Valuing for the Future—Shared Real Estate Ownership is in Trouble

Dennis A. Webb, ASA, MAI, FRICS
United States of America

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SUMMARY

We know that the built environment needs maintenance, upgrades and other changes over time. But shared ownership arrangements—partnerships and other fractional (undivided) ownership structures—also need attention. Owners and their perceived benefits both change over time, and this can generate conflicts that threaten an investment's viability. This does not have to be. Valuers should play a key role in settling conflicts, but we are faced with combining real estate appraisal and business valuation knowledge to do it, and we are not ready. Fortunately, technology is coming to the rescue.

Fractional interests in real estate have a distinct lifecycle. Owners tend to enter into partnership arrangements when they perceive certain intangible benefits of doing so: having access to capital, sharing others' talents, being able to enjoy personal use and more. But these intangible benefits dissipate over time. Their loss reduces each interest's equitable (fair) value, a troubling circumstance that can make future partner buyouts difficult. That buyouts will be necessary is a consequence of disagreements and other unfortunate side effects of *generational change*.

Generational change is upon us, and it is huge. A great deal of the real estate that was developed post-WWII created fortunes that have supported families ever since. Many partnerships were created, but operations have been in the hands of the original grandparents, and the transition to the second and third generations is happening on a large scale. There is a strong need to consolidate ownership over time, as well as buy out dissenting partners, but this requires a shared understanding of equitable value that does not exist in the public domain. Valuers need to be able to communicate why interests that were initially worth 100% of their share of net asset value are now valued at discounts of 20%, or 40% or more. But valuing fractional interests in real estate is a complex *multidisciplinary* matter for which the number of qualified practitioners is limited, leaving the public without the understanding they need to continue their success without perpetual conflict.

The challenging valuation process has been made easier and more accessible by advances in technology. A groundbreaking application that incorporates the most advanced multidisciplinary valuation methods and guides the user to ask the right questions—leading them to consider everything that might affect value—is now accessible to valuers, appraisers, advisors and property owners alike. PrimusPVX© online valuation software and its companion text, *Valuing Fractional Interests in Real Estate 2.0,* is the solution to sustaining ownership benefits for future generations.

1. The Life Cycle of Shared Ownership

Fractional interests in real estate have a distinct lifecycle. Owners tend to enter into partnership arrangements when they perceive certain intangible benefits of doing so: having access to capital, sharing others' talents, being able to enjoy personal use and more. But these intangible benefits dissipate over time. Their loss reduces each interest's equitable (fair) value, a troubling circumstance that can make future partner buyouts difficult. That buyouts will be necessary is a consequence of disagreements and other unfortunate side effects of *generational change*.

1.1 Shared ownership begins with intangible benefits

Fractional interests in real estate include all the ways that more than one party can share the same property rights. Whether deeded, as with tenancy-in-common, or units or shares of legal holding entities, fractional interests all have a curious life cycle. Let us begin at the beginning.

Real estate ownership has numerous objectives, which can be reduced to four basic goals:

- Cash flow
- Long-term appreciation
- Wealth preservation
- Personal use, full or part-time

In order to acquire property and realize these goals, certain resources typically needed include:

- Investment capital
- Financing
- Construction and/or renovation skills
- Operations management ability

Partnerships are a long-established way of combining resources to own and operate real estate. Combining with others necessarily generates intangible benefits, such as:

- Access to others' talents and capacities
- Access to capital, but with limited liability
- The ability to acquire larger property
- Synergistic purposes (with other properties or businesses)
- Part-time personal usage (vacation home)
- Engagement with trusted partners

Combinations also can just happen, such as when family assets are split among children.

Combining with others generates benefits, but it also creates restrictions, since partnerships and limited liability companies (LLCs) require highly limited control to generate limited liability, removing many prerogatives of ownership.

- Operating decisions are allocated to manager
- Major decisions are shared
- Partner status is restricted
- Exit possibilities are limited
- Transferability is limited
- Sale is usually only way to receive share of whole

Combining as tenants-in-common is a bit different. This type of ownership requires continuous agreement to be successful, but its uncontrolled attributes invite chaos.

- Many operating decisions must be mutual or can be blocked
- Major decisions must be unanimous and can be blocked
- Transferability is unrestricted
- Exit possibility is usually limited to legal action (partition)
- Sale or division is usually only way to receive share of whole

1.2 Intangible benefits erode over time

This "coming together" as partners occurs at one point in time, and will typically occur only if the intangible benefits listed above are met. It is a time of optimism, and like any new venture, limitations are often overlooked. After all, no cost is being incurred because control is limited or shared—yet. But, as anyone who has been in a partnership situation will attest, conditions do change over time, and limitations can become restrictive and costly. How well do you really know your partners? Worse yet, your future partners? How well will they deal with difficulties? Real estate projects will eventually face problems, and conflicts can easily arise as a consequence of:

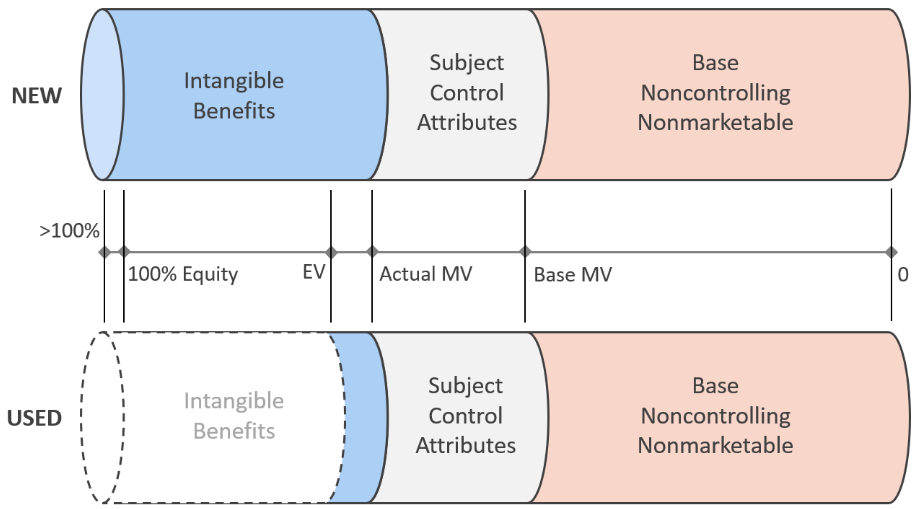
- Tenant choices
- Rental pricing and other terms
- Market cycles and sale strategies
- Redevelopment opportunities
- Reduced distributions (for any reason)
- "You were always Dad's favorite"

This is the short list; opportunities for disagreements over real estate ownership are vast. The last item is an actual obstacle to cooperation that I observed in a trust distribution case for which I was the valuation expert. Once their parents had passed, the siblings' long-time resentments became one obstacle to their trust settlement. I believe this to be more common than one might think.

This change—away from initial good feelings and intangible benefits—leads to discounts from underlying owners' equity. The partners go in at a slight premium to the property's value, and later find the value of their interests discounted from that value. In summary:

- There are many ways to get IN, but few ways to get OUT
- Getting in provides intangible benefits that often erode over time
- Ever present control limitations and restricted exit become more onerous, and…
- Initial premiums give way to discounts

The distinction between new and "used" fractional interests can be illustrated as follows:



The figure shows a new fractional interest on the top, and a "used" interest on the bottom. The going-in cost generally exceeds underlying property value because there are additional charges connected with forming the ownership entity. Intangible benefits must be present for the partnership to exist at all.

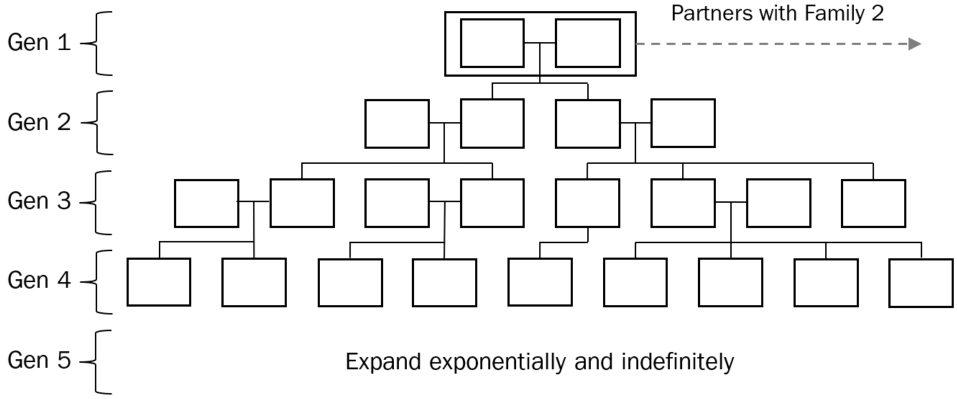
The first segment of the value breakdown is the <u>base market value</u> (fair market value in the US), which fully recognizes the costs of lost property rights (the difference between rights attributable to the whole property and those available to the holders of the fractional interests). Of course, the legal structure might give some of those rights (the Subject Control Attributes segment) to some or all of the interest holders, in which case those costs would be mitigated, increasing to <u>actual market value</u> for a specific interest. Any intangible benefits would be added to that, with the total now amounting to <u>equitable value</u> (fair value in the US). Of course, new equitable value shows a slight premium to underlying value. For the "used" interest, however, intangible value will almost certainly be diminished (although some elements could remain), causing equitable value to be discounted.

Such is the life cycle of a fractional interest in real estate. Valuers must understand how this cycle works and be able to communicate it to their clients, or it will be nearly impossible for to support pricing for fractional interests that is seen as fair—or that makes sense at all. And if valuers are having trouble now, the near future is likely to be far more challenging.

2. Generational Imperatives

Generational change is upon us, and it is huge. A great deal of the real estate that was developed post-WWII created fortunes that have supported families ever since. Many partnerships were created, but operations have been in the hands of the original grandparents, and the transition to the second and third generations is happening on a large scale. There is a strong need to consolidate ownership over time, as well as buy out dissenting partners, but this requires a shared understanding of equitable value that does not exist.

2.1 Change means more partners



The above figure shows a *conservatively* expanding property-owning family that might also include a similarly expanding second family (or more). Of course, as each child marries, additional families are attached to the original bloodline. Generation 4 barely fits on the page, and succeeding generations can easily be much larger than portrayed in the figure.

Succession issues for family businesses increase exponentially as the years pass, and usually become pronounced in the third generation and later. This is, coincidentally, about the time that the first generation is passing on. According to Poza and Daugherty (*Family Business*, 2014):

> Shareholder disagreements regarding compensation, dividends, liquidity, return on investment, business strategy, financial results, the estate plan, and management succession are often responsible for the implosion of otherwise successful family companies...

This subject has been widely studied for family operating businesses, but the same issues apply if the family business holds and operates real estate assets. The inescapable transition to newer generations is a primary force that creates new fractional interest holders; often with differing objectives. Regardless of the going-in objectives of the original creators of the interests—and corresponding intangible value realization—the fact of the interests now passing into more and younger hands virtually guarantees divergent personal concerns and objectives and cements the reality of discounts. Divided ownership, once intended to share the original good fortune of founders with their families, perversely threatens to destroy many real estate legacies. And it is all due to a widespread lack of understanding of value.

Heartbreaking family divisions and costly feuds are much too likely, but do not have to be inevitable. Solid agreements that clearly reflect the basis for value and outline mechanisms for buying out partners and consolidating ownership would go a long way toward preserving and growing the family legacy. But more often than not, such agreements do not exist…

2.2 Success means getting ready before it's too late

We are now beginning to move from second- to third-generation ownership, and disagreements are a threat to many families' real estate operation and ownership. It will become progressively more imperative that families create an internal market for later generations' interests. This requires shared understanding of the basics of control and marketability impairment in the context of the family enterprise. It should be remembered that "[t]he keys to successfully creating the internal market are objectivity and fairness in the valuations of shareholdings" (Gersick et al. 1996).

A business can set a share price for this purpose by appraisal, and businesses are sometimes valued annually so all the family members can know that the distributions they are receiving are fair, given the company's value. Shareholder agreements that provide for this should also state the premise under which the company is to be valued and may go so far as to provide formulas for contemplated buyouts. Whatever the process, it should be clear enough that it can be tested by several valuers and produce reasonably consistent results.

Generational planning for operating businesses has been given a great deal of attention, but the same cannot be said for real estate holdings. Why? Because the real estate can just be sold, right? If you can get enough of the owners to agree, then great. But is that a useful expectation; just sell, distribute the proceeds and be done with it? The opposing question my clients reply with is "where would I invest my money?" Often the option to "just sell" is not likely or even possible. The alternative, implementing a plan for removing dissenters while consolidating ownership and preserving assets for future generations, is not simple, and outcomes are still not a given. Real estate fortunes are regularly destroyed by internal conflict. This shouldn't happen, but it does. Valuers can do something about it.

2.3 Pricing is the key

A real estate partnership (holding company) can follow the same procedures as an operating company, but it faces an additional hurdle, as the "new/used interest" concept raised above can be an automatic source of dissention. The fact that fractional interests are discounted for their loss of property rights attributable to the underlying real estate (largely impaired control and marketability) is not an easy concept to communicate. The likelihood of conflict can be made worse because valuers may disagree on how to address the family's specific ownership conditions in an equitable value context. But clarity is essential to determining whether the valuers' work will be understood and relied upon by the client.

Any lack of clarity will only compound the natural tension between the two parties to the buyout transaction. Management and those remaining will naturally wish to pay as little as possible for an exiting partner's interest, while the exiting partner can easily be attached to the perceived "rightness" of being paid their full pro rata share of the underlying real estate. There are a great many reasons that limited or no control over the property and limited marketability of the partner's interest act to reduce value from its pro rata share, and it is certainly reasonable that the exiting partner receive a discounted amount. But whether the eventual price is based on market value, or on equitable value that includes intangible elements, depends in large part on how the family/partners view their shared enterprise.

3. Keys to Fair Buyouts

Fair buyout pricing requires that valuers understand and communicate why interests that were initially worth 100% of their share of net asset value are now valued at discounts of 20%, or 40% or more. But valuing fractional interests in real estate is a complex *multidisciplinary* matter for which the number of qualified practitioners is limited, leaving the public without the understanding they need to continue their success without perpetual conflict.

3.1 Equitable value and intangible benefits

Market value's hypothetical buyers and sellers are not real people. They are composites, stripped of all personal attributes; useful but fictional characters. Once the valuer's assignment involves actual people, say for increasingly common internal buyouts, the hypothetical picture is only useful if none of the parties care about anything except future returns, risk and how long they will be in the deal (whether they are acquiring those things or trading such a position for cash). This is an extreme situation, and lies at the market value end of the discount spectrum. The other end removes the discount entirely. The in-between is represented by intangible value attributed to the buyer and/or seller, and is usually where the deal will be struck. After all, all transactions are made at *investment value* by definition, based on the buyer's and seller's view of the worth of the investment to themselves. Market value gives way to some form of *equitable value*. A valuer who can quantify the effects of any intangibles and come up with one or more fair value conclusions will be genuinely useful to the parties trying to make the deal.

Intangible value has to have been present at the time a shared ownership arrangement is entered into, as described above. It would be unusual, though, for the original good feelings to persist unimpaired over the years, through personal and economic changes and with generational changes as well. The interest is definitely "used" at that point. A family's real estate business may be harmonious at that point, or it may not. The family members in charge of management may be highly regarded, but this is not always the case. The level of trust and confidence in the future could be very high, or it could be very low. In any such case, equitable value could be strongly affected in either direction by these intangible elements.

3.2 Setting up for success…or not

It is always best if the operating agreement has clear and workable provisions for pricing buyouts. In successfully crafting such provisions, all the partners would usually need to agree, and intangible elements could easily be in the forefront of matters that must be resolved. If trust and confidence levels are high, then the partners might be more comfortable with reducing the discount (or yield) required for exit pricing. But even if not completely supported by the facts, it may be necessary to reduce the discount somewhat to get all parties to agree on any buyout process or formula. The partners can do anything they collectively wish to do, and a good understanding of their special circumstances, as well as the trust and confidence they share, might be required to arrive at agreed-upon pricing and a workable buyout plan.

Most operating agreements do not have a clear buyout formula or process, however, and those that do often state that each side will hire a qualified valuer, and if they disagree, then they will appoint a third, and so on. Lovely for employing valuers, but without clear instruction regarding intangibles, disagreement between valuers is pretty much guaranteed.

The valuers can address deficiencies in instructions by interviewing the parties to a buyout transaction to determine whether intangible benefits need to be considered. Since there are two parties, the valuer may not be able to come up with a point-value conclusion, so a range of values may be more appropriate. But at least the issues associated with the position and views of each of the parties will have been "placed on the table" by the valuation report, and they will have a more objective basis for arriving at a transaction price that is seen as fair to all.

4. The Multidisciplinary Challenge

Valuing fractional interests in real estate requires knowledge developed by two very different valuation disciplines. Real estate appraisal and business valuation share common foundations, but have otherwise developed almost entirely independent of each other. This situation is unimportant for most valuation work, but becomes a source of real trouble if the assets being valued have both business and real estate attributes.

4.1 Asking the right questions

A useful way to think about multidisciplinary challenges is to first think about what training and experience in one's chosen field means. It comes down to the ability to ask the right questions in that field. But multidisciplinary valuation is about asking the right questions in the other field *for which we do <u>not</u> have the necessary training and experience*. Collaborating with the practitioner in that other discipline is usually the only way to solve the problem.

I am professionally designated in both real property appraisal (28 years) and business valuation (14 years), but the number of valuers who are similarly qualified is tiny. I do know the right questions to ask, and that has been the focus of my practice, writing and teaching. Learning to *ask the right questions* will lead practitioners on both sides of the multidisciplinary divide to resolve challenges, particularly when the valuation work involves fractional interests in real estate.

Valuation practice is about *asking the right questions*, which we all do based on our own training and experience

Multidisciplinary valuation is about asking the right questions for which we do not have the necessary training and experience

Fractional interests in real estate are particularly difficult in this respect because the business valuer and real property appraiser do their work under different premises. The real property appraiser usually values the asset as-if it is transferred from a seller to a buyer, both of whom are typical of participants in the market for that property type, in that specific market area. The actual holders of the property, its financing and other ownership-specific elements are deliberately not considered. The appraiser is asked to determine market value, and does exactly that. The business valuer, on the other hand, is charged with determining the value of an interest in the partnership that holds the asset, and must consider many facts and circumstances related to property ownership, the asset's market value being just one element. These differing views create many opportunities for important property characteristics and related facts to go entirely unnoticed: the real property appraiser is not necessarily asked to look for them, and the business valuer most likely does not know to ask. We can take one glaring example of this professional gap to illustrate.

4.2 Management Risk Goes Missing

There are many omissions that would be routinely considered if the process resided solely within a single profession. Take management risk. Business valuers build up yield rates for income capitalization using a variety of sources that account for equity risk, industry risk and company-specific risk. With regard to this last element, business valuation texts provide lists of risk components particular to the company, which can include size, location, competition, management quality and depth, capital access, entry barriers, customer and supplier concentration, product or service diversification and many others. Some of these components are attributable to the business generally. Others are related to existing management and are usually included when valuing a noncontrolling interest. Support for these adjustments is thin, but adjustments in the range of 5% to 10% or more are common. In any case, this is an established practice in which the valuer first acquires a good understanding of the specific industry and its future prospects. He or she then makes risk adjustments based on how well the company can be expected to respond to what will be needed going forward, in comparison with typical companies that comprise the data. So far, so good.

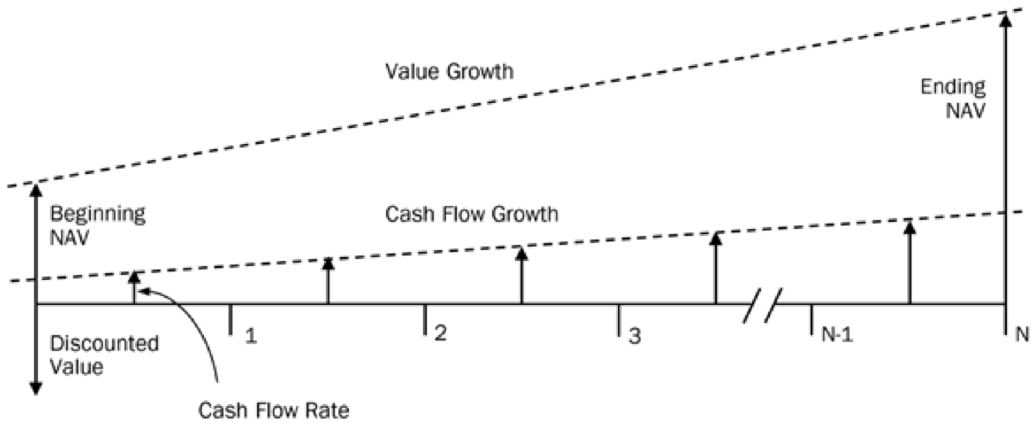
But what happens when the company's business is holding real estate assets for investment? Nothing, because company-specific risk is not usually considered. This would make sense if any real estate could be successfully managed by just anyone, in which case a holding company would never need a risk adjustment, right? Well, let's see. As a potential minority investor in holding companies, would you be neutral when choosing between, say (1) a company holding a mid-rise multi-tenant office building that is managed by a professional team and (2) a similar company whose manager is the dentist son of the original developer and manages the building on the side? No? You say that management experience and depth would make a difference? That risk would be greater in the second situation than in the first? By golly, I think you'd be right.

So, what does happen, exactly? The business valuer has a real property appraiser value the underlying asset, perhaps assuming that the appraiser will find out whether there are any problems with managing that particular property (or perhaps not). But the real estate appraiser assumes management skill levels that are *typical* of the market, disregarding the actual ownership structure entirely. If essential information concerning management requirements and challenges is not forthcoming, then the two scenarios mentioned above would likely be seen by the valuer as identical. This is a classic example of two professions with different points of view, both missing a key risk component. (A comprehensive method of accounting for management risk in real estate entities is presented in *Valuing Fractional Interests in Real Estate 2.0*, chapter 6 (Webb, 2021).)

4.3 Speaking the same language

Valuation methodology can also help or hinder the need for asking the right questions. For example, most partnership interest valuations rely on net asset value (NAV) methods, which include the real property appraiser's "outside" value in its balance sheet analysis, and then apply market data for lack of control (say, public limited partnership transactions) and lack of marketability (various impairment methods) to determine appropriate discounts. But single point models can embed assumptions about growth, future changed use, leverage and cash flow that may have little to do with the market data. Such embedded assumptions are risky because they are largely unseen, making it difficult to connect the various models with either the real estate or the subject partnership. A multidisciplinary valuation should explicitly recognize these otherwise embedded assumptions and adjust for outside/inside differences. Such recognition is most readily available through the only valuation technique that is well-understood by both professions: the income approach.

The income approach models cash flows over time, and can more closely match partner expectations, even if such expectations do not match the real estate market. The basic present value analysis is illustrated by the following figure:



This particular figure shows a constant value and cash flow growth for simplicity but is still similar to the more commonly used discounted cash flow model. Its key variables are value and value growth, cash flow rate and cash flow growth, time, and the yield rate(s) used to discount future cash flow back to the present. Growth values from the "outside" real estate appraisal need to be modified by the conditions "inside" the partnership. Some of the more important outside/inside differences are described as follows:

- Cash flow: revenues. Revenues reported in the real estate appraisal are based on current leases but adjusted to market on expiration or renewal. Inside revenues may be different based on the ability of management to increase rents, or its long-term relationships with tenants, for example.
- Cash flow: net operating income. NOI is projected in the real estate appraisal based on management by a *typical* market participant. While many line items are the same whether inside or outside (utilities or future maintenance costs, for example), others are likely to differ based on *actual* management capabilities. These include professional management fees, insurance, sometimes property, and all kinds of administrative expenses.
- Cash flow: entity charges. The real estate appraiser will have selected which line items to include in the market value analysis, but there will be other line items attributable only to partnership operations. These normally include some administrative costs, salaries, entity taxes and the like. Future capital expenditures might be assumed by the real estate appraiser to be covered with an annual replacement allowance, especially if the market includes properties with similar replacement needs. But the business valuer will still need to consider any specific capital costs expected to occur during the holding period, and whether they will need to be covered by the partners or from cash flow. For example, re-tenanting, roofing, and some other costs can be an enormous challenge for the partners, and would necessitate an analysis of working capital adequacy and needed accumulations.
- Value growth. If the current property use is the same as the appraiser's concluded highest & best use, then the real estate value growth figure may be usable. But if its use is different, then inside growth can easily be different as well, and must be adjusted.
- The effects of value growth are very often missed, and this can affect the discount for lack of marketability. This second discount uses the minority-marketable value as a starting point. If value growth for the real estate was 3% annually, then a 25% discount for lack of control will increase the growth rate from 3.0% to 6.0% over a 10-year period, or from 3.0% to 9.1% over a five-year period. In either situation, the discount for lack of marketability can be hugely overstated by using the unadjusted 3.0%.

These are just a few of the more prominent examples of major professional differences that are made explicit by the outside property appraisal and the inside partnership valuation. The income approach connects inside and outside in terms that both professionals can understand. It facilitates a clear story of the partnership's relationship with its asset, and is far more likely to deliver a persuasive story of value and a credible conclusion than other methods that simply embed everything and keep the two professionals isolated from each other. Asking the right questions is easier with the chosen approaches speak the same language.

5. PrimusPVX©

The multidisciplinary nature of fractional interest valuations challenges valuers with learning to "ask the right questions in the other field for which they do not have the necessary training and experience." Few practitioners can afford to specialize, so the traditional route to acquiring such expertise is not realistically available. Fortunately, the traditional route is no longer necessary, as the valuation process has now been made easy and accessible by advances in technology. A groundbreaking application that incorporates the most advanced multidisciplinary valuation methods and guides the user to ask the right questions—leading them to consider everything that might affect value—is now accessible to valuers, appraisers, advisors and property owners alike. PrimusPVX© online valuation software and its companion text, *Valuing Fractional Interests in Real Estate 2.0,* is the solution to sustaining ownership benefits for future generations.

5.1 The solution comes to life

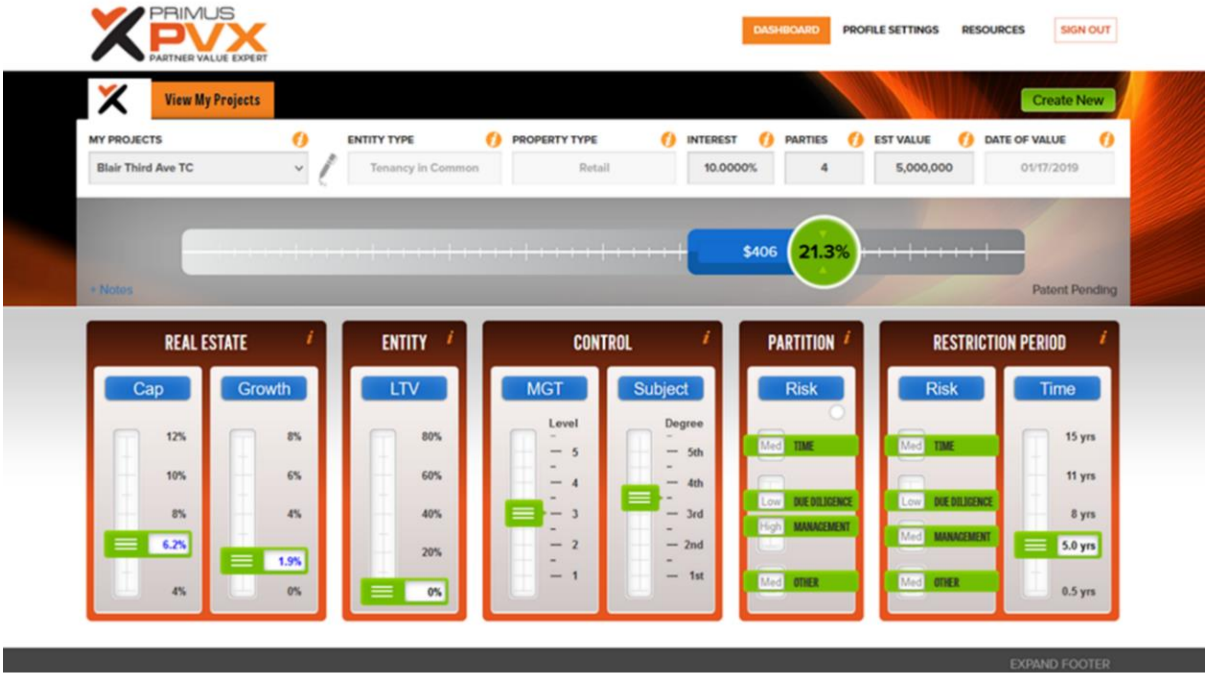
My valuation work has been multidisciplinary since 1994. I have been doing everything I can to break down the barriers between business valuation and real property appraisal. I was sure 20 years ago that it would be possible to write software that would value fractional interests, but it was only a dream at that point. In the ensuing years I adapted the (business) valuation process for real estate entities, made it quite straightforward with version 2.0, and designed a complete algorithm based on my process. The application is now ready for your use. There has never been anything like it.

The algorithm's big advantage is that it is able to incorporate straightforward but sophisticated models, transfer functions and databases, relieving the valuer of the normally tedious and time-consuming modeling process. Now the critical part where the valuer needs to recognize the facts and circumstances of the case—real estate, financial, ownership structures and risks, partition and the various restrictions place on the subject interest-holder—can have the valuer's full attention. PVX is fast and efficient, providing a level of access and knowledge that has been essentially unavailable to valuers, advisors and property owners—until now.

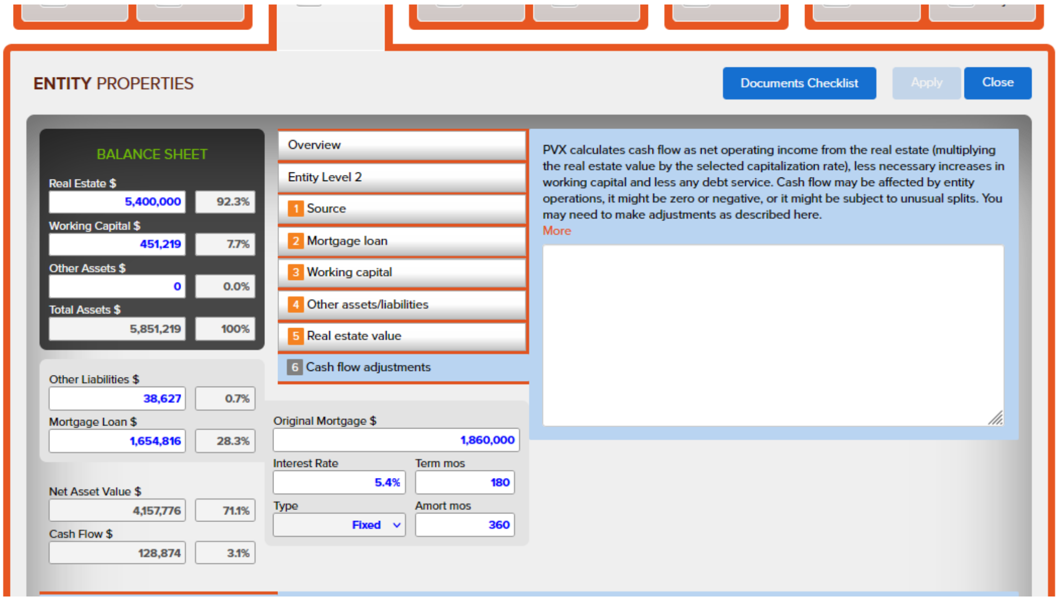
5.2 The user dashboard

The PVX dashboard (next page) is where users create and complete valuation projects. It is the core of the user interface, divided into five sections that mirror the logical progression of the valuation process. PVX works with the real estate appraisal, guiding the valuer to find all of the important facts and circumstances concerning the property and the ownership position.

Each of the five dashboard sections has one or more sliders that the user can adjust in response to their understanding of the facts in the case. As the sliders are adjusted, the algorithm recalculates, and the effect of each change is displayed on a sliding cursor that shows both the concluded value of the subject interest and the overall discount. This immediate response aspect provides the user with an awareness of the effect of each element on value that has not been available before. Even this author's professional models cannot provide such instant feedback. The level of mastery generated by this system is unprecedented.



Each of the dashboard sections expands to show additional fields and a question-and-answer dialogue that guides the user to consider the important facts and circumstances affecting value.



These steps are further cross-referenced with additional text, documents, and an onsite version of the multidisciplinary text *Valuing Fractional Interests in Real Estate 2.0* so that the user can drill down to gain a deeper knowledge any time additional understanding is needed. The valuer then makes appropriate adjustments to reflect risk, time and the other elements that affect value.

Everything needed to support the valuation is built in. The key multidisciplinary goal of the appraiser-user, whether real property or business valuer, being able to *ask the right questions in the other discipline,* is now solved.

5.3 Three levels of reliability match valuation requirements

The system is meant to be both fast and accurate. Accordingly, it operates at three levels of reliability, based on the extent of information input by the user and the purpose of the analysis.

Level 1 requires that the user only name the project and input the entity type, property type, interest percentage, number of parties, an estimated value for the real estate, and the date of value. That's it. This can literally be done in less than one minute. PVX then immediately calculates discount and value using internal databases of default cap and growth rates, management risk, typical degrees of control, partition parameters, and levels of risk over a typical restriction period. The Level 1 value and discount are a guess, of course, but a fairly educated guess, which provides a useful starting point.

Level 2 requires additional information, but just the high points. This level requires that the user open expansion windows for each of the dashboard sections and follow the Level 2 instructions that guide the user to consider selected questions and make some quick adjustments. Depending on the degree to which information is at hand, a Level 2 analysis will not take very long to complete, but the result will be much more refined than Level 1. The conclusion can be as reliable at this level as many professionally prepared valuations. Level 2 is quick, reasonably accurate, and useful for many purposes.

Level 3 is a complete analysis. The user reviews and answers all of the relevant questions in each of the expansion windows, further entering information in data fields and adjusting the sliders in response. Assuming the facts are available and a real estate appraisal has been obtained, the result will be at least as reliable as the opinion of a professional valuer, and possibly even more so.

5.4 Summary

PVX functions as both a learning tool and a guide to breaking down the facts and circumstances surrounding fractional ownership. It provides hard-to-obtain data and performs the necessary modeling, two of the biggest challenges for many users. Most importantly, it provides constant feedback to users at any skill level, demonstrating in real time how facts affect value. Whether you are a non-appraiser dealing with ownership issues or an experienced valuer looking to refine and strengthen your work, PVX is a uniquely helpful source of guidance and support. It can be used to gain a deep and truly useful understanding of fractional interest value.

CONCLUSIONS

Shared real estate ownership is an enterprise with a distinct life cycle, requiring maintenance and changes over time, just like real property itself. Successful owners will accommodate the inevitable changes by providing for equitable buyouts as personal conditions and simply generations change. The alternative is often litigation and destroyed legacies. Valuation has a major role to play in assuring continued, successful ownership.

Our profession faces its own challenges with it comes to valuing fractional interests in real estate, since the process is a multidisciplinary one that sets many traps for the unwary. Business valuers and real property appraisers have developed their practices to be able to *ask the right questions* in their own field, based on their training and experience. But multidisciplinary valuation is about asking the right questions in the *other* field, for which we do *not* have the necessary training and experience. The professional capacity for providing fractional interest valuations that address the material facts and circumstances of any specific partnership and producing a clear and persuasive valuation that owners need is not nearly sufficient to help the real estate-owning public.

Fortunately, advances in technology have come to the rescue. The groundbreaking PrimusPVX application incorporates the most advanced *multidisciplinary* valuation methods, guides users to ask the right questions and demonstrates how facts affect value. A clear and easily-obtained understanding of value is now accessible to valuers, advisors and property owners alike. PrimusPVX, along with its companion text, *Valuing Fractional Interests in Real Estate 2.0*, is the comprehensive solution to sustaining ownership benefits for future generations.

REFERENCES AND RESOURCES

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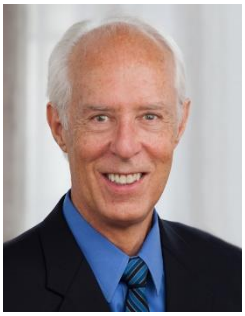
BIOGRAPHICAL NOTES



Dennis A. Webb, MAI, ASA, FRICS, is a business and real estate appraiser, former syndicator and engineer. He is an Accredited Senior Appraiser (ASA) in Business Valuation and Real Property disciplines with the American Society of Appraisers, an MAI Member of the Appraisal Institute and a Fellow of the Royal Institution of Discount Chartered Surveyors. Webb is the principal of Primus Valuations,® a specialty valuation and litigation consulting firm with offices in Los Angeles and Denver, and the founder of PrimusPVX.®

Webb's practice is focused on the business of holding and operating real estate, allocating value to special-use real estate and business valuation. His passion is bringing understanding, clarity, collaboration and technology to bear on valuation of hard-to-value asset interests, a niche specialty which has long proved vexing for appraisers, advisors, the courts, and property owners alike. His mission has resulted in numerous articles and presentations for valuation professionals, lawyers and property owners. His most recent work is the definitive "Valuing Fractional Interests in Real Estate 2.0," a complete upgrade of the valuation process for LLC, LP and common tenancy interests. Most of his papers and presentations may be found at www.primusivs.com.

Prior to specializing in real estate and business appraisal, Mr. Webb was co-owner of an NASD broker/dealer firm which provided real estate investment syndication, analysis and appraisal services. He held licenses as a Registered Representative and General Securities Principal, and was also responsible for due diligence investigations. He received his B. S. degree in Engineering from the University of California at Los Angeles, with a Minor in Economics, and worked for 15 years as a systems and design engineer. A native of Los Angeles, Dennis now lives in Denver, Colorado, and enjoys writing, hiking, traveling and dancing Argentine Tango.

CONTACT

Dennis A. Webb, ASA, MAI, FRICS
Primus PVX® LLC
12400 Wilshire Blvd., Suite 400
Los Angeles, CA 90025
United States of America
Direct: + 01 (949) 443-0800
Office: + 01 (866) PVX-6626 [789-6626]
Fax: + 01 (310) 734-1658
E-mail: **dwebb@primuspvx.com**
Website: **www.primupvx.com**