TORONTO

REPORT FOR ACTION

Considerations for Implementing a New Multi-Residential Property (Municipal Reduction) Tax Subclass

Date: July 2, 2024
To: Executive Committee
From: Chief Financial Officer and Treasurer
Wards: All

SUMMARY

As part of the 2024 Ontario Budget, the Provincial government announced that municipalities now have the ability to offer an optional reduced municipal property tax rate specifically for new multi-residential developments, whose units have been built or converted from a non-residential use. This measure mainly intends to support the development of much needed purpose-built rental housing and is aligned with the City of Toronto's efforts to incentivize the creation of new purpose-built rental homes, including rent-controlled and affordable rental homes.

Ontario Regulation 140/24 was filed to create an optional New Multi-Residential Property (Municipal Reduction) Subclass. Should a subclass be introduced, it would not apply to existing new multi-residential class properties, those currently under construction, or those with pre-existing permits. Rather, future purpose-built properties could be offered a property tax discount of up to 35% of the municipal portion of the existing New Multi-Residential Property Class rate. In the City of Toronto, that rate is currently the same as the residential property tax rate.

At its meeting on April 9, 2024, while considering Item "EX13.17 – Tax Fairness for New, Purpose-Built Rental, the Executive Committee requested the Chief Financial Officer and Treasurer report back on legislative changes related to property taxes levied on multi-residential properties, with the objective of fair taxation across multi-residential typologies. This report provides information related to the newly proposed optional New Multi-Residential Property Subclass and the requirements for the City to adopt a subclass. Any potential recommendations to introduce a subclass will be brought forward for Council's consideration during the 2025 budget process in the annual Property Tax Related Matters report.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. The Executive Committee receive this report for information.

FINANCIAL IMPACT

The Province's introduction of this optional subclass does not result in any immediate financial impacts to the City of Toronto. The Ontario Regulation 140/24 only applies to new developments and therefore all existing multi-residential properties would not be eligible for inclusion in a potential new Subclass.

If a new subclass were to be introduced and eligible multi-residential properties developed, future year operating budgets would be impacted as new properties are added to the City's assessment roll. It is estimated that estimated revenue generated from annual assessment growth could be reduced by an average of $0.9 million to $2.2 million annually, subject to the level of development activity and the tax rate reduction percentage applied to a new subclass, as detailed in Table 1 below:

Table 1: Municipal Tax Rate Reduction Impacts - Scenarios

Average Annual Current Value Assessment (CVA) Increase	Current Municipal Tax Rate for New Multi-Residential Property	Average Annual Increase in the Municipal Levy	Municipal Tax Rate Reduction % Scenarios	Potential Reduction in Annual Municipal Tax Levy*
$1,117,210,751	0.562289%	$6,281,953	35%	$2,198,684
			30%	$1,884,586
			25%	$1,570,488
			20%	$1,256,391
			15%	$942,293

** Should the number of new developments decrease or increase in comparison to historic trends, the annual impact would be adjusted accordingly.*

Should a subclass be introduced, once properties are included in the New Multi-Residential (Municipal Reduction) Subclass, an ongoing rate reduction would impact the property tax revenue collected from these properties. Over time, the financial impact from the rate reduction is expected to gradually increase, as new buildings are developed and added to the assessment roll.

In consideration of distributing the financial burden more equitably while supporting the development of purpose-built rental properties, City Council may direct staff to fund the rate reduction across all other property classes and subclasses. As an example, to accommodate the scenarios above, if a rate reduction is funded across all property classes, the impact on the residential class will range up to a 0.05% increase. For an average residential home with a CVA of $694,381, this translates to an annual increase of approximately $2.

Further analysis on the impacts of a potential subclass will be determined during the 2025 budget process, as part of the annual Property Tax Rates and Related Matters report.

DECISION HISTORY

At its April 9, 2024 meeting, the Executive Committee, in considering Item "EX13.17 – Tax Fairness for New, Purpose-Built Rental, requested the Chief Financial Officer and Treasurer to report to Executive Committee on legislative changes related to property taxes levied on multi-residential properties, with the objective of fair taxation across multi-residential typologies.

COMMENTS

As part of the 2024 Ontario Budget, the Provincial government announced its commitment to support the development of purpose-built rental housing. Municipalities in Ontario now have the ability to offer a reduced municipal property tax rate specifically for new multi-residential rental developments. This initiative is part of a broader provincial strategy aimed at increasing the availability of rental housing and enhancing affordability for residents.

City Council has recognized the need to take concrete action to support the development of a range of rental homes. The City has taken a number of measures towards this goal including launching the new Rental Housing Supply Program that provides a framework for providing financial support to rent-geared-to-income (RGI), affordable rental and rent-controlled homes. The New Multi-Residential (Municipal Reduction) Subclass, if adopted, will complement the City's existing measures and will further contribute to improving housing affordability for Toronto residents.

Consistent with provincial regulations, the City of Toronto currently has two property tax classes pertaining to multi-residential properties:

1. Multi-Residential
2. New Multi-Residential

Both existing classes pertain to land used for residential purposes that have seven or more self-contained units including bachelorette apartments, row housing (with the complex under single ownership), low-rise and high-rise apartment buildings. In the City of Toronto, the New Multi-Residential Property Class was introduced in 1998. The existing New Multi-Residential Class effectively provides a reduced tax rate, which is equal to the residential rate, for a period of 35 years following construction. Once a property has been included in the New Multi-Residential tax class for 35 taxation years, land ceases to be in that class and is included in the Multi-Residential Class going forward. For further clarification, condominiums are considered as part of the Residential property Class.

The New Multi-Residential (Municipal Reduction) Subclass would specifically apply to properties within the New Multi-Residential Property Class, whether newly constructed or converted from non-residential use. Municipalities now have the authority to introduce a municipal tax rate reduction of up to 35% through the enactment of a by-law. The Province has not proposed any matching reductions and the existing education rate for New Multi-Residential properties will continue to apply.

To qualify for the new subclass, the following criteria must be met:

1. The City of Toronto must have a by-law in effect to apply the subclass;
2. The property must be included in the New Multi-Residential Property Class; and
3. The property's first building permit must have been issued after the by-law's implementation.

Considering these criteria, the new subclass would not apply to existing new multi-residential class properties or those currently under construction or with pre-existing permits. The responsibility for identifying properties that meet the criteria lies with the Municipal Property Assessment Corporation (MPAC).

Current and Historical Trends

In 2024, there are 264 New Multi-Residential (NT) properties with a total CVA of $8.1 billion. The total municipal tax levy for these properties is approximately $46 million. Over the last five years, the number of additional New Multi-Residential properties per year varied between 15 and 29, with an average of 24 new properties. On average, these new properties contributed an additional CVA of approximately $1.1 billion annually. This represents roughly a 13% increase per year in New Multi-Residential CVA. Table 2 outlines the increase in CVA over the last 5 years.

Table 2: New Multi-Residential Property Year by Year Comparison

Taxation Year	Cumulative Total Number of New Multi-Residential Properties	Cumulative Total CVA	Number of Properties Added to the Class	Annual Total Increase in CVA
2019	144	2,544,400,790	**N/A**	N/A
2020	159	3,566,379,431	**15**	1,021,978,641
2021	186	5,256,442,006	**27**	1,690,062,575

Taxation Year	Cumulative Total Number of New Multi-Residential Properties	Cumulative Total CVA	Number of Properties Added to the Class	Annual Total Increase in CVA
2022	207	6,094,520,382	**21**	838,078,376
2023	236	7,037,360,338	**29**	942,839,956
2024	264	8,130,454,545	**28**	1,093,094,207
		Average Increase per Year	**24**	**1,117,210,751**

The New Multi-Residential and Residential tax classes are currently taxed at the same municipal tax rate, which for 2024 is 0.562289%.

Assuming the average CVA increase is approximately $1.12 billion per year, the corresponding municipal tax levy from the additional New Multi-Residential CVA would be approximately $6.28 million annually.

New Multi-Residential Tax Rate Reduction Options

Should the City introduce a New Multi-Residential Property (Municipal Reduction) Subclass, rate reductions ranging up to 35% can be considered. The impact on the municipal tax levy is summarized in the Financial Impact Section in Table 1 for scenarios ranging from 15% to 35%. Based on the average historical number of developments, noted above, should the City introduce a new Subclass, it would result in an initial range of annual average financial impacts from $0.9 million to $2.2 million. As noted above, this measure will mainly support the development of much needed purpose-built rental housing and when coupled with financial support provided by the City through the new Rental Housing Supply program, will further incentivize new rent-controlled, affordable rental and RGI homes.

Currently, properties eligible for the Small Business Property Tax Subclass receive a 15% tax rate reduction from the Commercial Property Class, which applies to both the municipal and education tax rates. In considering a new Subclass for New Multi-Residential properties, it is important to consider a fair and consistent approach. Should Council decide to implement a new subclass, it is staff's recommendation that a rate reduction of 15% be applied.

Additional Considerations

- The New Multi-Residential Subclass reduction applies only to the municipal tax rate and does not apply to the education portion. The Province has not proposed a matching reduction, unlike the existing Small Business Property Tax Subclass.

- Introducing a New Multi-Residential (Municipal Reduction) Subclass would result in three distinct multi-residential classifications, each assigned its own specific tax rate primarily based on timing of the development. These varying classifications may result in different tax rates for similar properties, potentially creating financial inequity for multi-residential property owners.

- Following consultations with the Building Industry and Land Development Association (BILD) Toronto, including multiple developers and property managers, concerns were expressed regarding the maximum allowable rate reduction of 35% on the municipal rate.

    - Developers have emphasized that even the maximum reduction would be too low to impact their debt service ratio calculation (used for financial lending), making financing challenging. Both property managers and developers advocate for additional relief beyond the maximum allowable rate to encourage purpose-built rental property developments.

    - BILD Toronto has advised that they would need a full tax exemption for 20 years and a waiver of all development charges to make the projects viable for the required investment yields. The regulation and proposed parameters around the New Multi-Residential (Municipal Reduction) Subclass would not align with their needs.

    - The industry asserts that any reduction in tax would be appreciated and helpful to lessen the burden, in an effort to build more rental housing for the needs of Toronto residents.

- As was noted in Item PH13.8 Launching the Rental Housing Supply Program, staff will review the potential impacts of a new Subclass on the Rental Housing Supply Program, and how it may further support the construction of affordable purpose-built rental housing, addressing critical housing needs and fostering inclusive community growth.

- Staff have engaged with various municipalities. On May 27, 2024, York Region’s Council adopted a New Multi-Residential (Municipal Reduction) property subclass, with an initial reduction of 0% (i.e., the new subclass has the same property tax rate as the existing New Multi-Residential Property Class). Staff will then recommend any potential property tax discounts for purpose-built rental buildings as part of their 2025 Tax Policy report. Peel Region is also considering adoption.

- Any potential recommendations to introduce a subclass in the City of Toronto will be brought forward for Council’s consideration during the 2025 budget process as part of the annual Property Tax Related Matters report.

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SIGNATURE

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