additional audit resource is expected to generate an estimated \$300,000 in additional revenue.

By comparison, [Vancouver](#) has thirteen budgeted auditor positions, who, through their audit work, collectively generate over ten per cent of their Empty Home Tax revenue. Vancouver has less properties than Ottawa, with approximately 198,000 residential properties included in their program (15,000 properties per auditor), compared to Ottawa's 328,000 residential units eligible for VUT (110,000 properties per auditor). Staff will request two additional resources through the annual budget process. Two additional staff would bring the audit compliment to five.

Costs and Net Proceeds

Upon approval by City Council in 2022, staff began developing all necessary program components required to implement and operate the VUT program. Total expenses incurred in 2022 and 2023 were \$2.28 million, lower than the estimated \$2.5 million presented in the 2022 report to Council.

Program costs consist of staffing, implementation and maintenance of technical solutions, printing, postage and communication costs. A full breakdown of the program

costs are provided below in Table 3 as communicated in the June 12, 2024 [Council Inquiry response](#). Start-up costs to implement the VUT program amount to \$0.6 million and are included in the total 2022-2023 expenses listed below. Start-up costs include computer hardware and IT solution development, year 0 postage, and a portion of compensation costs incurred in year 0.

Table 3 - VUT Expenses 2022-2023 (in thousands \$)

	Year 0 (2022)	Year 1 (2023)	Total
Compensation – Staffing*	231	1,191	1,422
Postage	206	231	437
Printing and communications	4	109	113
IT solution development and maintenance	70	215	285
Computer hardware	13	3	16
Other	2	3	5
Total Expenses	526	1,752	2,278

The net proceeds from the VUT are invested into affordable housing and are a critical funding source for the Housing Long Range Financial Plan.

Table 4 - Vacant Unit Tax Net Proceeds

	Amount (\$ millions)
2023 VUT cycle revenue	\$12.6
2022 and 2023 administration costs	\$2.3
Net Proceeds	\$10.3

The \$10.3 million in VUT net proceeds were invested into affordable housing projects in 2023 and 2024. These projects include:

- 54 supportive housing units by Salus at 56 Capilano Drive in Ward 9
- 31 affordable rental units by Nepean Housing at 1 Dunbar Court in Ward 9

- Acquisition of 1245 Kilborn Place in Ward 18, for the purpose of redeveloping the site to include supportive housing and a community and social services hub
- 133 affordable rental units by Multifaith Housing Initiative who are partnering with a private developer Dream (247 affordable and 354 market units) at 665 Albert Street in LeBreton Flats in Ward 14, and
- 273 affordable rental units by Ottawa Community Housing Corporation's Rochester Heights Phase 2 project at 822 Gladstone Avenue in Ward 14.

The investment of \$10.3 million in VUT revenue is equivalent to 51 fully supported affordable housing units.

Preliminary Year Over Year Analysis

The most effective method in measuring the impact of the VUT program is to track year over year changes in occupancy status. This informs staff of the program's efficacy in returning vacant units to the market.

Although the appeal and audit phase for the 2024 VUT cycle are still under way, staff have performed some preliminary analysis on the year over year impacts of the VUT program.

Table 5 - Year-Over-Year Analysis

Key Finding	Observation
1,785 properties vacant in 2022 were occupied in 2023	The VUT has successfully influenced owners to lease or occupy properties which were previously held vacant.
1,659 properties were vacant in 2022 and 2023	Property owners have accepted the financial penalty of the VUT and continue to keep properties vacant.
1,779 properties newly vacant in 2023	Annual mandatory declarations are required to capture changes in occupancy. With periodic or targeted declarations these new vacant properties would not be identified.
64% less appeals received in Year 2	Enhancements to the City's declaration form and My ServiceOttawa have resulted in a significant

Key Finding	Observation
	<p>reduction in user error when completing the online form.</p> <p>Program awareness and enhanced communication has led to less properties being deemed vacant.</p>

Staff will continue to assess the year over year impacts of the VUT program. The current 2024 cycle data will continue to change as property owners complete appeals and late declarations. Updated year over year analyses will be provided through the annual VUT report posted on Ottawa.ca in the fall of each year.

Annual Mandatory Declarations

Council asked staff to review the requirement for every residential property to declare occupancy status annually. Staff reviewed several options, including voluntary, periodic, and event-based declaration models. Staff recommend maintaining the annual declaration model based on staff's findings detailed below.

Finding 1 - Continued Public Awareness is a key success factor for VUT

Any reduced emphasis on the annual declaration, such as a periodical declaration process or event-triggered declaration, would significantly impact public awareness of the program.

A periodical declaration model requires a less frequent declaration, for example, once every three to five years. An event-based declaration model is similar but would require a declaration to be submitted only under certain conditions, such as an ownership or occupancy change or a major alteration to the property.

The periodic declaration model would result in a re-learning curve resulting in a high rate of deemed vacancies and late fees, which trigger negative sentiment toward the program. Communication efforts and additional support for a higher number of calls and inquiries under a periodic declaration would have to be intensified each time, leading to higher program costs. Significant time, effort, and communication have already been invested in informing and educating the public of the new requirements thereby reducing future awareness costs to maintain the program. Negative sentiment is waning with higher public awareness of the program. The City of Ottawa has successfully achieved very high compliance rates on the annual declaration.

Recent examples of the impacts of loss of public awareness also informed the staff recommendation to maintain the annual declaration. The City of Toronto took a start/stop approach to communicating its vacancy tax declaration requirement in the second year of its program. As a result, residents were not reminded of the need to declare and over 60,000 properties were deemed vacant and charged the VUT. The number of appeals, complaints to Council and general negativity around the program put Toronto's program at extreme risk of collapse. This example highlights how quickly public awareness can disappear without consistent communication and reinforcement. Public awareness is a crucial success factor of the program, as awareness leads to the desired outcomes. The VUT program is designed to encourage owners to keep their properties occupied. During the housing crisis, it is a consistent annual reminder that homes should not be left vacant and renovations should be completed promptly.

Finding 2 - Financial Risk

Alternative declaration models would generate significantly less revenue because they would capture and tax far fewer vacant units.

Alternative declaration models, such as the voluntary declaration model, require owners of vacant properties to self-declare in good faith and be taxed when they meet the criteria for a vacant unit defined by the City. The complaints-based approach would rely on residents informing the City of vacant properties, which staff would inspect and investigate to determine if the tax would apply. Staff assessed both these models in the Residential Vacant Unit Tax report([ACS2021-FSD-REV-0004](#)), presented to the Council on June 9, 2021. The report determined that based on data received from resident complaints to by-law services, the City would only capture around 300-500 vacant units and incur similar program costs.

Melbourne, Australia, is the most notable municipality to use the voluntary declaration model. Their 2023 report indicates that a large proportion of owners are not self-reporting. Melbourne estimates true vacancies of over 24,000 properties or 1.3 percent, yet only 900 properties have paid the tax. The program is reliant on costly enforcement and tip lines. Melbourne is considering shifting to a mandatory declaration model due to the lack of effectiveness of a voluntary model.

Staff analysis indicates that alternative declaration models are not financially viable. They would result in a revenue reduction of up to 80 per cent while requiring comparable administrative costs. The reduced revenues would barely cover the program administration costs and provide insignificant contributions to housing initiatives.

Finding 3 - Significant year-over-year occupancy changes

Staff's analysis of year-over-year declaration data in Table 5 above shows significant changes in occupancy status in year two. Of the 3,762 properties charged the tax in the program's first year, 1,785 properties returned to the market and are no longer vacant in year two, and 1,779 newly vacant properties previously occupied in year one became vacant in the program's second year. This significant change in the properties that were vacant supports the need for continued annual declarations to ensure all vacancies are captured. Periodic declarations, for example, would only tax the properties that happened to be vacant in the declaration year, and properties vacant in non-declaration years would escape untaxed. Annual declarations ensure accurate and consistent taxation of vacant units and promote fairness. All vacant units would continue to be taxed, not just those singled out by timing or fate.

The annual declaration model is the most effective tool to ensure that every resident is reminded once a year of the Council's top priority, housing affordability, by ensuring that homes in Ottawa remain occupied. It reaches every resident and every home once a year. It is cost-effective, and it only takes a few minutes to complete.

Program Improvements Implemented in Year 2

Staff have been continuously strengthening the program and improving the experience for residents. Following staff's findings and Council direction, the lessons learned from the first year were implemented for the second year of declarations. These improvements resulted in lower wait times for residents, higher declaration compliance, improved communication, and improved declaration accuracy.

- Client Service Centre counters were equipped to take VUT declarations from residents. 425 properties were declared leveraging this service.
- The declaration portal was opened on December 14, 2023 (approximately two weeks earlier than in year one) to allow more time for residents to declare.
- Staff used data received in the first year to contact residents reminding them to declare. This resulted in 98.8 per cent declaration compliance by the standard deadline in year two, compared to only 95.5 per cent of properties declaring by the standard deadline in year one. Since the late fee was waived in year one, the improved communication ensured most residents were not charged the late fee in year two.

- Enhancements to the City's declaration form and My ServiceOttawa have resulted in a significant reduction in user error when completing the online form.

Program Changes for Year 3

Staff have completed a full VUT cycle, gone through all the phases of the cycle and interacted attentively with residents and Councillors through the cycle, and are now in an informed position to provide recommendations on adjustments to strengthen the VUT program and ensure that the City continues to meet the program's objectives to return vacant unit supply to the market.

Staff recommend a number of changes to the program as outlined below.

1. Program Eligibility

The VUT uses property use codes provided by MPAC to determine which residential properties are within the scope of the VUT program. All eligible property codes are listed in Schedule "A" of By-law 2022-135 as amended.

Ottawa is unique in that it has both urban and rural communities housed in one municipality unlike many others in Ontario. In response to [Motion ACS2024-OCC-CCS-0054](#) staff explored ways to exclude century homes from the declaration process. The residential structures have been abandoned or repurposed for non-residential use and in many cases the primary purpose of the property is to run a farming operation. As a result, the abandoned century farm structures would not be considered part of the housing supply as they have been abandoned and repurposed. The former residential structure has very little, or no value and the largest component of assessed value relates to the farm class, not residential. Having completed a thorough analysis on how best to exclude such properties from the program, staff have found that all properties where these types of complaints were received or that have century farm homes were designated with the MPAC property code 211 - Farm with residence—with or without secondary structures with farm outbuildings. Staff therefore recommend the exclusion of all residential properties with this property code from the VUT program.

In addition, staff heard from residential property owners who were not included as eligible to declare under the VUT program. Having documented these instances, inspected the properties and in consultation with MPAC, staff recommend the inclusion of four additional property codes for the 2026 VUT cycle, to accurately reflect the objectives of the VUT program. The property code changes to the VUT program proposed by staff are summarized in Table 6 below.

Table 6 - Property Code Changes

Property Code	Description	Number of properties	Program Eligibility
211	Farm with residence—with or without secondary structures with farm outbuildings	1,079	Exclude
244	Managed forest property, residence not on water	137	Include
245	Managed forest property, residence on water	7	Include
261	Land owned by a non-farmer improved with a non-farm residence with a portion being farmed	1,048	Include
262	Land owned by a farmer improved with a non-farm residence with a portion being farmed	113	Include

Property codes removed from eligibility would be effective for the 2025 VUT cycle, while newly added property codes would be effective as of the 2026 VUT cycle to allow sufficient notice, given declarations are retroactive. All impacted properties will be notified in advance, advising of the change in declaration requirement.

2. Exemptions

Staff are proposing both changes to existing exemptions and the introduction of new exemptions to provide more leniency for certain difficult situations and to account for scenarios staff could not predict prior to the launch of the program. Having heard from residents, and in consultation with staff and subject matter experts from the cities of Vancouver, Toronto and Hamilton, staff propose the following changes:

- **Rural property exemption**

If a property is classified as a residential home, this exemption could be claimed by property owners of rural residential century homes, recreational hunt camps, or structures significantly damaged and not capable of being used for housing. The structure must be on a property with at least five acres, in a rural zone, uninhabitable as determined by the City, and an appeal must have been filed with MPAC. This is a fail-safe option to ensure any property that continues to remain eligible for the program after the exclusion of properties designated with a property code of 211 (Farm with residence—with or without secondary structures with farm outbuildings) do not get charged the tax. This exemption would be effective for the 2023 VUT Cycle and beyond. Appeal submissions for previous VUT cycles will not be charged the late appeal fee.

- **Enhancing the exemption for a combined period of renovation and occupancy**

In response to small landlords requiring additional time to complete cosmetic renovations in which permits may not be required, staff recommend offering an exemption to properties undergoing renovations for which permits are not required. This exemption would apply only for such renovations taking place immediately following a unit becoming vacant, and where the property returned to being occupied within 12 months from the date in which the renovations began. This exemption can only be claimed once per property owner per unit and provides an additional year to complete renovations which are upfitting residential units, and where the unit can be demonstrated to have returned to the housing market during the VUT audit phase. This exemption would be effective for the 2025 VUT Cycle and beyond.

- **Hazardous Property exemption**

This exemption would apply to scenarios where a property has become uninhabitable due to hazardous conditions or a substantial damage from a disaster outside of the control of the property owner. The property would require major repairs that do not require a building permit. Disasters include but are not limited to earthquakes, fires, flooding, landslides, hurricanes, tornados or spills/leaks of dangerous substances. Hazardous conditions would include but not limited to a dangerous substance present in the property, structural damage or any condition relating to the health and safety of occupants. Property owners claiming this exemption would be required to provide supporting documents such as pictures, proof that the disaster or hazard was beyond their control,

summaries of the work done etc. This exemption does not apply to properties where the disaster was within the control of the owner, or a hazardous condition caused by neglect from the owner. This can only be claimed for two consecutive years. This exemption would be effective for the 2025 VUT cycle and beyond.

- **Secondary Residence for Medical Reasons exemption**

This exemption would apply where a secondary property was periodically occupied by the owner, their spouse, dependent or caregiver to receive medical treatment or assist a family member requiring medical treatment. To claim this exemption, a City of Ottawa form must be signed by a medical practitioner on an annual basis. This exemption would be effective for the 2025 VUT cycle and beyond.

3. Vacant Unit Tax Rate

Staff recommended that the tax rate for the first year of vacancy, remain at one per cent of the assessed value of the property, with an increased tax rate up to a maximum of five per cent for consecutive vacancies as further explained below.

Toronto and Vancouver have both increased the vacant unit tax rate from one to three per cent since their inception to address their cities' vacancy issues.

In recognition that the vacancy issue in Ottawa is much greater than anticipated and in line with cities like Toronto and Vancouver, staff have also studied if a tax rate hike would be applicable for Ottawa at this time. Having reviewed the preliminary year over year data shown in Table 5, staff note that around 50 per cent of the properties charged the VUT in 2023 are still vacant in 2024, indicating resistance to the measures in place. The data also shows that a little over 50 per cent of the properties charged the VUT in 2024 are new vacancies. With this in mind, staff are proposing a tax rate increase that is targeted toward chronic vacant properties.

Staff recommended that the tax rate for the first year of vacancy, remain at one per cent of the assessed value of the property. If a property continues to be vacant, there will be a tax increase of one per cent for each consecutive year of vacancy up to a maximum tax rate of five per cent of the assessed value of the property. The tax rate would reset to one per cent after one year of occupancy.

This change would be effected through by-law for the 2025 VUT cycle and beyond.

4. Late Appeals at a Fee

Staff recommend that residents be allowed to file a Late Notice of Complaint after the standard deadline at a cost recovery user fee of \$500 per property appealed, as detailed below.

The deadline for a Notice of Complaint following the issuance of a VUT charge on the final property tax bill is September 15 of the declaration year or ninety days after an audit determination letter is sent. Section 11 of the VUT by-law allows for late notices of complaints and late appeals after the deadline due to extenuating circumstances at no fee. Over the term of the first VUT cycle staff have observed that requests for late appeals are generally not due to extenuating circumstances. Appeals after the set deadline create additional manual work for staff as portal and system timelines have been closed and staff have been reallocated to the next phase of the cycle. However, staff understand that the intent of the program would not be to charge a tax to occupied homes who may have missed the deadline due to various reasons. As a result, and in response to direction provided by Councillor Kitts at the Finance and Corporate Services Committee meeting of June 4, 2024, staff recommend that residents be allowed to file a Late Notice of Complaint after the standard deadline at a cost recovery user fee of \$500 per property appealed. Late appeals will be accepted until December 31 of the year following the initial tax year in which the charge was imposed. An equivalent late appeal deadline extension of 450 days will be provided for properties charged through an audit.

This fee includes the cost of staff time required to manually receive the appeal, review the appeal, process the late appeal fee payment, investigate the appeal, communication with the client to get the relevant information for the appeal and reverse the charge and process a refund where warranted. Approximately 100 properties were denied a late appeal for the 2023 VUT cycle because they had missed the September 15, 2023, deadline to submit a Notice of Complaint.

This change would be effective retroactively to the 2023 VUT cycle and beyond. An additional one-time six-month extension will be provided for late appeals to the 2023 cycle to ensure sufficient notice and time is provided to residents due to the timing of this report and the impending December 31 deadline.

5. Administrative Changes

Staff recommend some minor administrative updates to the VUT by-law to provide clarity in administering the program. These include:

- Replace the terminology of “Reference Year” with “Occupancy Year” in the VUT by-law to align with City communications and improve accessibility.
- Update the list of acceptable supporting documents to only include documents that include a clearly identifiable address.
- For the renovation exemption, where the program administrator is required to obtain an opinion from the Chief Building Official regarding the timeliness of renovations, allow the program administrator to instead make a determination in consultation with Building Code Services staff, in order to expedite the process.

These changes would be effective for the 2025 VUT cycle and beyond.

FINANCIAL IMPLICATIONS

The VUT is a critical source of funding for the City’s Housing Long Range Financial Plan enhancing the provision of affordable housing to residents.

Staff’s recommendation to introduce a graduated VUT rate, in which the rate charged increases annually for repeat vacancies up to a maximum of five per cent of the assessed property value would have generated an estimated additional \$4.0 million in revenue in the 2024 cycle. Incremental revenues as a result of the graduated tax rate are expected to decrease over time as the intended objective of the program takes effect and property owners return vacant units to the market.

Two additional resources to support an expanded audit program to be requested through the budget process, funded by VUT revenues, which is forecasted to generate an additional \$600,000 in incremental revenue from the addition of these resources.

LEGAL IMPLICATIONS

There are no legal impediments to approving the recommendations in this report.

COMMENTS BY THE WARD COUNCILLOR(S)

This is a City-wide report.

CONSULTATION

Staff were committed to continuously strengthen the program based on feedback received from the public or as directed by Council. After a full cycle of the program, staff were able to strengthen several aspects of the VUT program. Some of the feedback and improvements include:

Feedback	Resolution
Pre-launch fears of the declaration process being too burdensome.	Design was created to be simple and quick. Concerns subsided once residents realized form was easy.
Difficulty inputting access code due to hard to read characters.	Problematic characters were removed from access codes in 2024.
Long wait times in January for phone declarations.	Opened the portal in December to extend the declaration window and improve customer service.
Some residents were frustrated by being selected for random audit.	Feedback was received and leveraged to further enhance technical solutions and processes to improve the overall usability for our residents.
Rural century homes were being charged where the primary use of the property was farming and not residential housing. (This was feedback from affected residents and rural Councillors)	Removed property code 211 from eligibility and introduced a new century home exemption.
Challenges claiming or qualifying for renovation exemption.	Introducing a new hazardous property exemption and modifying existing renovation exemptions to provide additional discretion for homeowners acting within the spirit of the program.
Resident challenges of adhering to established deadlines.	Despite a high compliance rate and provisions for exceptional circumstances, we are introducing a late filing process

(This was feedback from affected residents and a direction from Council)	with a fee to ensure only vacant homes are taxed.
Secondary homes used to support medical treatments were not exempt.	In consultation with the accessibility office, a new medical exemption was created to provide some additional compassionate reasons for this program.

ACCESSIBILITY IMPACTS

The City of Ottawa is committed to providing equal treatment to people with disabilities and older adults with respect to the use and benefit of its programs and services. It is also guided by a legislated accessibility framework that includes the City's Accessibility Policy, the Accessible Formats and Communication Supports Procedure, the *Accessibility for Ontarians with Disabilities Act, 2005* and the *Integrated Accessibility Standards Regulation, O.Reg. 191/11*.

The purpose of the residential VUT is to create an environment where homeowners are incentivized to have their properties occupied, with net revenues from the program being used to directly support affordable housing initiatives. Given the City's affordable housing crisis, any initiative that supports the supply of available rental units would benefit residents with disabilities and their families.

Accessible supports have been provided to residents with disabilities for the past two declaration periods, which included staff support provided over the phone, via TTY or through Canada Video Relay Service. Additionally, in-person staff support was equally provided at all Client Service Centres across the city.

Additionally, to increase the availability of these accessible services to residents with disabilities, several improvements will be implemented for the coming tax year. These include: accessibility enhancements to the declaration form (including reordering of questions to reduce errors, and the use of radio buttons to replace drop-down menus), leveraging the City's Client Service Centres to expand in-person declaration options, and the implementation a new exemption for medical care properties. This exemption would apply where a secondary property was periodically occupied by the owner, their spouse, dependent or caregiver to receive medical treatment or assist a family member requiring medical treatment.

ECONOMIC IMPLICATIONS

While the VUT does not significantly impact Ottawa's economy, it is a positive measure to encourage homeowners to occupy their properties or make them available for rent or sale, leading to increased rental availability and a potential decrease in housing costs. An increase in housing supply and lower costs is a competitive advantage in attracting talent, post-secondary students and businesses from jurisdictions with lower supply and higher costs. It also provides Ottawa residents with increased housing options in a heated market with few vacancies, which supports business and employee retention.

RISK MANAGEMENT IMPLICATIONS

The biggest risk to the program is a lack of public awareness. The lack of public awareness will result in poor compliance and would put the program in serious jeopardy. In order to mitigate against this, an annual mandatory declaration is necessary combined with a robust communication strategy.

The annual mandatory declaration is by far the easiest way to address issues with vacant homes as residents can self-report a property's occupancy rather than the City making assumptions or attempting to enforce taxes with limited information. Administratively, the annual data provided by residents provides information needed to improve audit efforts, increase the accuracy of assessments, but maybe most importantly, ensure that staff have continued engagement and awareness with the public. Housing affordability is Council's number one priority this term and being able to remind the public annually about this issue mitigates against people forgetting about this civic priority.

In response to [Motion No.2023 - 19-09](#) to consider a reduction in the frequency of the declaration and look at other ways to streamline targeted or periodic declaration, Staff determined that changes to the frequency will add significant risk to the program. As an example, a bi-annual or other longer periodic model would undermine the public's ability to remain engaged. Understanding when they would have to declare will lead to confusion and put the program at risk. A "more-than" annual declaration would require additional costs to communicate and enforce as awareness from the public and the data the City uses to administer the program would be severely compromised.

Further, an annual declaration is not enough on its own to ensure there is no loss of public awareness. A robust communications plan is needed to support public awareness. As seen elsewhere, public awareness can erode quickly. However, an annual program, combined with a good communications plan, ensures high compliance

and high levels of awareness of housing affordability issues. Staff have been improving its communication strategies by leveraging online tools and updating contact information as necessary. As a result, the awareness of the program should remain high year over year.

RURAL IMPLICATIONS

Staff heard from residents and Councillors in rural wards who raised concerns regarding aging rural structures which are classified as residential by MPAC yet are not capable of being occupied.

The recommendations presented in this report include two program amendments which directly address this feedback and ensure aging rural structures which should not be considered part of Ottawa's housing stock are excluded from the VUT program.

TECHNOLOGY IMPLICATIONS

Information Technology Services (ITS) is working with Revenue Services to enhance the technology systems that support the VUT program. If approved by Council, ITS will endeavour to implement the changes proposed in this report for the 2025 reporting period.

If there are any additional proposed changes resulting from this report or the discussion at Finance and Corporate Services Committee or City Council, they will need to be prioritized alongside other work; this could impact which modifications are completed for the 2025 VUT reporting period.

TERM OF COUNCIL PRIORITIES

The recommendations made in this report which will strengthen the VUT program are directly aligned with the 2023-2026 Term of Council Priority to have a City that has affordable housing and is more livable for all. The VUT program incentivizes owners to keep residential units occupied, increasing the City's housing supply stock and as a result improving overall housing affordability.

SUPPORTING DOCUMENTATION

Document 1- Vacant Unit Tax - 2022 occupancy year annual report

DISPOSITION

Following the approval of this report, Revenue Services will work with the City Clerk's

Office and Legal Services to update and finalize the VUT amending or revised by-law further described in this report and place it on Council's agenda for enactment.