

July 5, 2021

Executive Committee
City of Toronto
City Hall
100 Queen Street West
Toronto, Ontario
M5H 2N2

RE: Executive Committee Agenda Items EX 25.3 and EX 25.6

Dear Executive Committee Members,

On behalf of the 62,000 REALTOR® Members of the Toronto Regional Real Estate Board (TRREB), I am writing to provide you with input regarding Executive Committee Agenda item EX 25.26, *2021 Updated Assessment of Revenue Options*, and item EX25.3, *Recommended Tax Design and Steps to Implement a Vacant Home Tax in Toronto*.

EX25.26, Updated Assessment of Revenue Options

TRREB understands and appreciates the budgetary challenges faced by the City of Toronto. With this in mind, TRREB believes that the comprehensive approach taken in the staff report, as directed by Council, is more appropriate than continuing to rely disproportionately on the Municipal Land Transfer Tax (MLTT). Housing affordability is, arguably, the most serious challenge facing Toronto, so City Council must ensure that any revenue generating initiatives should not exacerbate this situation. With this in mind, TRREB strongly opposes any increase to the MLTT, including the option to target an increase of this tax on properties priced over \$2 million, as discussed in the staff report. TRREB's rationale for our opposition is as follows.

Impact on Housing Supply and Housing Affordability

TRREB has repeatedly informed all levels of government that the cause of housing affordability challenges is an inadequate supply of housing. City Council should be doing whatever it can to increase the supply of homes to assist residents with homeownership and rental supply. With this in mind, TRREB supports City Council's recent initiatives to encourage the creation of a broader range of housing types across the City. While that is a step in the right direction, adding more cost to home purchases, regardless of what the home's price point is, would be a significant step in the wrong direction.

Any increase to the already high land transfer taxes in Toronto could discourage “move-up buyers” from listing their homes for sale, with many of these households choosing to renovate instead. This means more modest homes, by Toronto standards, will not become available for those looking for more affordable options. Council should be wary of any policy move that could interrupt households’ regular progression through the housing market over time.

To better illustrate this point, consider that a home buyer purchasing a home priced at \$2 million in Toronto pays \$36,475 in MLTT to the City, and another \$36,475 in provincial Land Transfer Tax to the province, for a total of \$72,950 in upfront taxes. These properties are already taxed at the highest land transfer tax level in the country at almost four per cent of the property’s value, for which they get no additional city services. This sum arguably equates to a fairly large renovation expenditure, which could prompt many households to renovate their existing home rather than choosing to move and make two upfront LTT payments. The end result could be further constraint on an already short supply of housing, thereby exacerbating Toronto’s housing affordability challenges.

Characteristics of Toronto Market and Home Purchasers

While it may be tempting to characterize \$2 million properties as “luxurious” and purchasers of these properties as “wealthy”, this is not an accurate characterization of Toronto’s housing market or Toronto home purchasers. City Council should note that,

- an **average** priced home in Toronto is currently over \$1,000,000, and this typically represents a modest home by Toronto standards;
- the **average** price of a detached home in Toronto in May 2021 was over \$1.7 million; and,
- with home prices increasing as a result of strong demand and constrained supply, mortgage amounts have arguably increased as well.
- Co-ownership is on the rise (e.g. duplexes previously existing as rental stock now house siblings, friends, or multi-generational families -- finding whatever way they can to own property in our City) and, often, these are properties that are priced above \$2 million, but are not being purchased by wealthy individuals, by anyone’s definition.

Market Uncertainty During Post-COVID Economic Recovery

The GTA real estate market has seen significant price growth in the last year, especially within the low-rise segment of the market. In the City of Toronto, the average detached home price was over \$1.7 million through the first five months of 2021 – up

19.6 per cent compared to the same period in 2020. Many buyers have opted for lower density options due to pandemic concerns, as well as because of greater location flexibility resulting from work-from-home arrangements. As the post-pandemic recovery moves forward, there is uncertainty with regard to how or if these trends will continue. If work-from-home arrangements become permanent, as many expect them to, it is possible that there could be some erosion of demand for housing in Toronto, and growth outside of Toronto. Any MLTT increase could exacerbate this given that Toronto is already at a competitive disadvantage as the only municipality in Ontario where home buyers must pay two land transfer taxes.

Current MLTT Already Not Sustainable

TRREB continues to disagree with this tax in principle, and strongly believes that prudent budgeting means that the City should be relying less on this revenue, not more, to guard against potential volatility in expected revenue.

With this in mind, TRREB strongly supports the following adjustments to the MLTT:

- adjustments to the first-time buyer rebate to ensure it provides the relief that was intended for first time buyers; and
- adjustments to home price thresholds at which MLTT rates apply to ensure that this tax is implemented in a progressive manner.

First-Time Buyer Rebate

When first implemented in 2008, the MLTT first-time buyer rebate was designed to ensure that it reflected the average price for residential properties in Toronto, which was then just under \$400,000. With the 2020 average price in the City of Toronto at \$986,000, the rebate's value to first-time buyers is inadequate. With this in mind, we applaud recent initiatives by Councillor Grimes and Councillor Bradford for once again bringing this issue forward so that City Council's intentions for true relief from the MLTT for first-time buyers can be provided.

Purchasing Power of MLTT First-Time Buyer Rebate: 2008 vs. 2020

The average price of a residential property in the City of Toronto at the start of 2008, when the MLTT, was first implemented was \$415,000, and the MLTT first-time buyer rebate was allowed up to a maximum of a \$400,000 home, meaning that first-time buyers were almost completely exempt from paying any MLTT, as was City Council's intention.

The average price of a City of Toronto residential property in 2020 was \$986,000, but the MLTT first-time buyer rebate is still only allowed to a maximum of a \$400,000 property. This means that a first-time buyer purchasing an average-priced property, today, would pay \$11,720 in MLTT, on top of about \$12,195 of provincial Land Transfer Tax (PLTT), for a total under \$24,000

in land transfer taxes, which must be paid up-front on closing of the real estate transaction.

Clearly, City Council's intention of providing relief for first-time home buyers, up to the average priced property, is no longer being met.

MLTT Rate Thresholds

To add insult to injury, not only are first-time buyers not being given the relief that was intended by City Council, they are being forced to pay MLTT at the highest rates, even if they purchase a BELOW average priced home. This is because the MLTT rate structure is such that the highest rates kick in starting on homes priced at only \$400,000, which is 59% BELOW the 2020 Toronto average price of \$986,000. The City is essentially forcing people purchasing BELOW average priced properties to pay the highest MLTT rates. This is simply not progressive nor fair.

Given the above concerns, TRREB strongly opposes any MLTT increase, including one targeted at home buyers of properties priced over \$2 million.

EX25.3, Recommended Tax Design and Steps to Implement a Vacant Home Tax

TRREB has worked closely with City staff in recent months and years as work on a Vacant Home Tax has proceeded. We appreciated the opportunity for input and we are encouraged that the recommended tax design is consistent with TRREB's views, especially the need for various exemptions. TRREB is generally supportive of the list of exemptions included in the staff recommendations, and we look forward to providing further input as staff continue with the next step of public consultations.

Thank-you for this opportunity to present our views on these two important issues.

Sincerely,



Kevin Crigger
President