

FEATURE Double-whammy tax squeeze may threaten investors in key sector of B.C. resort developments

Hotel condos

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A potential change in the way the federal and provincial governments tax strata hotel investors has thrown a scare into British Columbia's resort industry, though some say the fears are overblown.

There are more than 700 resorts in B.C., but only a dozen of them have accommodation and, of these, strata hotel condos bolster the "bed units," a key measure of success.

BC Assessments estimates there are 11,000 hotel condos in British Columbia and half of these are at resorts such as Whistler, Sun Peaks and Big White. They are also popular at golf and beach resorts in the Okanagan and on Vancouver Island.

Under most strata hotel agreements, the investor is allowed to use their unit for about 36 days a year with the unit placed in the resort rental pool for the remainder of the

time. There are a number of variations, including whether the commercial operations of the hotel are tied in with the condo ownership and whether the rental pool is mandatory.

Hotel condos have never been a strong cash-on-cash investment – in fact lawsuits from disgruntled owners of early versions have shadowed the sector. Normally, the hotel developer charges a management fee of 45 per cent of income and, in some cases, owners have also had to help cover losses from a hotel's restau-

rant or other commercial activities.

The strata hotels are seen as vital to resort developers because, as banks fled the hotel market, individual investors were about the only way to finance the necessary short-term rental units that resorts need.

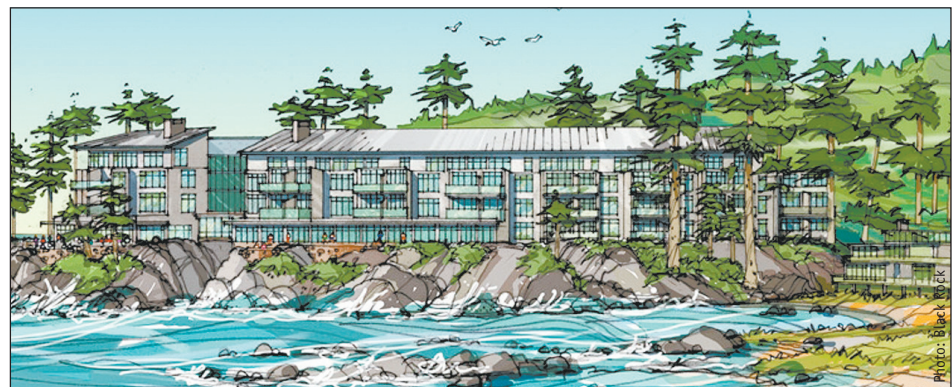
In most cases, BC Assessments rates the units in the residential category, which qualifies the owners for the lowest property tax rate. Also, since they could be claimed as commercial or investment property, the Goods and Services Tax (GST) on the purchase could be reduced or deferred through input tax credits for expenses.

But, in a decision expected before this Christmas, the province could change the property tax rating on hotel condos. The ruling relates to STOCAP (short-term overnight commercial accommodation property), which could affect strata hotel properties that are rented at least 50 per cent of time.

Worst case scenario, according to insiders, is the property could be deemed a Class 6 business property. In some municipalities, this would raise the property taxes four fold and destroy any chance of positive cash flow for most owners.

"This is a significant problem," said **Al Raines**, president of **NGR Resort Consultants Inc.** and owner/operator of Nancy Green's Cahility Lodge at Sun Peaks. Raines said that for a typical hotel condo owner at Sun Peaks, a change in the property tax bill could mean a net loss.

Appreciation in prices may offset property tax hike and GST



Black Rock on the West Coast of Vancouver Island is among the resorts sold as stratas within a rental pool under new arrangements which have removed some of the risk.

"The assessment could stay residential, it could be Class 6 or, which is more likely, it could be somewhere in between," said **Jimmy Spencer**, president of the **Canada West Ski Areas Association**.

"There has been a lot of consultation on STOCAP," said **Brian Currie** of the policy branch of the **B.C. Ministry of Small Business and Revenue**, who noted the government has been discussing the issue with industry and municipalities for at least five years. Some top resorts, such as Big White and Sun Peaks, are in rural areas, where only the provincial tax categories apply, added **John Peebles**, manager of policy evaluation with BC Assessments.

GST bill

The more immediate issue for owners is the spectre of a GST ruling that their hotel condo is indeed a residence, not a commercial venture.

Canada Customs and Revenue Agency is taking a close look at recreational rental condos to decide whether the owners warrant a GST deferment, according to Spencer. Currently, an owner is entitled to claim credits and obtain refunds for GST that has been paid on expenses

and fees if the unit has been available for rent at least 90 per cent of the time (personal use of 36.5 days). However, if the owner's personal use exceeds this, the owner is required to pay GST in proportion to that personal use. If, for instance, a \$500,000 luxury hotel condo was audited to be residential, the owner could face a GST tax bill of \$35,000.

Appreciation

Hotel condos are a good investment, some consultants argue, even with a higher tax bite.

The latest hotel condos offer a better deal for owners, and those who have bought in the past have seen impressive appreciation in value, noted **James Askew**, president of **Rare Earth Project Marketing** of Vancouver, who has worked with resort developers across B.C.

"Someone who bought a hotel condo at Whistler five years ago paid \$650 a square foot and now they are worth \$1,150 a square foot," he said.

Askew added that new arrangements, such as at the Black Rock resort in Ucluelet, separate the strata owners from the resort's commercial business, which removes some risk. ♦