

# VALUATION CASE STUDY

## RENTAL VALUE

### The Challenge

This 42,000 ft.<sup>2</sup> industrial building had been leased to a single tenant for over 20 years. The lease term was about to expire: the tenant was interested in renewing their lease. In order to facilitate the rental negotiations the landlord wanted an independent opinion of the Market Rent. They retained Turner Drake to complete the assignment.

### Turner Drake's Approach

A member of our valuation team analysed the existing lease and noted that it was on a "net absolute to landlord basis" i.e. the tenant paid the property taxes and all operating expenses. The new lease was to be on the same basis. Our team member secured a copy of the legal description conveying the property to the present owner, together with a survey plan. He then completed a site and boundary inspection to confirm that conditions on the ground were consistent with the land actually leased and that the land area was the stated 3.9 acres. The interior and exterior of the building was inspected, measured, photographed and inventoried in detail. The rentable area was calculated in accordance with the BOMA-SIOR Standard Method of Measurement for industrial buildings to verify the area shown in the lease. The tenant was interviewed to determine if there were latent or non-apparent building or site defects. Assessment, zoning, planning and other pertinent data was obtained from the appropriate authorities. Market Rent in this instance was *"the estimated amount for which the property should rent on the lease renewal date, assuming a willing lessor and lessee, on a net absolute to landlord basis in an arm's length transaction, after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion"*. The Direct Comparison Approach, whereby the property was benchmarked by comparing it with the rental rates obtained for similar property, was utilised to determine Market Rent. Unfortunately rental rates are not public knowledge in Atlantic Canada. However, our Economic Intelligence Unit undertakes office and industrial space surveys every six months in each of the six major metropolitan areas in the region: they capture rental, operating expense and vacancy data on every building, with a total rentable area of 5,000 ft.<sup>2</sup> or more, that is available for rent. This information, together with other rental and operating expenses data captured by our Property Tax and Valuation Divisions as part of their work assignments, is recorded in CompuVal<sup>®</sup>, our proprietary information technology platform. Indeed every assignment, including this rental valuation, includes a data gathering process which involves contacting industry sources such as leasing brokers, landlords and tenants, to enrich CompuVal's<sup>®</sup> family of intelligent data bases. CompuVal<sup>®</sup> includes tools to analyse the rental and expense data (by category) and runs trend line analysis on it, and the vacancy rate information, to allow us to determine whether we are in a "landlord" or "tenant" market ... and whether that is going to change.

### Winning Results

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

