

The Effect of a Vacant Homes Tax on Housing Affordability

Speaker:

Eun Ji (Lindsay) Lee, 2025–26 Blanche and Sandy Van Ginkel Fellowship in Municipal Finance and Governance

Moderator:

Kohbod Khandan-Barani, Manager, Programs and Research, Institute on Municipal Finance and Governance

April 30, 2026

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Land Acknowledgement

We wish to acknowledge this land on which the University of Toronto operates. For thousands of years it has been the traditional lands of the Huron-Wendat, the Seneca, and most recently, the Mississaugas of the Credit. Today, this meeting place is still the home to many Indigenous people from across Turtle Island and we are grateful to have the opportunity to work on this land.



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Eun Ji (Lindsay) Lee

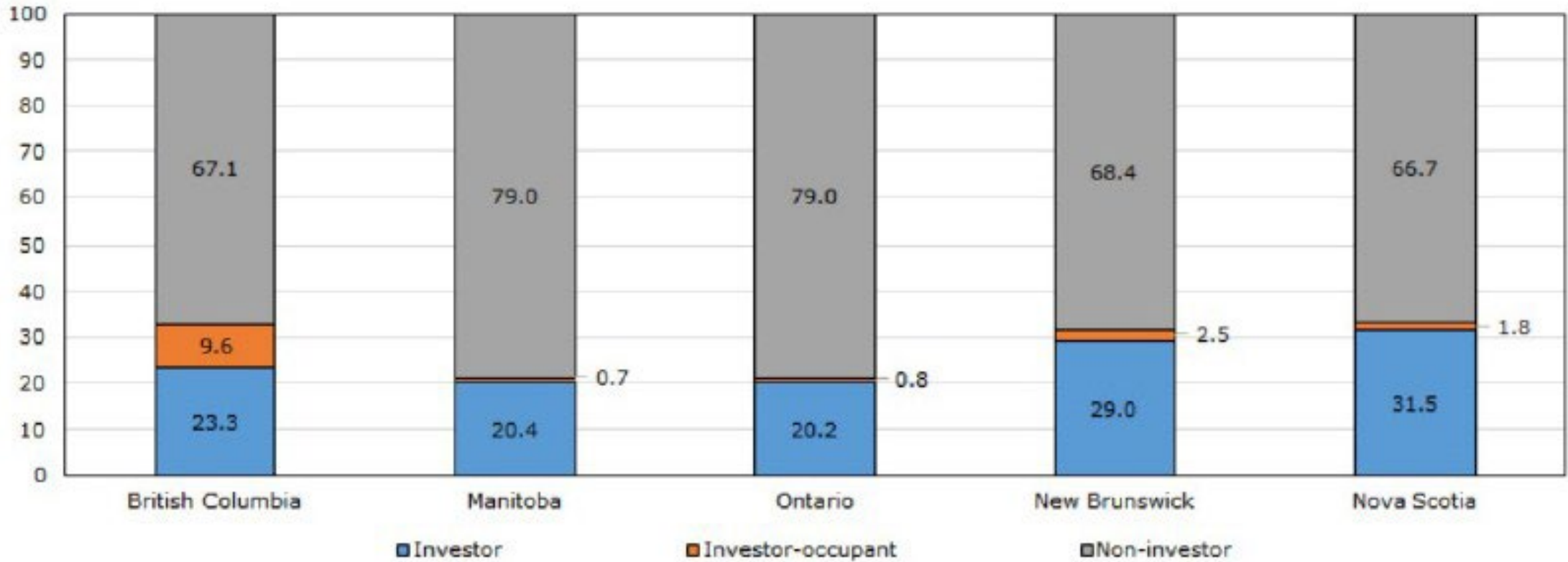


Motivation

- Housing affordability has become one of the main issues in many urban centers around the world
- From 2000 to 2022, the median family income in British Columbia has changed from \$50k to \$100K
- The median house price changed from \$400K to \$2.3M (for detached houses)
- People treat residential properties as investments.
 - ON, BC, AB, at least one in five homeowners are classified as investors

Chart 1
Distribution of owners, by investor status

percent

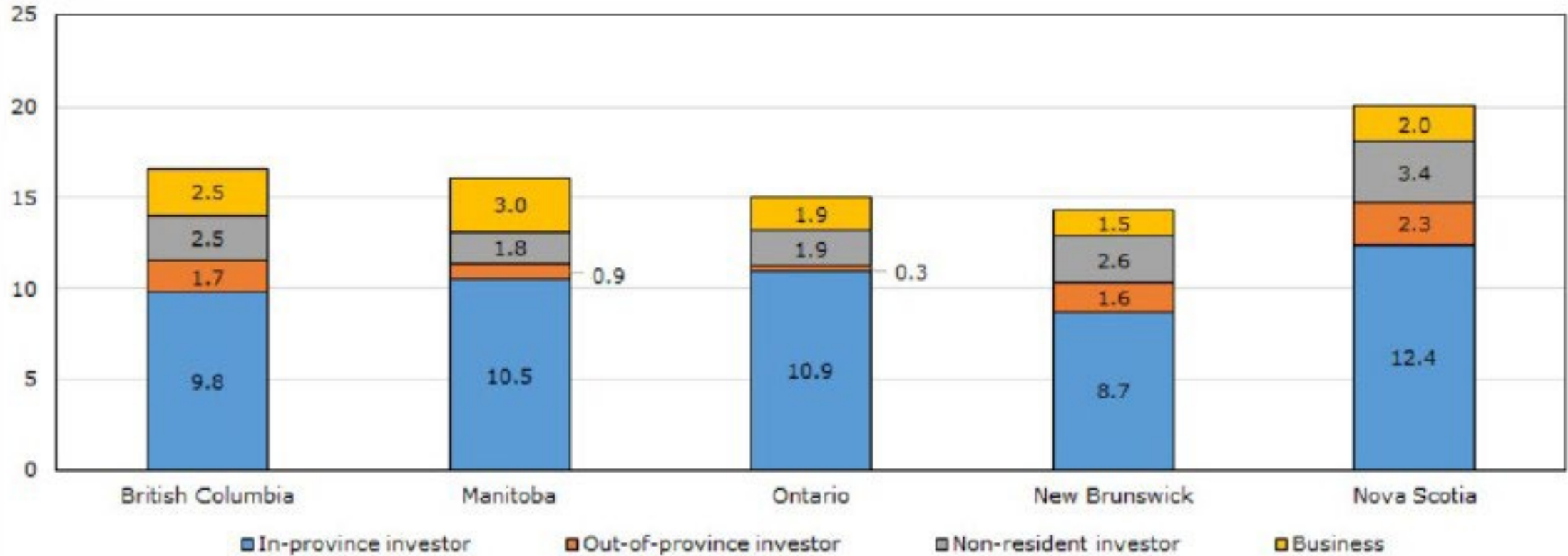


Note: This is a count of owners without reference to how many properties they own.

Source: Statistics Canada, Canadian Housing Statistics Program (CHSP) and table 46-10-0069-01.

Chart 2
Proportions of houses used as an investment, by investor type

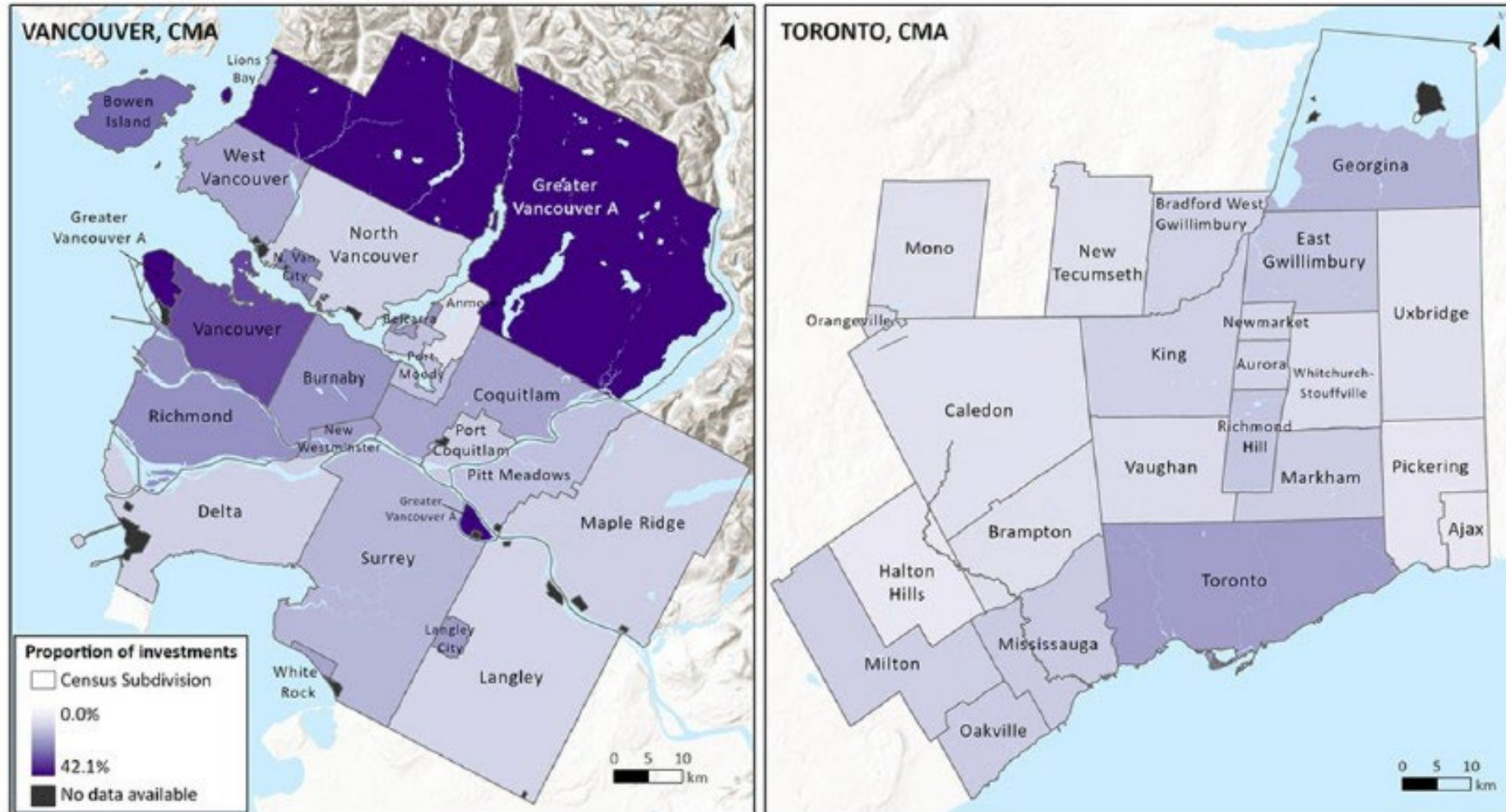
percent



Note: Properties cannot be included in more than one investment property category. See Note to readers for more details.

Source: Statistics Canada, Canadian Housing Statistics Program (CHSP).

Map 1: Proportion of houses and condominium apartments used as an investment by census subdivision, Toronto and Vancouver census metropolitan areas, 2020



Source: Statistics Canada, Canadian Housing Statistics Program (CHSP), table 46-10-0070-01.

Research Question



What is the effect of the vacant homes tax on housing affordability and foreign residential investment?

- Goal 1. Examine the effect of residential vacancy tax in Metro Vancouver Area, whether it effectively addresses housing affordability measures.
- Goal 2. Study its effect on residential investment behaviour by foreigners.

Overview of Related Policies

- In November 2016, the City of Vancouver Council approved Vacancy Tax By-Law (No.11674)
- In hopes of increasing housing supply and improve affordability
- The Empty Homes Tax is the first tax of its kind in North America
- The core objectives of the EHT are 1) to maximize the use of empty or under-utilized properties; and 2) to prevent further vacancies of additional properties

Overview of Related Policies

- Eligibility
 - All Class 1 residential properties, which are typical residential properties including single family homes and condominiums, are required to declare its occupancy status
 - A property is subject to tax if it is not a primary residence and is unoccupied for more than 6 months of the year
- Penalty
 - If the property is not declared by the due date, it is assumed to be vacant and levied the same amount of tax

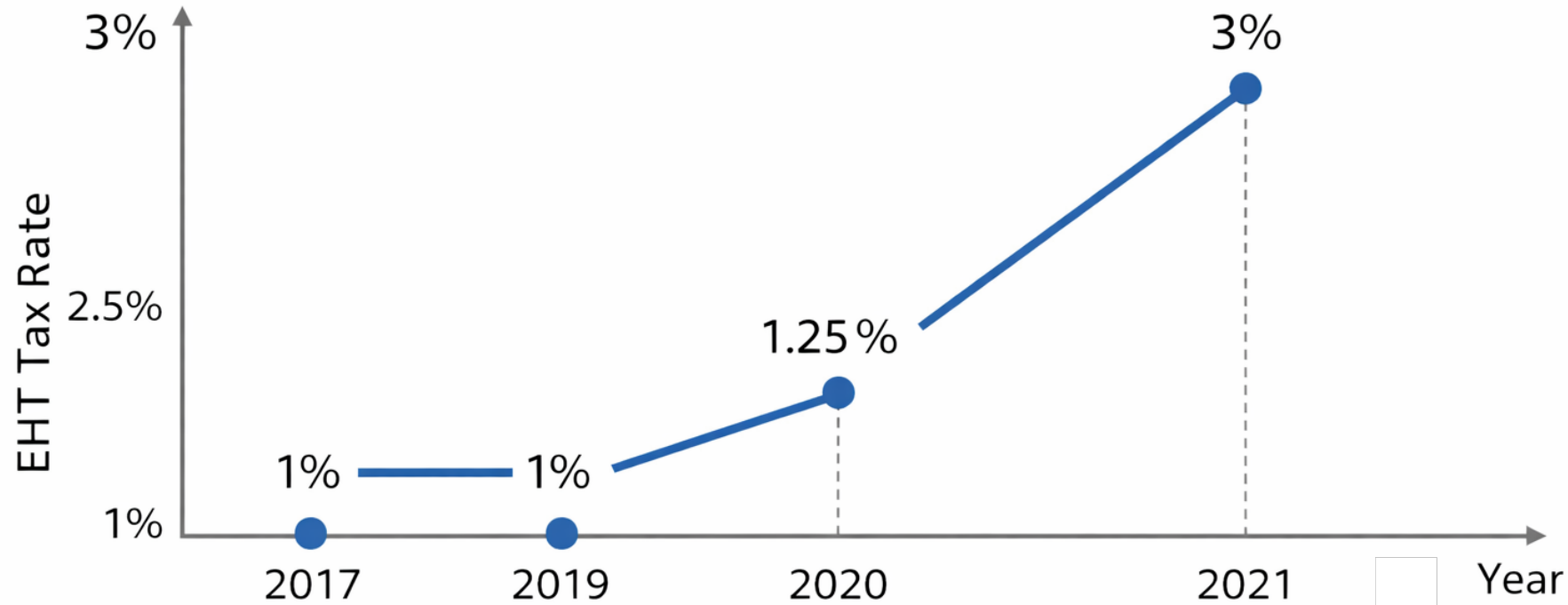
Overview of Related Policies

- Affected properties

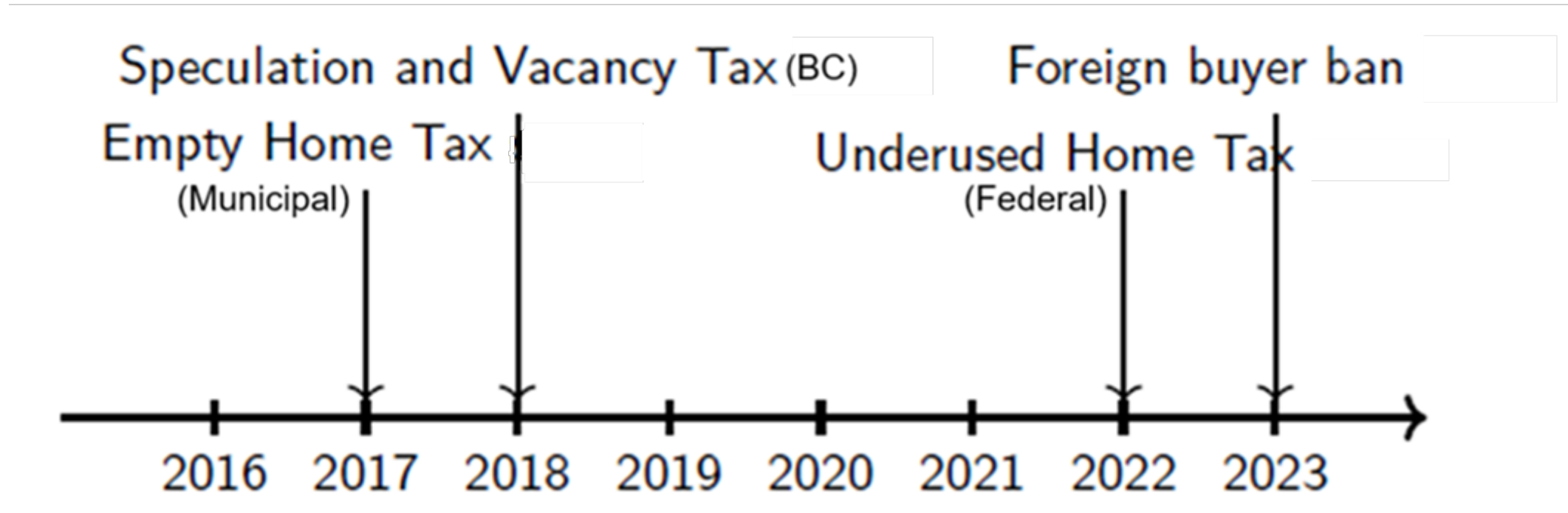
	2017	2022	% change
Principal (%)	68.6	68.0	-0.6
Tenanted (%)	25.2	29.6	+4.4
Vacant exempt (%)	2.9	1.9	-1.0
Vacant taxable (%)	1.2	0.6	-0.6
Total	186,038	198,969	

Overview of Related Policies

Tax rates



Overview of Related Policies



Literature Review

- Previous vacant housing tax studies show decrease in vacancy rate but no impact in housing affordability measures (Segu 2020; Caraccido and Miglino, 2024)
- Short term decrease in rent but increase in house price (Chen et al, 2022)
- Foreign owners more likely to get exempt (Ben-Shahar et al, 2025)
- Foreign-owner targeted intervention (foreign land transfer tax or investment restrictions) have little to no effect on house prices (Rauf and Weber 2022; Agarwal et al. 2022)
- Share of immigrant affects neighbourhood-level house price (Pavlov and Somerville, 2020)

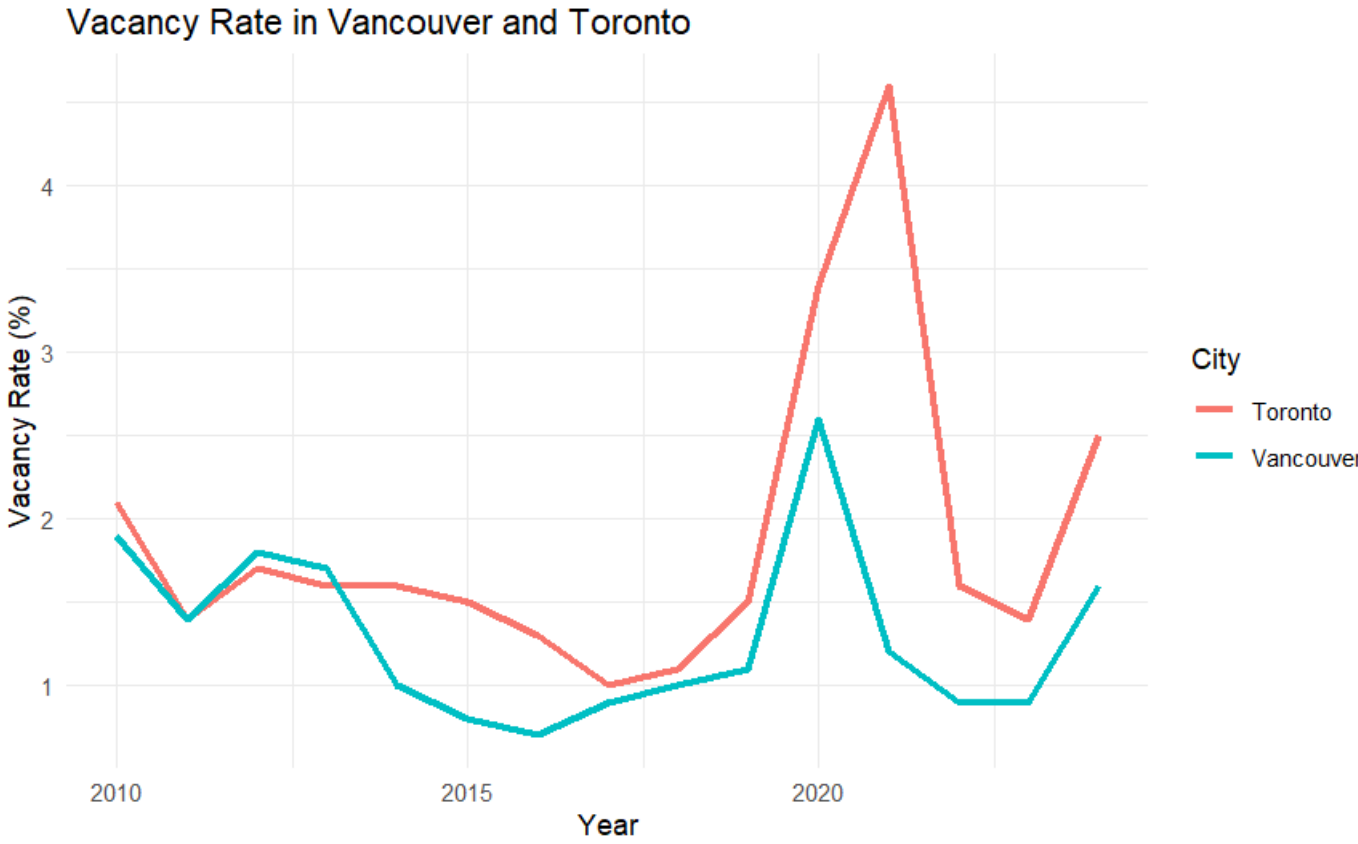
Data

- Data from Canadian Mortgage Housing Corporation (CMHC), Canadian Real Estate Association (CREA), and Statistics Canada
- Apartment and row house
- Census Metropolitan Level

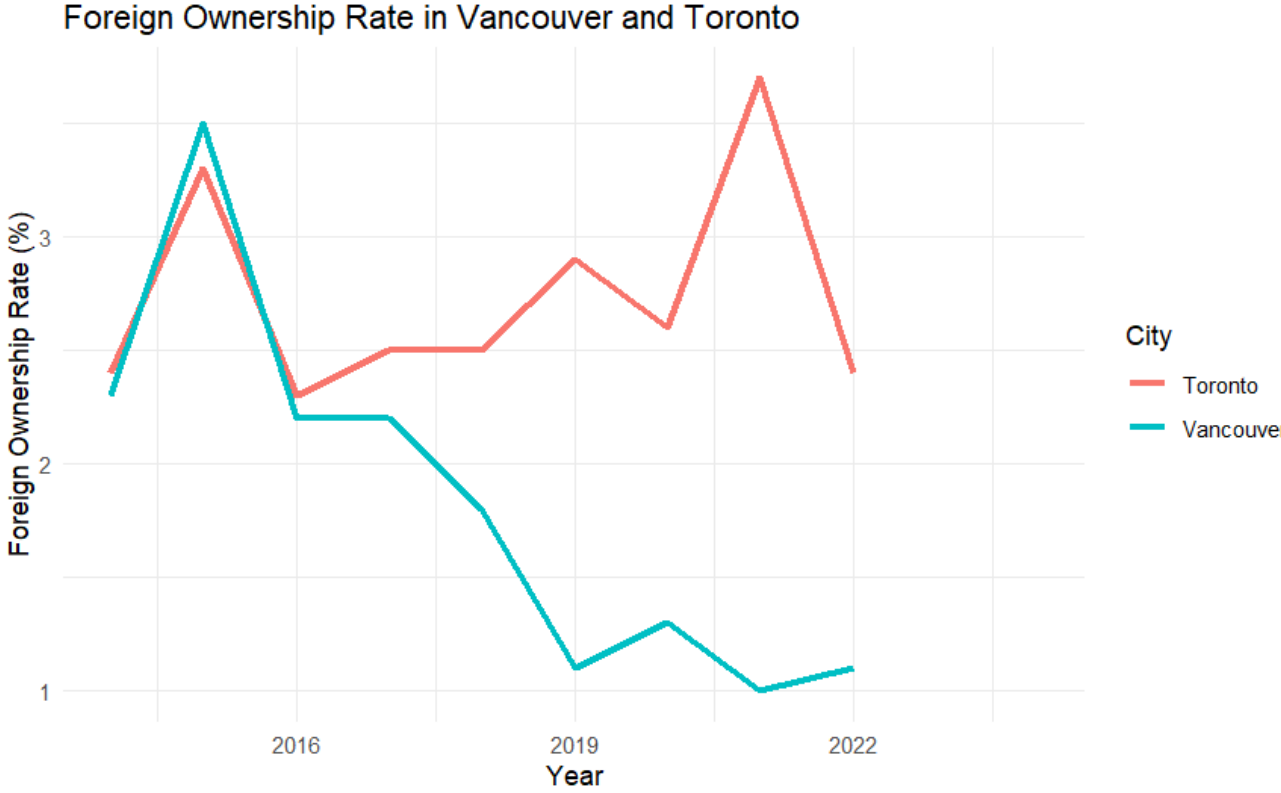
Data

Variables	Sources	Note
Vacancy rate	CMHC housing market portal	
Rent price	CMHC rental market survey, CMHC housing market portal	
Foreign ownership share	CMHC rental market survey, CMHC annual reports	
House Price Index	CREA Multiple Listing Service (MLS) Housing Price Index (HPI)	HPI adjusts for location, house and lot size, # bedrooms and bathrooms, age...
Other variables	Statistics Canada Labor Force Survey CMHC	Reginal GDP and unemployment rate # population, # immigration, # housing starts and completion

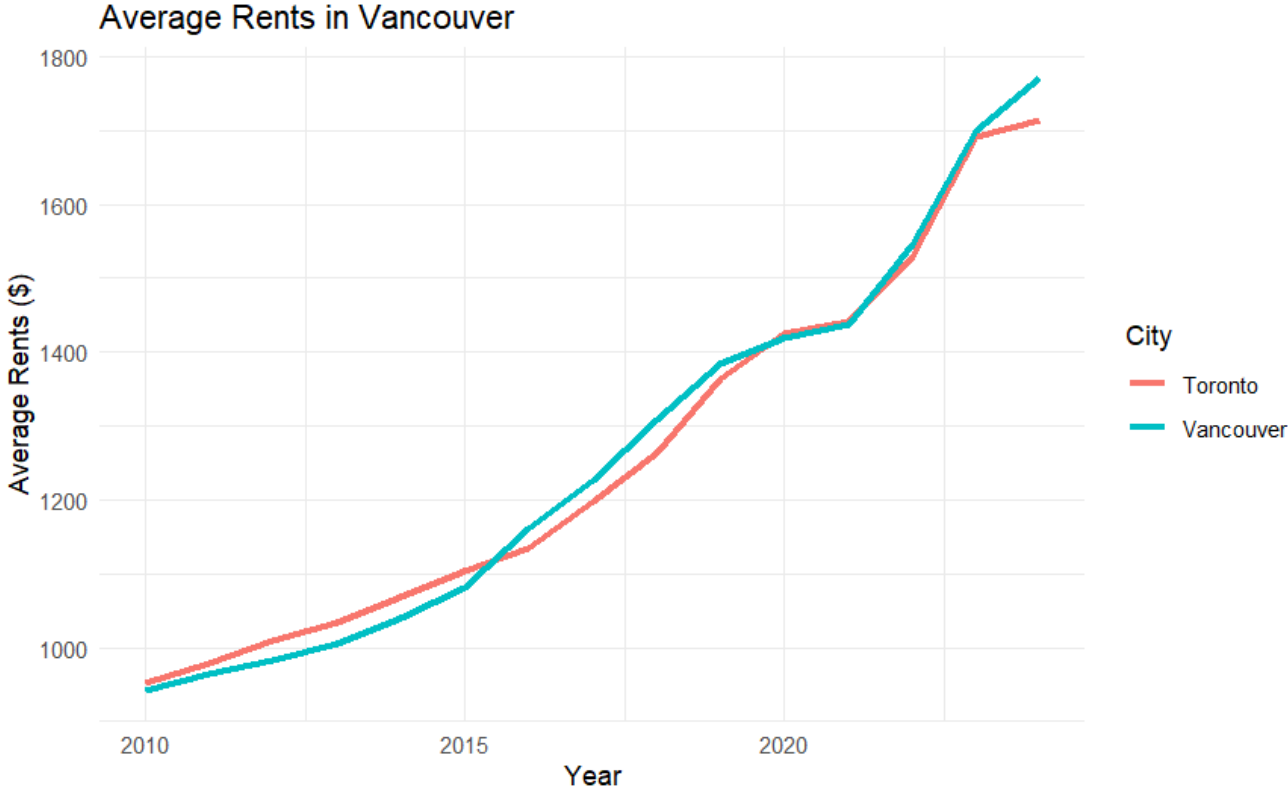
Descriptive Statistics



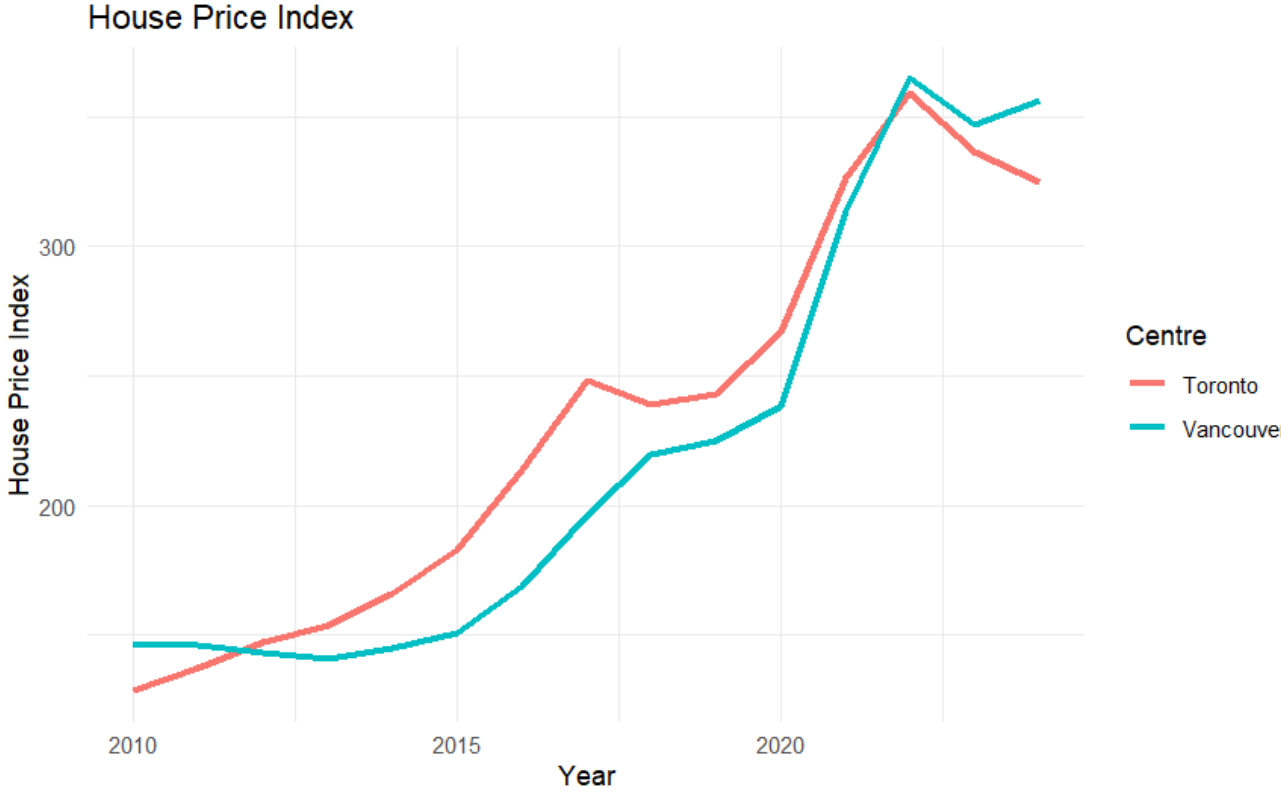
Descriptive Statistics



Descriptive Statistics



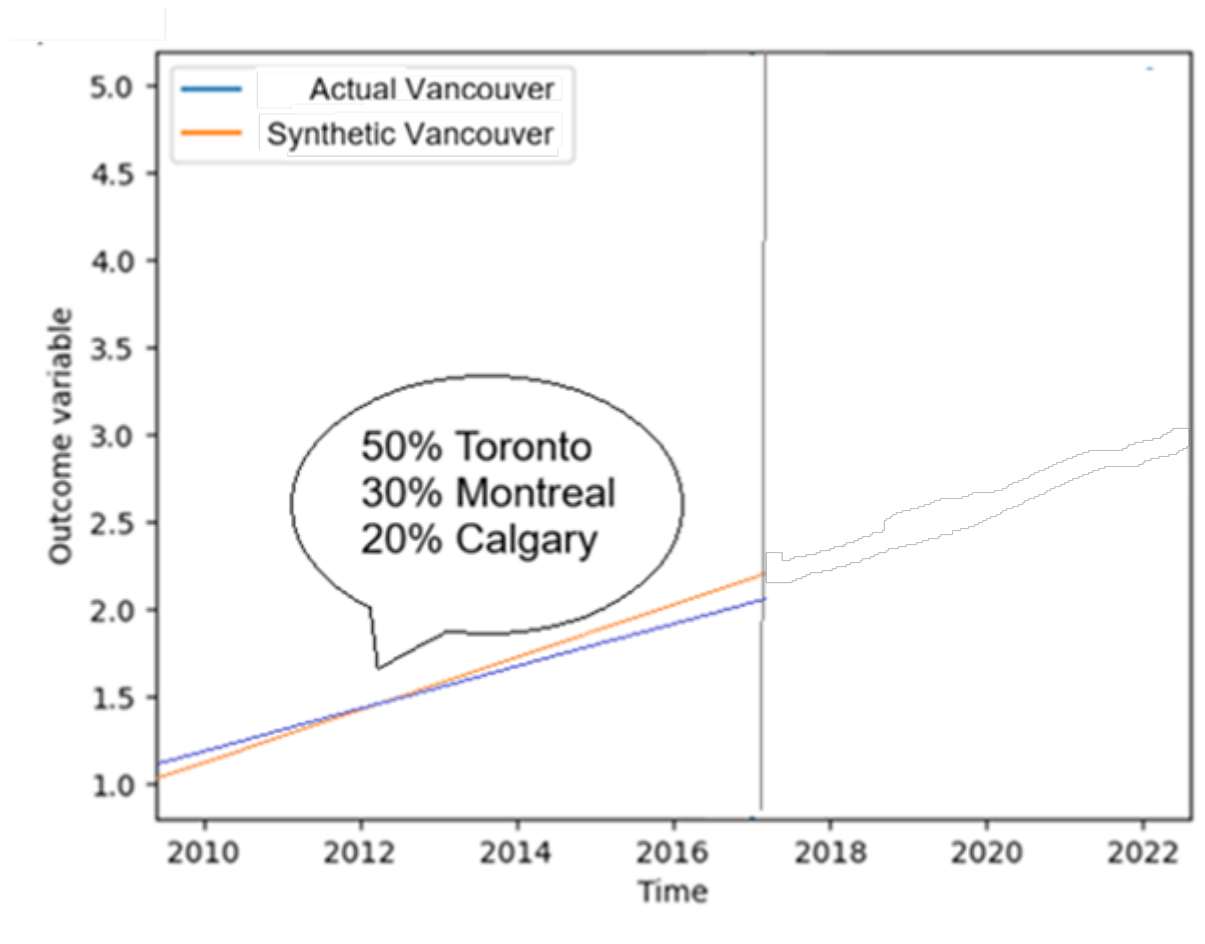
Descriptive Statistics



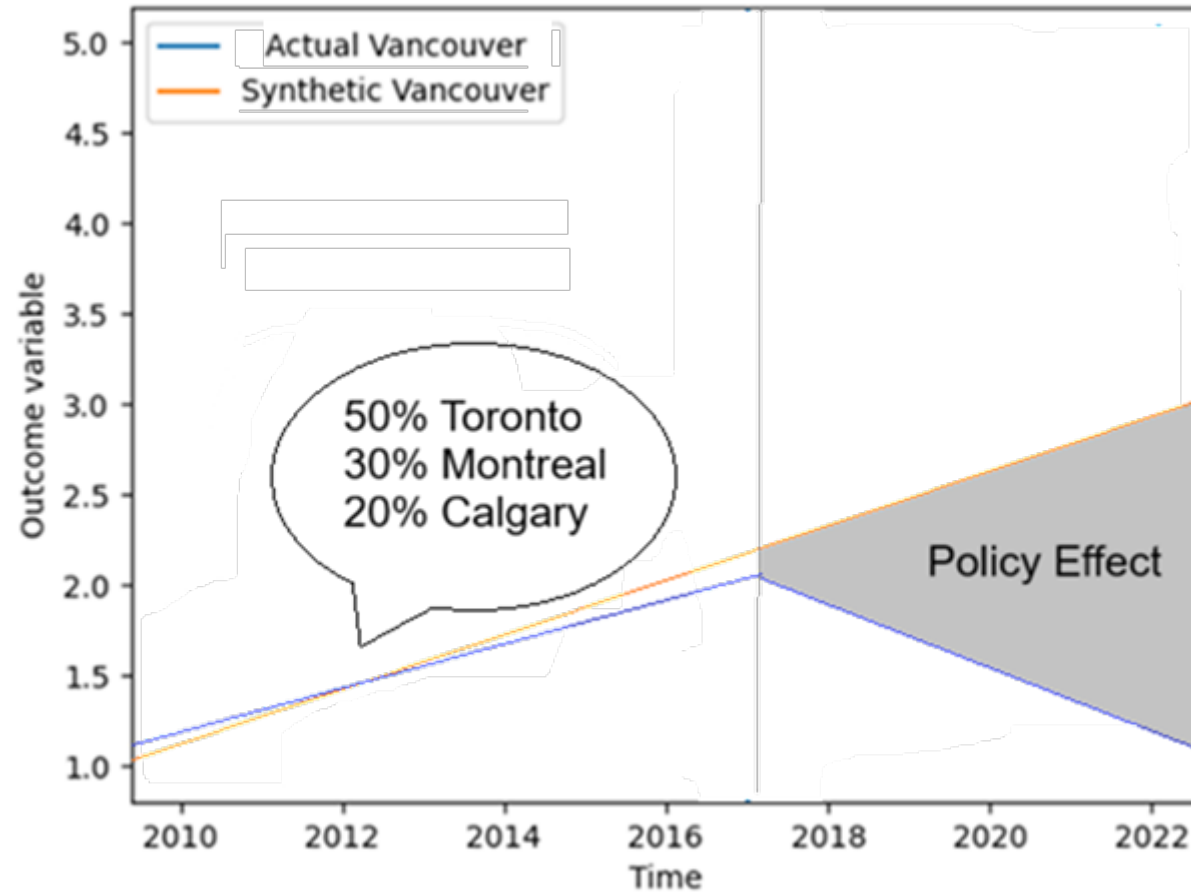
Synthetic Control Method

- Synthetic control method (Abadie, 2010) is the most suitable identification method.
- Build a counterfactual "trend" for the subject from a donor pool.
- No single Canadian city is a perfect twin for Vancouver — cities differ in size, demographics, housing demand, and industry mix. (No parallel trend)
- Instead, I construct a custom comparison by combining 16 Canadian cities that together closely mirrored Vancouver's trends before the tax was introduced. This gives us a reliable baseline: what would Vancouver's housing market have looked like without the tax?
- The dataset provides enough pre-tax data to verify that the comparison tracked Vancouver closely.

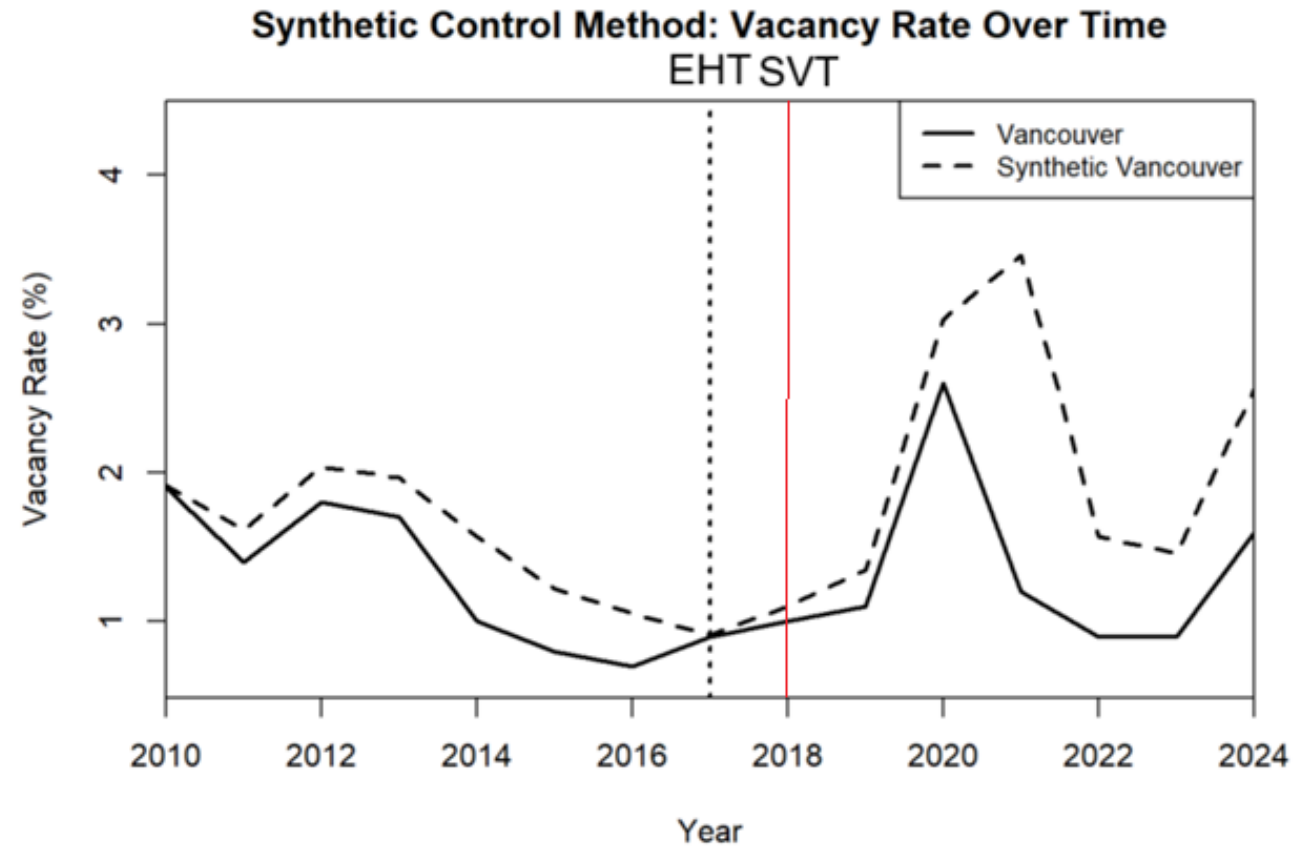
Synthetic Control Method – Illustration



Synthetic Control Method – Illustration

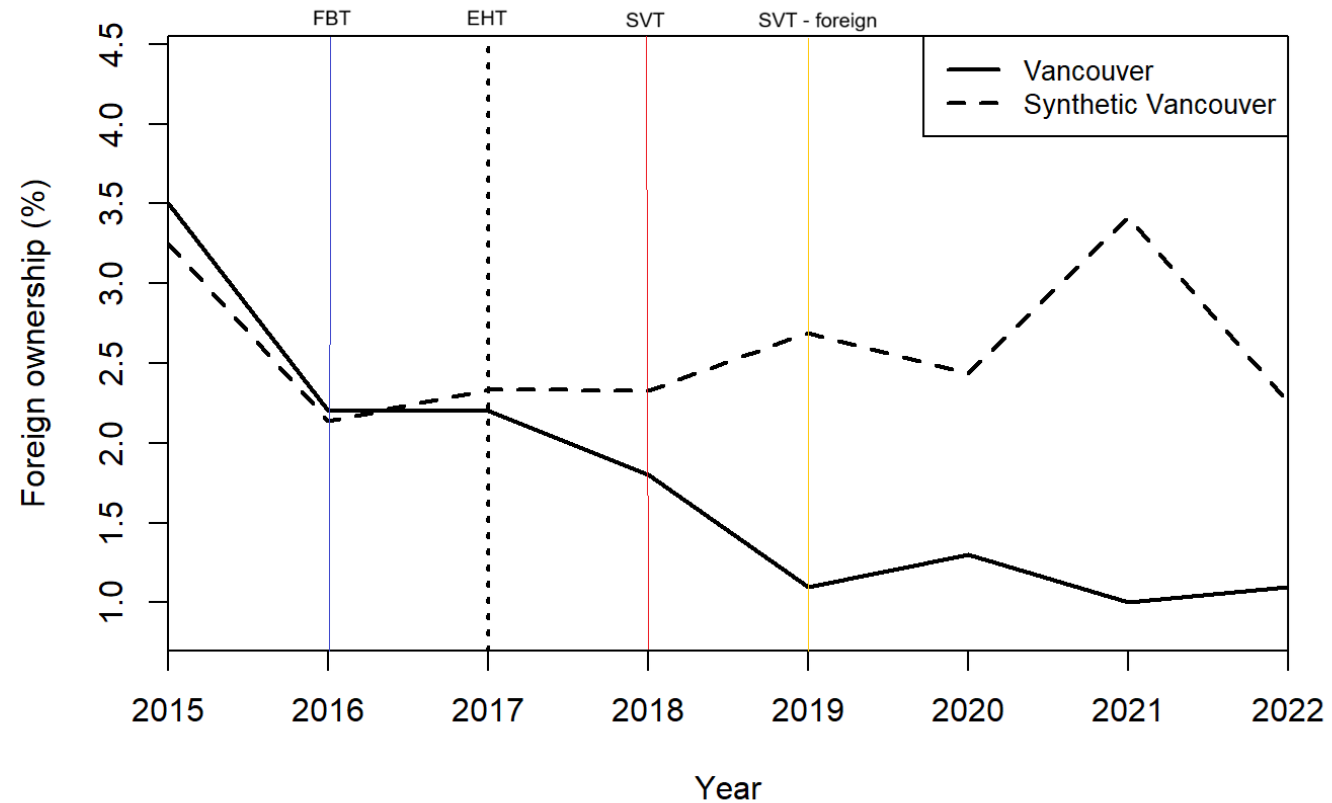


Results



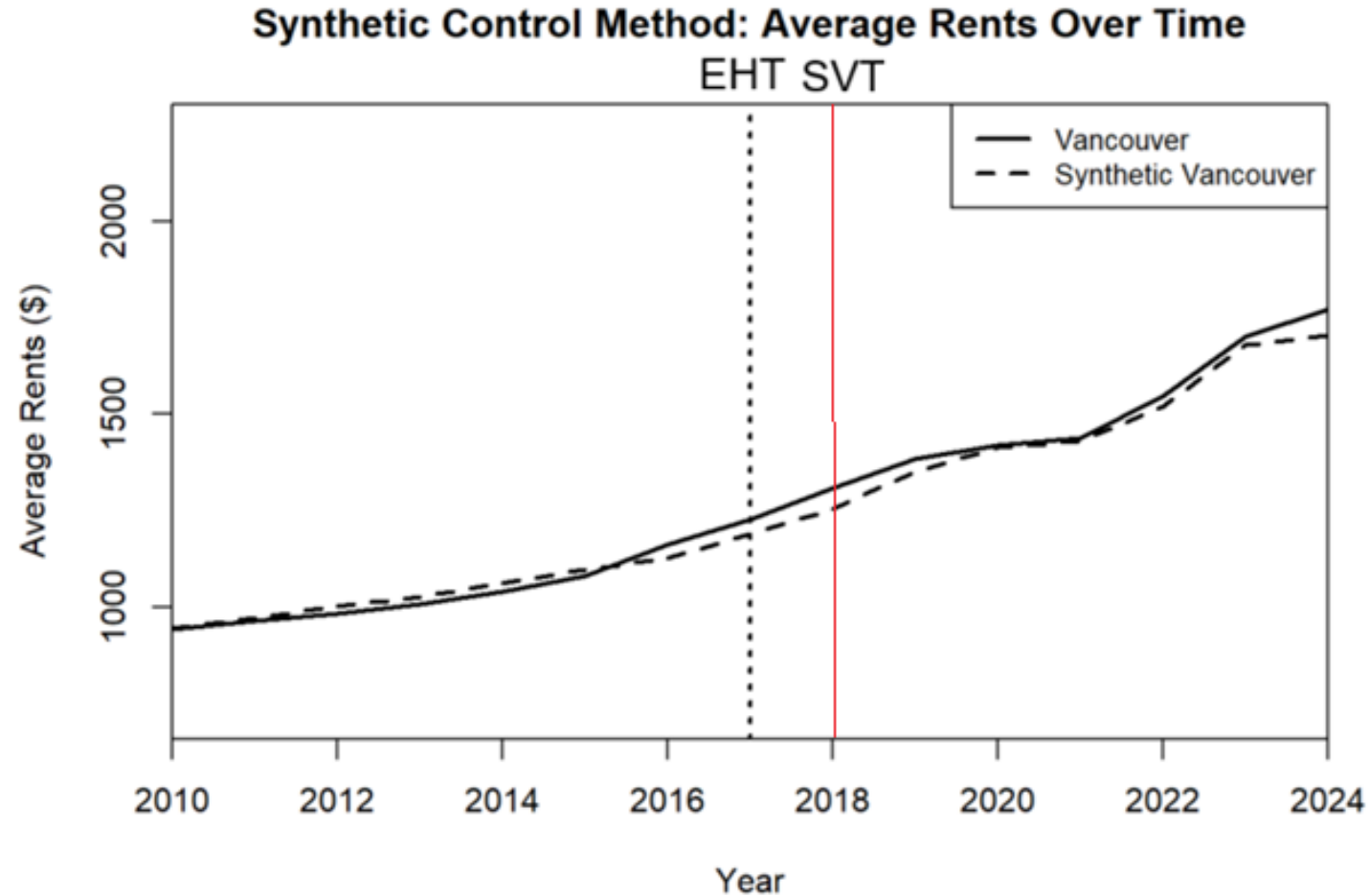
Results

Synthetic Control Method: Foreign Ownership Rate Over Time



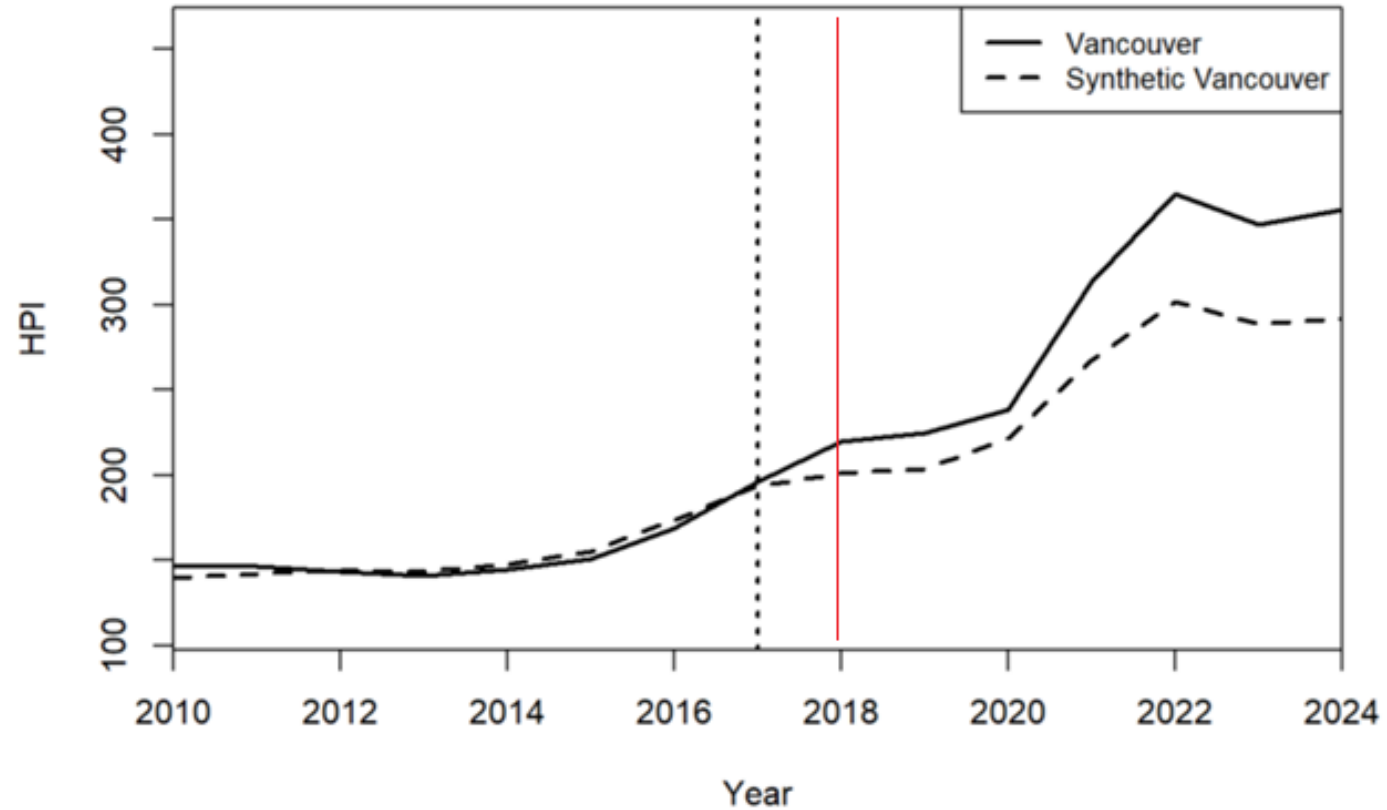
Toronto

Results



Results

Synthetic Control Method: House Price Index (HPI) Over Time
EHTSVT



Results

	Vacancy rate (%)	Foreign Ownership (%)	Average Rents (\$)	House Price
Gap (p-value*)	-0.66 (0.2)	-1.16 (0.17)	+36 (0.87)	+37 (0.14)

Figure: p-value calculated using in-space permutation test (Abadie, 2010)

Contribution to Housing Affordability

- Results suggests minimal effects on rents and home prices
- Municipal reports suggests the revenue went to affordable housing

EHT Funding Allocation (\$ millions)	2019	2020	2021	2022
Funding for Land Acquisition and CHIP* grants	\$ 35.1	\$ 10.0	\$ 20.3	\$ 15.0
Funding for Staff Working on Affordable Housing Projects	\$ 4.6	\$ 3.7	\$ 4.3	\$ 3.5
Emerging Priorities	\$ 1.0	\$ 1.0	\$ 1.6	\$ 10.1
City of Vancouver. (2019, 2020, 2021, 2022). <i>Empty Homes Tax Community Report</i> .				
(CHIP: Community Housing Incentive Program)				

Contribution to Housing Affordability

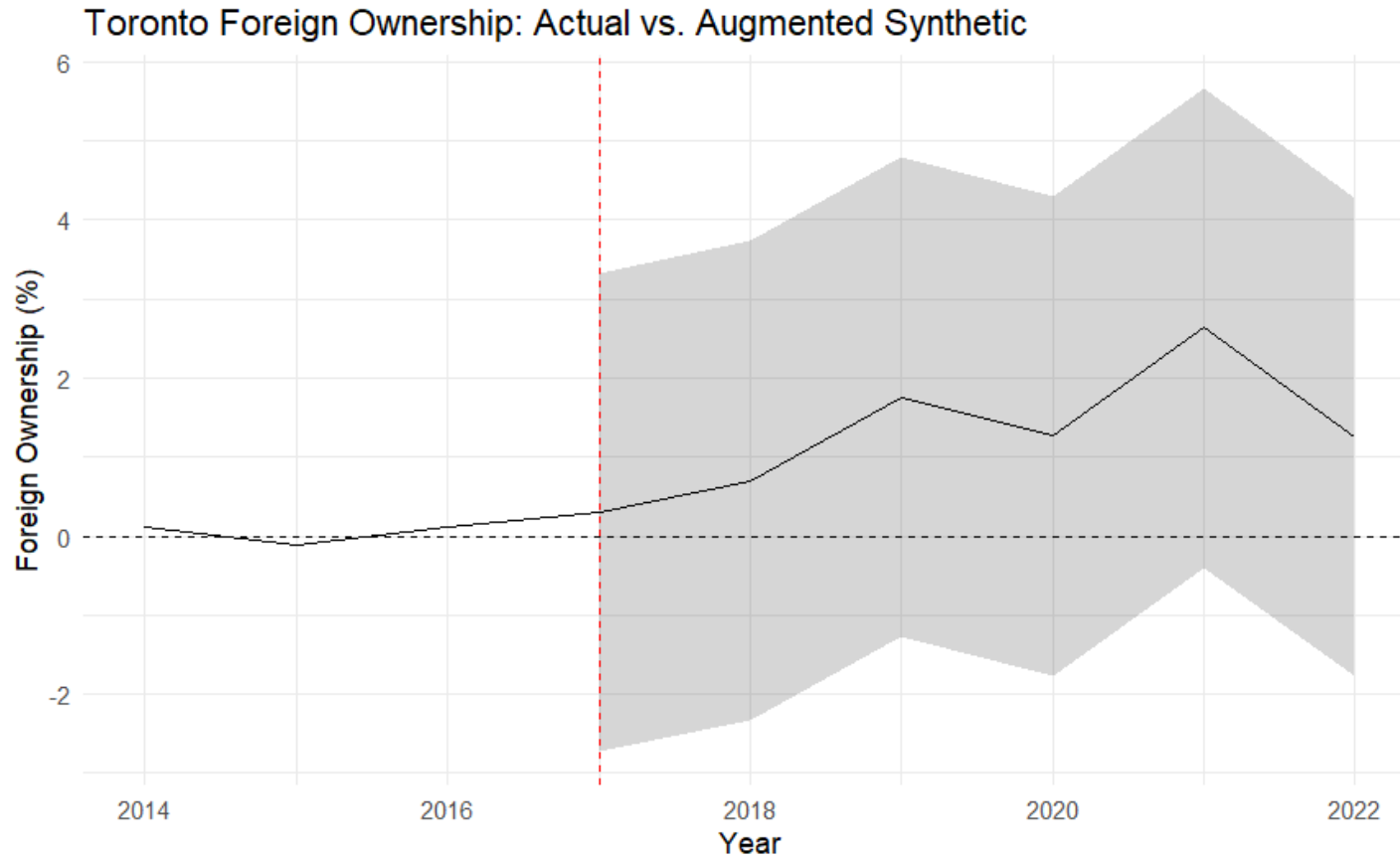
- Increase supply of affordable housing steers low income
- Households to affordable housing:
 - This may create segregated housing market
 - Due to data limitation, I cannot test demographic shifts as well as income class segregation
- Would be interesting to study consequence of income class segregation

Conclusion and the Next Steps

- Vacancy tax effectively controls foreign home ownership.
- It also effectively reduces vacancy rate, although the effect can be mixed with Covid-19.
- Its effect on rent price is marginal.
- It does not have an effect on controlling house price.
- Next step is to study spillover effect using CMHC microdata – recently acquired.
- To think about deeper mechanism for its effect on rent and house prices.

Appendix

Foreign ownership share - Toronto



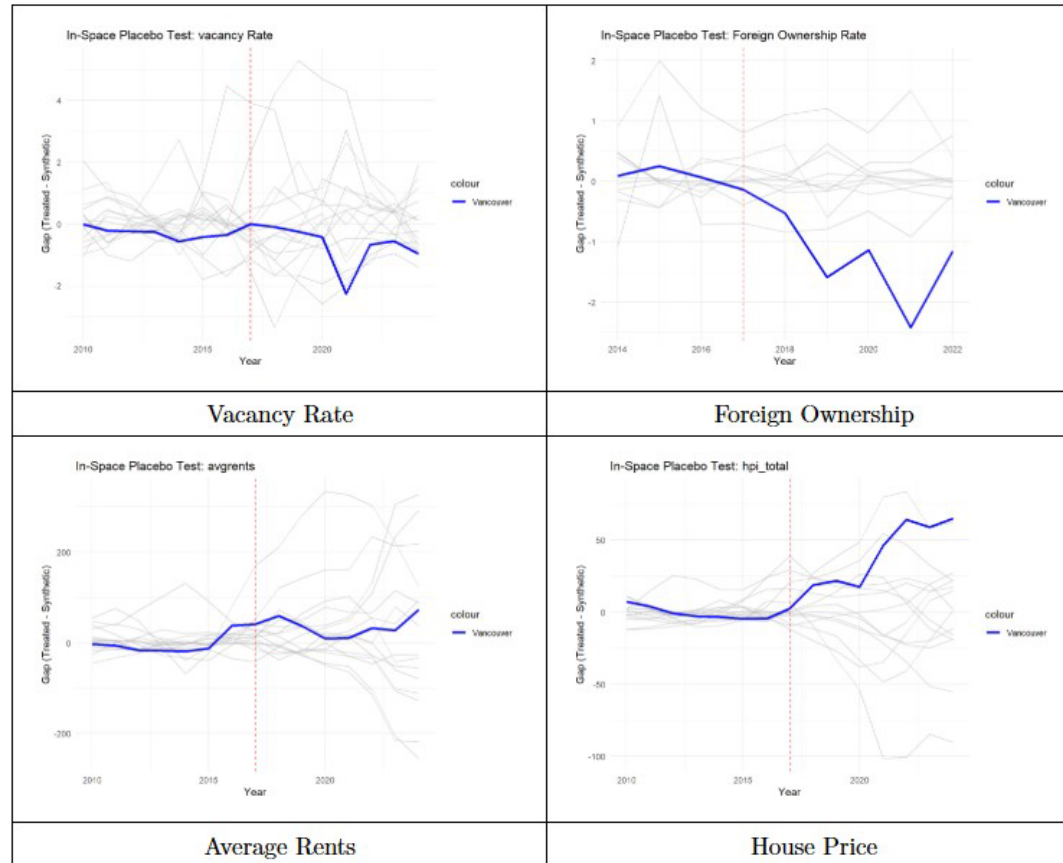
Vancouver

Donor Weights

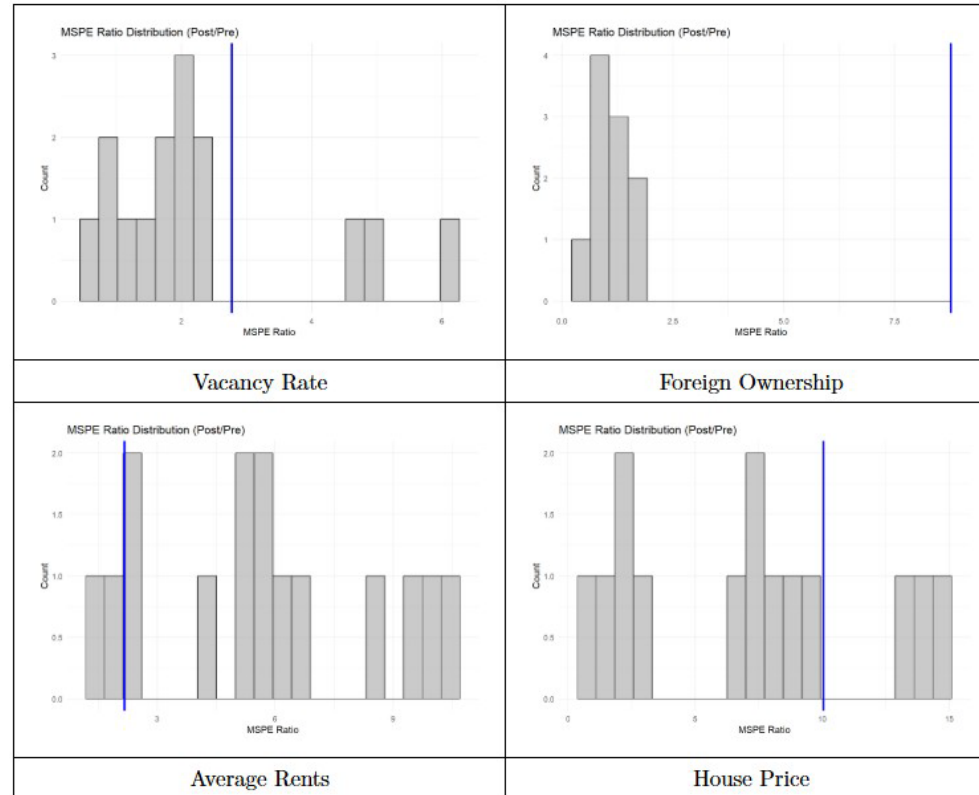
	Vacancy Rate	Foreign Ownership	Average Rent Price	House Price Index
Calgary				
Edmonton			0.35	
Gatineau				
Halifax				0.003
Hamilton				
Kitchener				
London				
Montreal		0.073		0.002
Ottawa				0.668
Quebec				0.037
Regina				
Saskatoon				
Toronto	0.692	0.927	0.65	0.290
Victoria	0.308			
Winnipeg				

Table 3: Donor Weights

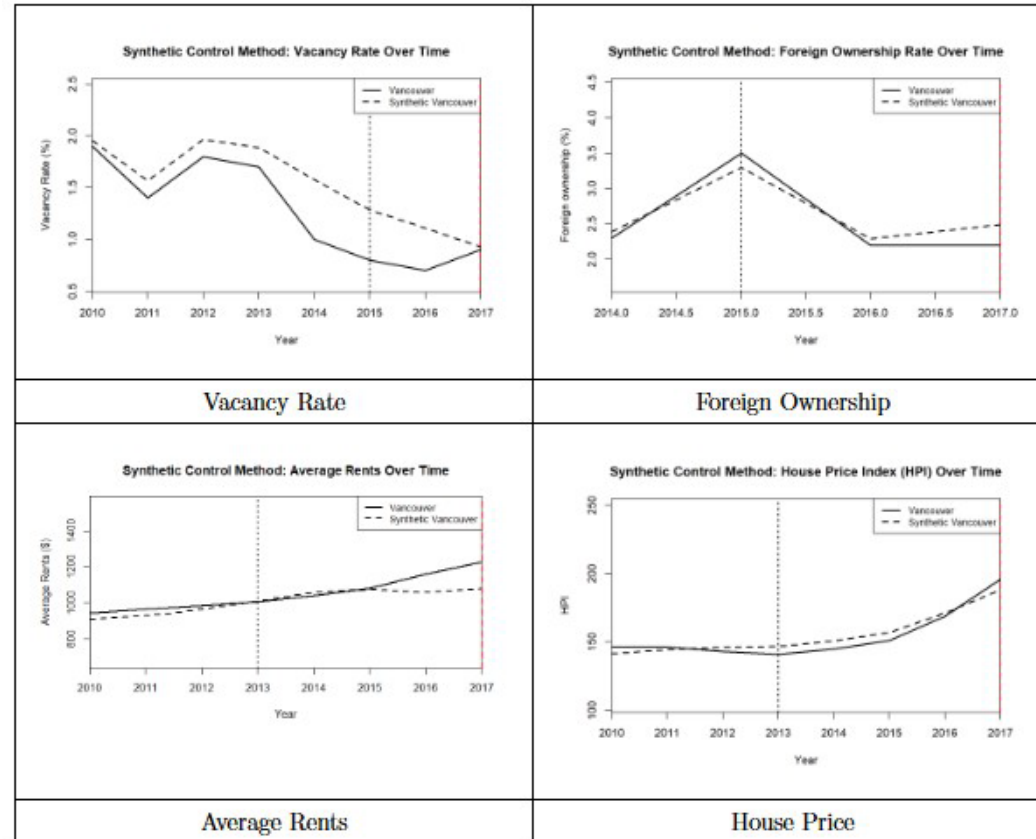
In-space placebo test



MSPE ratio



In-time placebo test



Leave one out test

