PROPERTY TAX CASE STUDY
GRIST TO THE MILL

Our Client's Challenge

For our client, a building materials manufacturer located in New Brunswick, it was the perfect storm. Recessions in Canada, and their main export market, the United States had devastated demand in 2008. Then, as the recessions deepened the next year, the Canadian dollar strengthened against its counterpart south of the border. Demand from American customers continued to decline. Our client was forced to further curtail production. Sadly however, their property tax load did not follow suit. They turned to Turner Drake for advice.

Turner Drake's Approach

André Pouliot of our Property Tax Division took on the assignment. André had extensive experience with heavy manufacturing facilities, particularly in the forestry sector. He undertook a "head to heel" inspection of the property, noting the design capacity of the plant, production flow, age, size and construction. Service New Brunswick, the provincial assessment authority, used the Cost Approach to determine the Market Value on which to base their assessment. Essentially this Approach consists of first appraising the land by comparing it to sales of similar parcels. The reproduction cost new of the buildings is then calculated using costing manuals or a computerised system. This reproduction cost is then depreciated by the amount of its physical, functional and external obsolescence. The resultant dollar value of the buildings thus depreciated, is added to the land value to provide the Market Value, a.k.a. the assessed value, of the property. Most of this appraisal process is relatively benign; it is a mechanical method with little opportunity for the exercise of expertise. The principal weakness of the method however lies in the computation of the obsolescence. Service New Brunswick are diligent counters of bricks and sticks. Their reproduction cost calculations are usually correct. Since the physical depreciation is often a function of the building's age, it too is usualy calculated correctly. The identification and computation of functional obsolescence however, requires an understanding of the production process; something we study, but not alas Service New Brunswick. External obsolescence, depreciation in the value of the property due to factors which are external to the site, such as market demand for the plant's output, is a major factor during recessions, shifts in supply and demand for the plant's raw materials and finished product, and technological change. They were grist to André's mill particularly since total production was 38% below normal.

Winning Results

We were able to establish that the property was blighted with substantial external obsolescence and negotiate a reduction in the 2009 assessed value from $19,946,200 to $16,382,300 ... yielding annual tax savings of $162,424 (and 72 cents).

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