PROPERTY TAX CASE STUDY
HOTEL - VOLATILE VALUES

Our Client's Challenge

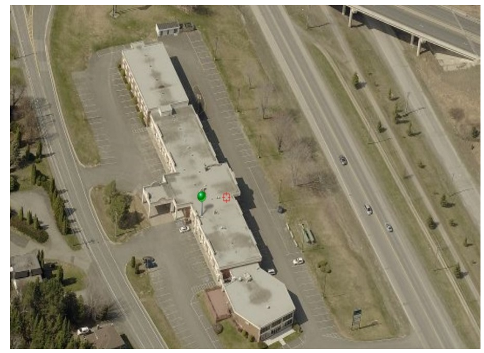
Our client, the owner and operator of a portfolio of hotels in the Atlantic Region faced a dilemma. His recently acquired New Brunswick property was not performing as expected. He'd taken steps to stabilise the operating income by reviewing expenses in each department. His last challenge was a review of his undistributed expenses. The largest line item was property taxes. Was there an opportunity to reduce this expense? His assessment was already less than his recent acquisition price but he wondered if the property's recent performance could provide a case for a reduced assessment and tax burden. He turned to Turner Drake for advice.

Turner Drake's Approach

Hotels combine tangible real property (land and buildings), tangible personal property (furniture, fixtures and equipment) and intangible personal property (flag, contracts, assembled workforce) to generate income. This combination of assets poses a challenge when it comes to estimating a property tax assessment which must only reflect the value of the operation's tangible real property. Depending on the operation, tangible real property can be a small or large proportion of the total.

In the case at hand, the first challenge was to determine how much relevance should be afforded to the recent acquisition. The assessment was already less than the sale price. As with any transaction, the devil is in the details. Sale prices in New Brunswick are recorded based on the consideration provided in exchange for the property, however the total consideration can often be enhanced by other parts of the sale agreement such as vendor financing or the assumption of favourable contracts or franchise agreements which will typically revert to market at a later date.

The second challenge was to determine if changes occurring after the acquisition might have impacted the value. Hotels are unlike other forms of real estate. Their "tenants" vacate the property on a daily basis making their revenue streams, and hence their values, more volatile than properties that have stable revenues tied to leases with tenants who commit to stay for five years at a time or more. Fluctuations in demand or new competition can significantly impact the property's revenues and its value.



Winning Results

A complete and thorough review of the assessment revealed there was a good case for a reduction in the assessment. Consultations with the assessment authority eventually resulted in a 29% reduction in the property tax burden.

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