

Tax on empty homes: antidote to supply crunch for renters?

Such a move may incentivise landlords to lease out their vacant property, an Ireus article says

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A TAX on vacant residential properties in Singapore may incentivise landlords to lease out their empty homes, increasing the supply in the rental market, an Institute of Real Estate and Urban Studies (Ireus) article said.

This may potentially encourage landlords to find a tenant to avoid being taxed while investors may abstain from acquiring these properties altogether.

"Much like pushing idle money into circulation in the economy, an empty homes tax may likewise push 'idle homes' into circulation in the rental market, and in theory, it holds the potential to improve housing availability for renters in Singapore," said Ireus director Qian Wenlan.

First published in a newsletter on Friday (Sep 29), the article examined how an empty homes tax, which exists in some Canadian cities, could be applied in Singapore to increase supply in the rental market. As supply increases, rents may come down.

Ireus is a research institute at the National University of Singapore (NUS) which conducts real estate and urban economic research. The newsletter is largely read by those working in the real estate industry and NUS faculty members.

Housing and Development Board rents rose for the 38th consecutive month as at August 2023. While condominium rents dipped 1 per cent last month, they were up 17.3 per cent year on year.

Rents in Singapore started climbing during the Covid-19 pandemic amid a crunch in supply of new homes due to construction delays and an increase in demand from returning Singaporeans.



Rents in Singapore started climbing during the Covid-19 pandemic amid a crunch in supply of new homes. PHOTO: YEN MENG JIIN, BT

In Singapore, owner-occupied residential properties are subjected to lower tax rates than those not occupied by the owner. Tax rates are progressive and residential properties assessed with higher annual value are taxed at higher rates. The lower owner-occupier tax rates are meant to encourage home ownership in Singapore, the Inland Revenue Authority of Singapore said on its website.

"It is not unexpected that housing taxation policies have thus far focused on encouraging widespread ownership among the populace at large, and at the same time managing the distribution of homes via fiscal measures to ensure that the housing stock is not overly concentrated among a select minority of wealthy landlords," said Qian.

For Singapore citizens buying a second property, the current Additional Buyer's Stamp Duty payable is 20 per

cent, rising to 30 per cent for the third and subsequent properties.

The Ireus article said while Singapore's property tax regime distinguishes between owner-occupied properties and those not occupied by the owner, it does not take into account tenancy status.

"A non-owner-occupied property attracts the same rate whether it is tenanted or not, since income tax is separately levied on the rental income earned from renting out the property," said Qian.

According to a recent research paper published in January 2023 by Lu Han, Derek Stacey, and Hong Chen, the empty homes tax implemented in Vancouver in 2017 increased the availability of rental housing in the city.

The tax is currently fixed at 3 per cent of a vacant property's assessed taxable value annually, and a property is considered empty if it has been unoccupied

for at least six months in the year with certain exceptions.

The three researchers developed a mathematical model and compared listings and prices of residential rental homes in Vancouver before and after the introduction of the empty homes tax.

They found that listings increased initially with the introduction of the empty homes tax and fell thereafter but the effect on prices was inconclusive.

The empty homes tax also distorted incentives for landlords as they face the risk of having their properties considered as vacant after six months.

"The empty homes tax... has instead skewed supply towards the rental market, where take-up rates were generally higher," the Ireus article said.

"In other words, the empty homes tax could worsen both the availability and affordability of owner-occupied homes," it added.

"This phenomenon runs contrary to the objective of encouraging widespread homeownership here (in Singapore)."

Therefore, more thought has to be given before an empty homes tax in Singapore is introduced, said Ireus.

It is unclear how authorities will be able to determine that homes have been unoccupied for long periods and not just temporarily vacant, and it may be difficult for them to enforce such a tax.

The six-month deadline which applies to Vancouver properties before they are considered vacant may need to be adjusted to ensure there is a healthy supply of homes for owner occupation and rent.

As at Q2 of 2023, the vacancy rate of completed private residential units (excluding executive condominiums) in Singapore stood at 6.3 per cent, up from 6 per cent in Q1.