

VALUATION CASE STUDY STRIP PLAZA

The Challenge

This Strip Plaza was located on a corner lot at the entrance to a white collar subdivision. The site had good exposure to a heavily trafficked four lane collector highway which serviced many residential subdivisions in this suburban area of Halifax Regional Municipality. Although the property did not have direct access to the collector highway, the “cross roads” intersection was controlled by traffic lights and there were turn lanes. The Strip Plaza’s trade area was therefore largely centred on the surrounding subdivision with some passing traffic from the southbound lane of the collector highway. The property owner wanted a valuation of the property for financing purposes. They retained Turner Drake to complete the assignment.

Turner Drake’s Approach

A member of our valuation team obtained the legal description from the deed conveying the property to the present owner and a survey plan. He then completed a site and boundary inspection to verify that the conditions on the ground were congruent with the legal description. The exterior and interior of the building was carefully inspected, measured and inventoried in detail. The gross leasable area was calculated and compared to that included in the tenant leases to verify that the leasable areas shown therein were accurate. The three potential methods for calculating Market Value are the *Cost*, *Income* and *Direct Sales Comparison* Approaches. The Uniform Standards of Professional Appraisal Practice stipulate that *at least two Approaches* be utilised unless the real estate is a “special purpose” property which does not normally sell on the open market. This is required because, 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 the *Income* and *Direct Sales Comparison* Approaches to value the property. We read every lease, offers to lease and supporting documentation in the property manager’s files. The actual operating expenses were compared, on category by category basis, with those of similar strip plazas. The accuracy of any valuation is dependent, not only on the competency of the individual undertaking the assignment, but (and this is critical) access to reliable sales and leasing data ... without adequate, analysed data, an opinion is just a guess. It is expensive and difficult to acquire, process and analyse this type of information in Atlantic Canada which is why we have built CompuVal®, a family of intelligent data bases that “talk” to each other, and external databases across the Internet. This proprietary information technology platform acquires and integrates sales, rental, operating expense, and vacancy data from multiple sources and is built on top of our Geographic Information System (GIS). CompuVal® includes analytical tools to analyse the sales and rental data, operating expenses (by category) and discount rates, and to run trend line projections. It includes a purpose designed module to analyse investment property sales (shopping centres, office buildings, industrials, hotels, apartments) and extract six types of discount rate from each transaction for use in our valuation of this type of property. We used these resources to value this property.

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, which they used to secure financing.

