

### **Potential Municipal Land Transfer Tax Hike Could Reduce Supply and Affordability of Modest Toronto Homes**

**Toronto, ON, February 12, 2021** - The Toronto Regional Real Estate Board (TRREB) is raising concerns about the potential for City Council to increase the Municipal Land Transfer Tax (MLTT) when it meets next week to approve the City's 2021 Budget. TRREB's concerns focus on the potential for the tax increase to further constrain the supply of homes for sale in Toronto, thereby exacerbating housing supply and affordability challenges, especially for those purchasing modest homes.

"TRREB understands and appreciates the budgetary challenges faced by the City of Toronto, but addressing those challenges in a way that would make housing even less affordable is the wrong path forward. In fact, it is a step backward," said Lisa Patel, TRREB President.

TRREB's concerns stem from deliberations by the City's Budget Committee, which voted down an attempt to increase the MLTT on homes priced over \$2 million by an additional percentage point – a 40 per cent tax hike<sup>1</sup> even though inflation in Toronto was below one per cent in the Toronto CMA in 2020 and will likely approach two per cent in 2021. It is possible that this proposal will be tabled again at City Council when they meet to approve the 2021 City Budget on February 18, 2021.

"While it may be tempting to raise land transfer taxes on buyers of homes priced over \$2 million, City Council should remember two things: First, an average priced home in Toronto last year was almost \$1,000,000, and this typically represents a modest home by Toronto standards. The average price of a detached home in Toronto was almost \$1.5 million in 2020," added Patel.

"Secondly, 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 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," continued Patel.

Currently, 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.

The focus should instead be on helping first-time home buyers with the MLTT rebate which has not kept pace with inflation in the housing market. Most first-time buyers now pay a MLTT which amounts to an upfront \$25,000 on the average priced home, half of which goes to City Hall and the other half to the province.

“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 for sale. Adding more cost to home purchases, regardless of what the home’s price point is, will tighten the housing market even more by forcing more people to be stuck in place, instead of selling what could have been an affordable option for some home buyers. City Council must resist the temptation of short-term gain in tax revenue, and instead continue their proactive work on promoting the development of more missing middle housing in Toronto neighbourhoods,” said John DiMichele, TRREB CEO.

TRREB is also cautioning City Council that relying on the MLTT could be risky.

“Revenues based on land transfer taxes can be volatile, especially when increasing reliance on certain segments of the housing market. City staff has made this point to Council in the past. For example, the Ontario Fair Housing Plan and the OSFI two percentage point mortgage stress test arguably played a role in the declining share of luxury home sales in 2018 and 2019 before we saw a rebound in 2020. It is possible that changes in economic growth or changes in housing policies could impact home sales in the future and therefore revenues for the City as well,” said Jason Mercer, TRREB Chief Market Analyst.

Since the MLTT was introduced in 2008, the average home price in the City has increased by approximately 140 per cent while the MLTT collected by the City on the average priced home has increased by 340 per cent,<sup>2</sup> more than double the rate of housing price inflation in the City over that period.

TRREB is monitoring this issue closely and looks forward to helping City Council make an informed decision when dealing with the City’s Municipal Land Transfer Tax.

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<sup>1</sup> 40 per cent increase results from raising the MLTT tax rate for properties valued over \$2M+ from 2.5% to 3.5%.

<sup>2</sup> MLTT in 2008 on an average priced property (\$400,000) was \$3,725. MLTT at the end of 2020 on an average priced home (\$1M) was \$16,475 – a 340 per cent increase.