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## The price of paradise takes a hit

Owners of vacation condos face soaring costs.  
Quarter-share property owners see taxes triple after  
assessor reclassifies them to business rate

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The price of paradise is rising precipitously for quarter-share owners in vacation properties, who are finding their taxes doubling and tripling after they buy.

Taxes on one vacation unit in a Vancouver Island resort jumped from \$3,800 to \$15,200 when BC Assessment changed its classification from residential to business in a shift that is hitting resort properties around the province.

At Pender Island's Poets Cove resort in the Gulf Islands, strata fees including taxes tack on almost \$1,100 a month to the cost of a quarter share in a townhouse that is listed for sale at \$229,000 for 12 weeks of occupancy a year.

Some buyers are signing up for fractional ownership in vacation homes only to find long after the deal is sealed that the residential tax rate has given way to business and their costs are much higher than they expected.

"The developer comes in, sells the project and sells the management of it to a management company and he takes all the profit and gets out of Dodge," said Errol Winter, real estate director at Crown Isle, a resort and golfing community at Courtenay on Vancouver Island.

"He's gone, the assessment comes in the following year, the taxes go through the roof and the management company is left holding the bag.

"People are yelling."

The controversy has prompted a review by the provincial government involving property taxes around short-term overnight commercial accommodation properties known more familiarly by the acronym STOCAP.

Larger resorts with more than 20 units and fulfilling rental conditions that trigger the business assessment are affected by the higher taxes. The rules are outlined in assessment regulations governing the classification of STOCAPs.

Developers and property owners are appealing the assessments but the regulations are against them. A group of Whistler owners, the Legends Owners Association, lost an appeal on the issue in 2005 in a decision that resonated throughout the industry.

"That Legends case at Whistler has set the tone in the property tax matter," said Phil Leseur, vice-president corporate and legal affairs at Bear Mountain, a destination resort in Victoria.

"The judge said if it looks like a hotel, smells like a hotel, is being operated as a hotel, it's taxed as a hotel."

Bear Mountain was successful in appealing one year that saw taxes on its quarter-share units hiked to a business classification, but Leseur said the company is still appealing that classification for another year and there is no guarantee what will happen with upcoming tax years.

While the difference between residential and business tax rates varies with municipalities, in Langford where Bear Mountain is located, Leseur said residential taxes are set at \$6.32 per \$1,000 of value for a property while business taxes are \$20.86 per \$1,000 of value, making business taxes three times pricier than residential.

Leseur said while there are some developers who may be gone before owners get the bad news on their taxes, he said in most instances the developments have large companies behind them that remain to run the property, as is the case with Bear Mountain.

"In our case, because we manage and we are still the owners, we are working through this issue," he said.

While some people in the industry are calling for a new assessment classification to recognize the fractional ownership properties -- a route taken by other jurisdictions, Leseur said opinion is divided on the issue. Owners of stratified hotels and accommodation favour a new classification while conventional hotel owners don't want what they see as their competition getting a break on taxes.

"One of the biggest problems you face with this issue is that there isn't a unified force out there in the hotel world; it is very divided, there are groups against groups internally," said Leseur.

Rick Thorpe, B.C.'s minister of small business and revenue, said while he can't comment on specific assessment appeals that are under way, it is clear the STOCAPs issue is on his ministry's agenda.

"I currently have a team working on that and what I can say is as we move forward we need the policy to be fair and equitable to property owners," said Thorpe.

At Crown Isle, the tax debacle prompted the company to call off a planned expansion of its quarter-share properties after 206 quarters were pre-sold.

"What happens now is basically instead of making any money, you are breaking even in terms of revenue, the money you would have been making to help offset some of the mortgage stuff; instead, you're writing a big cheque," said Winter of the buyers' dilemma when the tax hikes hit. "It makes it very difficult to make this a really viable thing unless you have lots of disposable income.

"It hurts the industry in general."

At Poets Cove, Peter Parmar, general manager of the resort and spa, said increasing costs are having a negative impact on resale values. He said there are currently about 12 sales listings among the 46 units and while he said some listings have been prompted by changes in circumstances for owners, others have come about as a result of the rising costs.

"Some people are selling because the costs are getting out of reach for them," said

Parmar, who said at his resort even an owner who bought all four shares in a property and opted not to put it in the rental pool has been hit by the higher assessment.

Along with increased taxes, that resort has also faced strata fee increases coming from such expenses as a new generator and other unexpected costs. He said the owners are appealing the taxes and Poets Cove is bringing in strata management to try and cope with the rising strata fee issue.

"Some of them have gone up double, both strata fees and taxes," said Parmar of the fees which are combined in a single monthly payment for each owner. "Where somebody was paying \$500, it has gone up to \$800 or \$900."

In one example, a cabin at Poets Cove saw taxes climb to \$9,095 in 2006, up from \$3,613 in 2004.

The Prescribed Classes of Property Regulation, BC Reg 438/81, provides for different classifications for STOCAPs.

Under that regulation, residential strata lots are assessed as business and other for tax purposes if 20 or more are:

- On one parcel or contiguous parcels.
- Used or available for overnight accommodation.
- Controlled or managed by a person who controls or manages 85 per cent or more of the strata lots.
- And are offered for rent overnight for periods of less than seven days for at least half the year.

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