

## Table of Contents

Preface.....	viii
About the Authors .....	x
I. Overview .....	1
II. Disadvantages of the Cost Approach.....	3
A. Use of Average Discounts in Published Studies.....	4
B. Inappropriate Reliance on Case History .....	6
III. Selecting Proper Valuation Methodology .....	8
A. Income Approach .....	9
B. Market Approach .....	10
C. Cost (or Asset) Approach .....	12
IV. Empirical Data for Income Approach.....	15
A. Marketable Securities .....	16
B. Real Estate .....	16
1. Real Estate Investment Trusts (REITs).....	16
2. Publicly-Held Limited Partnerships .....	18
C. Real Estate Securities Indexes.....	22
D. Summary .....	22
V. Empirical Data for Market Approach .....	23
A. Closed-End Funds.....	23
B. Publicly-Held Real Estate Limited Partnerships.....	26
1. Comparability of Data .....	27
2. Limited Partnership Secondary Market.....	28
a) Impact of Liquidations.....	30
b) Mechanics of Buying and Selling LP Interests.....	30
(1) Role of the Seller.....	31
(2) Role of the Buyer .....	31
(3) How Auctions Are Conducted .....	32
(4) Sales Proceeds and Distributions .....	32
3. Addressing Criticisms of Limited Partnership Data .....	32
C. Summary .....	40
VI. What Should Be Included in an Appraisal Report .....	41
VII. Valuation Examples .....	43
A. FLP A - Marketable Securities .....	43
1. Income Approach – FLP A.....	44
a) Determination of Discount Rate .....	44
b) Scenario 1 - Discounted Net Cash Flow Forecast .....	47
c) Scenario 2 - Reinvestment of Capital Appreciation.....	49
d) Scenario 3 - Capitalization of Net Cash Flow.....	50
2. Market Approach - FLP A.....	51
a) Selection of Closed-End Funds .....	53
b) Application of Price-to-NAV Ratios .....	56
c) Alternative Calculation for Determining Price-to-NAV Ratios.....	59
3. Reconciliation of Values - FLP A.....	61

B.	FLP B – Income Producing Real Estate .....	62
1.	Income Approach – FLP B.....	62
a)	Determination of Discount Rate .....	62
(1)	Build-Up Method – REIT Returns.....	63
(2)	Build-Up Method – Real Estate Partnership Returns .....	65
(3)	Reconciliation of Discount Rate Computations .....	66
b)	NCF Forecast – Income Producing Property .....	67
2.	Market Approach – FLP B.....	68
a)	Sources of Data .....	69
(1)	Minority Interest Discount Database™ .....	69
(2)	Partnership Guideline Reports™ .....	73
b)	Application of Price-to-NAV Ratio – Real Estate.....	74
c)	Application of Price-to-GCF Multiple – Real Estate .....	77
3.	Reconciliation of Values for FLP B.....	79
C.	FLP C - Non-Income Producing Property .....	79
1.	Income Approach – FLP C.....	80
a)	Determination of Discount Rate .....	81
(1)	Build-Up Method – REIT Returns.....	81
(2)	Build-Up Method – Publicly-Held Limited Partnership Returns .	82
(3)	Reconciliation of Discount Rate Computation .....	83
b)	NCF Forecast – Nonincome Producing Property.....	84
(1)	Scenario 1 – Three Year Liquidation Horizon.....	84
(2)	Scenario 2 – Five Year Liquidation Horizon .....	85
(3)	Scenario 3 – Ten Year Liquidation Horizon.....	86
(4)	Reconciliation of Income Approach Scenarios .....	86
2.	Market Approach – FLP C.....	87
a)	Selection of Guideline Entities .....	88
b)	Selection of Price-to-NAV Ratio.....	90
3.	Reconciliation of Values for FLP C .....	91
D.	FLP D - Mix of Assets.....	92
1.	Income Approach – FLP D.....	92
a)	Determination of Discount Rate .....	93
b)	Net Cash Flow Projection .....	95
(1)	Scenario 1 .....	95
(2)	Scenario 2.....	96
(3)	Reconciliation of Scenarios 1 and 2 .....	97
2.	Market Approach - FLP D .....	98
a)	Selection of Comparable Entities.....	98
(1)	Closed-End Funds.....	98
(2)	Publicly-Held Limited Partnership Interests.....	105
b)	Application of Price-to-NAV Ratios .....	108
E.	FLP E – Oil & Gas .....	108
1.	Income Approach – FLP E.....	109
a)	Determination of Discount Rate .....	109
b)	NCF Forecast .....	110
2.	Market Approach – FLP E.....	111

a)	Selection of Oil and Gas Partnerships .....	112
b)	Application of Price to NAV Ratios.....	114
3.	Reconciliation of Values for FLP E.....	115
VIII.	Unique Appraisal Assignments .....	117
A.	Family Limited Partnerships with Nonmarketable Securities .....	117
B.	Valuing General Partnership Interests.....	119
C.	Valuing Assignee Limited Partnership Interests .....	120
D.	Valuing Multiple or Tiered Limited Partnerships .....	121
E.	Valuing Family Limited Partnerships with Promissory Notes .....	122
IX.	Discount for Lack of Marketability .....	125
A.	Discounts Observed in Publicly-Held Limited Partnerships .....	125
B.	Use of Average or Fixed Discounts .....	126
C.	Empirical Approach for Determining DLDM.....	127
1.	Study A – Private Equity vs. Public Equity Returns.....	127
2.	Study B – Restricted Stock Returns.....	129
3.	Study C – Long Term vs. Short Term Bonds .....	131
4.	Conclusion .....	133
D.	Examples.....	134
1.	FLP A - Marketable Securities .....	135
2.	FLP B – Income Producing Real Estate.....	136
3.	FLP C – Nonincome Producing Real Estate .....	139
4.	FLP D – Mixed Assets .....	141
5.	FLP E – Oil and Gas .....	142
E.	Conclusion.....	144
X.	Summary.....	146
XI.	Valuation Impact of the Formation and Operation of FLPs.....	149
A.	Introduction.....	149
B.	Summary of Transfer Tax Concepts.....	151
C.	IRS Arguments for Disregarding the Existence of a Partnership .....	151
D.	The Practical Impact of the IRS's Arguments and the Courts' Views ....	155
XII.	Tax Court Perspective.....	173
XIII.	Conclusion .....	198
XIV.	Appendix - Partnership Profiles Re-Sale Discount Studies .....	199