

# PROPERTY TAX CASE STUDY FURNISHING INFORMATION

## Our Client's Challenge

Our client, one of the largest apartment owners in Atlantic Canada, was dissatisfied with their property tax burden. They had purchased this 151 unit apartment building in Fredericton at a price greater than its assessed value. The New Brunswick Assessment Act mandates that property has to be assessed at its market value on January 1<sup>st</sup> of the assessment year. A sale price is prima facie evidence of market value but such is not always the case ... It is important to understand the circumstances surrounding the sale to ensure the price was not influenced by factors other than the realty itself. Intangibles including management interests, portfolio premiums, special financing arrangements, and business value can often influence the price a knowledgeable purchaser is willing to pay. Furthermore, market values can change from year to year with changes in the market or the property's operating performance. In New Brunswick a property's Real & True Value must reflect the market value at the 1<sup>st</sup> of January of the year in question and is not the "value to the owner" but to any owner. Was there good evidence to support a reduction in the assessment? The client turned to Turner Drake for advice. André Pouliot of our Property Tax Division rose to the challenge.

## Turner Drake's Approach

The apartment building had been built in two stages, in 1968 and 1979. It had a concrete frame and was one of the largest apartment buildings in the province. The unit mix was biased towards couples without children; 68% of the units were bachelor and single bedroom apartments. The balance comprised two bedroom units. The building was part of a four building portfolio, sold to our client in 2007, comprising 292 units with a unit mix that ranged from bachelor apartments to three bedroom units. We carefully analysed the sale price, reviewing in detail the gross income, vacancy and each item of the operating expenses. These items were benchmarked, on a component basis, against data for comparable buildings. Our Compuval™ information technology platform of intelligent databases, allows us to disaggregate sale prices into their net income, debt service and cash flow components allowing us to analyse sales on a granular basis. In addition to being part of a portfolio at the date of the sale this property included a large number of apartments which were leased on a furnished basis the number of which had declined by the base date. We were able to show that the purchase price therefore included a component of business value which, under the Assessment Act, is not assessable.

## Winning Results

**During our negotiations with Service New Brunswick, the provincial assessment authority, we were able to demonstrate that the assessment included an element of business value. The assessment was reduced by 12%, thus yielding tax savings of \$35,619 per year to the property owner.**

