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## INFORMATION BULLETIN

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Ministry of Small Business and Revenue

### **ASSESSMENT METHODOLOGY CHANGES FOR STRATA HOTELS**

VICTORIA – Changes to the Assessment Act introduced today will result in the assessment of strata hotel units based on their use, promoting fairness for taxpayers and resort and tourism growth.

Short-term overnight commercial accommodation properties, or STOCAPs, are properties rented or available for rent as overnight vacation or travel accommodation. They include strata hotels at Sun Peaks Resort near Kamloops, Tigh-Na-Mara in Parksville and Tantalus Lodge in Whistler.

Currently, STOCAPs fall into one of two property classes: Class 1 (residential use) or Class 6 (business use). In most municipalities, tax rates for Class 6 are three to four times those for Class 1. Therefore, although Class 1 strata hotels like the Victoria Regency may be indistinguishable from Class 6 strata or conventional hotels like the Fairmont Empress, those in Class 1 pay lower taxes. Many strata hotel units in Class 6 are used for both residential and business purposes, but are classified and taxed entirely at the higher Class 6 business rate.

Currently, by regulation, any strata hotel with more than 20 units is in Class 6, unless it uses two or more management companies, each managing at least 16 per cent of the units. In this case, the complex defaults to Class 1, regardless of actual use. Since 1995, many strata hotels have used this methodology to be classified as Class 1 rather than Class 6.

Today, approximately 18,000 strata hotel units are in Class 1, while 5,000 are in Class 6. This has created inequity: hotels with almost identical use can pay dramatically different property taxes. Property owners have faced this inequity and continually increasing property taxes for over 15 years. Today, most hotels built in British Columbia are strata properties.

The changes announced support both current and new resort property development, and will potentially result in the construction of approximately 148,000 new bed units around British Columbia, based on analysis by the Ministry of Tourism, Sport and the Arts. The amendments support doubling tourism by 2015, the British Columbia Tourism Strategy objective of strengthening and attracting investment in the resort sector, and government's commitment to make just, fair and timely decisions.

In developing a new approach to strata hotels, government considered input from taxpayers, industry, municipalities and the ministries of Small Business and Revenue; Tourism, Sport and the Arts; Finance; and Community Services, who agreed any new approach must:

- Support the Resort Development Strategy in all regions of British Columbia.
- Support the Tourism Strategy and doubling tourism industry revenues by 2015.
- Improve customer service.
- Promote fairness and equity.
- Improve consistency in assessing conventional and strata hotels.

- Minimize financial impacts.
- Be administratively feasible for BC Assessment.
- Be consistent with the British Columbia Supreme Court’s ruling.
- No impact on existing Class 1 owners.

The new approach apportions value and classifies individual strata hotel units based on a split of actual use: Class 1 for residential use, Class 6 for short-term rental use. (Existing Class 1 strata hotels will see no change in the assessment approach for their properties.) Subject to meeting personal use requirements, unoccupied time will be classified as residential. The personal use requirement is demonstrated as follows:

- Owners of all units in the complex have the right to occupy a unit for a minimum of seven days during the year.
- Units are occupied by their owners at least seven days during the year.

Government, together with the tourism and resort sectors, commits to reviewing the Actual Use approach in late 2010, to assess impacts on taxpayers, the tourism sector and other stakeholders, such as municipalities. This approach meets the following criteria:

| <b>Criteria</b>   | <b>Actual Use</b>  |
|---|--|
| No increase in property taxes for existing Class 1 owners       | ✓ Existing Class 1 owners are not affected.  |
| Support Tourism and Resort Development Strategies               | ✓ Resolving the STOCAPs issue will potentially result in construction of 148,000 new bed units.              |
| Improve customer service  | ✓ Eliminates the need for multiple property managers on a go-forward basis.                                  |
| Minimize financial impacts                                      | ✓ The approach has a positive impact on Class 6 and no impact on Class 1.                                    |
| Promote fairness and equity                                     | ✓ Actual Use is fair and equitable on a go-forward basis, as properties will be assessed based on their use. |
| Improve consistency in assessing conventional and strata hotels | ✓ Taxes paid will be more consistent between Class 6 and conventional hotels.                                |
| Administratively feasible for BC Assessment                     | ✓ The approach is feasible.  |
| Consistent with court decision                                  | ✓ Actual use of unit taken into account in assessments   |

The new approach is consistent with a recent B.C. Supreme Court decision. Municipalities with a high proportion of Class 6 strata hotels may face minor revenue reductions as a result of the move to assess these properties based on their actual use. This will only be known once implementation provides actual results.

However, municipalities are well-positioned to deal with minor revenue impacts, for a number of reasons. The new approach will support resorts in keeping properties in rental pools, add certainty for strata hotel owners, likely contribute to more development and provide more job creation and economic activity.

British Columbia's robust economic activity is already providing municipalities with revenue from new construction and development – a record \$18.5 billion worth across British Columbia in 2006. Ultimately, new revenue opportunities are expected to accrue from new construction, which the stability and fairness of the new assessment approach will promote.

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