

# VALUATION CASE STUDY NEIGHBOURHOOD SHOPPING CENTRE

## The Challenge

This Neighbourhood Shopping Centre was to be located on a corner lot at the entrance to a prestigious golf course community. The property developer wanted a valuation of the property, constructed and fully leased, for financing purposes but had not chosen their mortgage supplier. They retained Turner Drake to complete the assignment.

## Turner Drake's Approach

The execution of the assignment and the report had to be acceptable to the, as yet, unselected mortgage underwriters. All of our reports comply with the Royal Institution of Chartered Surveyors' Global Valuation Standards (RICS Red Book), the International Valuation Standards (IVS), the American Uniform Standards of Professional Appraisal Practice (USPAP) and the Canadian Uniform Standards of Professional Appraisal Practice (CUSPAP). The RICS Red Book, the most comprehensive of the various Standards, now requires that we comment *"on the suitability of the property for secured lending purposes"* when this is the intended use of the valuation report and identifies the matters to be addressed. This information would be incorporated in our valuation report for use by the mortgage underwriters. A member of our valuation team inspected the site and completed a site and boundary inspection. The drawings of the proposed structure and site improvements, together with the construction specifications, were supplied by the developer. The three potential methods for calculating Market Value are the Cost, Income and Direct Sales Comparison Approaches. All of the Standards require that at least two Approaches be deployed unless the real estate is a "special purpose" property which does not normally sell on the open market. We therefore deployed all three Approaches to value the completed development. The accuracy of any valuation is dependent on the competency of the individual undertaking the assignment *and* access to reliable sales and leasing data ... without adequate data, an opinion is just a guess. It is expensive and difficult to acquire, process and analyse this type of information in Atlantic Canada which is why we have built CompuVal<sup>®</sup>, a family of intelligent data bases that "talk" to each other, and external databases across the Internet. This proprietary information technology platform acquires and integrates sales, rental, operating expense, and vacancy data from multiple sources and is built on top of our Geographic Information System (GIS). We used the foregoing resources to value this Neighbourhood Shopping Centre by the Income and Direct Sales Comparison Approaches. The Cost Approach, was also a reliable valuation method for this property since the building would be new. It involves 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. We used our costing system to generate the RCN. Since this would be a modern, purpose built shopping centre there was no Physical or Functional Obsolescence. The property had good exposure to a heavily trafficked highway: there was no External Obsolescence.

## 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, which they used to secure financing.

