

# PROPERTY TAX CASE STUDY MANAGING GOVERNMENT

## The Client's Challenge

This investor owned a small portfolio of office buildings which it managed, together with a family operated entertainment business, from a central location. The family's leasing philosophy favoured gross leases: there were no surprises, the tenants knew their total rental commitments up front when they signed their lease. Unfortunately, Service New Brunswick, the provincial assessment authority, embarked on a program of increasing the realty assessments each year. The property owner's operating expense burden increased in lockstep; their net operating income steadily eroded. They turned to Turner Drake for advice.

## Turner Drake's Approach

Every year Service New Brunswick serves an Income and Expense Questionnaire on each investment property owner in the province, demanding that they disclose their operating statements. Failure to co-operate results in the property owner losing all right of appeal, no matter how invalid the subsequent assessment. Every year our client complied ... upon receipt thereof, Service New Brunswick promptly disallowed their actual management expense, substituting their own estimate instead. This is not uncommon. Despite the fact that few, if any, assessors have property management experience, or indeed any "hands on" real estate knowledge, they happily pick and chose which expenses they deem reasonable. It is usually a uphill battle to educate them that management costs are a function of the tenant and the rent. For example, government tenants are more management intensive than their private sector counterparts: and tenants pay higher rents in better managed buildings. Fortunately our Counselling Division surveys every office building ( $\geq 10,000$  ft.<sup>2</sup>) in each of the five major centres in Atlantic Canada, every six months. Our Property Tax Division utilised the data for the Greater Fredericton Area to analyse operating costs by age of building and services rendered.

## Winning Results

Using the data from our Greater Fredericton Office Survey we were able to establish that older and/or government tenanted buildings were much more management intensive than Service New Brunswick's "average" estimate. We were able to negotiate a reduction in the total assessment from \$8.8 million to \$8.0 million; resulting in realty tax savings of \$37,000/annum.

