

VALUATION CASE STUDY

THE F WORD

The Challenge

On January 1st 2011, Canada joined more than 100 countries, including Australia, the European Union, Hong Kong and New Zealand, that had adopted the International Financial Reporting Standards (IFRS). Other countries have since adopted the IFRS, the better to provide consistency and transparency as the world moves increasingly towards a global economy. Under IFRS, Publicly Accountable Enterprises (publicly traded companies, credit unions, insurance companies, trusts, REITs) are given the option to “mark to market” assets such as real estate, and to declare them at “Fair Value” on their financial statements each year. Our client, a pension fund, wanted to take advantage of this option and so required a valuation of their “Investment Property [IAS 40]: our Valuation Division answered the call.

Turner Drake's Approach

The International Valuation Standards Council considers Fair Value to be synonymous with Market Value, i.e. *“the estimated amount for which a property should exchange on the date of valuation between a willing buyer and seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”*. In other words, value in exchange. Although there are potentially three methods, the Cost, Income and Direct Sales Comparison Approaches, for calculating Market Value, all rely on the availability of reliable information on sales transactions ... without data, an opinion of value is simply a guess. Even though each valuation approach focuses on different property characteristics to arrive at Market Value, they are interdependent and feed off each other. Employing only a single approach is akin to the blind man describing an elephant (Google it!). We therefore deployed all three approaches. However since investment properties are generally acquired on the basis of their income generating capability this was our primary approach. The Income Approach is critically dependent on the availability of reliable data on rents, vacancy, operating expenses and discount rates, not just from the property being valued, but also on comparable properties that have sold recently. Our Valuation and Property Tax Divisions capture this data daily as part of their consulting work. In addition our Economic Intelligence Unit conducts semi-annual surveys on office and industrial space and undertakes bespoke parking revenue and operating expense studies throughout the region. CompuVal[®], our proprietary IT platform acquires, integrates and analyses this data allowing us to benchmark the rental, operating expenses (by category) and discount rates, and to run trend line analyses. CompuVal[®] includes a purpose designed module to analyse investment property sales and extract six types of discount rate from each transaction.

Winning Results

Turner Drake furnished the client with comprehensive Valuation Reports with a detailed logic path to the Market Value conclusion anchored by market data, for each property in their portfolio.

