

PROPERTY TAX CASE STUDY ASSESSMENT CREEP

Our Client's Challenge

Our client's property, a mixed use development comprising offices, retail space and an hotel is an Edmunston city centre landmark. Its Realty Assessment had remained stable, or increased slightly each year in response to the general market adjustment factor deployed by Service New Brunswick, the provincial assessment authority, to commercial properties. We were concerned that this "assessment creep" did not properly reflect the change in value of the property and advised the owner to file an appeal.

Turner Drake's Approach

The New Brunswick Assessment Act mandates that a property's Realty Assessment has to be based on its market value on January 1st of the assessment year, i.e. January 1st 2008 in the case of this property. However assessment authorities such as Service New Brunswick (SNB) lack the expertise, manpower and software tools to appraise every property each year. They therefore rely on periodic re-valuations and "update" them in subsequent years by applying a *market adjustment factor*. The latter is meant to reflect the "average" price movement and is based on the sales of other commercial property in the locality. Even when there is adequate sales data, and the average is computed properly, it is a relatively meaningless figure since there is often little correlation between the price movements of different property classes because they appeal to different types of purchasers. Urban centres in Atlantic Canada are small, transactions are frequently few and properties are heterogeneous, so this relatively meaningless figure is, well... meaningless. Nevertheless it is expedient and to be fair Service New Brunswick is one of the few assessment authorities in Canada to make an effort to comply with its mandate. The subject property had been re-valued by SNB in 2005: subsequent years' assessments reflected "assessment creep". The property comprised 140,000 ft² of office and retail space, a 102 room hotel and a separate parking lot across the street. Using analytical software specifically designed for valuing this type of property we analysed the cash flows and compared the results with the assessor's computations. We then opened negotiations with the assessment authority.

Winning Results

We were able to demonstrate to Service New Brunswick that the assessment should be reduced by 16%, yielding tax savings of \$95,641 per year.

