

PROPERTY TAX CASE STUDY MOM & POP MOTEL

The Client's Challenge

This family operated motel and restaurant in New Brunswick struggled to make ends meet in the face of declining revenues. Increased competition, a declining tourist segment (particularly visitors from the United States) and increasing operating costs, including property taxes, took their toll. The provincial assessment authority, Service New Brunswick, insulated from the vicissitudes that daily challenge business owners such as our client, were unsympathetic. The assessment remained unchanged from the previous year despite a 13% drop in revenues. The owner turned to Turner Drake for help.

Turner Drake's Approach

Our Property Tax Division had an uphill battle. The New Brunswick Assessment Act stipulates that the assessment must be based on the market value of the property on January 1st of the assessment year, i.e. January 1st 2008. The Income Approach is one method of calculating market value. The net operating income (gross revenue less operating expenses) is converted into a capital (market) value by dividing it by the interest rate which correctly captures the "riskiness" of the investment. However the actual gross revenues and operating expenses have first to be "normalized" to reflect competent management. If the property is competently managed, as was the case here, no normalisation is required, actual revenues and expenses can be utilized in the calculation. Unfortunately civil servants usually have little or no understanding of business and are wont to assume that declining revenues and increasing operating costs lie at management's door, rather than being the result of matters beyond their control. In our experience mom and pop motels are very vulnerable to the changing economy. Many no longer meet the criteria necessary to obtain a mortgage, and this too is putting downward pressure on market values.

Winning Results

Turner Drake were able to prove that the declining fortunes of this motel and restaurant were systemic, not management specific, by demonstrating that the entire market segment was in decline. They were able to negotiate a 34% decrease in the property assessment. Unfortunately it was too late, the business went bankrupt.

