Intelligence MEMOS

From: Benjamin Dachis

To: Ontario's Ministers of Finance and Municipal Affairs and Housing

CC: Association of Municipalities of Ontario; City of Toronto

Date: January 24, 2024

Re: **Unbalanced Burden: The Case Against High Property Tax Rates on Multi-Residential Buildings in Ontario**

Should a renter only be able to use half the number of municipal roads as a homeowner? What about getting police or fire protection half the times they call?

Of course not.

These are critical municipal services open to all. But renters in many of Ontario's oldest multi-residential rental buildings are paying twice as much for the same services as residents of single-family homes through the rent that building owners pass through to them. This discrepancy not only places an undue financial strain on residents living in multi-residential units, but also hampers the development of affordable housing options and the revitalization of existing housing stock. As the province reviews its property tax and assessment system, this issue should be near the top of the list of priority fixes.

More than 25 years ago, multi-residential properties were levied higher municipal property taxes that were comparable to the high costs businesses paid relative to single-family homes. This was the result of out-of-date assessments, an issue the province risks rekindling given its recent freezes on assessments. Following provincial changes, many cities created a property tax rate for new multi-residential properties equal to the rate on single-family residence.

But the older multi-residential properties were stuck with higher taxes. These higher taxes inevitably mean higher rents. Among major Ontario cities, using 2021 rates, Toronto and Hamilton stand out as having the highest relative tax rates on older buildings: 2.1 and 2.4 times those on owner-occupied buildings. These ratios are slowly declining – Toronto's was triple in 2015 – but the discrepancy remains stark.

This discrepancy hampers the development of affordable housing. Companies that own these older buildings may have less incentive to renovate. They are at a competitive disadvantage to a new building with a property tax rate of half or less. Paired with rent control limits and an onerous tribunal process for rent increases to pay for capital investment, legacy multi-residential buildings don't look like great upgrade candidates.

The reason these higher rates remain is simple. It's easier to raise taxes from people who don't vote as regularly as owner-occupiers and don't get a direct bill for their property taxes.

How much would it cost to equalize these tax burdens? About $500 million across the province. About half of that would be in the City of Toronto, which has about half of Ontario's $100 billion worth of legacy multi-residential buildings.

Cities could pay for this with a shift of tax rates to other properties. However, this disincentive for improving and retaining our rental housing stock elevates the economic problem of these unfair tax ratios beyond a municipal services and taxation discussion. It makes these unfair tax ratios a provincial problem of hindering progress towards its ambitious housing targets.

Nearly every city would face some sort of fiscal cost, so the province could reward cities that accelerate their phase-out. Ottawa, Mississauga, and cities in York Region have fully or close to equal ratios. But most other major cities have unfair ratios close to double, and a time-limited provincial funding formula to accelerate the eventual equalization is workable.

Property taxes are only one example of the higher taxes faced by multi-residential buildings. Like all residential properties, they are subject to Land Transfer Taxes (LTTs). But they face high marginal rates of 2 percent on almost the entire value of a property unlike the tiered rates for other residential properties. A million-dollar Toronto townhome pays an average municipal LTT rate of 1.6 percent. The top 2-percent municipal rate applies on any non-single-family residence with value over $400,000. With a much larger transaction value, the average LTT rate is higher. Land Transfer Taxes even at low rates are economically damaging. Multi-residential buildings that face a major transaction tax are less likely to move into the hands of companies that are willing to invest in them and improve them.

Higher taxes on multi-residential properties are not a new problem. It is an issue that has been identified in many reports, most recently in the province's Housing Affordability Task Force, which particularly called out the LTT double-taxation problem on rent-to-own models.

The current unjust and unbalanced system demands urgent reform. If more rental gets built, there will be more competition among providers. That means more savings to be passed onto renters. Indeed, current provincial law requires that a reduction in property tax above 2.5 percent be reflected in lower rents, with a letter from the municipality to tenants outlining that reduction in rents they are entitled to. In addition to the savings for existing renters, provincial funds for property tax reduction should aim at incentives for getting new rental housing built.

As urban housing demand continues to rise, it is essential to examine and address the inequities within the current property tax and assessment structure. Fiscally fair and sustainable communities where all residents pay the same amount for the same services will improve and expand our rental housing stock.

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