

VALUATION CASE STUDY AUTOMOBILE DEALERSHIP

The Challenge

This small automobile dealership with an excellent car manufacturer's franchise had enjoyed robust growth over the past decade. The future promised similar growth. The owners wanted to pass the fruits of their labours onto their children who were active in the business, and see it continue. They were concerned about the tax liability that would be triggered by their death and its impact on the sustainability of the business. They decided on an Estate Freeze to remove the uncertainty and requested that we calculate the Market Value of the real estate for use by their accountants.

Turner Drake's Approach

A member of our valuation team inspected the property. He obtained the legal description from the deed conveying the property to the current owner, verified that it still correctly described the property, and completed a site and boundary inspection. The interior and exterior of all buildings, and site improvements, were inspected, inventoried, measured and their condition noted. The assessment, zoning, planning and other pertinent data was obtained from the appropriate sources. There are three potential methods, the Cost, Income and Direct Sales Comparison Approaches, for calculating Market Value: all rely on the availability of reliable information on sales transactions ... without adequate data, an opinion is just a guess. Even though each valuation approach focuses on different property characteristics to arrive at Market Value, they are interdependent and feed into each other. Employing only a single approach is akin to the blind man describing an elephant (Google it!). We therefore deployed all three approaches. The Direct Sales Comparison Approach is the most accurate method for valuing automotive dealerships *provided there are other sales of comparable dealerships to use as a benchmark*. Sourcing that information in Atlantic Canada is very difficult even though the information is now public. Although sales information is available from public sources it contains minimal information about the property itself so we supplement it with information data gathered by our Valuation, Property Tax, Counselling and Brokerage Divisions and from other sources such as the MLS®, brokers, owners, vendors and purchasers. The information is enriched by site inspections using high definition satellite and ultra-high resolution, three dimensional photography. The data is then captured, integrated and analysed by CompuVal®, our proprietary information technology platform. The Income Approach methodology involves assigning a notional rent to each space in the dealership and then capitalising the aggregate rent into a Market Value using a discount rate that reflects the risk involved. CompuVal® had acquired and analysed a good quantity of rental and capitalisation data from other automotive dealership transactions: we were able to utilise this information to reliably deploy the Income Approach. The Cost Approach, the least reliable valuation method for this property, involves first computing the Replacement Cost New (RCN) and deducting therefrom the Physical, Functional and External Obsolescence's and then adding the outcome to the land value. Although the RCN was calculated utilising costing software, it was also validated with the actual costs of similar buildings. Physical Obsolescence (depreciation) is a function of the building's age and maintenance and was identified as part of our inspection process. Identifying Functional Obsolescence (impairment due to functional inadequacy vis a vis a modern, well designed, purpose built, structure) was ascertained by observation and discussions with the property owner. Under or over utilisation of the buildings due to lack or surplus of car sales and service business was determined by observation and a review of business trends with dealership management. This allowed us to measure External Obsolescence (the loss in value due to long term economic factors).

Winning Results

Turner Drake furnished the client with a comprehensive Valuation Report containing a detailed logic path (anchored by market data) to the Market Value conclusion, for use by their accountants in the estate freeze calculations.

