

Seminar Description

This seminar is an advanced treatment of valuation topics that are introduced in the Appraisal Institute's seminar entitled *Partial Interest Valuation—Undivided*. It is intended for appraisers who have taken that seminar or who have a background in business valuation and are familiar with limited partnerships.

This seminar is divided into six parts and presented over two days. Part 1 is a short review of fundamental valuation concepts. In Part 2, participants begin the limited partnership case study, which continues through Part 4.

Participants learn how to develop the discount for lack of control in Part 3. In Part 4, they develop the discount for lack of marketability and conclude the limited partnership valuation.

Part 5 begins the common tenancy case study by reviewing an abbreviated version of Part 2 as it applies to common tenancy. Part 6 concludes with the valuation analysis.

Real property as the underlying asset is emphasized throughout the seminar. Many of the business valuation concepts are tailored and simplified, which enables the seminar to provide a very specific and in-depth treatment of the valuation issues.

Part 1

- Reviews the ownership forms that give rise to undivided partial interests—partnerships or limited liability companies, corporations, and concurrent interests.
- Reviews the levels-of-value concept and how it varies depending on the ownership form being valued.
- Covers application of Revenue Ruling 59-60 to the valuation problem.

- Reviews interdisciplinary USPAP issues in detail.
- Discusses the market for undivided interest valuations.

Part 2

- Begins the limited partnership case study with an overview of the valuation/appraisal process and a definition of the valuation problem.
- Examines the approaches to value with careful attention to when and why each should be used.
- Presents the case study with a description and analysis of the partnership and its controlling agreement.
- Examines specific information needed from the real estate appraisal and reconstructs the income statement.
- Analyzes the balance sheet and concludes the net asset value of the partnership.
- Concludes with developing the net asset value of the whole.

Part 3

- The first of two steps in developing discounts associated with limited partnership interests.
- The discount for lack of control addresses the interest's reduced control and its effect on value.
- Begins with an expanded discussion of levels of value, a review of data sources, and then a detailed process for developing the discount using data taken from the public limited partnership secondary market.

- Demonstrate a graphic method for developing the discount for lack of control, and participants arrive at a value for the limited partnership minority interest *as if it were freely traded on the open market*. The interest is privately-held, however, causing its marketability to be impaired.

Part 4

- The second discounting step—the analysis of the discount for lack of marketability.
- Begins with an expansion on the earlier discussion of levels of value, and then reviews several valuation approaches that can be used and how they are related. Data sources consist largely of market impairment studies and are examined in detail.
- Breaks down the factors that most strongly influence value—expected holding time and investment risk—which have many contributing elements.
- Demonstrates an income approach in detail and then concludes value.

Part 5

- Repeats the topics of Part 2 with the same property, ownership, and other circumstances, but with the ownership structure changed to simple common tenancy.
- Begins with an overview of the valuation/appraisal process and a definition of the valuation problem.
- There is no entity to analyze, but the real estate appraisal is unchanged, and the income statement and balance sheet developed are based on the same principles that applied for the limited partnership case.

Part 6

- Explains the discounting process.
- Gives a good deal of attention to the rights and obligations of tenants-in-common, the reasons one may wish to buy or sell such an interest, and the right to bring a partition action, which figures so prominently in analysis of such interests.
- Revises the earlier discussion of levels of value.
- Explores the multiple data sources and valuation methods.
- Breaks down the factors that most strongly influence value—expected holding time and investment risk—which have many contributing elements.
- Demonstrates an income approach in detail and concludes value.

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Case 1

Real Property Information

Summary of Important Data and Conclusions

Property Income Statement

Discounted Cash Flow

Secured Promissory Note

January 1997 Mortgage Statement

Case 1

Loan Amortization Table

Partnership Case

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Partnership Form 1065
Bank Statement
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Case 1 (cont.)

Partnership Profiles Data

 May/June 1997 Issue of *The Partnership Spectrum*

 Special Addendum Covering Real Estate Partnerships Included in the 1997
 Partnership Re-sale Discount Study Published by Partnership Profiles, Inc.

Partnership Profiles Glossary

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