

## DERELICT RESIDENTIAL TAX SUBCLASS

### Update

<b>Recommendation</b>			
That the January 22, 2025, Financial and Corporate Services report FCS02754, be received for information.			
<b>Requested Action</b>		Information only	
<b>ConnectEdmonton's Guiding Principle</b>		<b>ConnectEdmonton Strategic Goals</b>	
<b>CONNECTED</b> This unifies our work to achieve our strategic goals.		<b>Healthy City</b>	
<b>City Plan Values</b>	THRIVE		
<b>City Plan Big City Move(s)</b>	A rebuildable city	<b>Relationship to Council's Strategic Priorities</b>	Community safety and well-being
<b>Corporate Business Plan</b>	Transforming for the future		
<b>Council Policy, Program or Project Relationships</b>	<ul style="list-style-type: none"> <li>Bylaw 19519 - Residential Assessment and Supplementary Assessment Subclass Bylaw</li> <li>Problem Properties Initiative</li> </ul>		
<b>Related Council Discussions</b>	<ul style="list-style-type: none"> <li>April 11, 2022, FCS report CS00896, Problem Properties Initiative Update</li> <li>October 25, 2022, FCS report FCS01244, Derelict Residential and Non-Residential Properties - Grant Program and Draft Policy</li> <li>March 20, 2023, FCS report FCS1565, New Program with Bylaw Adjustments - Development of a Derelict Residential Subclass</li> <li>September 18, 2024, FCS report FCS02566, Options to Provide Tax Forgiveness for Remediated Derelict Properties</li> </ul>		

### Executive Summary

- The Mature Area Derelict Residential subclass was implemented starting in 2024, and has now completed a full annual assessment and taxation cycle.

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- The subclass appears to have had an impact on the behaviour of derelict property owners, encouraging many to demolish, remediate or sell their properties.
- Council could consider funding an expansion of the derelict residential subclass to the entire City, potentially as soon as the 2027 tax year.
- The City could also explore creating a non-residential derelict subclass or vacant land subclasses, however these have significant technical and policy constraints that would need to be resolved before implementation.

## REPORT

Derelict properties often incur disproportionately higher City costs for services such as inspections and bylaw enforcement. The Mature Area Derelict Residential Subclass was introduced to help offset these costs and improve the vibrancy of mature neighborhoods by encouraging the remediation of derelict properties. Now that the subclass has been in place for a year, this report provides Council and Edmontonians with an overview of the performance of the subclass as well as considerations for the future of this tax tool.

### Establishment and Implementation

After several discussions at Community and Public Services Committee<sup>1</sup>, Council approved an operating expenditure of \$291,000 per year on an ongoing basis for Administration to implement and operate the Mature Area Derelict Residential subclass. This allowed the Assessment and Taxation Branch to undertake a comprehensive physical inspection of the City's "mature areas" to identify a list of potentially derelict residential properties in summer 2023. These inspections were referenced against a number of municipal and provincial government resources, including Alberta Health Services orders and Community Standards records, and resulted in 294 properties being identified as potentially derelict.

The subclass was legally established in October 2023 via amendments to Bylaw 19519: Residential Assessment and Supplementary Assessment Subclass Bylaw. Later that month, letters were sent to the owners of the 294 properties, notifying them of their possible inclusion in the subclass and the potential tax impact, and encouraging them to contact Administration to discuss any questions or concerns. These properties would be included in the subclass if they remained derelict as of December 31.

Throughout the continued inspection process and discussions with property owners, a number of potentially derelict properties were removed from the preliminary list for various reasons. For example, a number of these properties were already in the process of being demolished or remediated and were no longer derelict by December 31. After these properties were removed, a

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<sup>1</sup> October 25, 2022, Financial and Corporate Services report FCS01244, Derelict Residential and Non-Residential Properties - Grant Program and Draft Policy; March 20, 2023, Financial and Corporate Services report FCS01565, New Program with Bylaw Adjustments - Development of a Derelict Residential Subclass

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total of 202 properties were formally assessed as derelict in 2024. Attachment 1 details the tax impact, inventory of properties and complaint tracking discussed below.

Four formal complaints were filed with the City of Edmonton's Assessment Review Board (ARB) by property owners contesting the derelict designation. Two complaints were withdrawn prior to the hearing, after assessors agreed to reduce the assessments based on evidence disclosed by the owner. The properties, however, remained within the derelict subclass. The buildings on these two properties were demolished early in 2024 so they will not be considered derelict for the 2025 taxation year. The other two complaints proceeded to hearings at the ARB, and in both cases, the board confirmed assessors had applied the subclass appropriately.

On October 2, 2024, Council approved amendments to Council Policy C607B: Retroactive Municipal Tax Relief to allow for partial forgiveness of the higher derelict taxes in cases where the derelict building was demolished or remediated. Effectively following that decision, properties only pay the derelict tax rate while the property is actually derelict, thereby creating an incentive to demolish or remediate derelict properties sooner. Administration identified 59 properties that qualified for this rebate in 2024 and has contacted them directly, awarding approximately \$100,000 in tax forgiveness. In future years, derelict property owners will need to apply for this type of rebate, as they do for other forms of tax forgiveness, and this will be communicated to owners of all properties assessed as derelict in 2025.

Starting with the 202 properties that were formally assessed as derelict in 2024, 62 properties on the 2024 derelict list were removed from the derelict classification in 2025, and an additional 99 properties were identified as derelict in 2025 for a total of 239 properties. In some cases, newly added properties were first identified as potentially derelict in 2024, but were not included in the subclass last year. For example, properties damaged by a recent fire may be derelict, but were not initially included in the subclass while insurance and remediation processes were underway. Some of these have been added in 2025. In other cases, additional properties have been identified through increased collaboration with other areas of the city such as the Problem Properties Initiative and Fire Rescue Services. However, the majority of newly added properties appear to have simply deteriorated over the year to the point they now qualify as derelict.

### **Preliminary Outcomes**

The implementation of the Mature Area Derelict Residential Subclass appears to have had a substantial impact on the behaviour of derelict property owners. Thirty per cent of the properties assessed as derelict in 2024 have already been demolished. For comparison, 0.25 per cent of all residential properties in the mature area were demolished. A further eight derelict properties were remediated in 2024 to the point they are not considered derelict in 2025. While about 10 per cent of Edmonton's residential properties sold between November 1, 2023 and October 31, 2024, 24 per cent of properties assessed as derelict were sold in that same time period.

The subclass generated about \$575,000 of additional 2024 municipal taxes. After removing \$291,000 in increased operating expenditure and \$100,000 in tax forgiveness, the net positive revenue from the subclass was about \$184,000. This revenue will help offset the higher costs the City incurs in otherwise dealing with derelict properties.

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One hundred of the 202 properties assessed as derelict in 2024 still owed some or all of their taxes as of November 1, 2024. However, this may not be due solely to the higher tax rate, since 69 of these properties also had amounts owing on November 1, 2023, before the derelict subclass was introduced. Edmonton has a high payment compliance rate overall, and tax collectors will continue to try to obtain payment. If taxes remain unpaid, properties become eligible for inclusion in the annual tax auction about three years after the payment deadline.

There has been significant interest in the City's derelict residential subclass from other jurisdictions. Administration has responded to inquiries from several Alberta municipalities, as well as the Province of Saskatchewan and the City of Regina. The City of Wetaskiwin and the towns of Ponoka and Athabasca have established their own derelict subclasses.

### Second Year and Beyond

Council has expressed interest<sup>2</sup> in expanding derelict subclassing in three areas: expanding the existing residential subclass to all neighbourhoods in the City, creating a derelict non-residential subclass, and creating subclasses for vacant properties.

#### City-wide Derelict Residential Subclass

With Administration now in its second year of assessing derelict properties in the City's "mature area," it would be feasible to expand the subclass to all neighbourhoods in the city, potentially as soon as the 2027 tax year. It is anticipated that relatively few additional resources would be required to facilitate this expansion, since a significant portion of implementation efforts have already been made, though this is heavily dependent on implementation approach.

Administration estimates a smaller proportion of properties will be considered derelict outside of the mature area where the subclass is currently applied. Resources to complete the assessments would be required in 2026 to implement a city-wide derelict residential tax in the 2027 tax year. Therefore, for the program to be expanded, a Council motion would be required to have Administration return with an unfunded service package, including an analysis of resource requirements in fall 2025.

#### Derelict Non-Residential Subclass

The *Municipal Government Act* (MGA) provides municipalities with broad authority to create subclasses of residential property, including the current residential derelict subclass. However, authority to create non-residential subclasses is more constrained and prescribed. The City of Edmonton Charter regulation specifically allows for the creation of a derelict non-residential subclass, but its implementation would require a technical system upgrade and overcoming a policy barrier.

The Charter requires that a non-residential property be unoccupied for "at least one year" before it can be assessed as "derelict." The term 'unoccupied' is undefined in this circumstance, and it would be challenging for the City to confirm that a property was not occupied at any point during a calendar year with enough certainty and evidence to withstand an assessment complaint. The

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<sup>2</sup> See September 18, 2024, Executive Committee discussion on Financial and Corporate Services Report FCS02566 Options to Provide Tax Forgiveness for Remediated Derelict Properties.

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Charter also requires that a derelict non-residential subclass would need to be applied across the entire city, so it could not be created solely within the mature area.

The MGA sets limits on how municipalities can set tax rates, including a requirement that the highest non-residential rate can be no more than five times the lowest residential rate. This means there is limited room to increase the tax rate for non-residential properties. For example, the highest tax rate that could have been applied to a theoretical derelict non-residential subclass in 2024 would have been about 70 per cent higher than the general non-residential rate. As compared to the roughly 200 per cent increase applied to the residential derelict subclass, a relatively smaller tax increase may result in relatively modest outcomes.

The City's Taxation, Assessment and Collections System (TACS) software currently cannot enable a non-residential derelict tax subclass. Work is currently underway to update TACS, including support for additional subclassing, but this is not projected to be completed until the next four-year budget cycle and will require additional funding allocated to system development.

The creation of a derelict non-residential subclass would require a Council motion to have Administration return with a report outlining the system changes, resources and timelines needed.

### Vacant Property Subclass

The demolition of a derelict property generally leaves a parcel of land vacant, and in some cases it can stay vacant for a long period of time. Council has indicated interest in options to use taxes to encourage development of these vacant parcels. The MGA allows municipalities to create subclasses for residential and non-residential vacant land. The City has broad authority to define and establish a residential vacant land subclass, but there is less flexibility to tailor a non-residential vacant land subclass for specific policy objectives.

The introduction of a vacant land tax to directly address demolished derelict properties would make it more expensive to hold relative to other forms of undeveloped land, potentially creating a disincentive for infill development relative to greenfield development. A vacant land subclass could have different objectives unrelated to the goals of derelict residential subclass, and may have unintended consequences. If Council wishes to explore this idea further, Administration recommends that it be considered as a separate issue from the derelict subclass.

The federal government recently initiated a consultation on the taxation of vacant lands<sup>3</sup> as a means of encouraging development of land into housing, discouraging speculative holding of land, and raising revenues for various orders of government. Administration submitted a response (Attachment 3) which includes considerations of a potential vacant land tax.

## Legal Implications

Section 297 of the MGA allows municipalities to establish residential subclasses on any basis it considers appropriate. The existing Mature Area Derelict Residential Subclass is defined by both geographic area and physical condition of the property, which is consistent with Section 297. Each

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<https://www.canada.ca/en/department-finance/programs/consultations/2024/consultations-on-the-taxation-of-vacant-lands/ctvl.html>

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different tax class allows a different tax rate to be set for that class of property. Classifications may be appealed to the Assessment Review Board.

Section 297, in conjunction with the City of Edmonton Charter regulation, allows Edmonton to define a derelict non-residential subclass, but it must be applied generally across the entire City and could only be applied to properties that are unoccupied for at least one year.

The legal implications of a vacant land subclass would depend on how the subclass is defined based on any Council direction for its policy objectives.

### **Community Insight**

In November and December, 2024, Administration conducted an online survey distributed through the Edmonton Insight Community and City's website to gauge awareness of and opinions about the Derelict Residential Tax Subclass. Attachment 2 provides detailed survey results.

Of the approximately 4,000 responses received, 43 per cent of the respondents were aware of properties that fit the description of "derelict" in their neighbourhood, and 49 per cent were aware that the City taxes them at a higher rate. The awareness of derelict properties in the neighbourhood (60 per cent) and for the derelict tax subclass (53 per cent) is higher among respondents who live within the mature areas.

Ninety-three per cent of respondents strongly or somewhat agree that derelict properties negatively affect the overall quality of life in a neighbourhood. A similar proportion (94 per cent) agrees that this is an issue that the City should address. More than two-thirds (68 per cent) of respondents strongly or somewhat agree that the Derelict Residential Tax Subclass will be effective in encouraging property owners to revitalize these properties. These results were similar among respondents who reside in the mature areas.

In addition to the results garnered from the survey, informal feedback received from derelict property owners by Administration and by Council indicated that the higher tax rate was a significant factor in encouraging them to demolish or remediate their properties sooner than they otherwise may have.

### **GBA+**

The derelict residential tax subclass has a direct financial impact on the owners of derelict properties. These properties are in such advanced disrepair that it is unlikely they are occupied, and in some cases occupation would be illegal; as such, there are not likely to be any equity issues related to renters. Property titles only indicate the name of the owners and do not include any demographic information that would allow for gender-based analysis. While derelict properties exist throughout the city, they are disproportionately located in areas that are home to relatively large vulnerable populations. Addressing these properties would be expected to improve the vibrancy of these communities, improving equity outcomes relative to other areas with fewer derelict properties.

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### **Environment and Climate Review**

This report was reviewed for environment and climate risks. Based on the review completed no significant interactions with the City's environmental and climate goals were identified within the scope of this report.

### **Attachments**

1. Derelict Residential Tax Subclass - First Year At-A-Glance
2. Derelict Property Tax Survey, November 2024
3. Taxation of Vacant Lands: Response to Federal Consultation