

VALUATION CASE STUDY UNIVERSITY CAMPUSES

The Challenge

Our client, a university, wanted to take advantage of the new generally accepted accounting principles (GAAP) for not-for-profit entities to re-measure their land and buildings at Fair Value on the April 1st 2011 transition date. The university turned to Turner Drake for advice.

Turner Drake's Approach

The three campuses were spread over 82 acres and accommodated 74 buildings on 81 lots. The buildings comprised almost 4 million square feet of classrooms, lecture theatres, laboratories, libraries and administrative offices, as well as an arts centre, gymnasium and student union building. They also included 14 Student Residences containing 1,750 beds. All had to be valued at Fair Value, in this instance a definition equivalent to Market Value (Value in Use). Accuracy, credibility, cost and speed of execution were key to the successful completion of the assignment. Following consultation with the university's auditors all parties agreed that our *Concise Report* best met their requirements by providing the necessary information at the lowest cost. The report contains a statement of our findings and conclusion but our notes and working papers are held on file rather than being in the report. Its use is therefore *restricted to the client, or their professional accounting advisors*. Fortunately the university's real estate department had current lot and building plans: our valuation team got to work. They inspected the interior and exterior of all buildings, took check measurements to verify that the plans were "as built", and inventoried missing attributes. The land was valued by the Direct Sales Comparison approach utilising sale prices of other lots subject to Park and Institutional zoning, as the benchmark. The buildings occupied for university use were valued by the Cost approach, a procedure recommended by the International Valuation Standards for properties that do not normally transact on the open market. This method involves first computing the Replacement Cost New (RCN), deducting therefrom the Physical, Functional and External Obsolescences and then adding the outcome to the land value. Physical Obsolescence (depreciation) is a function of the building's age and maintenance and was identified as part of our inspection process. Identifying Functional Obsolescence (impairment due to functional inadequacy vis à vis a modern structure) was ascertained by observation and discussions with university staff. Under or over utilisation of the buildings due to lack or surplus of students, population and fee trends, allowed us to measure External Obsolescence (the loss in value due to long term economic factors). The Student Residences were valued by the Cost and Income approaches. The university treated these properties as income centres and provided us with revenue and expense data, which we verified by comparing it with data from apartment buildings captured by CompuVal®, our proprietary IT platform: its analytical tools allowed us to compare each expense category by apartment unit and percentage of effective gross income and to run trend line analysis. It also extracted up to six types of discount rates from each analysed sale for use in the capitalisation process.

Winning Results

Turner Drake furnished the university's auditors with a *Concise Report*, with Fair Values for each property anchored by market data, for use in their financial statements.

