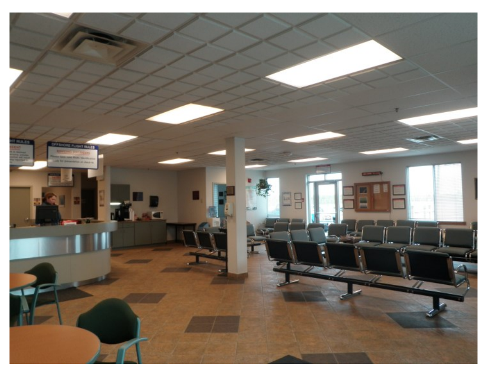
VALUATION CASE STUDY
AIRCRAFT HANGAR

The Challenge

This modern 34,000 ft.^{2} aircraft hangar and associated offices was surplus to requirements. The building had been erected on four acres of land sub-leased from the airport authority (sandwich leaseholder), which in turn leased it from Transport Canada under a head lease. This “bare land” sub-lease was originally for 30 years with the possibility of renewal for a further 20 years if this was necessary “to capture the remaining economic life of the building”. The ground lease stipulated rent reviews at 5 year intervals, based on “the increase in market rental values for commercial and industrial land in the greater metropolitan area”. None had been requested during the first 10 years of the lease even though land values had increased. Part of the hangar had been sub-leased for a five year term to a fixed wing operator. The sub-lessee wanted to determine the value of its leasehold interest for disposition purposes. Our valuation team rolled up their sleeves and went to work.

Turner Drake’s Approach

A member of our valuation team secured a copy of the “bare land” sub-lease to the sub-lessee, including a survey plan, and reviewed it. They then completed a site and boundary inspection to confirm that the conditions on the ground were consistent with the land actually sub-leased. The exterior and interior of the hangar and flight based operations were inspected, measured and inventoried in detail. The area of the hangar which was further sub-leased to the fixed wing operator was measured and its leasable area calculated and verified against the lease document. Assessment, zoning, planning and other pertinent data was obtained from the appropriate authorities. 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 lease transactions … without adequate data, an opinion is just a guess. Since we were valuing a Leasehold Interest, rather than the Fee Simple, the most applicable valuation method was the *Income Approach*. However the sandwich lessee had not chosen to exercise their five year rental review clause during the initial 10 years of the lease so we had to assign a probability that this would change during the balance of the 40 year term. All of the North American and International Valuation Standards 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. In addition to the *Income* method we therefore also deployed the *Cost Approach* to value the property (this incorporates the Direct Sales Comparison Approach to value the site). It involved 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 original construction costs were available and these were indexed up to the effective valuation date and then verified by our costing system. The resulting fee simple value was then adjusted to reflect the sub-lessee’s leasehold interest by deducting the value of the sandwich and the head lessor’s leased fee interest.



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 of the Leasehold Interest, for use by leaseholder in their disposal decision.

TURNER DRAKE & PARTNERS LTD.
Real Estate Counsellors, Brokers and Valuers
personal, professional, productive
registration to ISO 9001:2015