

VALUATION CASE STUDY CAPITAL GAINS

The Challenge

The Executors of this Estate faced an insuperable challenge: establish the value of the property as of 31st December 1971 ... and do so to the satisfaction of the Canada Revenue Agency. How do you ascertain a property's former value, 36 years ago, and in a Province where sales information is not in the public domain? The Executors turned to Turner Drake for advice.

Turner Drake's Approach

Turner Drake commenced operations in October 1976 and immediately started to build a sales database. Because 31st December 1971 was the base date for Capital Gains Tax, they scoured the real estate community to locate sales agents who had maintained records dating back to the late 1960s. Turner Drake purchased the data and then continued to add sales information captured each month from the Halifax Dartmouth Real Estate Board. In 1978, with assistance from Professor Bob Knitter of the University of Wisconsin, Turner Drake implemented one of the first computerised real estate databases in North America. Today their Compuval™ databases contain over 160,000 transactions. Residential property prices have been tracked every month since January 1970, thus allowing Turner Drake to build a monthly Property Price Index spanning almost 40 years. In 1978 they acquired the library of a regional planning firm, and with it the zoning and servicing records for most of the area's municipalities. Turner Drake also compiled 31st December 1971 building cost data. Armed with this date, the firm's Valuation Division rolled up its sleeves and went to work.

Turner Drake searched the title to determine the property boundaries and lot size. They inspected the property, noted that the original structure had been built in 1905, and added to in 1929. In order to determine its physical state on 31st December 1971, they used the Freedom of Information Act to obtain a copy of the assessment records. These indicated that the property had been extensively renovated in 1971, and no other renovations, other than a small solarium added in 1995, had occurred since then. This information was confirmed by the property manager. A review of the zoning records revealed that the Municipality did not adopt a planning strategy until 25th March 1976, so the property was not zoned on the base date. Similar investigations of the servicing disclosed that sewer services were not installed until 1993, but electrical service was available and connected to the property. Having thus established the physical state of the property on 31st December 1971 Turner Drake's sales database was polled to locate vacant lot and property sales in the locality, which had occurred close to the base date. Since some of these sales occurred prior to and after the base date, they were "time adjusted" using Turner Drake's Price Index. The property was then valued by the Direct Sales Comparison approach using the time adjusted sales information. Turner Drake's Valuation Division then utilised their building cost system, calibrated to the base date, and the time adjusted lot prices, to compute the value by the Cost Approach.

Winning Results

Turner Drake furnished the client with a well documented Valuation Report on the property's physical and legal attributes as of the 31st December 1971 base date. The Report established the value of the property as of that date, and supported the value conclusion with base date sales and cost data.

