

**Submission to the
Consultation on the Taxation of Vacant Lands**



Introduction

On behalf of the 8,500 members of the Canadian Home Builders' Association (CHBA), please find CHBA's submission to the proposed vacant land tax.

Following the mention of a proposed vacant land tax in Budget 2024, CHBA raised concerns with both the Minister of Finance Chrystia Freeland and the Minister of Housing, Infrastructure and Communities Sean Fraser. CHBA explained that this proposed tax is causing grave concern for our industry and is another example of cost and red tape being piled on our members due to a lack of understanding about the home construction sector. It is another example of the federal government telling other levels of government to reduce their red tape while increasing its own.

It is crucial that the actual reality of home building in Canada is considered through this consultation. Specious claims (like what was written in Budget 2024) that developers are simply sitting on land hoping to profit from rising land values should not be the starting point for a proposed new tax. Nor should it be the basis by which the federal government and the Department of Finance should look upon the home building industry – an industry which is a key stakeholder in the government's goal to get more housing supply built.

It cannot be stated strenuously enough that no one is sitting on developable land in order to “get rich” – which is the insinuation behind this proposed tax. If land is not being developed, it isn't because developers/landowners are waiting to see if land prices will go up, it is because the project does not pencil out. While developers may have the land, chances are they do not have the buyers to proceed; or development may be delayed by the myriad of other factors at the municipal level that are bogging down industry and preventing more supply. Taxing these lands will only make housing more expensive, making it more difficult to bring housing supply online.

Industry Overview

As Minister Fraser rightfully recognizes, high interest rates have severely impacted the ability to create more housing supply. [CHBA's 2024 Q3 Housing Market Index \(HMI\)](#) shows a continued decline in builder sentiment across the country with Ontario and British Columbia in particularly dire circumstances. The single-family HMI recorded a score of 27.4 (out of 100), which is down 2.5 from last quarter. The multi-family HMI is down 4 points from last quarter with a score of 28.5 (out of 100). Underlying regional trends in builder sentiment have widened. Builder sentiment remained abysmal in Ontario, reflecting effectively no builders experiencing good selling conditions. Sentiment in British Columbia soured to record lows, while the Prairies and Atlantic Canada fell from mildly positive sentiment to mildly pessimistic.

This data punctuates the need for a continued and increased multi-pronged approach to effectively help affordability challenges caused by Canada's chronic lack of housing supply, which should include monetary and macroprudential policy easing in addition to other housing policy measures at all levels of government to facilitate building the homes needed to close the supply gap. Another tax upon all the other costs and red tape the sector already deals with, in a very challenging business environment, will not yield the results of getting more supply built. It will have the opposite effect.

It is also worth noting that looking at housing start numbers to gauge the health of the industry does not tell the full story when it comes to homes for ownership. Housing starts data up to August, relative to 2023, was essentially flat, rather than declining. This is because while housing starts would normally be tumbling in lockstep with a declining builder sentiment, CHBA's HMI relates only to new construction for ownership. When housing start numbers are further analyzed, we see that while there was some growth in the number of units slated for the rental market, housing starts for homeownership were down 17% through the first nine months of the year relative to 2023 – hence the consistently downbeat results of CHBA's HMI, and the frustration of Canadians still unable to join the ranks of homeownership. Adding taxes and red tape to the system will only make matters worse.

Consultation Questions for Stakeholders

While it is CHBA's position that this tax should not go forward (either federally or in any other jurisdiction), some consultation questions need to be answered in order to provide a clearer picture as to why this tax is ill-considered. Answering the consultation questions should not be seen in any way as an endorsement of the proposed vacant land tax.

- **What are your thoughts on a vacant land tax potentially applying in your community? Do you believe it would be an effective policy to incentivize housing development? Why or why not? Do you foresee potential drawbacks or unintended consequences that should be considered?**
 - In addition to the points made above, a tax will only further hamper affordability challenges the country is facing and a tax on a sector currently facing a stagnant business environment does not incentivize construction and new housing supply.
 - Creating more red tape and eroding affordability with more taxes is the opposite of what is needed. If municipalities feel there are lands that should be developed that are not being advanced, they should be working with

those proponents to clear the way to facilitate development, not creating taxes and red tape to hinder it.

- **Are there reasons that may help explain why some vacant land is not being actively developed in your community? If you currently own land that may reasonably be considered to fall within the proposed criteria (i.e., vacant, residentially or mixed-use zoned, serviceable, and physically developable) and you are not actively developing it nor applying for permits to develop it, why is this the case?**
 - This question is indicative of the lack of understanding about the home construction sector. There are several reasons why some vacant land is not being actively developed. These reasons can include:
 - Delays in municipal processes - Slow approvals, zoning restrictions, skyrocketing development charges, NIMBYism (which cause further delays). All these items add time which adds costs. The very municipalities upset over land sitting empty are often the cause. Adding costs and red tape does not lead to quick development.
 - Labour shortages - The residential construction sector is struggling with an aging workforce, with more than 22% retiring over the next decade, and 40% aging to over the age of 55. To replace them, over 158,000 workers would need to be hired but Canada does not have the projected domestic workforce capacity to replace the workers to maintain the status quo, let alone double housing starts. Additionally, there is increased demand for renovations and energy retrofits to achieve Canada's net zero emissions targets by 2050, which draws on the same labour pool.
 - High interest rates and inability to make a business case for greenlighting a project - While only very recent times have seen a slight lowering of interest rates, fixed-rate mortgages – the most popular mortgage product in Canada – have not yet gone down enough to impactfully improve affordability and result in more sales activity. When buyers cannot qualify for a mortgage due to high interest rates and overly restrictive mortgage rules, they will not be in the market to buy a home. When sales offices are empty, builders cannot build new homes. Adding taxes will make these projects even less viable.

- **Are the proposed criteria (i.e., vacant, residentially or mixed-use zoned, serviceable, and physically developable) for lands to be included in a potential tax base suitable?**
 - **Are there particular elements to consider in the policy design of these criteria?**
 - **When should land be considered vacant?**
 - **Should surface parking lots, lots with derelict structures or underdeveloped lands be considered vacant?**
 - **What criteria should apply in determining whether land is serviceable?**
 - To answer all of the above, in addition to the industry's position that this tax is ill-conceived and will not yield the desired results of more housing supply, it should be noted that this, should it go ahead, will turn into a nationwide patchwork of definitions. Builders and developers operating in multiple jurisdictions will be faced with varying rules and regulations and will need to interpret each accordingly. This will only slow down development or result in an abandonment to develop entirely.
- **Should other criteria be considered?**
 - The only criteria that need to be considered is what is preventing developers from building. CHBA members are eager to build, and no one is getting wealthy sitting on empty land.
- **In what circumstances might it be appropriate to pause the application of a vacant land tax in respect of a particular site? For example, some may consider it appropriate to pause the application of tax once development has commenced. Are there other circumstances where the tax should be paused or otherwise relieved?**
 - This is not a tax that the federal government should be proposing, even if it is to be administered through local governments. Canada is in a housing crisis. Introducing a punitive tax based on a complete lack of understanding of the home building process will only make the housing crisis worse.

- **Are there considerations or circumstances that you feel should warrant special attention?**
 - Fees and taxes are passed on to the homebuyer. What governments think is being levelled on the development industry is ultimately paid for by the buyer. Governments need to create conditions by which barriers to homebuilding are removed, not introduce new ones.

- **What considerations should inform the tax rate that would apply to a vacant land tax base? To what extent, if any, should the tax rate vary by jurisdiction?**
 - The tax burden on new housing has significantly increased and now accounts for 31% of the purchase price of a new home in Ontario, twice that on the rest of the economy. Whatever tax rate is chosen, it will only add to the cost of the purchase price. The existing taxes and fees burden is already crippling. It is non-sensical that the federal government is asking municipalities to freeze development charges (a move in the right direction, that industry supports) yet at the same time is asking provinces and municipalities to implement another tax on building new homes.

Conclusion

The home building sector can no longer be the target of poorly thought-out policies that take away from building more supply. Furthermore, home buyers are the ones who ultimately pay for these poorly thought-out policies. In order to achieve more housing supply, the federal government needs to treat the home construction sector as a partner and help create the conditions by which the industry can build 5.8 million homes over the next decade. A proposed vacant land tax does not help accomplish that; it hinders it.

Should Finance Canada have any questions or would like to have more information, please contact Nicole Storeshaw, Director, Government Relations at nicole.storeshaw@chba.ca.