

VALUATION CASE STUDY THE JOURNEY OF LEARNING

The Challenge

Dalhousie University was to acquire the assets of the Nova Scotia Agricultural College in Truro from the provincial Department of Agriculture for \$1. Generally accepted accounting principles (GAAP) for not-for-profit entities afforded the opportunity to record the land and buildings at Fair Value on the August 31st 2012 acquisition date. The university turned to Turner Drake for advice.

Turner Drake's Approach

The campus was spread over 155 acres and accommodated 54 buildings and other structures on 16 lots. The buildings comprised 781,200 square feet of classrooms; lecture theatres; barns; manure, pesticide and herbicide storage; laboratories; research facilities; greenhouses; and administrative offices; as well as a dairy, vet clinic, library and day care. They also included 3 Student Residences containing 470 beds. The buildings ranged in age from 1909 to 2009. The landscaped grounds contained car parks, a sports field (with sprinkler system) and garden. Accuracy, credibility, cost and speed of execution were key to the successful completion of the assignment. Following consultation with the university's auditors all parties agreed that our *Concise Report* best met their requirements by providing the necessary information at the lowest cost. The university's real estate department had current lot and building plans so our valuation team used them during their detailed inspection of the interior and exterior of the buildings. They also took check measurements to verify that the plans were "as built", and inventoried missing attributes. The land was valued by the Direct Sales Comparison approach, utilising sale prices of other lots and acreage in the locality as the benchmark. The buildings occupied for university use were valued by the Cost approach, a procedure recommended by the International Valuation Standards for properties that do not normally transact on the open market. This method involves first computing the Replacement Cost New (RCN), deducting therefrom the Physical, Functional and External Obsolescences, and then adding the outcome to the land value. 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 à vis a modern structure) was ascertained by observation and discussions with university staff. Under or over utilisation of the buildings due to lack or surplus of students, population and fee trends, allowed us to measure External Obsolescence (the loss in value due to long term economic factors). The Student Residences were valued by the Cost and Income approaches. The university treated these properties as income centres and provided us with revenue and expense data, which we verified by comparing it with data from apartment buildings captured by CompuVal®, our proprietary IT platform: its analytical tools allowed us to compare each expense category by apartment unit and percentage of effective gross income, and to run trend line analysis. It also extracted up to six types of discount rates from each analysed sale for use in the capitalisation process.

Winning Results

Turner Drake furnished the university's auditors with a *Concise Report*, with Fair Values for each property anchored by market data, for use in their financial statements.

