

February 17, 2016

Three Approaches for Real Estate Holding Company Valuations

[BUSINESS ADVISORS](#), [BUSINESS VALUATION](#), [REAL ESTATE](#)
BY [DAN RISKE](#)

Valuing real property owned by a real estate holding company usually involves utilizing three approaches to value: the Cost Approach, Income Approach and Sales Comparison Approach. A general description of these approaches is included below.

- **Cost Approach** – Assumes that a property is worth the cost to produce a substitute, similar property. This approach is most applicable to recently constructed and special purpose properties.
- **Income Approach** – Estimates the anticipated net benefit (normally cash flow) stream for the property and discounts the benefit to its present value using the expected rate of return for the real estate investment. This approach mainly applies to income-producing properties.
- **Sales Comparison Approach** – Analyzes sales of similar properties in order to estimate the value of the subject property. This approach makes adjustments to value based on physical/financial differences between the comparable properties and the subject property. This approach is most effective when numerous recent sales of similar properties are available.

Depending on data available, all three of these approaches are normally utilized to help determine the value of the property held by a real estate holding company. Any other assets (e.g., cash, receivables, etc.) or liabilities (e.g., mortgages, accrued taxes, etc.) of the company must also be considered.

When valuing less than a 100% ownership interest in the company, the valuation analyst must also consider any discounts applicable to the subject interest. Depending on the circumstances, it is likely that a minority ownership interest in a privately held real estate holding entity would be impacted by some degree of lack of marketability, and/or lack of control. Analyzing applicable operating/partnership and/or buy/sell agreements for the entity is one place to start in order to help identify various factors that could impact the level of marketability and control associated with the subject interest.

Schneider Downs has significant experience preparing real estate holding company valuations. [For more information about Schneider Downs' business valuation and other business advisory services, please contact us.](#)

You've heard our thoughts... We'd like to hear yours

The Schneider Downs Our Thoughts On blog exists to create a dialogue on issues that are important to organizations and individuals. While we enjoy sharing our ideas and insights, we're

especially interested in what you may have to say. If you have a question or a comment about this article – or any article from the Our Thoughts On blog – we hope you'll share it with us. After all, a dialogue is an exchange of ideas, and we'd like to hear from you. Email us at contactSD@schneiderdowns.com.

Material discussed is meant for informational purposes only, and it is not to be construed as investment, tax, or legal advice. Please note that individual situations can vary. Therefore, this information should be relied upon when coordinated with individual professional advice.

© 2024 Schneider Downs. All rights-reserved. All content on this site is property of Schneider Downs unless otherwise noted and should not be used without [written permission](#).