

Economic Implications of the Municipal Land Transfer Tax in Toronto

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EXECUTIVE SUMMARY

The Ontario Real Estate Association (OREA) retained Altus Group Economic Consulting to estimate the economic implications of the City of Toronto's Municipal Land Transfer Tax (MLTT) since its inception and going forward.

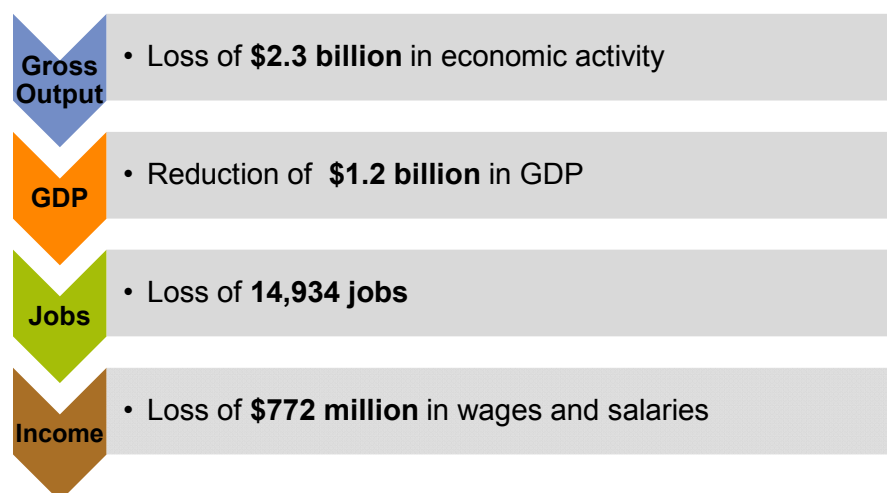
To estimate the economic implications of the MLTT, this report relies on two previous studies:

- **Stuck in Place: The Effect of Land Transfer Taxes on Housing Transactions**, published by the C.D. Howe Institute in October 2012. It provides an estimate of the MLTT's effects on resale housing transactions in the City of Toronto.
- **Economic Impacts of MLS® Home Sales and Purchases in Canada and the Provinces**, conducted by Altus Group Economic Consulting in 2013 for the Canadian Real Estate Association (CREA). It provides the estimated economic implications of a typical resale housing transaction in Ontario.

Based on the historical MLS® data and the C.D. Howe study, an estimated **38,278 potential resale transactions** were lost between 2008 and 2013 due to the implementation of the MLTT in the City of Toronto. By combining this result with the findings from the Altus Group study, this report concludes that the MLTT in Toronto has had significant negative economic implications for the city, including:

- Loss of \$2.3 billion in economic activity;
- Reduction of \$1.2 billion in GDP;
- Loss of 14,934 jobs; and
- Loss of \$772 million in wages and salaries.

Total Economic Loss Caused by the MLTT in the City of Toronto, 2008-2013



Source: Altus Group Economic Consulting

The City of Toronto has an option to repeal the MLTT, which would have the effect of increasing the number of housing sales and purchases by an estimated **32,216 units over the next 5 years**. This would have significant economic benefits for Toronto, including:

- Additional \$1.9 billion in economic activity;
- Increase of \$990 million in GDP;
- 12,570 new jobs; and
- Addition of \$650 million in wages and salaries.

Overall, Toronto's MLTT has cost billions of dollars of economic activity and thousands of jobs in the city since its inception. The revenue generated by the MLTT is far less than the economic loss caused by the new tax.

Potential Economic Benefits Caused by Repealing the MLTT in the City of Toronto, 2014-2018



Source: Altus Group Economic Consulting

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1 INTRODUCTION

The Ontario Real Estate Association (OREA) retained Altus Group Economic Consulting to estimate the economic implications of the City of Toronto's Municipal Land Transfer Tax (MLTT) since its inception and going forward, including:

- Estimates of the magnitude of economic losses, including gross output, GDP, jobs, and wages, in the City of Toronto since the introduction of the MLTT; and
- Estimates of the number of future "lost" MLS® transactions and the associated economic impacts over the next 5 years if the Toronto MLTT is not repealed.

2 THE MUNICIPAL LAND TRANSFER TAX IN TORONTO

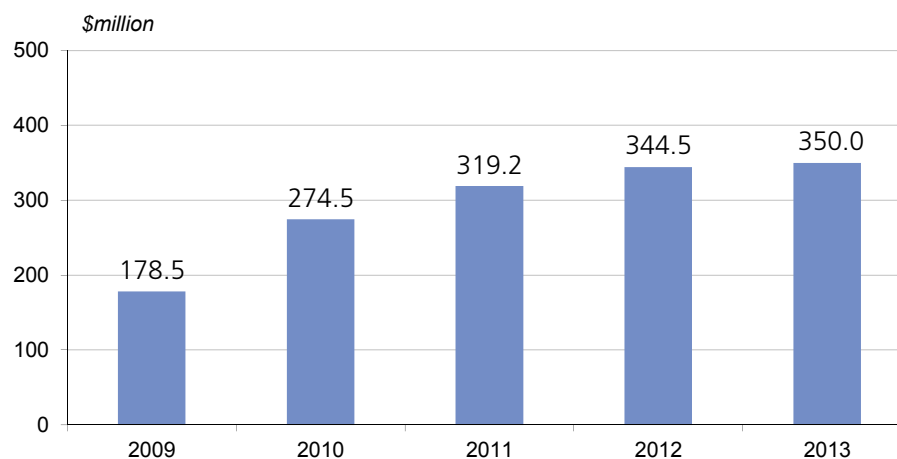
Land transfer taxes are a popular revenue generation tool for governments in Canada and abroad. Within Canada, the governments of British Columbia, Manitoba, Ontario, Quebec, New Brunswick, Prince Edward Island, and some Nova Scotia municipalities collect land transfer taxes. Internationally, governments in the United States, Australia, the United Kingdom, and France also use land transfer taxes to raise tax revenues.

The MLTT was implemented on February 1, 2008, authorized by the then newly implemented *City of Toronto Act, 2006*. It is applied to purchases on all properties in the City of Toronto over and above the existing provincial Land Transfer Tax.

The MLTT is applied to the value of the transaction progressively, ranging from 0.5% (on the first \$55,000) to 2% (on the proportion above \$400,000), with partial rebates for first-time homebuyers. The revenue generated by the MLTT has significantly increased since its inception, although the growth rate has decelerated recently. The City of Toronto was expected to raise \$350 million from the MLTT in 2013, almost twice the amount collected in 2009 (Figure 1).

Figure 1

Municipal Land Transfer Tax Revenue, City of Toronto 2009-2013



Source: Altus Group Economic Consulting based on data from City of Toronto

3 THE MLTT REDUCES HOUSING RESALE TRANSACTIONS

The MLTT in Toronto has had negative impacts on the local economy. The MLTT increases the total expense associated with housing transactions in Toronto, making relocating more costly for Torontonians. As a result, the number of housing transactions within the City of Toronto has been negatively affected by the MLTT.

C.D. Howe Institute studied resale housing transactions between 2005 and 2012 to estimate the long-term effect of the MLTT on Toronto's housing sales, specifically, the resale market.

The findings are presented in a commentary titled *Stuck in Place: The Effect of Land Transfer Taxes on Housing Transactions*, which was published by the C.D. Howe Institute in October 2012. This commentary builds on two previous studies that estimate the short-term¹ and long-term² effect of the MLTT in Toronto.

¹ Dachis, Benjamin, Gilles Durantou, and Matthew Turner, "Sand in the Gears: Evaluating the Effects of Toronto's Land Transfer Tax", C.D. Howe Institute, December 2008.

² Dachis, Benjamin, Gilles Durantou, and Matthew Turner, "The Effects of Land Transfer Taxes on Real Estate Markets: Evidence from a Natural Experiment in Toronto", *Journal of Economic Geography* 12 (2): 327-54.

To isolate the effect of the MLTT on resale transactions from that of other potential determinants of trends in Toronto's real estate market and differences between neighbourhoods within the city, the author focuses on transactions within 30 forward sortation areas (FSA) – “postal delivery areas that describe an exact area of a city – that directly touch Toronto's border”.³

In addition, the methodology of the C.D. Howe commentary rests on four assumptions that⁴:

- There were no other important and unobserved changes in real estate demand in Toronto relative to other municipalities in the GTA;
- All municipalities in the study area experienced similar trends in housing demand;
- All municipalities in the GTA face the same seasonal real estate patterns; and
- The introduction of the MLTT was sudden and not anticipated by buyers.

In the commentary, the author goes through each assumption in detail and explains why those assumptions hold for the model. Essentially, the model holds everything constant, except the introduction of the MLTT in Toronto.

After analyzing resale transactions of single-family homes through the Multiple Listing Service (MLS®) between January 2005 and June 2012 within those 30 FSAs, the report concludes:

- **Reduced sales:** the MLTT resulted in, on average, four fewer sales per month per FSA, amounting to a **16% decrease in sales volume**;
- **The effect varies by sale price:** The number of transactions in FSAs where the average sale price was below the median fell by 25% and by only 6% in FSAs where the average sale price was above the median, a reduction so small that it is statistically indistinguishable from zero; and
- **Substituting renovations for moving:** Related to the findings that the number of housing transactions were negatively affected by the tax,

³ Dachis, Benjamin, “*Stuck in Place: The Effect of Land Transfer Taxes on Housing Transactions*”, C.D. Howe Institute, October 2012, Page 6.

⁴ Ibid, Page 8.

the C.D. Howe research also found a modest uplift in certain renovation expenditures in similar areas.

Although the C.D. Howe commentary focuses on the single-family home segment of the resale housing market, the results could logically be applied to condominium apartment transactions throughout the city as well. This assumption has been confirmed through discussions with the commentary author. In this study, it is assumed the MLTT has similar effects on the condominium market.

4 ECONOMIC BENEFITS OF HOUSING RESALE TRANSACTIONS

Resale housing transactions generate significant economic activity. The purchase and sale of homes via the Multiple Listing Service® (MLS®) generates fees to professionals such as lawyers, appraisers, real estate agents, surveyors, etc. as well as taxes and fees to government. In addition, when people move into a new home, they typically purchase new appliances or furnishings and undertake renovations that tailor the new home to specific household requirements.

Altus Group Economic Consulting was retained by the Canadian Real Estate Association (CREA) in 2013 to prepare estimates of the economic impacts resulting from MLS® home sales and purchases in Canada and the 10 provinces.

To estimate the average additional ancillary expenditures by families who moved, Altus Group analyzed customized spending data from Statistics Canada's Survey of Household Spending. Combining the results with the total number of transactions through the MLS® system, the report estimates the total additional household spending generated from the housing resale transactions each year. Estimates for the economic impact of those additional expenditures were derived through the use of Statistics Canada's Interprovincial Input-Output Model.

The major findings are presented in a report titled *Economic Impacts of MLS® Home Sales and Purchases in Canada and the Provinces* and include:

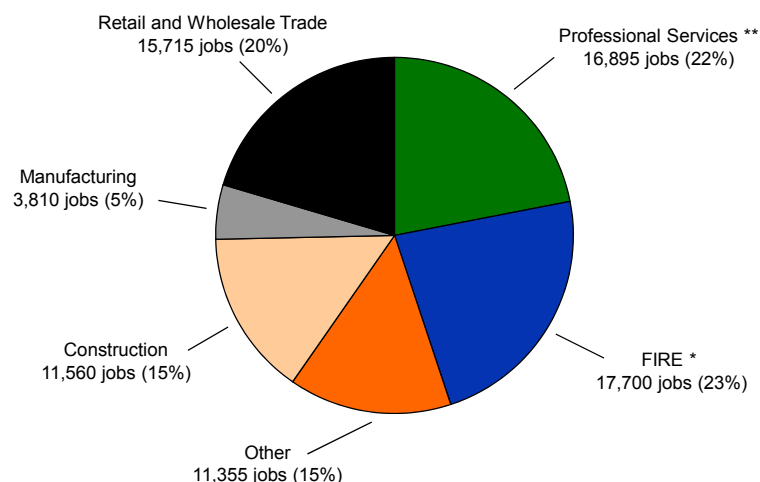
- A typical home purchase and sale transaction through the MLS® in Ontario generated close to \$53,000 in ancillary expenditure;
- Based on the average annual number of housing transactions between 2010-2012, all transactions through the MLS® in Ontario, on

average, generated more than 77,000 jobs across all industries for Ontarians each year (Figure 2); and

- A large number of those are well-paid jobs, including employment in the finance, insurance, real estate, and professional service sectors.

Figure 2

Average Annual Direct and Indirect Employment, by Industry, Generated by MLS® Home Sales, 2010-2012



*Finance, Insurance and Real Estate ** Includes public service jobs
 Source: Altus Group Economic Consulting based on Statistics Canada's Input-Output Model

For the purpose of this study, detailed economic benefits are generated from the model used in the CREA study. Each 1,000 resale transactions of the existing homes in Ontario generate:

- Additional \$60.0 million in economic activity;
- Increase of \$30.7 million in GDP;
- 390 new jobs⁵; and
- Addition of \$20.2 million in wages and salaries.

5 ECONOMIC IMPLICATIONS OF THE MLTT IN THE CITY OF TORONTO

This chapter presents the estimated economic implications of the MLTT in the City of Toronto. To estimate the potential economic implications, this report takes two steps:

⁵ Full-time equivalent jobs.

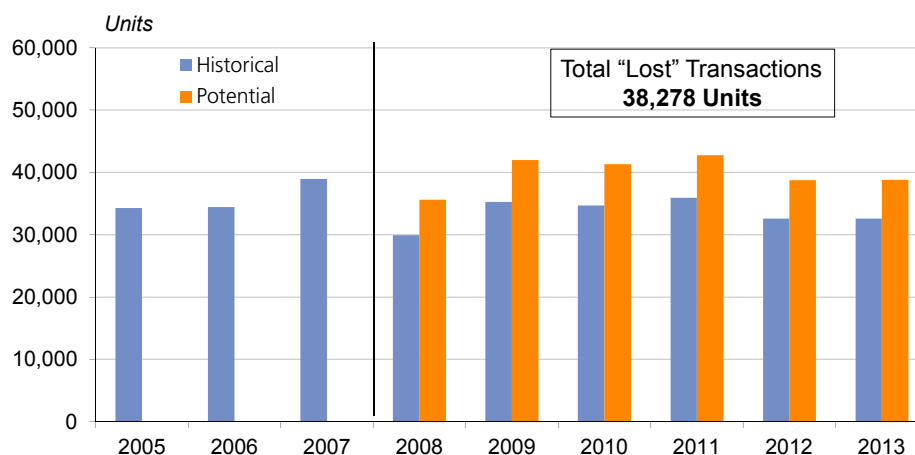
- **Step One:** Based on the C.D. Howe Institute commentary and resale housing transaction data from the local real estate boards, this report estimates the number of lost and potential lost resale transactions caused by the MLTT in the relevant municipalities; and
- **Step Two:** Based on the CREA study, this report estimates the economic impacts resulting from those lost resale transactions.

Figure 3 presents the historical and potential resale housing transactions in the City of Toronto over the 2005-2013 period:

- The Toronto Real Estate Board reports that between 2008-2013 the total number of resale housing transactions in the City of Toronto was 200,966 units (including both single-family homes and condominium apartments);
- Given that these transactions occurred despite the effects of the MLTT (which caused a 16% decrease in resale transactions across the city), the potential total number of resale transactions in the City of Toronto should have been 239,244 units; and
- 38,278 potential resale transactions did not take place due to the implementation of the MLTT in the City of Toronto.

Figure 3

Total Resale Housing Transactions, Historical and Potential, City of Toronto, 2005-2013



Source: Altus Group Economic Consulting based on data from Toronto Real Estate Board

The loss of resale transactions had significant negative economic impacts on the local economy over the 6 years since the implementation of the MLTT in 2008, including (Figure 4):

- Loss of \$2.3 billion in economic activity;
- Reduction of \$1.2 billion in GDP;
- Loss of 14,934 jobs⁶ and a large share of the lost jobs are within the professional services (22%), finance, insurance, and real estate (23%), and retail and wholesale trade (20%) (Figure 5); and
- Loss of \$772 million in wages and salaries.

Figure 4

Total Economic Loss Caused by the MLTT in the City of Toronto, 2008-2013

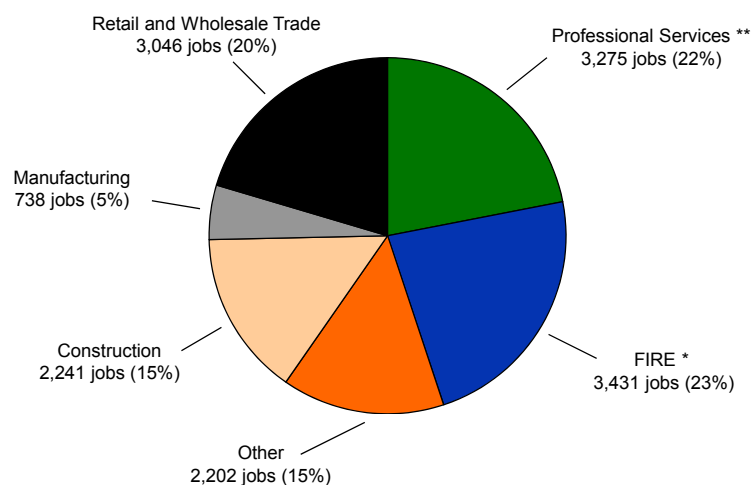


Source: Altus Group Economic Consulting

⁶ Full-time equivalent jobs.

Figure 5

“Lost” Employment by Industry, City of Toronto 2008-2013



*Finance, Insurance and Real Estate ** Includes public service jobs
Source: Altus Group Economic Consulting

Comparing this economic loss relative to the employment trends in the City of Toronto, the results show that:

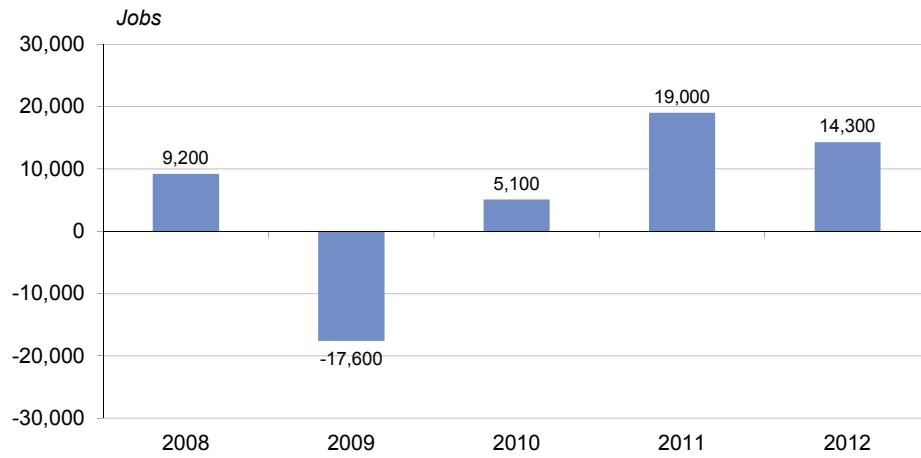
- According to the City of Toronto’s annual economic summary report⁷, net employment growth in the city was about 30,000 jobs during the 2008-2012 period, resulting in an average annual growth of some 6,000 jobs (Figure 6);
- The MLTT reduced the City employment by 14,935 jobs since its implementation, averaging some 2,490 jobs per year; and
- Without the MLTT, the City could have increased employment growth over the period by 42%.

The City of Toronto has an option to repeal the MLTT, which would have the effect of increasing the number of housing sales and purchases by an estimated 32,216 units over the next 5 years (Figure 7).

⁷ City of Toronto, *Economic Dashboard – Annual Summary*, Economic Development Committee, February 26, 2014 (Revised March 7, 2014).

Figure 6

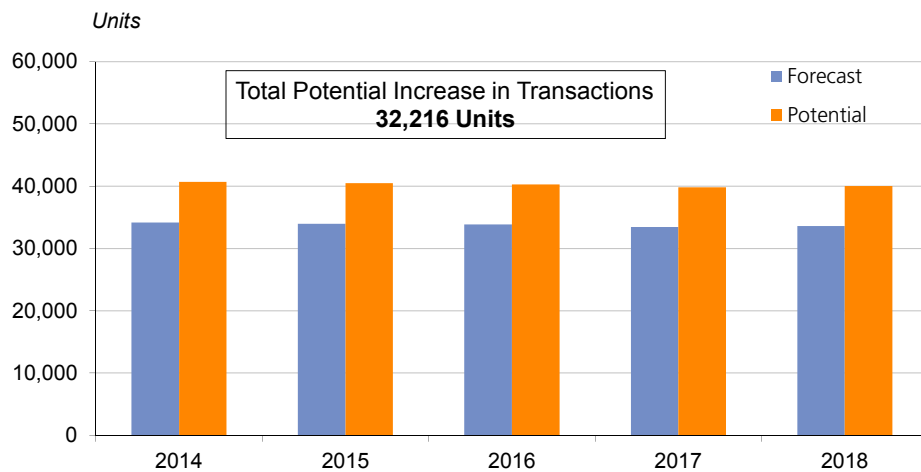
Net Employment Growth, City of Toronto, 2008-2012



Note: Year 2012 is the latest available data from the City's Employment Survey
 Source: Altus Group Economic Consulting based on data from City of Toronto

Figure 7

Total Resale Housing Transactions, Forecast under Current Policy and Potential, City of Toronto, 2014-2018



Source: Altus Group Economic Consulting

The higher housing resale activity would have significant economic benefits to Toronto, including (Figure 8):

- Additional \$1.9 billion in economic activity;
- Increase of \$990 million in GDP;
- 12,570 new jobs⁸, and a large share of the new jobs would be within the professional services (22%), finance, insurance, and real estate (23%), and retail and wholesale trade (20%) (Figure 9); and
- Addition of \$650 million in wages and salaries.

Figure 8

Potential Economic Benefits Caused by Repealing the MLTT in the City of Toronto, 2014-2018

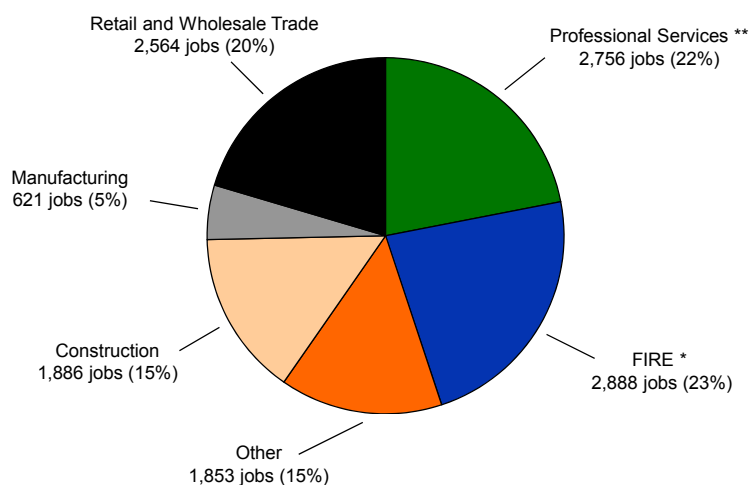


Source: Altus Group Economic Consulting

⁸ Full-time equivalent jobs.

Figure 9

Potential Increase in Employment by Industry, City of Toronto, 2014-2018



*Finance, Insurance and Real Estate ** Includes public service jobs
 Source: Altus Group Economic Consulting

6 CONCLUSION

The Ontario Real Estate Association (OREA) retained Altus Group Economic Consulting to estimate the economic implications of the City of Toronto’s Municipal Land Transfer Tax (MLTT) since its inception and going forward.

Based on the historical MLS® data and the C.D. Howe study, an estimated 38,278 potential resale transactions were lost between 2008 and 2013 due to the implementation of the MLTT in the City of Toronto, which has had significant negative economic implications for the city.

The City of Toronto has an option to repeal the MLTT, which would have the effect of increasing the number of housing sales and purchases by an estimated 32,216 units over the next 5 years. This would have significant economic benefits for Toronto and create some 12,570 new jobs.