Real Estate Economics / Volume 24, Issue 4 / pp. 471-491

Forecasting the Discounts of Market Prices from Appraised Values for Real Estate Limited Partnerships

Brad M. Barber

First published: December 1996
https://doi.org/10.1111/1540-6229.00700

Abstract

A vexing problem for the appraisal industry has been estimating an appropriate discount for the value of real estate limited partnerships (RELPs) relative to their appraised value. This research develops a linear regression model that explains over 80% of the cross-sectional variation in discounts across 60 RELPs using characteristics of each partnership. Among a holdout sample of 41 RELPs, the model provides forecasts of discounts that are superior to assuming no discount or applying a mean discount to all partnerships. Discounts are greatest for RELPs with low current yields, low leverage and high trading ranges for their market prices.

Reference

Amihud, Y. and H. Mendelson. 1986. Asset Pricing and Bid-Ask Spread. *Journal of Financial Economics* **17**: 223–249.

Web of Science® | Google Scholar

Brickley, J., S. Manaster and J. Schallheim. 1991. The Tax-Timing Option and the Discounts on Closed-End Investment Companies. *Journal of Business* **64**: 287–312.

Web of Science® | Google Scholar

Capozza, D.R. and S. Lee. 1995. Property Type, Size, and REIT Value. *Journal of Real Estate Research* **10**(4): 363–381.

Google Scholar

Damodaran, A. and C.H. Liu. 1993. Insider Trading as a Signal of Private Information. *Review of Financial Studies* **6**: 79–120.

Web of Science® | Google Scholar

Greene, W.H. 1993. *Econometric Analysis*. Macmillan: New York , NY .

Google Scholar

Hall, L.S. 1989. Valuation of Fractional Interests: A Business Appraiser's Perspective. *The Appraisal Journal* **57**(2): 173–179.

Google Scholar

Hall, L.S. 1993. Minority Interests in Closely Held Real Estate: Lessons: Estate of Berg. *The Journal of Real Estate Taxation* **20**(2): 170–176.

Web of Science® | Google Scholar

Hamill, J.R. 1993. I ncentive Problems and General Partner Compensation in Limited Partnership Real Estate Investments. *Journal of the American Real Estate and Urban Economics Association* **21**: 131–140.

Web of Science® | Google Scholar

Jensen, M. 1986. Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers. *American Economic Review* **76**: 323–329.

Web of Science® | Google Scholar

Korn, T.H. and J.R. Hitchner. 1993. Valuing Indirectly Held Real Estate has Special Concerns. *Estate Planning* **20**(4): 234–240.

Google Scholar

Lang, L.H.P. and R. Litzenberger. 1989. Dividend Announcements: Cash Flow Signalling vs. Free Cash Flow Hypothesis? *Journal of Financial Economics* **24**: 181–192.

Web of Science® | Google Scholar

Lang, L.H.P., R.M. Stulz, and R.A. Walkling. 1989. Management Performance, Tobin's q, and the Gains from Successful Tender Offers. *Journal of Financial Economics* **24**: 137–154.

Web of Science® | Google Scholar

Lehn, K. and A. Poulsen. 1989. Free Cash Flow and Stockholder Gains in Going Private Transactions. *Journal of Finance* **44**: 771–789.

Web of Science® | Google Scholar

Malkiel, B.G. 1977. The Valuation of Closed-End Investment-Company Shares. *Journal of Finance* **32**: 847–859.

Web of Science® | Google Scholar

Smith, R.L. and J. Kim. 1994. The Combined Effects of Free Cash Flow and Financial Slack on Bidder and Target Stock Returns. *Journal of Business* **67**: 281–310.

Web of Science® | Google Scholar

Wang, K., J. Erickson and G.W. Gau. 1993. Dividend Policies and Dividend Announcement Effects for Real Estate Investment Trusts. *Journal of the American Real Estate and Urban Economics Association* **21**: 185–201.

Web of Science® | Google Scholar

Citing Literature