NAIOP
COMMERCIAL REAL ESTATE DEVELOPMENT ASSOCIATION

Director General
Sales and Excise Tax Division
Tax Policy Branch
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Dear Director General

RE: Consultation on the Taxation of Vacant Lands

On behalf of NAIOP chapters across Canada, we appreciate this opportunity to provide input into the consultation on the taxation of vacant lands.

NAIOP represents developers, owners and related professionals in office, industrial, retail, multifamily and mixed-use real estate across the country. Our members in major Canadian cities are looking for ways to partner with all levels of government to move forward on mixed housing and office projects. But a vacant land tax works contrary to our shared objective of building more housing for Canadians. If the federal government wants new housing, it should instead focus on incentives and removing barriers. We have set out some practical alternatives below.

A vacant land tax will not incentivize housing development. In fact, it could exacerbate the problem.

We appreciate, and share, the Government's desire to address Canada's housing crisis. But a tax on vacant land will not accomplish this goal.

The proposal is premised on a misunderstanding of how real estate development works. Land does not sit vacant because developers choose to sit on empty land. Delays occur for reasons often beyond developers' control - lengthy rezoning processes, high interest rates, lack of critical infrastructure, unpredictable construction costs. Already a range of government fees and charges can make up to 30% of the cost of new housing.

None of these issues are resolved by adding another tax. If a housing project isn't financially viable, making the land more expensive by adding another tax won't push it forward. In fact, a new tax could push already-struggling housing developers over the edge, reducing the number of developers available to move build critically needed housing.

There are viable alternatives to get more housing built.

Rather than imposing yet another charge on development, government should partner with Canada's housing developers to get new housing built sooner. It should focus on removing barriers and providing incentives to build housing.

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Here are some practical, incentive-based alternatives:

1. **Reduce Financing Costs for Housing Projects**
    a. Make Development Cost Charges (DCCs) payable upon project completion to lower interest costs during construction.
    b. Utilize the Canada Infrastructure Bank to enable the amortization of DCCs on property taxes over the useful life of the infrastructure being funded.
    c. Change the mandate of the Canada Mortgage and Housing Corporation (CMHC) from an insurance company to an agency that supports the development of new housing.
    d. Modify the GST exemption threshold to eliminate GST entirely for all new housing below $1 million and phasing out gradually for values up to $1.5 million.
    e. Make DCCs a separate line item on the purchase of a new home, exempt from GST, PST, and land transfer taxes to eliminate tax-on-tax costs.
    f. Replace capital-intensive Letters of Credit with municipal surety bond programs across Canada.
2. **Remove Barriers to Investment in New Housing**
    a. Remove restrictions on foreign investment in new building construction.
    b. Make it easier to convert the land occupied by under-utilized office buildings to residential uses.
    c. Provide capital gains relief to vacant land holders, through:
        i. A one-year capital gains exemption for vacant properties to allow land-holders to sell to developers without penalty; or
        ii. Allowing vacant land holders to sell properties and put the proceeds into another real-estate investment without being taxed on capital gains twice (similar to the 1031 Exchange in the United States)
    d. Allow investors who help fund housing developments on vacant land claim depreciation against their other income. (Similar to the 1974-82 MURB program created 195,000 housing units in Canada.
3. **Stabilize Policy to Streamline Housing Production**
    a. Implement a nationwide policy moratorium to prevent ever-changing building codes.
    b. Run all new policies through a ‘conflict check’ with existing policies to avoid confusion for developers.
    c. Introduce robust in-stream protections so projects in the approval process (often for 5+ years) are safeguarded from policy changes and fee increases.

The proposed vacant land tax has raised alarms beyond the housing development industry. The membership of NAIOP chapters across many provinces are opposed to this ill-considered measure for what it might mean for the office, mixed use and industrial real estate sectors

NAIOP stands ready to work with the Government of Canada to address the current housing crisis. We would welcome the opportunity to further discuss these policy options with you.