

# VALUATION CASE STUDY BETTER TOGETHER

## The Challenge

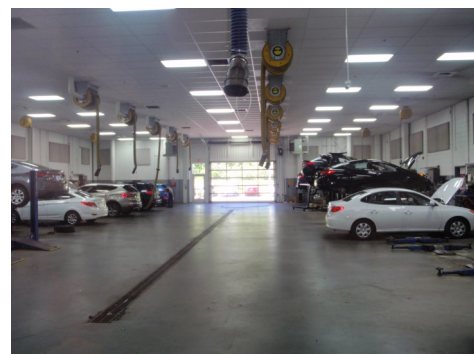
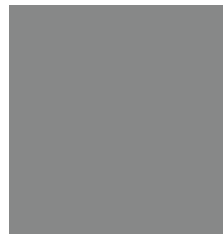
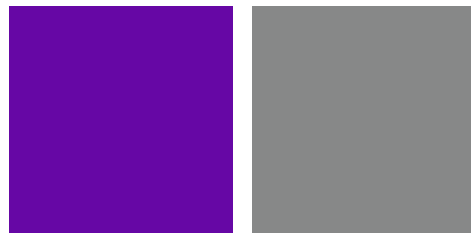
The theory of cumulative generation posits that “A given number of stores dealing in the same merchandise will do more business if they are located adjacent to, or in the proximity of, each other than if they are widely scattered”. This still holds true for automobile dealerships even though the Internet has moved most of the selection decision from the showroom to an iPad or smart phone. By grouping together, automobile dealerships expand the size of their catchment area and increase their depth of penetration ... so their aggregate business is greater together than apart. Our client had capitalised on this theory by siting three automobile franchises and a pre-owned car facility together on a street which already hosted other dealerships. They needed a real estate valuation report acceptable to their mortgage underwriters. Our valuation team rolled up their sleeves and went to work.

## Turner Drake's Approach

Members of our valuation team inspected the property. They obtained a survey plan from the owner, compared it with provincial on-line registry information to verify that it was still current, and completed an inspection of the 15 acre site and its boundaries. The four automobile dealerships comprised 124,000 ft.<sup>2</sup>. The interior and exterior of all buildings, and site improvements, were inspected, inventoried, measured and their condition noted, all in detail so that they could be costed by our building cost system. The assessment, zoning, planning and other pertinent data was obtained from the appropriate sources. 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. CompuVal<sup>®</sup>, our proprietary information technology platform acquires, stores and analyses land and automotive dealership sales, and rental data, on transactions throughout Atlantic Canada and Ontario. The Direct Sales Comparison Approach, a method by which the real estate is valued by benchmarking it against the sale prices of similar property, was utilised to value the site. It is the most accurate method for valuing automotive dealerships *provided there are other sales of comparable dealerships to use as a benchmark*. Because of the size of the facility we extended our search for similar sales to include all of Atlantic Canada and Ontario. The Income Approach methodology involves assigning a notional rent to each space in the dealership, and then capitalising the total rent into a Market Value using a discount rate that reflects the risk involved. CompuVal<sup>®</sup> had acquired and analysed a good quantity of rental and capitalisation data from other automotive dealership transactions as well as similar properties in the same locality: we were able to utilise this information to reliably deploy the Income Approach. The Cost Approach, was also a reliable method for calculating Market Value since the buildings were modern and well maintained. It involved first computing the Replacement Cost New (RCN) and deducting therefrom the Physical, Functional and External Obsolescences and then adding the outcome to the land value. The replacement costs of the buildings and site improvements were generated by our costing system. (We continuously monitor actual construction costs and have developed indices to adjust the system generated costs to local conditions). Since these were a modern, purpose built dealerships: there was no Functional or External Obsolescence. Physical depreciation was consistent with age.

## 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, for use by the finance company's underwriters.



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