

VALUATION CASE STUDY

BUILDING A BETTER DEALERSHIP

The Challenge

This automobile dealership was in the throes of construction. It had to be valued in its “as complete” state, scheduled four months hence, for mortgage financing purposes. The property owner provided us with the building plans and specifications. Our valuation team rolled up their sleeves and went to work.

Turner Drake’s Approach

A member of our valuation team inspected the property. The steel frame and the majority of the exterior walls and roof were in place. The remainder of the site had been graded and the sub-base installed. Excellent plans and specifications were available affording easy conceptualisation of the finished property. The interior and exterior of the building was inspected and measured to confirm that it was in accordance with the plans and specifications provided to us. We 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 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. CompuVal[®], our proprietary information technology platform acquires, stores and analyses land sales and automotive dealership sales and rental data throughout Atlantic Canada and Ontario. The Direct Sales Comparison Approach, a method by which the real estate is valued by comparing it with the sale prices of similar property, was utilised to value the site. It is also the most accurate method for valuing automotive premises *provided there are other sales of comparable dealerships to use as a benchmark* and such was the case. The Income Approach methodology involves assigning a notional rent to each space in the dealership, comparing the aggregate with the actual rent and then capitalising the total 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, was also a reliable valuation method for this property since the building was new. It 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. The current construction costs were available and verified by our costing system. This was a modern, purpose built dealership: there was no Physical, Functional or External Obsolescence.

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 the finance company’s underwriters.

