

VALUATION CASE STUDY ON THE TRAIL

The Challenge

Once a Publicly Accountable Enterprise [PAE] decides to “mark to market” their Investment Property [IAS40] by switching from the (historic) Cost Model to the Fair Value (Market) Model they have to value the asset every year. But how do they do so economically without sacrificing accuracy? This was the challenge faced by a life insurance company for their large mixed use (office, shopping centre, hotel) property. They turned to Turner Drake for the solution.

Turner Drake’s Approach

Rather than offer a “one size fits all” approach, we have developed seven distinct valuation products, each tailored to fit a specific client requirement. All comply with the Royal Institution of Chartered Surveyors’ Global Valuation Standards (RICS Red Book), the International Valuation Standards (IVS), the American Uniform Standards of Professional Appraisal Practice (USPAP) and the Canadian Uniform Standards of Professional Appraisal Practice (CUSPAP). Since this exercise promised to extend over several years our approach focused on preparing a comprehensive report on the property in the first year, with update reports for subsequent years. The comprehensive report would catalogue the fiscal, physical, and legal attributes of the property in detail: as well as its value. The update reports would detail the changes that had occurred to those fiscal, physical and legal attributes since the prior report, as well as providing a Fair (Market) Value supported by a well documented logic path and market data. Our Valuation Report would fulfill the role for the first year assignment. A *complete* report issued in *summary* format, it is suitable for all real estate assignments other than litigation and conduit financing. Its use is *unrestricted*, so it can be relied upon by any named party. For subsequent years an Update Report would be sufficient. This is a *complete* valuation issued in *restricted* format: it can only be completely understood if it is read in conjunction with the initial Valuation Report. Its use is therefore *restricted to the client* or to parties in *possession of both reports*. Update Reports can only be issued if we have a Master Valuation or Valuation Report on file and, (1) there has been no change in real estate ownership, (2) there has been no significant change in the real estate, (3) the time period between the effective date of the Master Valuation or Valuation Report (or the most recent Update) is not unreasonably long for the type of real estate involved. They are therefore ideally suited for re-valuations at yearly intervals such as those required for the IFRS.

Winning Results

We provided our client with a Valuation Report in the initial year together with Update Reports for subsequent years. Each report contains a Fair (Market) Value conclusion fully supported by detailed calculations, an audit trail and market data, for use by their Auditors for IFRS purposes.

