



Dear PPI Customer:

The transaction data necessary to update the Minority Interest Discount Database and Partnership Real Estate Guideline Reports has diminished significantly over the years due to program liquidations, mergers and listings, as discussed in past reports issued by PPI. At this time we are not sure when the next data update will occur. There is not enough new data this year to create meaningful reports for real estate related entities, and we will not publish data that may be insufficient, misleading or not valuable to appraisers. PPI will provide any updates to this situation on our website (www.PartnershipProfiles.com).

Based on my conversations and input from Bruce A. Johnson, ASA and James R. Park, ASA, principals of the appraisal firm Munroe, Park & Johnson, Inc. who are co-authors of the Comprehensive Guide for the Valuation of Family Limited Partnerships and LLCs published by PPI, PPI offers the following insight for appraisers to consider on a going-forward basis:

1. Despite there being no new data in the current year, the PPI data reflects a discount for lack of control (DLOC) involving third-party transactions that is the only pure DLOC data that appraisers have available for valuing minority interests in real estate entities.
2. In light of the above, PPI has collected and continues to make available a large body of data that reflects the pricing behaviors of third-parties buying and selling minority interests in real estate entities over almost 30 years. This data was collected over several economic cycles and consistently shows that investors make pricing decisions based on rates of return to compensate for the risk level of the investment. In other words, buyers discount the net asset value of the entity in order to receive a 15%-20% return on their investment. This is dependent, of course, on the risk factors of the entity.
3. Appraisers continue to use restricted stock data going all the way back to 1966 and historical private company transactions from Deal Stats and other databases. Therefore, it is appropriate to use the 1994-2023 PPI data to value noncontrolling interests in privately held FLPs and LLCs. Appraisers should continue to use both the Income and Market Approaches to value minority interests in FLPs and LLCs, and then deduct a discount for lack of marketability (DLOM) to account for the risk of lack of marketability.
4. For valuations using the Income Approach, PPI continues to offer a Rate of Return Study (Report #10). Appraisers valuing FLPs and LLCs should employ the Income Approach by forecasting future profitability and a future terminal value. This is how

investors value securities, and it is how investors that buy the PPI limited partnerships and nontraded REITs price the interests they are buying.

5. For valuations using the Market Approach, appraisers should use the historical PPI data to determine a Price-to-NAV Ratio. We recommend using the most recent five years of Price-to-NAV ratios and take the average per year Price-to-NAV ratio and develop a range using at least 5-6 guideline entities. Then, use this as a range and make an adjustment considering the following factors:
 - a. Size/Diversification
 - b. Growth
 - c. Profitability
 - d. Leverage

6. If the 5-6 guideline entities are comparable in types of asset, etc., the range should be fairly tight (e.g. 0.700:1 to 0.800:1, for example).

PPI will continue to offer annual subscriptions to the historical transaction data in the Minority Interest Discount Database and is developing more comprehensive Partnership Real Estate Guideline Reports that cover a 5 to 10 year time-frame. We will also continue to publish and update the Closed-End Fund Reports (#7 & #8), the Comprehensive Guide for the Valuation of Family Limited Partnerships and LLCs, the Discount for Lack of Marketability Study (Report #9), the Rate of Return Study (Report #10), and the Sample Appraisal Reports.

As new developments arise, the current subscribers and users of PPI data will be the first to know.

Appreciatively,

Spencer Jefferies
President
Partnership Profiles, Inc.