

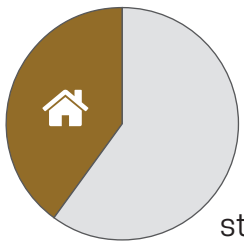
# INCREASING HOUSING SUPPLY



This is the first in a series of policy briefs by the Toronto Real Estate Board that focuses on issues that contribute to limiting the supply and variety of homes available to purchase or rent in Toronto and the Greater Toronto Area.

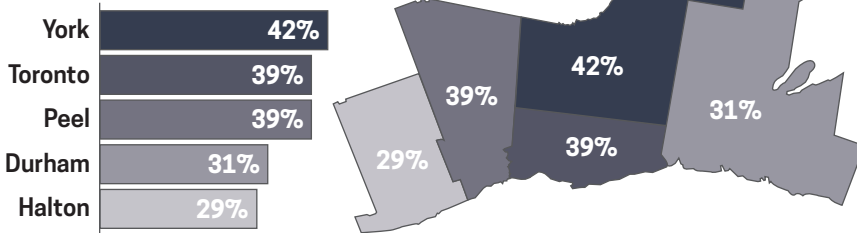
## UNLOCKING HOUSING OPTIONS

Housing issues are top of mind for Toronto and GTA municipal voters, according to a recent poll conducted by IPSOS Public Affairs.

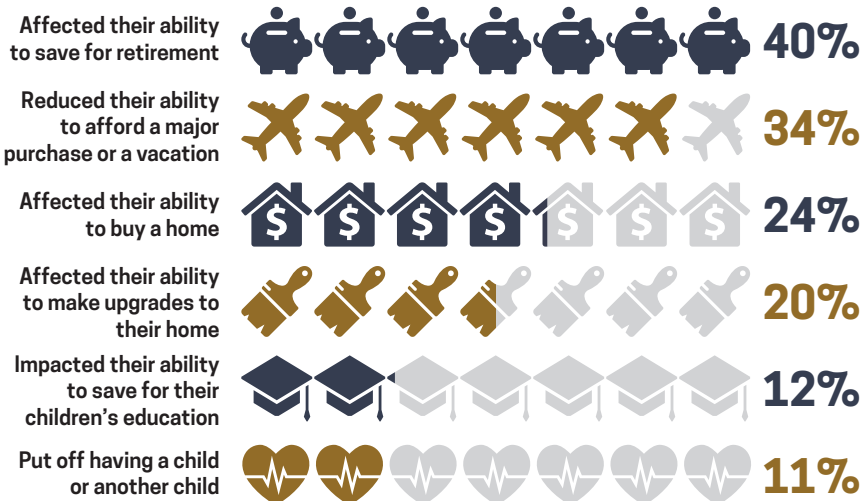


**~40%** Almost 40 per cent say the **cost of housing** is among their top three election issues, statistically tied with **crime** and **infrastructure**.

Greater Toronto Area residents **across all areas** express that the **cost of housing** is a priority to them.



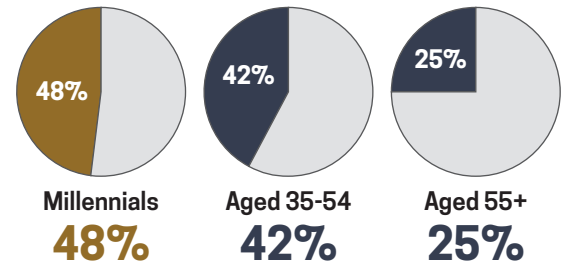
**68%** of GTA voters say the cost of housing has **impacted them directly** in some way.



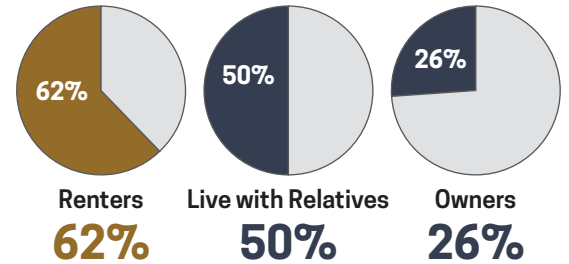
The cost of housing is an **especially important issue among certain groups** of GTA residents, including **millennials**, **renters**, and **women**.



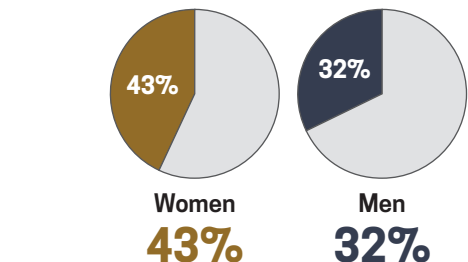
### Millennials



### Renters



### Women



# INCREASING HOUSING SUPPLY



## THE PROBLEM

TREB, and many leading housing experts, believe that a key issue facing the Toronto and GTA housing markets is an imbalance between housing demand and available housing supply and choice.

## THE REASON

Issues affecting housing supply and demand are complex. One of the key influences is municipal policies that have the unintended impact of artificially “locking-up” housing supply, despite demand.

## THE SOLUTIONS

TREB believes that four key municipal issues need to be addressed to allow for balance between housing supply and demand:

1. Land Transfer Taxes, which reduce mobility and discourage right-sizing, thereby reducing the number of homes for sale.
2. Regulatory obstacles that limit the creation of new housing supply and variety
3. Red tape and delays in building and planning approvals.
4. Inadequate infrastructure.

## LAND TRANSFER TAXES AND HOUSING SUPPLY

### *The Current Situation*

In Ontario, home purchasers are required to pay a provincial land transfer tax. In Toronto, a second land transfer tax, levied by the municipality, is also charged on top of the provincial tax. No other Ontario municipality currently has the legal authority to levy a municipal land transfer tax.

The Ontario and Toronto Land Transfer Taxes are levied as follows:

**(for properties containing at least one, and not more than two, single family residences)**

Amounts up to and including \$55,000	<b>0.5%</b>
Amounts exceeding \$55,000, up to and including \$250,000	<b>1.0%</b>
Amounts exceeding \$250,000, up to and including \$400,000	<b>1.5%</b>
Amounts exceeding \$400,000	<b>2.0%</b>
Amounts exceeding \$2,000,000	<b>2.5%</b>

Rebates of both the provincial and Toronto LTTs are available for first-time home buyers, to a maximum rebate of **\$4,000** for the provincial LTT and **\$4,475** for the Toronto LTT.

# INCREASING HOUSING SUPPLY



## LAND TRANSFER TAXES AND HOUSING SUPPLY (CONT'D)

### *LTT Impacts on Housing Supply and Choice*

One of the most significant impacts of land transfer taxes is the effect that they have on mobility. That is, because of the substantial upfront transactional cost that they represent, they influence the decisions of homeowners to move or not. This is especially true in the City of Toronto, given that the cost of the land transfer taxes is doubled by the municipal land transfer tax. Anecdotally, TREB REALTOR® Members report that it is not uncommon for homeowners to choose to stay put, once they consider the transaction costs involved with moving, of which land transfer taxes are often the biggest component. The direct impact of this is that there are less homes put on the market for sale, meaning less supply and choice for home buyers.

The C.D. Howe Institute has conducted empirical research on this effect. Their research found that:

- the Toronto LTT is directly responsible for a 16 per cent decrease in home sales, e.g., foregone sales;
- because the LTT reduces the incentive to move, the LTT has resulted in more Toronto residents choosing renovations to their current homes as opposed to relocating (specifically, the study found that total permit values per month in suburban Toronto boroughs increased by about 58 per cent in response to the Toronto LTT), meaning fewer homes available for home buyers to choose from.

## TREB RECOMMENDATIONS

TREB has long been a vocal and outspoken critic of land transfer taxes, believing that they are an unfair and inefficient government revenue tool. Nevertheless, TREB understands that eliminating these taxes, either provincially or municipally, is unlikely. As such, TREB makes the following recommendations that are intended to help mitigate the negative impacts of these taxes on housing supply and choice. As this brief is focused on issues relevant to the current municipal election campaign, the following recommendations are focused on municipal land transfer taxes.

### Recommendation #1:

#### Adjust the Toronto Municipal Land Transfer Tax rates for inflation

Currently, the highest Toronto LTT rate is levied on the portion of a home's price above \$400,000. As house prices have increased, more and more of the value of the home is being taxed at the highest rate. City Council's original intention was to only charge the highest rate on properties above the average price. In fact, when Toronto City Council approved the implementation of this tax in October 2007, they specifically passed a motion to adjust these tax rates with this intention. Under today's conditions, that would mean that the 2% rate should not be applied for any home priced under **\$831,000**. Instead, the City is charging the highest rate on people purchasing homes priced as much as **52%** below the current average priced home. As such, since 2008, the City's take from the LTT has tripled from \$3,725 to over \$11,000 on an average priced home. That represents a 200% increase.

# INCREASING HOUSING SUPPLY



## TREB RECOMMENDATIONS (CONT'D)

### Recommendation #2:

#### Adjust the Toronto Municipal Land Transfer Tax first-time home buyer rebate for inflation

When the Toronto LTT was first implemented, Toronto City Council specifically amended the proposal to increase the maximum allowed rebate for first-time buyers to \$3,725 (the amount of LTT payable on a \$400,000 home), from the originally proposed \$2,000 (the amount of LTT payable on a \$225,000 home). The \$400,000 threshold was chosen because, at the time, that was the average price of a home in Toronto. In essence, City Council decided that they did not want any first-time buyer, who was purchasing up to an average priced home, to have to pay ANY LTT. Unfortunately, this intention is not the reality for most first-time buyers in Toronto today because the maximum rebate has not kept up with inflation. With the average price of a home in Toronto currently sitting at **\$831,000**, most first-time buyers end up paying a significant balance in LTT.

- In 2008, the **Toronto** LTT paid by a first-time buyer purchasing an average priced home would have been zero. In 2018, a first-time buyer purchasing an average priced home would have to pay **\$8620** in **Toronto** LTT.

### Recommendation #3:

#### Do not move forward with any other Municipal Land Transfer Taxes

Currently, the City of Toronto is the only municipality in Ontario allowed to levy a municipal land transfer tax. Provincial legislation would be required to specifically allow other municipalities to do the same. Since the City of Toronto's implementation of a MLTT, the Association of Municipalities of Ontario and several Ontario municipalities have specifically asked the provincial government for such legislation. To date, no such legislation has been introduced. Municipal councils should acknowledge the negative impacts associated with municipal land transfer taxes and not pursue this tax any further.