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## A Methodology for Valuing Tiered Entities

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# A Methodology for Valuing Tiered Entities\*

Dennis A. Webb and Lari B. Masten

## Abstract

The conventional approach to valuing limited partnerships is the net asset value method; however, when used to value interests in tiered entities, this approach can produce outlandish returns. The model failure occurs when its underlying assumptions are violated, and/or when the hypothetical buyer's expectations and the facts and circumstances of the case are not adequately represented. This article offers proof of the failure, an alternative approach to the entire process, and application via a case study taken from an actual assignment. The recommended process can be used for simple to extremely complex tiered asset ownership fact patterns and structures.

**KEYWORDS:** tier, layer, discount, fractional interest, partnership, real estate, business valuation

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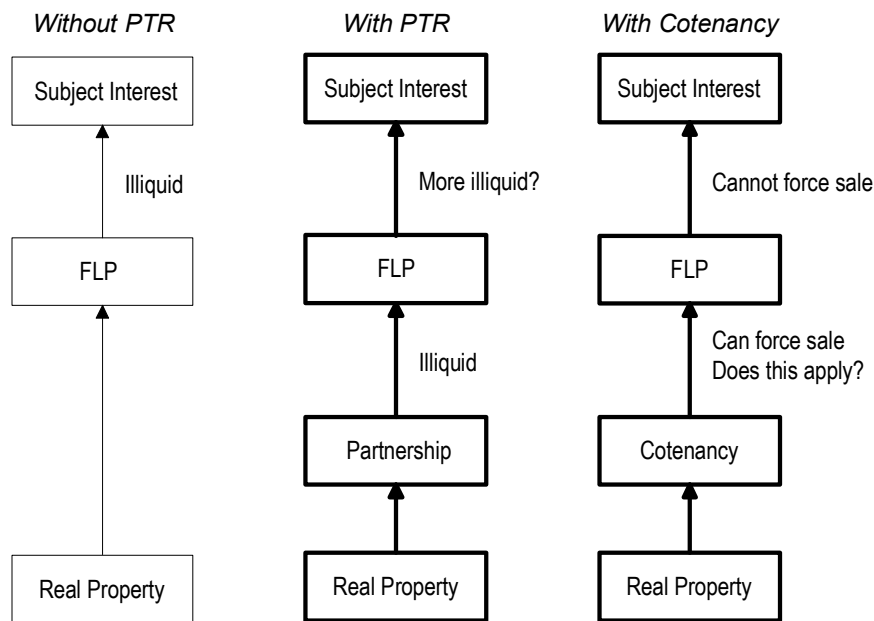
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## Introduction

The net asset value method is usually the method of choice when valuing an asset holding company. Revenue Ruling 59-60 §5(b) suggests that the appraiser place greatest weight on adjusted net worth when valuing a closely held investment or real estate holding company.

Following this method, conventional FLP valuation methods generally begin with the asset value, and apply discounts for lack of control and illiquidity, depending on the attributes of the interest being valued. (We are working with only noncontrolling, nonmarketable interests for purposes of this article.) The valuation of a holding company usually begins with assets, in this case real estate, as shown in Figure 1. What most of us are familiar with is the first diagram on the left – a FLP, that holds other assets and liabilities (typically cash, security deposits, and a mortgage loan) in addition to real estate. The net asset value (NAV) of the FLP is then discounted for the subject interest's lack of control and illiquidity.

Figure 1 – Asset Holding Company Structure



This structure holds until another entity is placed between the asset and the FLP, as shown in the center of Figure 1. Now how does the discounting concept apply? If an FLP holds an illiquid position in another partnership, are discounts applied to discounts? Is control further impaired? Can a position that is illiquid become *more* illiquid?

It is key for the buyer of an illiquid minority interest to expect to realize its pro rata share of the asset's value, within an anticipated holding period, for this to be a principal method of developing value. Thus, the security's most important element is asset reversion—to wit: if the buyer can force a sale, then the holding period is arguably shortened, and the resulting discount reduced. Cotenancy holdings, shown at the right in Figure 1, often confront forced sale for valuation purposes. But what if the cotenancy interest is held by a sub-entity? Does it matter if that entity can force sale?

Does the concept of fair market value, required by the NAV method, apply for an impaired asset (e.g. partnership or cotenancy interest) now held by the FLP? Can these questions be answered using the net asset value model? It is reasonable to think that risk would be increased with added layers, but what does increased risk represent?

Models usually include implicit assumptions. When the appraiser uses a model, especially one that has been developed for a particular structure (a partnership that holds real property), and applies it to another structure (a partnership that holds an interest in another partnership, which, in turn, holds real property), the assumptions must be understood and addressed. For example, the asset approach postulates a hypothetical buyer and seller at each step through the tiered structure—but this is not reality. The only place that the hypothetical buyer and seller relationship exists is at the Subject Interest level – at the top of diagram. The lower-tier relationships are known; therefore applying a hypothetical relationship violates the premise of value. The figure suggests that violations of underlying assumptions are likely, and avoiding double-counting of value influences can be a challenge. How can this problem be approached in a workable manner?

Revenue Ruling 59-60's *suggestion* that greatest weight be placed on adjusted net worth may need to be revisited; certain assumptions implicit in the FLP valuation model may need to be considered before automatically applying the model for sub-entities, and the sub-entities' sub-entities.

### **Multiple Tiers May Produce Outlandish Returns**

Returns (yields) increase as discounts are applied, and at some point, returns resulting from repeat application of discounts can reach such heights that the methodology is rendered ridiculous.

Table 1 illustrates what can happen if discounts are developed using conventional methods at each entity level. These discounts are shown as 27% for the common tenancy interest alone, 35% minority and 25% marketability for the LLC, and 32% minority and 20% for the FLP. (Numbers are shown for the sake of illustration only, and can vary greatly depending on the facts & circumstances of each case.)

Table 1 - The Multi-Tier NAV Method Dilemma

**THE MULTI-TIER NAV METHOD DILEMMA**

Level	Single-Tier		Two-Tier		Three-Tier	
	Value/ Disc	Cash Flow	Value/ Disc	Cash Flow	Value/ Disc	Cash Flow
<b>Family LP</b>						
Subject Level	\$54.40 20%	21.1%	\$26.52 20%	43.4%	\$22.01 20%	52.2%
Minority Level	\$68.00 32%	16.9%	\$33.15 32%	34.7%	\$27.51 32%	41.8%
Asset/Entity Level	\$100.00	11.5%	\$48.75	23.6%	\$40.46	28.4%
<b>Limited Liability Co.</b>						
Private Level			\$48.75 25%	23.6%	\$40.46 25%	28.4%
Minority Level			\$65.00 35%	17.7%	\$53.95 35%	21.3%
Asset/Entity Level			\$100.00	11.5%	\$83.00	13.9%
<b>Cotenancy</b>						
Private Level					\$83.00 17%	13.9%
Asset					\$100.00	11.5%

An 11.5% total return to equity at the asset level (all from real estate, unleveraged) increases to 15.8% for the cotenancy, and 21-24% for a single level in the LLC and LP structures—an entirely reasonable result. Adding a second level produces the discounts shown in italics: 32% is high, but 43-59% is arguably off the charts. What went wrong?

Are we double-dipping—counting the same value influences more than once—by following the NAV model? The valuation process that generated Table 1 is complex, involving a significant amount of analysis. Fortunately, there is a way to simplify everything by considering the valuation model's underlying assumptions.

## Holding Company Valuation Framework

So far, it has been shown that the asset approach can produce some specious results, depending on the number of tiers and the specific facts and circumstances of the case. The analytical process used by buyers and sellers in the market is fundamental to the appraiser's selection of method(s) to be applied in valuing the

Subject Interest. However, the valuation method can only be selected after consideration of the facts and the objectives of the hypothetical buyer of the subject interest.

The asset approach carries an implicit assumption that the buyer of a fractional interest, that is noncontrolling and illiquid, will realize its pro rata share of the underlying assets. The problem with the asset approach, as it is generally practiced, is that no allowance exists for the specific *timing* of this realization. This may not matter for a single tier, but with the introduction of several tiers, a review of the facts from this perspective can prove most enlightening. Addressing time elements can make order out of a set of facts that are otherwise woefully difficult for the valuer to accommodate in the analysis.

### The Asset Holding Timeline

Figure 2 is an example of a Subject Partnership that holds an LLC interest, a general partnership interest and a common tenancy position.

The Subject Partnership's holding period is  $n$  years. Cash flows pass through to the Subject Interest during the holding period, and reversions of the three interests are received at the end of the  $n^{\text{th}}$  year.

A timeline layout is dependent on numerous internal *and interactive* facts. The real property is not shown on the timeline, but its characteristics, both internal and external, can have a significant influence on the expectations of and for the entities involved. The analyst must ask the following questions to construct the model:

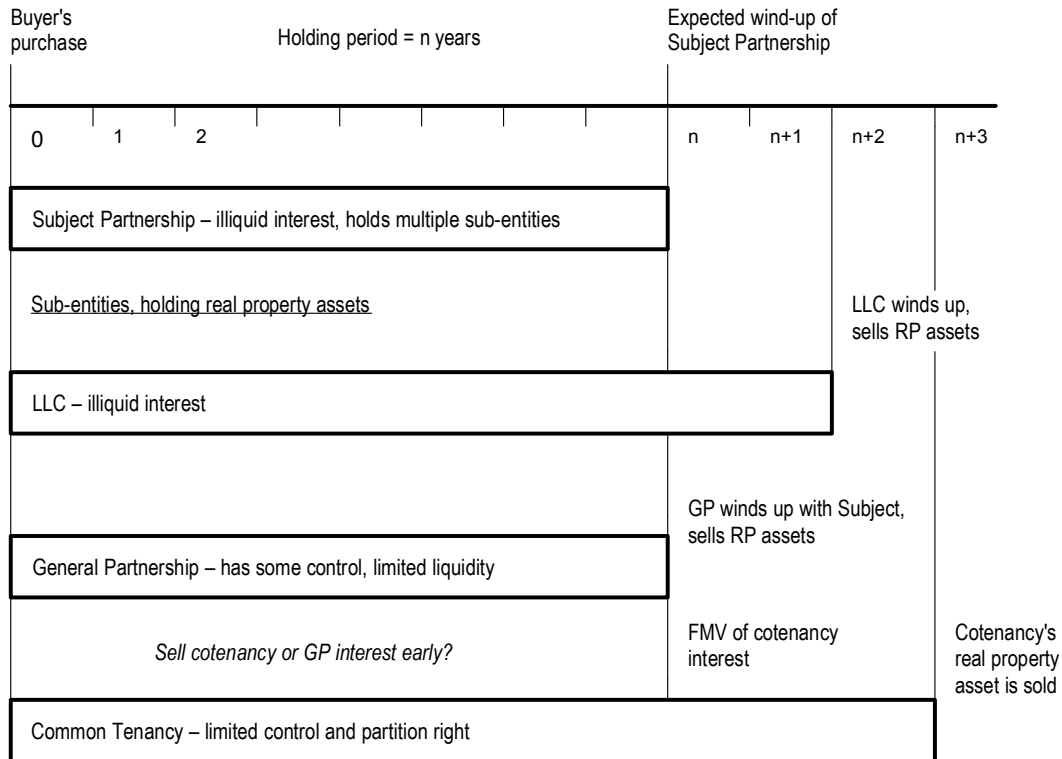
What is the most likely holding period?

Facts and circumstances associated with the assets and all levels of the ownership structure contribute to the overall holding period expectation. These can include the leases coming due, loans, local market expectations, ownership history, management changes, agreement or disagreement between partners, and many others.<sup>1</sup>

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1 Webb, Dennis A., MAI, ASA, Valuing Undivided Interests in Real Property—Partnerships and Cotenancies, (2004, Appraisal Institute, Chicago IL). Holding period is examined throughout two case studies as a fundamental element of the discount analysis in the net asset value method.

Figure 2 - Asset Holding Timeline Example



Will the sub-entities terminate in the  $n^{\text{th}}$  year as well, with the Subject realizing its pro rata share of the underlying real property assets? Or, will the sub-entities continue, with the real estate assets sold at a later time, and the Subject realizing only, say, FMV of the interest in the  $n^{\text{th}}$  year?

The example in Figure 3 shows the LLC persisting two years longer than the Subject Partnership, and assumes that the facts support a longer hold but a sale a few years later (maybe to the LLC's other members). The Subject has some influence in the general partnership, and it is assumed that this entity will sell its real estate assets in the  $n^{\text{th}}$  year. The cotenancy interest, on the other hand, is valued at its FMV on wind-up, including a normal cotenancy discount (developed using any appropriate method).

What would it mean if the Subject Partnership had the ability to sell an underlying asset *before* the  $n^{\text{th}}$  year? What is the risk associated with cash flows derived from each of the sub-entities?

### Tools for Real Estate Entity Valuation

Question 5 is obviously a leading question—risk is made explicit in the income approach, but valuers, and even the courts, sometimes are challenged by risk complexity and perceived uncertainty introduced into the analysis. These issues are very much simplified for real estate entities, since *risk for a holding company begins with the asset*—all returns for such entities have something to do with the real estate. This is very good news, since risk rates for both real property and minority-level premia are readily extracted from published data.

Real estate investment rates are typically provided as part of the real estate appraisal, which is the best possible source for the valuer. Alternatively, Korpacz, RealtyRates.com and other publish survey data that is broken down in great detail, can be highly useful. Entity-level rates for public real estate partnerships are published by Partnership Profiles, and their Rate of Return Study<sup>2</sup> is an essential tool for understanding minority-level risks. Real property and partnership sources can be used as follows:

Yield from ROR Study	18.7%
Remove RP influence (KYI)	-11.2%
Partnership risk premium	7.5%
Add subject RP yield	9.1%
Yield applicable for subject entity (minority level)	16.6%

Rate of Return studies provide you with minority level risks for an “average” partnership (within broad classifications). The real property/asset risk should be removed from this yield rate, (i.e. by subtracting the broad-based Korpacz Yield Indicator, KYI). The partnership risk premium is the remainder—the risk premium due to the partnership structure, at the minority-marketable level of value. Subject-specific risk is then added back by using the appraiser’s yield rate, or market survey rates (i.e. Korpacz or RealtyRates.com) that best resembles the real property asset at hand.

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2 Partnership Profiles, Inc., 2003 Rate of Return Study, Publicly-Held Real Estate Limited Partnerships and Real Estate Investment Trusts, ( 2003, Partnership Profiles, Inc., Dallas, TX). The study is also excerpted in: Bruce A. Johnson, ASA, Spencer J. Jefferies and James R. Park, ASA, Comprehensive Guide For The Valuation of Family Limited Partnerships, 2nd Ed. (2003, Partnership Profiles, Inc., Dallas): pages 14-17.

\*The “base” yield rate concluded in this example applies for a non-controlling but liquid interest; it needs further adjustment for specific risks posed by the entity structure and specific facts of the case, exacerbated by the interest’s illiquidity. Nonetheless, this yield rate usually represents most of the risk to the subject interest. CAPM it’s not.

### **Discounted Future Returns Method**

With time elements and risk rates under control, there is no good reason for avoiding an otherwise complex valuation method. Multiple tiers create complexities that are best understood, and analyzed, by breaking down its expected cash flows over time (the holding period), and assigning risks to cash flows (yield rates). While asset models incorporate an implicit reference to risk and holding period, income models can make both of these variables explicit. Since multi-tiered investments carry multiple, *interrelated* sources of risk, it would be most reasonable to use an income model for analysis. An income model is also the most likely method used in the market—by buyers and sellers of similarly complex investments.

The discounted future returns method applies an appropriate yield (or discount) rate to cash flows, and different rates can be used for cash flows carrying differing risks. Thus, the model provides a framework for breaking down complex structures, considering both and holding periods. It is the holding period analysis that provides us with a way of addressing and isolating specific elements of the multi-tiered ownership structure.

Once the facts & circumstances (agreements, personalities, real property leases, financing agreements, etc.) have been considered and a likely timeline constructed, converting it to a discounted cash flow model is straightforward. Each cash flow has an associated risk, as does each reversion. Cash flow risks may be exacerbated to one degree or another by the sub-entity structure, and reversions usually carry additional uncertainties. These variations can be accommodated in the yield rate buildup.

If a reversion involves the wind-up of a sub-entity, then the amount is the undiscounted net asset value of the entity realized in that year. If a reversion involves an interest in a sub-entity that does not wind up (the Subject entity terminates but the sub-entity continues to exist) interest reversions can be valued using income or asset approach techniques, as either approach will be valid. Of course, if there are more than two tiers to begin with, the above process may have to be repeated to value the reversion beginning at Subject wind-up.

## The FLP Valuer's Checklist

The valuer's job is to gather facts, ask questions, and *then* apply the valuation arts. It is only after a thorough understanding of what, why and when is developed, can the how of the valuation be determined.

This checklist does not describe exact processes, nor is it a restatement of Revenue Ruling 59-60 (which is applicable throughout). It does provide a conceptual outline of the steps that must be taken in order to develop a reasonable and defensible foundation for the valuation process, no matter how complex the entity structure. The accompanying case analysis and subsequent valuation report that would be prepared flows directly from this outline.

### The assignment is to...

1. Purpose and use, standard and date of value
2. Required reliability of the value conclusion
3. The scope of the assignment

This step depends on the foregoing, the applicable valuation processes, and may have to be revised based on review of remaining facts & circumstances.

### Just the facts...

4. History, distribution of ownership
5. Agreements
6. Assets, operations and forecasts

And the buyer's expectations are...

7. Who is the hypothetical buyer?
8. What holding period scenarios are supported by the assets, by ownership facts & circumstances, and by the agreement? What are the intentions of the controlling parties?
9. What is the buyer's expected investment cycle?

### Only now can you select the valuation process...

Review approaches to value, select approaches *based on everything above*: Facts & circumstances of the case, purpose and use of the valuation, required reliability

of the value conclusion, entity structure, control and liquidity impairments, buyer's expectations, and the available methods for analyzing risk. The comparative company approach is not generally usable for asset holding companies, but all methods should be reviewed regardless.

10. Asset accumulation approach
  - a. Value balance sheet items
  - b. Develop discounts for control and liquidity impairment
  - c. Apply discounts to NAV and conclude value
11. Income approach
  - a. Prepare a forecast at the underlying asset level
  - b. Normalize the forecast for entity influences and changed holding period expectations
  - c. Quantify risk at the underlying asset level
  - d. Quantify risk associated with control impairment
  - e. Quantify risk connected with liquidity impairment
  - f. Apply risk-adjusted yield (discount) rates to future cash flows
  - g. Calculate effective discounts

## **Conclusion**

The valuation process for tiered entities does not introduce anything that is not considered by the appraiser for other types of holding company valuations. However, it does point out the critical need to carefully examine the facts & circumstances of the case. Arbitrary application of the net asset value method, as if each tier was separate from the other, ignores both the assumptions implicit in the method, and the viewpoint of the hypothetical buyer of the interest that the valuation is intended to model. A well-considered income model can be used to cut through the tiers and reflect the risk and holding period expectations of the buyer. It is a method that can keep the appraiser afloat when confronting complex and otherwise confounding multiple tiers.

## Case Study

The R & B Walker Family Partnership was formed largely to hold an interest in an LLC and an undivided (cotenancy) interest in a skilled nursing facility. Entity ownership is partly interrelated, but outside parties are also involved. Two 49.9% interests in the R&B Walker Family Partnership are to be transferred into a trust.

### The assignment is to...

#### 1. Purpose and use, standard and date of value

The purpose of the valuation is to develop an opinion of the fair market value of the Partnership interests which are the subject of this report, as of the effective date of the valuation, for tax reporting use. The effective date of this valuation, the date for which value is concluded, is January 17, 2004, the date of formation of the Partnership.

#### 2. Required reliability of the value conclusion

The gift tax purpose of the valuation will not allow summary or restricted reports, nor a limited valuation process.

#### 3. The scope of the assignment

Must be adequate to produce a suitably reliable value conclusion. This step may have to be revised based on review of remaining facts & circumstances.

### Just the facts...

#### 4. History of the entity and its ownership

#### R & B Walker Family Partnership

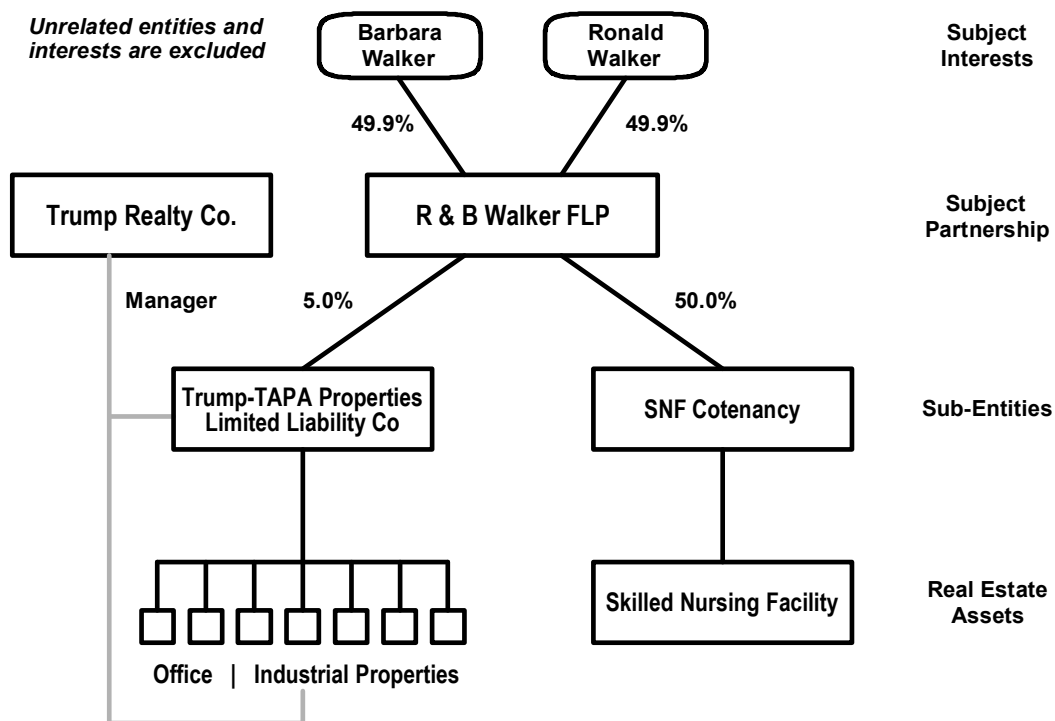
The Ronald and Barbara Walker Family Partnership, L.P., was organized on January 17, 2004, generally to manage family assets. Its original partners included the Ronald Walker Trust, Ronald Walker and Barbara Walker. The General Partners are Ronald Walker and Barbara Walker. The assets of the Partnership were contributed upon inception by Ronald and Barbara Walker, and include the following:

<u>Entity</u>	<u>Type</u>	<u>Interest Held</u>
Trump-TAPA Properties ("TAPA")	Limited Liability Co.	5.00%
Skilled Nursing Facility ("SNF")	Cotenancy	50.00%

Trump-TAPA is managed by Trump Management Co., a division of Trump Realty Co. Trump Realty was established in 1949, and holds a 75 million square foot portfolio including industrial, office, retail and other property types. The company is head quartered in Los Angeles County, and has offices in Dallas, St. Louis and Las Vegas.

Ron and Barbara’s son, Donald, is currently manager of Trump Realty, and is expected to be the successor General Partner. While successful in this business, Donald’s personal assets are heavily leveraged, because of his gambling habit. He and his sister Marla are the sole heirs of their parents’ estate. The actuarial remaining life of Ron Walker is 4.5 years, and Barbara Walker is 10.7 years.

Figure 4 - Organization Chart



Trump-TAPA Properties, LLC

TAPA was formed in 1998 by executives of Trump Realty. TAPA owns five office and two industrial buildings, comprising 391,454 square feet, in San Diego, California. These properties were previously owned by the same parties as tenants-in-common, and their interests were contributed to TAPA on formation. Its manager and members are:

Manager:	Trump Realty Co.	
Members:	R & B Walker LP (subject)	5.00%
	David & Mable Walker	8.00%
	Trump Realty	30.00%
	Trump/Walker Spectrum	57.00%
		<hr/>
	Total	100.00%

### Skilled Nursing Facility

This is a 50% cotenancy ownership of a 195-bed skilled nursing facility (land and building only) located in Cucamonga, California. The Finnerty Living Trust holds the other half-interest. Walker and Finnerty purchased the facility in 2000, and entered into a long-term lease with an operator.

## 5. Agreements

### R&B Walker Family Partnership

The General Partners (or an appointed manager) have control over management of the assets; however, this control is compromised because a Limited Partner or Assignee may cause sale of up to 75% of assets and distribution of net proceeds. As a practical matter, this concerns only the SNF interest. The Partnership is scheduled to terminate no sooner than December 31, 2103 (99 years). The interest is not able to cause termination.

Limited Partner interests may be assigned to certain family members, and to anyone under state law. The Partnership retains the option to acquire any transferred interest at its fair market value—this definition includes application of any discounts. The right of first refusal acts as an impediment to purchase by an outsider, since any transfer could be blocked by such purchase. However, it does not act as a significant limitation on marketability, since any Limited Partner or Assignee can withdraw on 60-days' notice, at fair market value. The interest sold and acquired under these provisions would be a Limited Partner interest, not an Assignee position.

### Trump-TAPA Properties, LLC

The Manager has control over the assets, and is generally unrestricted in its actions except for specified elements of control which are subject to majority vote. The LLC also has a 99-year remaining term. Trump Realty is the Manager and a

Member of the LLC, and it is unlikely that the Subject Partnership (R&B WFP) would be able to cause termination.

The LLC Member interest is generally illiquid, but may be assigned. The LLC and its other Members retain the option to acquire any transferred interest at the price and terms offered. The right of first refusal acts as an impediment to purchase by an outsider, since any transfer could be blocked by such purchase.

#### Skilled Nursing Facility

This interest is valued as a tenancy-in-common position, for which property rights are determined by state law. There is no operating agreement, but the property is operated under a long-term lease, discussed below.

#### 6. Assets, operations and forecasts

Operations of asset holding companies are typically operations of the assets themselves. Operating forecasts are based on the asset appraisals, with other entity revenues and expenses (if any) added, and changes in balance sheet items (typically cash reserves, security deposits, accrued items and loans) forecast.<sup>3</sup>

Asset history should be summarized, with leases and other agreements reanalyzed, since they may impact normalizing adjustments to the financial data of the entity (particularly for non-controlling positions) in ways that will not have been considered in the real estate appraisal. A good start on this analysis can often be obtained from the real estate appraiser.<sup>4</sup>

#### Trump-TAPA Properties LLC

TAPA owns five office and two industrial buildings, comprising 391,454 square feet, located in San Diego, California.

There are two major tenants, Viticultural Sciences and Alpo, which together occupy 90% of the combined building space; the remaining 10% is occupied by three other tenants. The Viticultural Sciences leases run through 2013, and Alpo to 2005, with options through 2015. Rents are slightly below market. The forecast shows

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3 Forecasts are often needed even if the asset method is to be used, because expressions of risk (discount/yield rates) are often needed, and cannot be developed by any other method.

4 Obtain agreements even if they are summarized in the real estate appraisal, as there are often conditions that do not impact market value for the 100% fee interest holder, but which will be important for the valuation.

**DCF 1 - RP Forecast**Trump-TAPA

Period	2003 0	2004 1	2005 2	2006 3	2012 9	2013 10	2014 11
<u>Income</u>							
Gross revenue	4,554,309	4,509,102	4,878,079	5,241,929	6,218,356	6,344,355	6,940,139
Reimbursements	758,945	776,232	793,928	812,043	930,133	951,487	973,350
Vacancy and collection loss	0	(95,136)	(204,192)	(217,943)	(257,346)	(299,130)	(324,453)
Effective gross income	5,313,253	5,190,198	5,467,815	5,836,030	6,891,144	6,996,712	7,589,036
<u>Operating expenses</u>							
Repairs and maintenance	138,271	142,419	146,692	151,093	180,413	185,825	191,400
Utilities	14,378	14,809	15,253	15,711	18,760	19,323	19,902
Insurance	45,432	46,795	48,199	49,645	59,278	61,057	62,889
Property taxes	576,959	588,498	600,268	612,274	689,519	703,310	717,376
Management fees	136,629	135,273	146,342	157,258	186,551	190,331	208,204
Other operating expenses	23,849	24,565	25,301	26,060	31,118	32,051	33,013
Leasing costs	93,962	704,701	319,062	0	318,830	0	0
Total expenses & reserves	1,029,480	1,657,060	1,301,118	1,012,040	1,484,469	1,191,896	1,232,783
Net operating income (NOI)	4,283,773	3,533,138	4,166,697	4,823,989	5,406,675	5,804,816	6,356,253
<u>Reversion</u>							
Sale price @ rate	10.0%					63,562,531	
Less cost of sale	3.5%					(2,224,689)	
Net reversion						61,337,843	
<u>Conclusions</u>							
Cash flows		3,533,138	4,166,697	4,823,989	5,406,675	67,142,659	
Value by yield capitalization	11.5%	48,295,006	3,168,733	3,351,523	3,480,020	2,029,815	22,607,361
Concluded value		48,300,000					

increases to market rates at renewal.<sup>5</sup> Operating expenses were developed by the real estate appraiser from the actual costs for 2003, and checked with market survey data.<sup>6</sup>

TAPA has eight loans, with current balances ranging from approximately \$440,000 to \$5.8 million. Management has been rolling over such loans at their current balance, so as to pay its debt balance at a maximum rate, and expects this practice to continue. The debt service forecast shows the existing loans replaced by new loans at maturity. Loan and entity cash flows are shown in the valuation section.<sup>7</sup>

5 Vacancy and collection loss is shown at 1.5% for all space (existing tenants), and another 3.5% for space adjusted to market at the end of each lease term—the market rate is 5%. Reimbursements are forecast at 85% of all expenses except management fees.

6 Repairs and maintenance is shown at \$0.35/square foot/month, common utilities at \$0.04, and insurance at \$0.11. These are increased at the expected rate for the consumer price index (CPI) of 3.0% annually. Property taxes are increased at 2.0%, as this is the ad valorem increase allowed under California law. Management fees are at 3.0% of gross rental revenue (not including reimbursements). Other operating expenses apparently include some LLC overhead items, and are also increased at 3.0%. Other income is \$0.06/square foot.

7 Larger landscape-format tables are included at the end of this Case Study.

### Skilled Nursing Facility

SNF is subject to a long-term lease with LME Cucamonga, LLC, dated June 15, 2000. This is a “triple-net” lease, where the lessees (LME Cucamonga, LLC) pay all property-related expenses. Net revenue is distributed directly to the two SNF cotenancy owners. The 30-year lease term with LME ends on June 14, 2030, 27½ years from the date of value. The lessee, LME, is a single-purpose LLC controlled by the principals of LM Eldercare, an operator of skilled nursing and assisted living facilities throughout California. Credit recourse is provided with the Lease.

#### **DCF 2 - RP Forecast** **Skilled Nursing Facility**

<b>Period</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>9</b>	<b>10</b>	<b>11</b>
<b><u>Income</u></b>							
Gross revenue	765,888	765,888	785,035	804,661	933,160	956,489	980,401
Reimbursements	20,566	20,978	21,397	21,825	24,579	25,070	25,572
Vacancy and collection loss	0	(11,803)	(12,096)	(12,397)	(14,366)	(14,723)	(15,090)
Effective gross income	<u>786,454</u>	<u>775,063</u>	<u>794,336</u>	<u>814,089</u>	<u>943,373</u>	<u>966,836</u>	<u>990,884</u>
<b><u>Operating expenses</u></b>							
Repairs and maintenance	0	0	0	0	0	0	0
Utilities	0	0	0	0	0	0	0
Insurance	0	0	0	0	0	0	0
Property taxes	20,566	20,978	21,397	21,825	24,579	25,070	25,572
Management fees	0	0	0	0	0	0	0
Other operating expenses	0	0	0	0	0	0	0
Leasing costs	0	0	0	0	0	0	0
Total expenses & reserves	<u>20,566</u>	<u>20,978</u>	<u>21,397</u>	<u>21,825</u>	<u>24,579</u>	<u>25,070</u>	<u>25,572</u>
Net operating income (NOI)	<u>765,888</u>	<u>754,085</u>	<u>772,939</u>	<u>792,264</u>	<u>918,794</u>	<u>941,766</u>	<u>965,312</u>
<b><u>Reversion</u></b>							
Sale price @ rate	11.3%					8,542,582	
Less cost of sale	3.5%					(298,990)	
Net reversion						8,243,592	
<b><u>Conclusions</u></b>							
Cash flows		754,085	772,939	792,264	918,794	9,185,358	
Value by yield capitalization	13.5%	6,705,456	664,392	600,003	541,854	293,938	2,589,032
Concluded value		\$6,700,000					

The LME Lease is currently above-market. Rent is to increase with the “Medi-Cal Reimbursement Rate,” whose increases are irregular, but have historically averaged about 2.5% annually. The tenants have operated the property for only 3½ years, but the facility’s operating statements do appear to support current rent levels. Any “entity” expenses for the SNF cotenancy would be personal in this instance, under the arrangement of direct distribution of net revenues to the cotenants. These expenses could be shown in the DCF, but would be trivial, and are not included for this Case.

### Balance sheets

Management's balance sheet for TAPA is shown below. The somewhat unusual format is used by management (a real estate developer and operator). The SNF has no balance sheet because its revenues are distributed directly to the cotenants.

<b>BALANCE SHEET SUMMARY</b>	<b>TAPA</b>	<b>SNF</b>
<b>ASSETS</b>		
INVESTMENT IN REAL ESTATE		
Land	\$6,603,612	
Buildings and improvements	49,759,467	
Accumulated depreciation	(8,930,481)	
<b>TOTAL INVESTMENT IN REAL ESTATE</b>	<b>47,432,597</b>	<b>0</b>
Cash and cash equivalents	2,310,789	
Accounts and other receivables	(100,525)	
Prepaid lease commissions	498,683	
Deferred loan costs	131,515	
Notes receivable		
Other assets	99,975	
<b>TOTAL ASSETS</b>	<b>50,373,035</b>	<b>0</b>
<b>LIABILITIES</b>		
Mortgage notes payable	(29,399,102)	
Accrued expenses and accounts payable	(464,949)	
Tenant security deposits	(150,048)	
Other liabilities	(6,133)	
<b>TOTAL LIABILITIES</b>	<b>(30,020,232)</b>	<b>0</b>
<b>PARTNERS' CAPITAL</b>		
Partners' capital	(19,949,025)	
Net income or loss	(403,777)	
<b>TOTAL PARTNERS' CAPITAL</b>	<b>(20,352,803)</b>	<b>0</b>
<b>TOTAL LIABILITIES AND PARTNERS' CAPITAL</b>	<b>(50,373,035)</b>	<b>0</b>
REAL PROPERTY FMV	\$48,300,000	\$6,700,000

### Forecasts

A forecast for the Subject Partnership would normally be prepared at this point. However, with multiple tiers, it is possible that some elements of the forecast (reversions in particular) may first require valuation of the sub-entities in the terminal year. Timing may also be an issue, since the market-typical holding period assumption of the real estate appraisal may not hold for the Partnership, and other periods may need to be considered.

### **And the buyer's expectations are...**

#### 7. Who is the hypothetical buyer?

One generally assumes that the hypothetical buyer is in the position of an investor, although the facts may support the buyer's using the property. In reality, other partners or cotenants would be the actual buyers, particularly when they have first refusal rights. Nonetheless, fair market value requires a hypothetical buyer (and seller). The objectives of this hypothetical buyer (cash flow, involvement with local real estate, expecting to hold for an agreed or understood term) are essential to understanding the buyer's likely valuation model. The buyer's investment alternatives will direct the selection or weighting of the valuation approaches, as well as determining relevant data sources.

In this case, the Subject Partnership holds interests in an entity (TAPA) that is managed by a privately-held real estate investment trust (REIT). A buyer of an interest in such an entity is typically the same one that would be a REIT or publicly-traded limited partnership (RELP) buyer. The going-in expectation would no doubt be to hold for an investment term. Interest in specific assets would be less than for a buyer of an interest in a small FLP, although the SNF facility may be investigated more closely.

#### 8. What holding period scenarios are supported by the assets, by ownership facts & circumstances, and by the agreement? What are the intentions of the controlling parties?

##### R & B Walker LP

The holding period is not fixed by any circumstance of the Partnership, except for its stated remaining term of 99 years. A typical investor holding period for the real property itself (fee interest) is about 10 years, although some use models of 5-10 or 7-10 years (based on investor survey data).

Actuarial remaining life of Ron Walker 4.5 years, and Barbara Walker 10.7 years; it is most likely that the Manager or General Partner will hold until these deaths take place. It is somewhat likely that Donald Walker would take advantage of any chance to raise cash, supported by his personal history. Thus, *10 years* is selected for the R & B Walker LP as the buyer's most reasonable expectation.

##### TAPA

The facts and circumstances have revealed no similar imperatives to sell at a particular future point for TAPA. TAPA pays management fees to Trump Realty (a

disincentive for Trump to sell), who generally bases its sale decisions on real property markets and its development opportunities.

The above observation about the typical investor holding period of 10 years for real property fee interests still applies, but the other members will have held these properties longer than that, and another 10 years may be extreme by this view (particularly since all parties are older, the depreciation period is nearing its end, and leverage is declining. Yield rates are typically developed through observation of investment markets that do not typically consider holding periods longer than 15 years. The Case, therefore, concludes five more years, beginning in year 10 and continuing through year 15, before TAPA's assets are sold. It is very likely that refinancing of existing loans will be possible, although if it were not, then properties might be sold instead, shortening the period.

### SNF Cotenancy

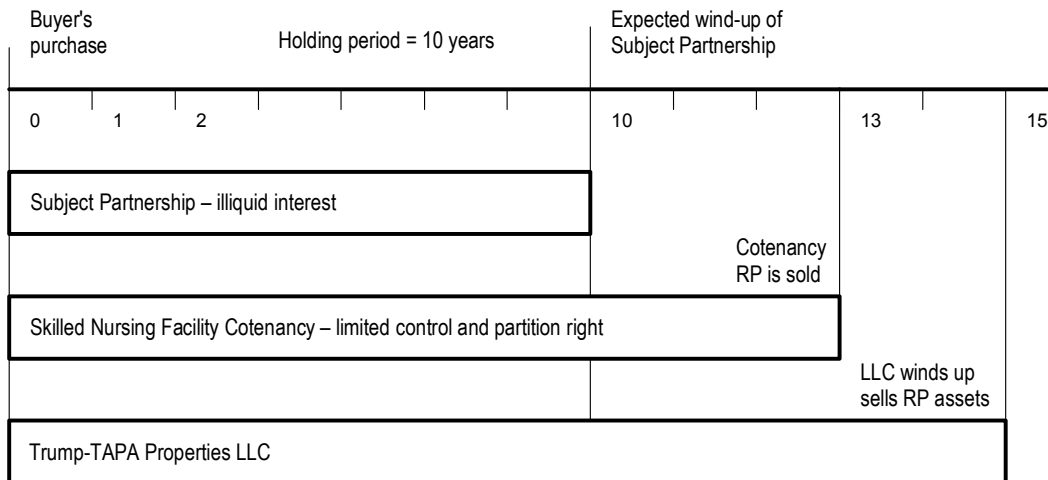
The Subject Interest does have the ability to cause the Partnership to sell its interest in the SNF, although a sale at fair market value would not necessarily be beneficial since the buyer would demand a discount for reason of the fractional position. Current ownership sees SNF as a long term investment, and forcing sale would be contrary to this objective. Thus, absent evidence to the contrary, one would expect resistance to a proposed sale.

The Case interprets the ability to cause sale as affecting the *risk* associated with the position held by the Subject Interest, a sort of emergency exit strategy. It does not reduce the holding period, because an early sale is inconsistent with an investment "going-in" strategy, and also because the financial incentive for such an action is limited (since sale of a fraction is typically made at a discount—the Subject Interest cannot force sale alone, as the cotenancy interest is held by the FLP).

Transfer of the Partnership's interest in SNF is assumed at termination (as opposed to a forced sale of the entire property), and the new *buyer* could in turn force a sale. A separate analysis concludes that the new buyer's expected hold would be about three years.

9. What is the buyer’s expected investment cycle?

Figure 5 - Asset Holding Timeline



**Only now can you select the valuation process...**

10. Asset accumulation approach

- a. Value balance sheet items
- b. Develop discounts for control and liquidity impairment
- c. Apply discounts to NAV and conclude value

Asset models incorporate an implicit reference to risk and holding period, but income models can make both explicit. Since multi-tiered investments carry multiple sources of risk, it would be most reasonable to use an income model for analysis. The Case provides multiple issues that would be very difficult to capture using an asset method.

11. Income approach

This approach provides the most logical process for accommodating risk and holding period variations that have been observed throughout the ownership structure of the Subject Interest.

The *discounted future returns* method operates directly on partnership cash flows, using various capitalization (discount or yield) rates. These rates are typically built up from either a risk-free rate, or by adding company-specific risk ele-

ments to rates extracted from public real estate limited partnership (RELP) market trading data. However, rates for most real estate holding entities should be built-up from rates that reflect the risk of the underlying assets—the real property risk—rather than a risk-free rate, since a) the underlying real property represents a very large portion of the total entity risk, and b) real estate capital market data is readily available and relatively precise. An incremental partnership (control) risk can then be extracted from RELP trading data, and increments added to the build up for illiquidity and other subject-specific elements.

a. Prepare a forecast at the underlying asset level.

This was taken from the real estate appraisal, and then restated (or reconstructed) in the *Assets* and *Operations* section. Normalize the forecast for entity influences and changed holding period expectations.

DCF 1 - RP Forecast												
Trump-TAPA												
Period	2003	2004	2005	2006	2012	2013	2014	2015	2016	2017	2018	2019
	0	1	2	3	9	10	11	12	13	14	15	16
<b>Income</b>												
Gross revenue	4,554,309	4,509,102	4,878,079	5,241,929	6,218,356	6,344,355	6,940,139	7,073,812	7,211,494	7,353,307	7,499,374	7,649,824
Reimbursements	758,945	776,232	793,928	812,043	930,133	951,487	973,350	995,736	1,018,656	1,042,126	1,066,157	1,090,765
Vacancy and collection loss	0	(95,136)	(204,192)	(217,943)	(257,346)	(299,130)	(324,453)	(330,851)	(337,436)	(344,213)	(351,187)	(358,364)
Effective gross income	5,313,253	5,190,198	5,467,815	5,836,030	6,891,144	6,996,712	7,589,036	7,738,696	7,892,714	8,051,220	8,214,345	8,382,225
<b>Operating expenses</b>												
Repairs and maintenance	138,271	142,419	146,692	151,093	180,413	185,825	191,400	197,142	203,056	209,148	215,422	221,885
Utilities	14,378	14,809	15,253	15,711	18,760	19,323	19,902	20,499	21,114	21,748	22,400	23,072
Insurance	45,432	46,795	48,199	49,645	59,278	61,057	62,889	64,775	66,718	68,720	70,782	72,905
Property taxes	576,959	588,498	600,268	612,274	689,519	703,310	717,376	731,724	746,358	761,285	776,511	792,041
Management fees	136,629	135,273	146,342	157,258	186,551	190,331	208,204	212,214	216,345	220,599	224,981	229,495
Other operating expenses	23,849	24,565	25,301	26,060	31,118	32,051	33,013	34,003	35,023	36,074	37,156	38,271
Leasing costs	93,962	704,701	319,062	0	318,830	0	0	0	0	0	0	0
Total expenses & reserves	1,029,480	1,657,060	1,301,118	1,012,040	1,484,469	1,191,896	1,232,783	1,260,357	1,288,615	1,317,574	1,347,252	1,377,668
Net operating income (NOI)	4,283,773	3,533,138	4,166,697	4,823,989	5,406,675	5,804,816	6,356,253	6,478,339	6,604,100	6,733,646	6,867,093	7,004,556
<b>Reversion</b>												
Sale price @ rate	10.0%					63,562,531					70,045,563	
Less cost of sale	3.5%					(2,224,689)					(2,451,595)	
Net reversion						61,337,843					67,593,968	
<b>Conclusions</b>												
Cash flows		3,533,138	4,166,697	4,823,989	5,406,675	6,142,659						
Value by yield capitalization	11.5%	48,295,006	3,168,733	3,351,523	3,480,020	2,029,815	22,607,361					
Concluded value		48,300,000										

b. Normalize the forecast for entity influences and changed holding expectations.

In this case, the forecasts presented for both TAPA and SNF need to be extended to match the concluded timeline. Generally, a forecast for a holding period different from the one assumed for the asset appraisal should be checked by the real estate appraiser. Normalization for specific line items may be deemed necessary; property tax is the only item normalized for the Case.<sup>8</sup>

<sup>8</sup> Real property taxes are forecast in the asset appraisal as-if the property were transferred, in which case it would be reassessed under California law. However, the valuation postulates

**DCF 2a - RP Forecast**  
**Skilled Nursing Facility**

Period	2003	2004	2005	2006	2012	2013	2014	2015	2016	2017	2018	2019
	0	1	2	3	9	10	11	12	13	14	15	16
<b>Income</b>												
Gross revenue	765,888	765,888	785,035	804,661	933,160	956,489	980,401	1,004,911	1,030,034	1,055,785		
Reimbursements	20,566	20,978	21,397	21,825	24,579	25,070	25,572	26,083	26,605	27,137		
Vacancy and collection loss	0	(11,803)	(12,096)	(12,397)	(14,366)	(14,723)	(15,090)	(15,465)	(15,850)	(16,244)		
Effective gross income	786,454	775,063	794,336	814,089	943,373	966,836	990,884	1,015,530	1,040,790	1,066,678		
<b>Operating expenses</b>												
Repairs and maintenance	0	0	0	0	0	0	0	0	0	0		
Utilities	0	0	0	0	0	0	0	0	0	0		
Insurance	0	0	0	0	0	0	0	0	0	0		
Property taxes	20,566	20,978	21,397	21,825	24,579	25,070	25,572	26,083	26,605	27,137		
Management fees	0	0	0	0	0	0	0	0	0	0		
Other operating expenses	0	0	0	0	0	0	0	0	0	0		
Leasing costs	0	0	0	0	0	0	0	0	0	0		
Total expenses & reserves	20,566	20,978	21,397	21,825	24,579	25,070	25,572	26,083	26,605	27,137		
Net operating income (NOI)	765,888	754,085	772,939	792,264	918,794	941,766	965,312	989,447	1,014,185	1,039,541		
<b>Reversion</b>												
Sale price @ rate	11.3%					8,542,582			9,199,480			
Less cost of sale	3.5%					(298,990)			(321,982)			
Net reversion						8,243,592			8,877,498			
<b>Conclusions</b>												
Cash flows		754,085	772,939	792,264	918,794	918,358						
Value by yield capitalization	13.5%	6,705,456	664,392	600,003	541,854	293,938	2,589,032					
Concluded value		\$6,700,000										

c. Quantify risk at the underlying asset level.

Underlying asset risk is analyzed as part of the asset appraisal, and expressed as yield (discount) rate. Sub-entity risks are largely revealed in the agreement and ownership structure discussion, and require adjustments to this rate.

Yields, overall and terminal rates, needed at various points in the DCF, and are either taken from the real estate appraisal, or developed from real estate market data. Rates for the Case are summarized as follows:

**Capitalization and Yield Rates**

Rate	Walker LP	TAPA	SNF
Overall rate		9.7%	11.0%
Terminal rate		10.0%	11.3%
Real property yield	13.1%	11.5%	13.5%

The real property yield for the Partnership as a whole is the cash flow weighted average yield of its two sub-entities.

d. Quantify risk associated with control impairment.

Control risk may be extracted from RELP studies. An important study covering partnership returns from 1994 through 2002 was made by Johnson, Jefferies and

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transfer of only a 5% interest, which does *not* trigger reassessment. The adjustment shown is the appraisal's forecast tax, less tax forecast within the LLC.

Park, (the “JJP Study”),<sup>9</sup> and was used to assist in building up appropriate capitalization rates for use in this Case. The JJP Study involves hundreds of partnerships, and many thousands of transactions.

The study’s rate indications can be used directly, but this implies an “average” or “normal” real property type, location, etc. If these real property market effects are removed, one can obtain the premium related to the partnership structure and minority interest position that the Case is seeking. This partnership risk premium can be calculated as the spread over the generalized return on real property assets in the same year. A good indicator for this purpose is the Korpacz Yield Indicator (KYI), a composite yield (IRR) average of the surveyed markets.<sup>10</sup> These extracted yield premia are associated with partnership structural risk, which is relatively constant over long periods.

The yield extracted for TAPA is 7.1%. No spread is indicated for SNF, since it is a common tenancy, not a partnership. The selection for the Subject Partnership is 6.6%, which is lower than that for TAPA because its total debt/leverage is diluted by its (unleveraged) SNF holding.

A yield rate build-up can now be calculated for the Partnership, adjusting further for other subject-specific characteristics that have not yet been captured. These include *leverage*, *size*, *diversification* and *control*.

*Leverage* is the risk of interest rate movements, possibly decreasing cash flow as loans are refinanced. (Rates have been near historic lows, and it is unlikely that refinancing terms would be more beneficial.) SNF has no loan.

*Size* is related to the sub-entity’s approximate total asset value. The JJP Study database median partnership size is in the range of \$30 to \$50 million, similar to TAPA (\$47.5 million). The SNF is not adjusted for size since a partnership element is not present, and JJP comparisons are not applicable. The Subject Partnership holds only 5% of TAPA, and is much smaller even with SNF.

*Diversification* is also greater for the JJP database partnerships, most of which have assets in multiple geographic locations, and many have different asset types. TAPA is a single park but has both office and industrial uses. SNF is not being compared with the JJP Partnerships, since it is a cotenancy, and there was no adjustment for partnership yield spread. However, it is a single-purpose property, and a small adjustment is made for its limited use and narrow market.

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9 Partnership Profiles, Inc., *2003 Rate of Return Study, Publicly-Held Real Estate Limited Partnerships and Real Estate Investment Trusts*, (2003, Partnership Profiles, Inc., Dallas, TX). The study is also excerpted in: Bruce A. Johnson, ASA, Spencer J. Jefferies and James R. Park, ASA, *Comprehensive Guide For The Valuation of Family Limited Partnerships*, 2nd Ed. (2003, Partnership Profiles, Inc., Dallas, TX): pages 14-17.

10 Korpacz surveys retail, office and industrial markets. (Its net lease, lodging and development land market data is excluded from the indicator.)

**Yield Rate Build-Up**

<u>Description</u>	<u>Walker LP</u>	<u>TAPA</u>	<u>SNF</u>
Real property yield	13.1%	11.5%	13.5%
Yield spread over KYI	6.6%	7.1%	NA
<i>Other risk premia:</i>			
Leverage	0.2%	0.5%	0.0%
Size	0.5%	0.0%	NA
Distribution trend	0.0%	0.2%	0.0%
Diversification	0.0%	0.3%	0.5%
Control adjustment	-2.5%		2.0%
Minority-marketable yield	17.9%	19.6%	16.0%

*Control* is a negative adjustment, for *reduced* risk, because of the Subject Interest's ability to force sale of some assets. It is not adjusted further for TAPA because the interest held by the Partnership exhibits roughly the same level of control (almost none) as do interests in the JJP Study partnerships. Control for the SNF cotenancy interest had not been adjusted for impairment in the first place, since it is not a partnership, so its yield is *increased* because of the need to obtain cooperation of the other cotenant(s) concerning any asset-related decisions. The interest has substantially more control than a limited partner (for which we adjusted about 7%) but less than 100% fee ownership for which no premium is applied.

One control aspect of cotenancy, *other cotenants*, concerns the uncontrolled transferability of the *other cotenants'* interests, say by gift or bequest to their children, which exacerbate the expected partition process.

The foregoing rates apply at the date of value; in addition, the discounted cash flow analysis needs minority-level rates in year 10 for the sub-entities. Terminal yield rates are calculated by adjusting the above-developed (or "going-in") yields:

**Terminal Yield Rate Build-Up**

<u>Description</u>	<u>TAPA</u>	<u>SNF</u>
Going-in yield	19.6%	16.0%
Real property spread	0.3%	0.3%
<i>Other risk premia:</i>		
Adjust for leverage (decline)	-0.5%	-0.0%
Adjust for entity risk	0.5%	0.0%
Adjust for other cotenants	0.0%	2.0%
Terminal yield rate (minority-marketable)	19.9%	18.3%

The *real property spread* is the difference between the going-in and terminal real property capitalization rates.

*Leverage* is declining for TAPA, and the earlier adjusted increment, as well as some of the leverage effects incorporated in the minority increment (yield spread over KYI), are reduced accordingly. SNF has no leverage.

*Entity risk* refers to the interest's lack of influence on the underlying entity structures, and chance that they may be altered by year 10. (TAPA and other Walker partnership structures have changed historically.)

*Other cotenants* refers to the greater likelihood that the Finnerty heirs will be the other cotenants near the terminal year.

e. Quantify risk associated with liquidity impairment

Both the Subject Partnership interests and the sub-entity interests are illiquid to varying degrees. For the Partnership, material risks are those that that would be avoided if the Subject Interest could exit at will (or at least with no longer a delay than is typical for minority holders of public limited partnership interests). For the sub-entity interests, material risks are those faced by hypothetical purchaser of those interests in the terminal year.

*Holding period uncertainty* is adjusted because specific holding periods are assumed for the model, but cannot be known with certainty. TAPA is the most restricted; the 5-year hold expected in the terminal year could be shorter or longer, although another 10 years seems unlikely. The SNF term is shorter because of the buyer's ability to force sale, and the variability of the period is less than for TAPA, where the buyer has no such ability. The terminal year uncertainty premium is, therefore, greater for TAPA than for SNF.

The term for the Walker Partnership is tied to the actuarial lives of the principals and the intentions of their son Donald. The 10-year period could extend for many more years, or it could shorten. However, the ability to force sale of SNF may constrain the period, reducing risk somewhat.

*Management* is often adjusted for partnerships whose managers are apparently less able to deal with future problems than are the managers of public limited partnerships. The importance depends on what sort of decisions might be required during the holding period. There are effectively no management decisions required for SNF under the lease agreement, and both TAPA and its properties are operated by managers who are arguably as capable as any in the industry. Thus, there is no adjustment for added management risk.

*Due diligence* becomes a risk issue when the costs of making a reasonable investigation into the legal, asset and valuation issues presented by the investment. They may be onerous for smaller interests, or almost trivial for high value interests. The Subject and both sub-entity interests are large, there are no confidential-

ity provisions in the agreements, and management provides good documentation, so no adjustment is shown.

#### Illiquidity Yield Rate Build-Up

<u>Description</u>	<i>GOING-IN</i>	<i>TERMINAL YEAR</i>	
	<u>Walker LP</u>	<u>TAPA</u>	<u>SNF</u>
Minority-marketable yield	17.9%	19.9%	18.3%
<i>Liquidity risk premia:</i>			
Hold period uncertainty	1.5%	2.0%	1.0%
Management	0.0%	0.0%	0.0%
Due diligence	0.0%	0.0%	0.0%
Restrictive agreement	1.0%	2.0%	0.0%
General undesirability	1.0%	0.0%	1.5%
Investor's required rate	21.4%	23.9%	20.8%

*Restrictive agreements* are in place for both the Subject Partnership and TAPA. Both grant a first-refusal right to the others, which is an impediment to transfer since any offer could be matched by existing partners, making due diligence efforts worthless. The effect is less significant for the Partnership, since a large portion of its value comes from SNF, which has no such restrictions.

A condition of *general undesirability* arises under an assumption that considers a possible benefit from forcing sale of SNF, or threatening to do so, because it limits the hypothetical buyer to one who would be willing to risk buying a lawsuit. An adjustment for control was made above for the Partnership, acknowledging that its right to force sale of the SNF interest might give it improved control over the entity (in relationship to a limited partner in a public partnership). However, this option comes with a price, and expecting to exercise such control must be compensated by an element of undesirability. Such a possibility is also expected in the 3-year forecast for SNF after the terminal year, requiring another adjustment.

The preceding table shows illiquidity adjustments for the Partnership at the date of value and for the sub-entities in the terminal year.

#### f. Apply risk-adjusted yield (discount) rates to future cash flows

The Partnership cash flow forecast combines its pro rata portions of the net cash flow to the minority positions of each of the sub-entities. In this Case, distributions are tied generally to escalation clauses in lease agreements and general market trends. There are no anticipated events that would cause a significant disruption of the currently increasing trend in operating income.

**DCF 3 - LLC Analysis****Trump-TAPA**

Period	2003 0	2004 1	2005 2	2006 3	2012 9	2013 10	2014 11	2015 12	2016 13	2017 14	2018 15
<b>Real Property Appraisal</b>											
Net operating income (NOI)	4,283,773	3,533,138	4,166,697	4,823,989	5,406,675	5,804,816	6,356,253	6,478,339	6,604,100	6,733,646	6,867,093
Normalization adjustments	576,959	588,498	600,268	612,274	689,519	703,310	717,376	731,724	746,358	761,285	776,511
Reimbursement rate	95%	93%	92%	92%	92%	91%	91%	91%	91%	91%	91%
Net reduction	4,476	6,127	7,842	7,999	9,008	9,706	9,900	10,098	10,300	10,506	10,717
Adjusted NOI	4,288,249	3,539,264	4,174,539	4,831,988	5,415,683	5,814,523	6,366,154	6,488,437	6,614,400	6,744,153	6,877,809
<b>LLC Revenues</b>											
NOI	4,288,249	3,539,264	4,174,539	4,831,988	5,415,683	5,814,523	6,366,154	6,488,437	6,614,400	6,744,153	6,877,809
Add other income	27,764	27,489	29,738	31,956	37,909	38,677	42,309	43,124	43,963	44,828	45,718
Rental value of excess land	4,247	4,375	4,506	4,641	5,542	5,708	5,879	6,055	6,237	6,424	6,617
Total LLC revenues	4,320,260	3,571,128	4,208,783	4,868,585	5,459,133	5,858,907	6,414,342	6,537,617	6,664,600	6,795,405	6,930,145
<b>LLC Expenses</b>											
Debt service:											
Interest	2,558,159	2,428,464	2,231,325	2,082,569	1,479,587	1,427,444	1,364,712	1,297,152	1,224,392	1,146,032	1,061,638
Principal	1,317,639	1,168,110	1,128,679	1,068,463	774,954	617,085	879,817	947,377	1,020,137	1,098,497	1,182,891
Total LLC expenses	3,875,799	3,596,573	3,360,003	3,151,051	2,254,541	2,244,529	2,244,529	2,244,529	2,244,529	2,244,529	2,244,529
Net cash flow	444,462	(25,446)	848,779	1,717,534	3,204,592	3,614,378	4,169,813	4,293,088	4,420,071	4,550,876	4,685,616
<b>LLC Present Value</b>											
<b>Asset approach / reversion</b>											
Real property		48,300,000				61,337,843					67,593,968
Loan balance		(29,171,989)				(18,481,448)					(15,456,632)
Other assets-liabilities	5.0%	2,415,000				3,066,892					3,379,698
Net asset value (present / future)	10.0%	21,543,011				45,923,287					55,517,034
<b>LLC Future Value</b>											
Take-out yield rate	23.9%										
Cash flow years 11-13 + RP reversion		31,035,652					4,169,813	4,293,088	4,420,071	4,550,876	60,202,650
Value by yield capitalization		\$31,040,000				31,035,652	3,365,466	2,796,579	2,323,889	1,931,122	20,618,595

**DCF 4 - Cotenancy Analysis****Skilled Nursing Facility**

Period	2003 0	2004 1	2005 2	2006 3	2012 9	2013 10	2014 11	2015 12	2016 13
<b>Real Property Appraisal</b>									
Net operating income (NOI)	765,888	753,317	772,155	791,465	917,894	940,848	964,376	988,492	1,013,211
Normalization adjustments	50,191	51,194	52,218	53,263	59,982	61,182	62,406	63,654	64,927
Reimbursement rate	100%	99%	99%	99%	99%	99%	99%	99%	99%
Net reduction	0	768	783	799	900	918	936	955	974
Adjusted NOI	765,888	754,085	772,939	792,264	918,794	941,766	965,312	989,447	1,014,185
<b>Cotenancy Income &amp; Expenses</b>									
NOI	765,888	754,085	772,939	792,264	918,794	941,766	965,312	989,447	1,014,185
Other income	0	0	0	0	0	0	0	0	0
Total cotenancy revenues	765,888	754,085	772,939	792,264	918,794	941,766	965,312	989,447	1,014,185
Total cotenancy expenses	0	0	0	0	0	0	0	0	0
Cotenancy net cash flow	765,888	754,085	772,939	792,264	918,794	941,766	965,312	989,447	1,014,185
<b>Cotenancy Present Value</b>									
<b>Asset approach / reversion</b>									
Real property	6,700,000					8,235,598			8,869,015
Other assets-liabilities	0					0			0
Net asset value (present / future)	6,700,000					8,235,598			8,869,015
<b>Cotenancy Future Value</b>									
Take-out yield rate	20.8%								
Cash flow years 11-13 + RP reversion		7,083,708					965,312	989,447	9,883,199
Value by yield capitalization		\$7,080,000				7,083,708	799,099	678,045	5,606,564

The Subject Partnership is not itself leveraged, but TAPA has eight loans, with an outstanding balance of approximately 64% of property value. These loans may be refinanced at higher interest rates in the future, a condition which may have a small impact on distributions.

There are no other income sources, since the Subject Partnership has no reason to maintain significant cash reserves (at least based on its existing asset base), and expects no interest/dividend income. Subject Partnership level expenses include management, legal, accounting and other professional services, and taxes that are not directly associated with the real estate.

#### Summary of the model's underlying assumptions:

The fundamental elements of the Subject Partnership's cash flow model are the annual distributions received by the Subject Interest, and the reversion of the Subject Partnership's underlying asset value at the end of the 10-year holding period.

The reversion at the end of year 10 involves sale of these interests, not the underlying real property.

In order to value the sub-entity interests at year 10, we need another holding period, which was concluded at five years for TAPA, and three years for SNF.

A reversion of real property at the end of year N is based on its cash flow for the trailing 12-month period, which is year N+1 (DCF 1a and 2a).

#### DCF 5 - Partnership Analysis D & B Walker LP

Period	2003 0	2004 1	2005 2	2006 3	2007 4	2008 5	2009 6	2010 7	2011 8	2012 9	2013 10
<b>Trump-TAPA Properties LLC</b>											
Cash flow to minority position		(25,446)	848,779	1,717,534	1,882,280	1,983,081	2,219,892	2,464,765	3,335,557	3,204,592	3,614,378
Reversion											31,040,000
D&B fraction	5.0%	(1,272)	42,439	85,877	94,114	99,154	110,995	123,238	166,778	160,230	180,719
											1,552,000
<b>Skilled Nursing Facility Cotenancy</b>											
Cash flow to cotenancy position		754,085	772,939	792,264	812,072	832,375	853,187	874,518	896,383	918,794	941,766
Reversion											7,080,000
D&B fraction	50.0%	377,043	386,469	396,132	406,036	416,188	426,593	437,259	448,191	459,397	470,883
											3,540,000
<b>Summation</b>											
Cash flows		375,770	428,908	482,009	500,150	515,342	537,588	560,497	614,969	619,627	651,602
Reversions											5,092,000
<b>Revenue/Cash Flows</b>											
Annual cash flows		375,770	428,908	482,009	500,150	515,342	537,588	560,497	614,969	619,627	651,602
Add other revenues		0	0	0	0	0	0	0	0	0	0
Total revenues		375,770	428,908	482,009	500,150	515,342	537,588	560,497	614,969	619,627	651,602
<b>Expenses</b>											
Management, G&A	3.0%	1,000	1,030	1,061	1,093	1,126	1,159	1,194	1,230	1,267	1,305
Legal & Professional	3.0%	5,000	5,000	5,030	5,061	5,093	5,126	5,159	5,194	5,230	5,267
Franchise Tax		800	800	800	800	800	800	800	800	800	800
Total expenses		6,800	2,830	2,891	2,954	3,018	3,085	3,153	3,224	3,297	3,372
Cash flow available for distribution		368,970	426,078	479,118	497,196	512,324	534,503	557,344	611,745	616,330	648,230
Reversions for distribution											5,092,000
<b>Income approach / minority</b>											
Cash flows and reversions		368,970	426,078	479,118	497,196	512,324	534,503	557,344	611,745	616,330	5,740,230
Value by yield capitalization	17.9%	\$3,179,014	312,952	306,522	292,348	257,320	224,893	199,007	176,006	163,855	140,020
<b>Marketability discount calculations</b>											
PTR cash flow		368,970	426,078	479,118	497,196	512,324	534,503	557,344	611,745	616,330	648,230
PTR reversion											5,092,000
Subject interest	49.9%										
Subject cash flows		184,116	212,613	239,080	248,101	255,649	266,717	278,115	305,261	307,549	2,864,375
Investor's required rate	21.4%										
Present value using Investor's required rate		1,325,951	151,661	144,262	133,625	114,223	96,951	83,318	71,564	64,703	53,696
Concluded value (rounded)		<b>\$1,325,000</b>									

Subject Interest Value Conclusion:

**\$1,325,000**

## g. Calculate discounts

We can also calculate the present value of the real property cash flows to analyze net asset value of the Partnership. While the income approach does not develop discounts from NAV, such calculations are useful for disclosing discounts after the fact. It also provides a sanity check on the value conclusion.

The NAV of the TAPA sub-entity is shown in DCF 2; for SNF it is the same as the real property asset. The effective discount from the lowest-level NAV is then equal to  $1 - \frac{\text{value conclusion}}{\text{subject interest's pro rata share of this NAV}}$ :<sup>11</sup>

Trump-TAPA Properties (5%)	\$1,077,151
Skilled Nursing Facility (50%)	3,350,000
Total sub-entity NAV	\$4,427,151
Subject 49% pro rata share $\times 0.499 =$	\$2,209,148
Subject interest value conclusion	\$1,325,000
Effective discount $= 1 - ( 1,325,000 / 2,208,148 ) =$	40.0%

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<sup>11</sup> The Subject Partnership is newly formed, and has no other assets or liabilities.

## Conclusions

Conventional FLP valuations rely on asset methods, where discrete discounts are applied to net asset value. This model typically breaks down when applied to multi-tiered structures, producing outlandish returns to the interest being valued. The model failure occurs when the underlying assumptions of the asset method are violated, and/or when the hypothetical buyer's expectations are not adequately represented.

This article demonstrates this failure, and provides guidance to the valuer regarding alternative valuation approaches that can be applied in nearly all cases. In order to assure that the process adequately reflects the facts & circumstances of the case and the decision-making process of the hypothetical buyer and seller, the valuer should:

- Make a detailed investigation of the facts & circumstances present at each level of the tiered structure and match the valuation process to the market;
- Determine a likely holding timeline for the FLP and all the sub-entities;
- Develop expressions of risk (yield rates) associated with assets first, then risk added through the entity structure (for control, liquidity and any other impairments); and
- Apply yield rates to expected cash flows over the concluded holding period(s) in a discounted future returns valuation model.
- Include a sanity check to the implied yield in order to determine if the opinion of value reflects a reasonable conclusion for both the buyer and the seller.

This article considers the implications of various sub-entity holding scenarios, and offers a FLP valuation checklist as a guide to setting up the assignment, uncovering the facts, identifying and modeling the buyer's expectations, and applying the valuation process. Use of the recommended checklist is demonstrated in conjunction with a case study taken from an actual assignment. The case shows how fact patterns can be turned into quantitative elements that are essential for making a convincing analysis.

The authors' intention is to take the tears out of tiered entity valuations, by providing a logical and supportable process designed to make extremely complex tiered asset ownership structures and fact patterns amenable to conventional valuation analysis.

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## Appendix

The Appendix includes a complete set of tables—larger-size copies of those that are included in the text.

**DCF 1 - RP Appraisal**Trump-TAPA

Period	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
	0	1	2	3	4	5	6	7	8	9	10	11
<u>Income</u>												
Gross revenue	4,554,309	4,509,102	4,878,079	5,241,929	5,348,739	5,457,427	5,710,826	5,826,133	6,020,463	6,218,356	6,344,355	6,940,139
Reimbursements	758,945	776,232	793,928	812,043	830,588	849,573	869,008	888,906	909,277	930,133	951,487	973,350
Vacancy and collection loss	0	(95,136)	(204,192)	(217,943)	(222,456)	(227,052)	(236,874)	(241,741)	(249,471)	(257,346)	(299,130)	(324,453)
Effective gross income	5,313,253	5,190,198	5,467,815	5,836,030	5,956,872	6,079,948	6,342,960	6,473,297	6,680,269	6,891,144	6,996,712	7,589,036
<u>Operating expenses</u>												
Repairs and maintenance	138,271	142,419	146,692	151,093	155,626	160,294	165,103	170,056	175,158	180,413	185,825	191,400
Utilities	14,378	14,809	15,253	15,711	16,182	16,668	17,168	17,683	18,213	18,760	19,323	19,902
Insurance	45,432	46,795	48,199	49,645	51,134	52,668	54,248	55,876	57,552	59,278	61,057	62,889
Property taxes	576,959	588,498	600,268	612,274	624,519	637,009	649,750	662,745	675,999	689,519	703,310	717,376
Management fees	136,629	135,273	146,342	157,258	160,462	163,723	171,325	174,784	180,614	186,551	190,331	208,204
Other operating expenses	23,849	24,565	25,301	26,060	26,842	27,648	28,477	29,331	30,211	31,118	32,051	33,013
Leasing costs	93,962	704,701	319,062	0	0	0	0	0	0	318,830	0	0
Total expenses & reserves	1,029,480	1,657,060	1,301,118	1,012,040	1,034,765	1,058,010	1,086,070	1,110,475	1,137,748	1,484,469	1,191,896	1,232,783
Net operating income (NOI)	4,283,773	3,533,138	4,166,697	4,823,989	4,922,106	5,021,938	5,256,890	5,362,823	5,542,521	5,406,675	5,804,816	6,356,253
<u>Reversion</u>												
Sale price @ rate	10.0%											63,562,531
Less cost of sale	3.5%											(2,224,689)
Net reversion												61,337,843
<u>Conclusions</u>												
Cash flows		3,533,138	4,166,697	4,823,989	4,922,106	5,021,938	5,256,890	5,362,823	5,542,521	5,406,675	67,142,659	
Value by yield capitalization	11.5%	48,295,006	3,168,733	3,351,523	3,480,020	3,184,575	2,914,050	2,735,770	2,503,049	2,320,109	2,029,815	22,607,361
Concluded value		48,300,000										

**DCF 1a - RP Forecast**Trump-TAPA

Period	2003	2004	2005	2006	2012	2013	2014	2015	2016	2017	2018	2019
	0	1	2	3	9	10	11	12	13	14	15	16
<u>Income</u>												
Gross revenue	4,554,309	4,509,102	4,878,079	5,241,929	6,218,356	6,344,355	6,940,139	7,073,812	7,211,494	7,353,307	7,499,374	7,649,824
Reimbursements	758,945	776,232	793,928	812,043	930,133	951,487	973,350	995,736	1,018,656	1,042,126	1,066,157	1,090,765
Vacancy and collection loss	0	(95,136)	(204,192)	(217,943)	(257,346)	(299,130)	(324,453)	(330,851)	(337,436)	(344,213)	(351,187)	(358,364)
Effective gross income	5,313,253	5,190,198	5,467,815	5,836,030	6,891,144	6,996,712	7,589,036	7,738,696	7,892,714	8,051,220	8,214,345	8,382,225
<u>Operating expenses</u>												
Repairs and maintenance	138,271	142,419	146,692	151,093	180,413	185,825	191,400	197,142	203,056	209,148	215,422	221,885
Utilities	14,378	14,809	15,253	15,711	18,760	19,323	19,902	20,499	21,114	21,748	22,400	23,072
Insurance	45,432	46,795	48,199	49,645	59,278	61,057	62,889	64,775	66,718	68,720	70,782	72,905
Property taxes	576,959	588,498	600,268	612,274	689,519	703,310	717,376	731,724	746,358	761,285	776,511	792,041
Management fees	136,629	135,273	146,342	157,258	186,551	190,331	208,204	212,214	216,345	220,599	224,981	229,495
Other operating expenses	23,849	24,565	25,301	26,060	31,118	32,051	33,013	34,003	35,023	36,074	37,156	38,271
Leasing costs	93,962	704,701	319,062	0	318,830	0	0	0	0	0	0	0
Total expenses & reserves	1,029,480	1,657,060	1,301,118	1,012,040	1,484,469	1,191,896	1,232,783	1,260,357	1,288,615	1,317,574	1,347,252	1,377,668
Net operating income (NOI)	4,283,773	3,533,138	4,166,697	4,823,989	5,406,675	5,804,816	6,356,253	6,478,339	6,604,100	6,733,646	6,867,093	7,004,556
<u>Reversion</u>												
Sale price @ rate	10.0%					63,562,531					70,045,563	
Less cost of sale	3.5%					(2,224,689)					(2,451,595)	
Net reversion						61,337,843					67,593,968	
<u>Conclusions</u>												
Cash flows		3,533,138	4,166,697	4,823,989	5,406,675	67,142,659						
Value by yield capitalization	11.5%	48,295,006	3,168,733	3,351,523	3,480,020	2,029,815	22,607,361					
Concluded value		48,300,000										

**DCF 2a - RP Forecast**Skilled Nursing Facility

Period	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
	0	1	2	3	4	5	6	7	8	9	10	11
<u>Income</u>												
Gross revenue	765,888	765,888	785,035	804,661	824,778	845,397	866,532	888,195	910,400	933,160	956,489	980,401
Reimbursements	20,566	20,978	21,397	21,825	22,262	22,707	23,161	23,624	24,097	24,579	25,070	25,572
Vacancy and collection loss	0	(11,803)	(12,096)	(12,397)	(12,706)	(13,022)	(13,345)	(13,677)	(14,017)	(14,366)	(14,723)	(15,090)
Effective gross income	786,454	775,063	794,336	814,089	834,334	855,082	876,348	898,142	920,480	943,373	966,836	990,884
<u>Operating expenses</u>												
Repairs and maintenance	0	0	0	0	0	0	0	0	0	0	0	0
Utilities	0	0	0	0	0	0	0	0	0	0	0	0
Insurance	0	0	0	0	0	0	0	0	0	0	0	0
Property taxes	20,566	20,978	21,397	21,825	22,262	22,707	23,161	23,624	24,097	24,579	25,070	25,572
Management fees	0	0	0	0	0	0	0	0	0	0	0	0
Other operating expenses	0	0	0	0	0	0	0	0	0	0	0	0
Leasing costs	0	0	0	0	0	0	0	0	0	0	0	0
Total expenses & reserves	20,566	20,978	21,397	21,825	22,262	22,707	23,161	23,624	24,097	24,579	25,070	25,572
Net operating income (NOI)	765,888	754,085	772,939	792,264	812,072	832,375	853,187	874,518	896,383	918,794	941,766	965,312
<u>Reversion</u>												
Sale price @ rate	11.3%											8,542,582
Less cost of sale	3.5%											(298,990)
Net reversion												8,243,592
<u>Conclusions</u>												
Cash flows		754,085	772,939	792,264	812,072	832,375	853,187	874,518	896,383	918,794	9,185,358	
Value by yield capitalization	13.5%	6,705,456	664,392	600,003	541,854	489,340	441,916	399,088	360,411	325,482	293,938	2,589,032
Concluded value		\$6,700,000										

**DCF 2a - RP Forecast**  
**Skilled Nursing Facility**

Period	2003	2004	2005	2006	2012	2013	2014	2015	2016	2017
	0	1	2	3	9	10	11	12	13	14
<u>Income</u>										
Gross revenue	765,888	765,888	785,035	804,661	933,160	956,489	980,401	1,004,911	1,030,034	1,055,785
Reimbursements	20,566	20,978	21,397	21,825	24,579	25,070	25,572	26,083	26,605	27,137
Vacancy and collection loss	0	(11,803)	(12,096)	(12,397)	(14,366)	(14,723)	(15,090)	(15,465)	(15,850)	(16,244)
Effective gross income	786,454	775,063	794,336	814,089	943,373	966,836	990,884	1,015,530	1,040,790	1,066,678
<u>Operating expenses</u>										
Repairs and maintenance	0	0	0	0	0	0	0	0	0	0
Utilities	0	0	0	0	0	0	0	0	0	0
Insurance	0	0	0	0	0	0	0	0	0	0
Property taxes	20,566	20,978	21,397	21,825	24,579	25,070	25,572	26,083	26,605	27,137
Management fees	0	0	0	0	0	0	0	0	0	0
Other operating expenses	0	0	0	0	0	0	0	0	0	0
Leasing costs	0	0	0	0	0	0	0	0	0	0
Total expenses & reserves	20,566	20,978	21,397	21,825	24,579	25,070	25,572	26,083	26,605	27,137
Net operating income (NOI)	765,888	754,085	772,939	792,264	918,794	941,766	965,312	989,447	1,014,185	1,039,541
<u>Reversion</u>										
Sale price @ rate	11.3%					8,542,582			9,199,480	
Less cost of sale	3.5%					(298,990)			(321,982)	
Net reversion						8,243,592			8,877,498	
<u>Conclusions</u>										
Cash flows		754,085	772,939	792,264	918,794	9,185,358				
Value by yield capitalization	13.5%	6,705,456	664,392	600,003	541,854	293,938	2,589,032			
Concluded value		\$6,700,000								

**DCF 3 - LLC Analysis**Trump-TAPA

Period	2003	2004	2005	2006	2012	2013	2014	2015	2016	2017	2018
	0	1	2	3	9	10	11	12	13	14	15
<u>Real Property Appraisal</u>											
Net operating income (NOI)	4,283,773	3,533,138	4,166,697	4,823,989	5,406,675	5,804,816	6,356,253	6,478,339	6,604,100	6,733,646	6,867,093
Normalization adjustments	576,959	588,498	600,268	612,274	689,519	703,310	717,376	731,724	746,358	761,285	776,511
Reimbursement rate	95%	93%	92%	92%	92%	91%	91%	91%	91%	91%	91%
Net reduction	4,476	6,127	7,842	7,999	9,008	9,706	9,900	10,098	10,300	10,506	10,717
Adjusted NOI	4,288,249	3,539,264	4,174,539	4,831,988	5,415,683	5,814,523	6,366,154	6,488,437	6,614,400	6,744,153	6,877,809
<u>LLC Revenues</u>											
NOI	4,288,249	3,539,264	4,174,539	4,831,988	5,415,683	5,814,523	6,366,154	6,488,437	6,614,400	6,744,153	6,877,809
Add other income	27,764	27,489	29,738	31,956	37,909	38,677	42,309	43,124	43,963	44,828	45,718
Rental value of excess land	4,247	4,375	4,506	4,641	5,542	5,708	5,879	6,055	6,237	6,424	6,617
Total LLC revenues	4,320,260	3,571,128	4,208,783	4,868,585	5,459,133	5,858,907	6,414,342	6,537,617	6,664,600	6,795,405	6,930,145
<u>LLC Expenses</u>											
Debt service:											
Interest	2,558,159	2,428,464	2,231,325	2,082,569	1,479,587	1,427,444	1,364,712	1,297,152	1,224,392	1,146,032	1,061,638
Principal	1,317,639	1,168,110	1,128,679	1,068,483	774,954	817,085	879,817	947,377	1,020,137	1,098,497	1,182,891
Total LLC expenses	3,875,799	3,596,573	3,360,003	3,151,051	2,254,541	2,244,529	2,244,529	2,244,529	2,244,529	2,244,529	2,244,529
Net cash flow	444,462	(25,446)	848,779	1,717,534	3,204,592	3,614,378	4,169,813	4,293,088	4,420,071	4,550,876	4,685,616
<u>LLC Present Value</u>											
<u>Asset approach / reversion</u>											
Real property	48,300,000					61,337,843					67,593,968
Loan balance	(29,171,989)					(18,481,448)					(15,456,632)
Other assets-liabilities	5.0%	2,415,000				3,066,892					3,379,698
Net asset value (present / future)	10.0%	21,543,011				45,923,287					55,517,034
<u>LLC Future Value</u>											
Take-out yield rate	23.9%										
Cash flow years 11-13 + RP reversion		31,035,652					4,169,813	4,293,088	4,420,071	4,550,876	60,202,650
Value by yield capitalization		\$31,040,000				31,035,652	3,365,466	2,796,579	2,323,889	1,931,122	20,618,595

**DCF 4 - Cotenancy Analysis**Skilled Nursing Facility

Period	2003	2004	2005	2006	2012	2013	2014	2015	2016
	0	1	2	3	9	10	11	12	13
<u>Real Property Appraisal</u>									
Net operating income (NOI)	765,888	753,317	772,155	791,465	917,894	940,848	964,376	988,492	1,013,211
Normalization adjustments	50,191	51,194	52,218	53,263	59,982	61,182	62,406	63,654	64,927
Reimbursement rate	100%	99%	99%	99%	99%	99%	99%	99%	99%
Net reduction	0	768	783	799	900	918	936	955	974
Adjusted NOI	765,888	754,085	772,939	792,264	918,794	941,766	965,312	989,447	1,014,185
<u>Cotenancy Income &amp; Expenses</u>									
NOI	765,888	754,085	772,939	792,264	918,794	941,766	965,312	989,447	1,014,185
Other income	0	0	0	0	0	0	0	0	0
Total cotenancy revenues	765,888	754,085	772,939	792,264	918,794	941,766	965,312	989,447	1,014,185
Total cotenancy expenses	0	0	0	0	0	0	0	0	0
Cotenancy net cash flow	765,888	754,085	772,939	792,264	918,794	941,766	965,312	989,447	1,014,185
<u>Cotenancy Present Value</u>									
<u>Asset approach / reversion</u>									
Real property	6,700,000					8,235,598			8,869,015
Other assets-liabilities	0					0			0
Net asset value (present / future)	6,700,000					8,235,598			8,869,015
<u>Cotenancy Future Value</u>									
Take-out yield rate		20.8%							
Cash flow years 11-13 + RP reversion		7,083,708					965,312	989,447	9,883,199
Value by yield capitalization		\$7,080,000				7,083,708	799,099	678,045	5,606,564

**DCF 5 - Partnership Analysis****D & B Walker LP**

<b>Period</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>
<b><u>Trump-TAPA Properties LLC</u></b>											
Cash flow to minority position		(25,446)	848,779	1,717,534	1,882,280	1,983,081	2,219,892	2,464,765	3,335,557	3,204,592	3,614,378
Reversion											31,040,000
D&B fraction	5.0%	(1,272)	42,439	85,877	94,114	99,154	110,995	123,238	166,778	160,230	180,719
											1,552,000
<b><u>Skilled Nursing Facility Cotenancy</u></b>											
Cash flow to cotenancy position		754,085	772,939	792,264	812,072	832,375	853,187	874,518	896,383	918,794	941,766
Reversion											7,080,000
D&B fraction	50.0%	377,043	386,469	396,132	406,036	416,188	426,593	437,259	448,191	459,397	470,883
											3,540,000
<b><u>Summation</u></b>											
Cash flows		375,770	428,908	482,009	500,150	515,342	537,588	560,497	614,969	619,627	651,602
Reversions											5,092,000
<b><u>Revenue/Cash Flows</u></b>											
Annual cash flows		375,770	428,908	482,009	500,150	515,342	537,588	560,497	614,969	619,627	651,602
Add other revenues		0	0	0	0	0	0	0	0	0	0
T total revenues		375,770	428,908	482,009	500,150	515,342	537,588	560,497	614,969	619,627	651,602
<b><u>Expenses</u></b>											
Management, G&A	3.0%	1,000	1,030	1,061	1,093	1,126	1,159	1,194	1,230	1,267	1,305
Legal & Professional	3.0%	5,000	1,000	1,030	1,061	1,093	1,126	1,159	1,194	1,230	1,267
Franchise Tax		800	800	800	800	800	800	800	800	800	800
T total expenses		6,800	2,830	2,891	2,954	3,018	3,085	3,153	3,224	3,297	3,372
Cash flow available for distribution		368,970	426,078	479,118	497,196	512,324	534,503	557,344	611,745	616,330	648,230
Reversions for distribution											5,092,000
<b><u>Income approach / minority</u></b>											
Cash flows and reversions		368,970	426,078	479,118	497,196	512,324	534,503	557,344	611,745	616,330	5,740,230
Value by yield capitalization	17.9%	\$3,179,014	312,952	306,522	292,348	257,320	224,893	199,007	176,006	163,855	140,020
											1,106,092
<b><u>Marketability discount calculations</u></b>											
PTR cash flow		368,970	426,078	479,118	497,196	512,324	534,503	557,344	611,745	616,330	648,230
PTR reversion											5,092,000
Subject interest	49.9%										
Subject cash flows		184,116	212,613	239,080	248,101	255,649	266,717	278,115	305,261	307,549	2,864,375
Investor's required rate	21.4%										
Present value using Investor's required rate		1,325,951	151,661	144,262	133,625	114,223	96,951	83,318	71,564	64,703	53,696
Concluded value (rounded)		<b>\$1,325,000</b>									