

Briefing Note: Speculation and Vacancy Tax and Strata Hotels

Issue:

The regulation providing strata hotel unit owners with an exemption to British Columbia's Speculation and Vacancy Tax expires at the end of 2021. These units are a critical portion of B.C.'s lodging inventory and are not contractually or legally able to be rented for long-term housing nor used as a primary residence. They do not have potential for residential speculation.

Background:

- Strata hotels are properties where guest rooms (strata accommodation units) are owned by individuals who purchased them as part of a hotel or resort property.
- Strata hotel unit owners are bound by a legal disclosure document which is aligned with the zoning bylaws of the municipality or regional district where the hotel is located. In almost all cases, there is a covenant on title that restricts the strata lot from operating as anything but a hotel guest room.
- Under the Assessment Act, strata accommodation units are ones offered for rent as overnight accommodation for periods of less than 28 days and are considered to have commercial use and assessed accordingly.
- Strata accommodation units are prevented by contract or covenant from long-term rental or use as primary housing. Owners of the suites are not able to live in them as their permanent address nor to rent them out for residential purposes.
- The owner or co-owners of a strata accommodation unit made their purchase under the conditions in a disclosure document which simultaneously required the unit to be operated within a rental pool agreement and function as a hotel or resort.
- Strata accommodation property owners were provided exemptions from the speculation tax in the 2018 and 2019 tax years by regulation. An OIC enacted at the end of 2019 extended the exemption for the 2020 and 2021 tax years.

Analysis:

- Owners of strata accommodation units are not speculators in the housing market, nor are they speculating on the value of residential properties.
- These units were purchased with pre-existing conditions and covenants that forbid them from use or rental as residential housing.
- Owners are not able to individually rent their units out themselves through companies such as Airbnb. Instead, the suite/unit is part of the guest room inventory within a building under the exclusive control

of a hotel or resort-management company and treated as another hotel room in their inventory.

- Purchasers of the strata accommodation units are typically part of a “rental pool” where all revenues and operating costs from the functioning of the entire hotel are shared between all owners. The financial benefit to the unit owners is the return-on-investment derived from their share of the profit from the hotel or resort’s use of their unit.
- The majority of strata accommodation units are designed as “hotel rooms” for vacation rental. As they were not designed for residential occupancy, these units are not suitable for long-term use. Even if owners could legally rent them out for long-term housing, they don’t have the amenities required for this use.
- These units are a critical part of BC’s inventory of tourism accommodations and are essential to the recovery of the lodging and tourism sectors.

Potential Solutions:

- A new OIC extending the exemption permanently would protect the owners of these strata accommodation units and their contribution to the visitor economy, or
- Provide another time-limited exemption of two years in order to review the matter and identify a permanent resolution through regulation or legislation.