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

Brad M. Barber

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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.

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