Introduction to Real Estate Fractions

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ABSTRACT

Fractional ownership is normally created because the parties perceive intangible benefits from their venture. Otherwise, why would anyone pay more than their proportionate share to get into a restricted, illiquid real estate deal? Intangible benefits are often very real, and allow for ventures and investments that would never be achievable otherwise. But these benefits erode over time as issues are revealed and conflicts arise. Circumstances and partners' objectives change, and, in time, partners are succeeded by the next generation.

This session begins with an examination of partner motivations, intangible value sources, changing conditions and all-to-often difficult outcomes. It then shows how and when to apply fair value standards, allowing for recognition of intangible and personal attributes of the interest in the hands of both buyer and seller. The valuer can be very helpful in guiding the parties to ask the right questions, and hopefully make such deals without litigation.

Finally, what is the valuer to do when there is at least some sort of organized market for the fractional interest? A market may develop for tokenized interests, for example. This session looks at the unusual characteristics of these transactions, and offers specific methods that will show the valuer how to make logical and meaningful market value conclusions.

OUTLINE

- The creation and life cycle of fractional interests
  - Starting out with intangible benefits
  - Watching benefits dissipate over time
  - Bringing the next generation in, or taking it out
- How and when to apply *fair market value* and *fair value* standards
  - When to apply which standard
  - How personal tangible and intangible value affects a buyout
  - How the valuer can provide negotiating boundaries
- Analyzing a fractional interest market
  - If there is a market, how do you analyze it?
  - If there is no market, how do you use proxy models?
- Business development opportunities
  - Partner buyouts and litigation
  - Inter-generational buyouts
  - Tokenization and other 'securitization' activities
- Next steps for valuers

PRESENTER BIO

Dennis A. Webb, MAI, ASA, FRICS, is a business and real estate appraiser, former syndicator and engineer. Webb is the principal of Primus Valuations® a specialty valuation and litigation consulting firm with offices in Los Angeles and Denver. Webb's practice is focused on the business of holding and operating real estate, allocating value to special-use real estate, and business valuation. His passion is bringing understanding, clarity, collaboration and technology to bear on valuation of hard-to-value asset interests, a niche specialty which has long proved vexing for appraisers, advisors, the courts, and property owners alike. His mission has resulted in numerous articles and presentations for valuation professionals, lawyers and property owners. His most recent work is the definitive "Valuing Fractional Interests in Real Estate 2.0," a complete upgrade of the valuation process for LLC, LP and common tenancy interests. A native of Los Angeles, Dennis now lives in Denver, Colorado, and enjoys writing, hiking, traveling and dancing Argentine Tango (not necessarily in that order). Contact: dwebb@primusvaluations.com