

# VALUATION CASE STUDY STRIP ASSETS

## The Challenge

The owner of this 105,000 ft.<sup>2</sup> Strip Plaza containing ground floor retail with offices above and two free standing units utilised for a bank and pharmacy, decided to declare their asset at its Fair Value under the International Financial Reporting Standards (IFRS). They turned to Turner Drake for valuation advice.

## Turner Drake's Approach

IFRS provides that real estate assets may be valued at their "Fair Value" (a term synonymous with "Market Value") and further recognises that Investment Property [IAS40], assets held to earn rental income or for capital appreciation, have to be valued at Market Value (Highest and Best Use). Our valuation team obtained the assessment, zoning and planning information from the relevant authorities, noting that the site fell under the flight path for the Shearwater Naval Air Station which posed height restrictions for any redevelopment. They secured a copy of the deed conveying the property to the present owner together with a survey plan noting the location of the service easements impacting the site, and the burden and benefit of reciprocal access and parking easements. They carried out a site inspection, verified that the "operational" boundaries were congruent with the legal description, measured and recomputed the lot size and verified that it was 7.94 acres. The exterior of the building was inspected, measured and inventoried. The gross leasable area was computed and the rental area supplied by the property manager was confirmed as being within acceptable tolerance levels. They were able to inspect and inventory all of the interior common areas and 75% of the tenant suites. A random sample of 10% of the tenant suites were measured, and their Usable Areas calculated and compared with the leases to ascertain whether the area shown fell within an acceptable 5% variance. Our valuation team reviewed the master lease agreement and every lease summary to confirm that it matched the rent roll. The most recent operating expenses provided by the property manager were compared, by individual cost category, against the operating history to determine cost trends ... and against comparable properties to verify that they were reasonable. 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 and rental transactions. CompuVal<sup>®</sup>, our proprietary information technology platform acquires and integrates sales, rental, operating expense, and vacancy data from multiple sources and includes analytical tools to benchmark the sales and rental data, operating expenses (by category) and discount rates, and to run trend line analyses. We deployed CompuVal<sup>®</sup> and our costing system to value the property by the Income, Direct Sales Comparison and Cost Approaches.

## Winning Results

**Turner Drake furnished the client with a comprehensive Valuation Report containing a detailed logic path (anchored by market data) to the Fair (Market) Value conclusion, for use in their financial statements.**

