

PROPERTY TAX CASE STUDY EXTINGUISHING TAXES

Challenge

The owner of this furniture store suffered a major loss when their building was destroyed by fire. When the flames were extinguished, the building was a total loss; however, the owners persevered, the building was reconstructed, and employees and customers celebrated their grand reopening. Unfortunately, the mood was dampened shortly thereafter. The owners were rewarded for their efforts with a 227% increase in their assessment. They turned to Turner Drake for advice.

Turner Drake's Approach

The property owners were not naïve. They correctly expected to see some increase in their assessment. Although the new building occupied the same footprint as the original, it incorporated many improvements. It was now more visible; it had higher ceilings in its retail and warehouse areas; offered customers a superior shopping experience. The issue, however, was that the new value exceeded the owners' investment in the property.

The majority of assessments for owner-occupied commercial buildings are calculated using a computerised costing program. The program provides an estimate of the building's current replacement cost; the assessor then extracts a depreciation rate from a table based on the building's age, condition, and life expectancy. Although replacement cost and value are not synonymous, the method allows the assessor to estimate values for properties in areas where sales of comparable properties are scarce. Since the building was now relatively new, Turner Drake focused on how the assessor estimated the building's replacement cost. One would expect that since the software generated a replacement cost that greatly exceeded the actual cost, there was defacto evidence that the building was overassessed. The assessor was not so easily convinced. The actual reconstruction cost excluded the slab and foundations, so the assessor assumed that the difference related primarily to the exclusion of those components. In order to satisfy the assessor, Turner Drake segregated the costs for several key components illustrating specific areas where the computerised model overstated the building's cost.

Winning Results

Confronted with objective criteria, the assessor ultimately agreed to process a change reducing the owner's tax load by 18% and producing a savings of \$16,800 per annum.

