

# VALUATION CASE STUDY LEVELLING THE PLAYING FIELD

## The Challenge

The Nova Scotia Assessment Act contains a “uniformity” provision mandating that properties have to be assessed (1) at their market value, (2) in a uniform manner. The latter has been interpreted by the Court to reference all the properties of like class in the municipality. The relevant Case Law has established that this can only be achieved by first ascertaining the “General Level of Assessment”, calculated by dividing the aggregate realty assessments, for those commercial properties which had sold two years prior to the assessment year (the “base date”) by the sum of their sales prices. Individual realty assessments are then calculated by multiplying their estimated market value by the General Level of Assessment. Homco Realty were on the horns of a dilemma; Service Nova Scotia (SNS), the provincial assessment authority, insisted that the General Level of Assessment was 96% ... the property’s 2001 Realty Assessment was \$5,555,300 and the owner had paid \$7,400,000 for the property in April 2000. Yet similar office buildings in Halifax’s Downtown core bore lower assessments per square foot. This placed 1741 Brunswick Street, the Homco property, at a competitive disadvantage. The matter was headed to the court of appeal, the Nova Scotia Utility Board. Professional help was urgently needed. Homco turned to Turner Drake for assistance.

## Turner Drake’s Approach

Turner Drake had to prepare a valuation report to support their case that the property was over-assessed. The market value at the base date was not in dispute: it had sold for \$7,400,000 a year later. Service Nova Scotia (SNS) insisted that it was unnecessary to apply the General Level of Assessment since it was 96%, close to the 100% level. Yet comparable office buildings were assessed at considerably less than their market value. Turner Drake suspected that SNS were cooking the books. However sales information was not public knowledge in Nova Scotia, only SNS had access to it. Until now! Because the case was set down for a hearing before the Utility Board, Giselle Kakamousias, the Vice President of our Property Tax Division and the valuer charged with preparing the valuation report and appearing as the expert witness, successfully applied to get details of the relevant 225 sales released. Each sale was then carefully examined to determine if it met the “Market Value (Value in Use) of the fee simple interest” criteria mandated by the Assessment Act and Case Law. The exercise required a fairly deep understanding of valuation principles, types of tenure and value. She discovered that SNS had discarded sales where the purchase was “a pension plan”, a “national purchaser”, or a “REIT” purportedly on the grounds that these purchasers were so lamentably lacking in sophistication and local knowledge they “paid too much”. SNS had also disqualified sales likely to have been appraised using “discounted cash flow”: by definition this disqualified virtually every office property sale in HRM.

## Winning Results

The Utility Board, in accepting Turner Drake’s evidence, categorised SNS’s actions as “systemic error” and scathingly commented that *“while the Director (of Assessment) not surprisingly appears content with a claimed level of assessment which is close to 100%, one of the ways the Director achieves this result is to automatically exclude sales which would otherwise lower it”*. They reduced the Realty Assessment to \$5,105,300, yielding an immediate tax saving of \$26,902/annum.

