



Closed End Fund Data for Real Estate Partnerships? No.



Closed-end funds are a type of mutual fund that issues a fixed number of shares through an IPO. The fund's shares can then be traded on an exchange. The fund typically holds listed securities, just like other mutual funds, and the total of its holdings comprise its net asset value. The shares of the fund normally trade at a discount to this net asset value.

The trading data for closed-end funds are used for valuing interests in private partnerships that also hold securities. The observed discounts (or sometimes premiums) from net asset value can then be applied to the partnerships to determine a discount for lack of control for the private partnership's interests. (Premiums might be observed for situations where the fund manager has a record of beating the market, for example.) This works because the funds and the private partnership both hold the same general type of asset: listed securities. So far, so good.

What about real estate partnerships?

Practitioners sometimes use closed-end funds that hold REIT shares to measure discounts for lack of control for interests in partnerships that hold real estate assets. Closed-end fund data looks like this:



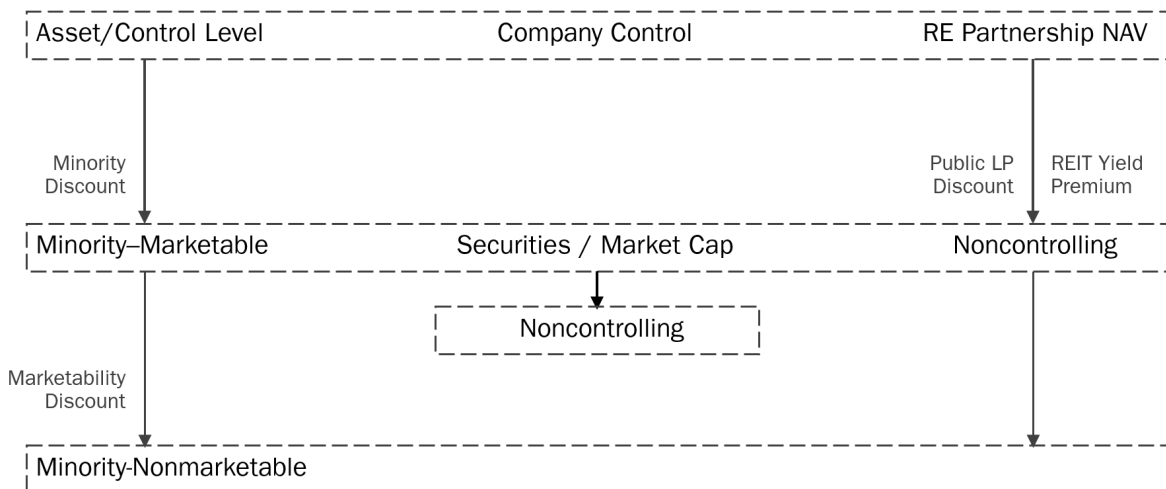
Closed-End Equity Real Estate Funds

Ticker	Fund Name	Closing Price	NAV	Premium/Discount	Distribution Rate	Distribution Rate on NAV	1 Yr. Return on NAV
JRS	Nuveen Real Estate Income	\$7.90	\$8.67	-8.88%	8.61%	7.84%	15.17%
NRO	Neuberger Real Estate Securities Income	\$3.34	\$3.53	-5.38%	11.21%	10.61%	15.87%
RQI	Cohen & Steers Qual Inc Realty	\$12.08	\$12.70	-4.88%	7.95%	7.56%	11.09%
RFI	Cohen & Steers Total Return	\$11.89	\$11.65	2.06%	8.07%	8.24%	8.69%
RNP	Cohen & Steers REIT & Preferred Inc Fd	\$21.03	\$20.82	1.01%	7.76%	7.84%	15.02%
IGR	CBRE Global Real Estate Income	\$5.38	\$5.77	-6.76%	13.38%	12.48%	3.16%
RLTY	Cohen & Steers Real Estate Opp & Inc Fd	\$14.74	\$15.93	-7.47%	8.96%	8.29%	11.63%
AWP	abrdn Global Premier Properties	\$3.96	\$4.15	-4.58%	12.12%	11.57%	9.12%
PGZ	Principal Real Estate Income Fund	\$10.33	\$11.49	-10.10%	12.20%	10.97%	12.85%

The curious thing is that discounts are relatively tiny. But notice what is being compared: funds that hold assets *that are themselves minority positions* are being compared to partnerships *that hold controlling positions* in the real estate. This is a mismatch that makes such comparisons entirely worthless. Let me explain.

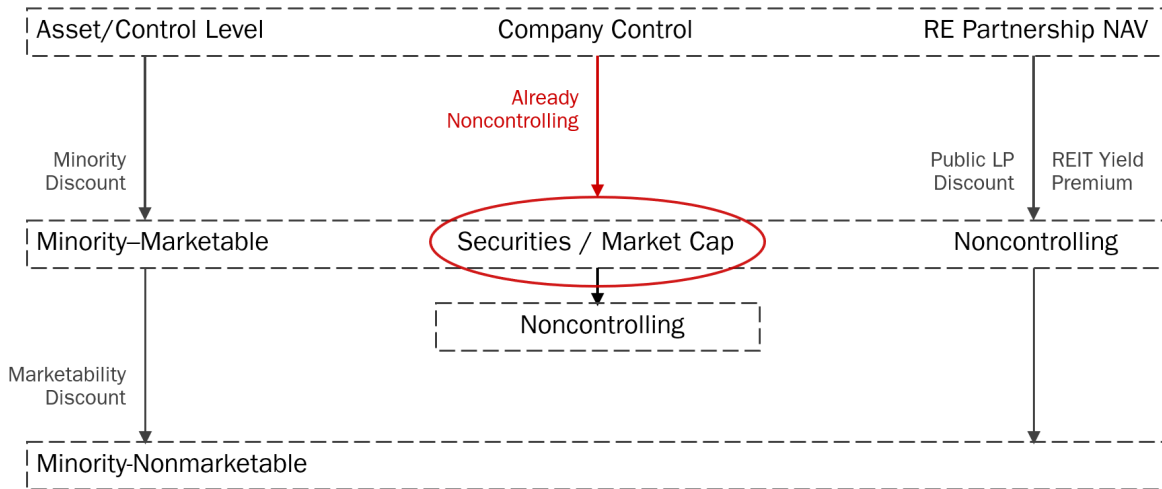
The following chart shows the conventional *levels of value* concept used to describe how control and marketability relate to underlying asset value for businesses and partnerships. The *asset/control level* is the whole-company level of value. A minority discount from this level is required when control is no longer present, as for publicly traded shares; the total of all such shares is the company's *market capitalization*.

Levels of Value

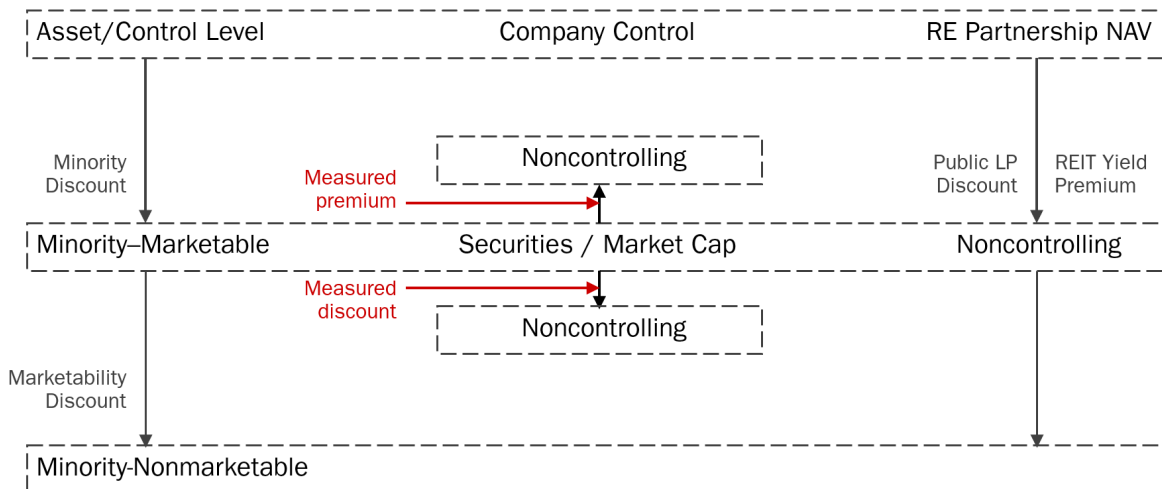




Acquiring control usually requires the buyer to pay a premium to a company's stock price, and such premium is the price of control (discounts and premiums are two sides of the same coin). Applying this premium to market cap is used to determine the whole-company value. So, the starting point is the minority value and applying the premium gives the control value. The securities held by the closed-end fund are already noncontrolling.

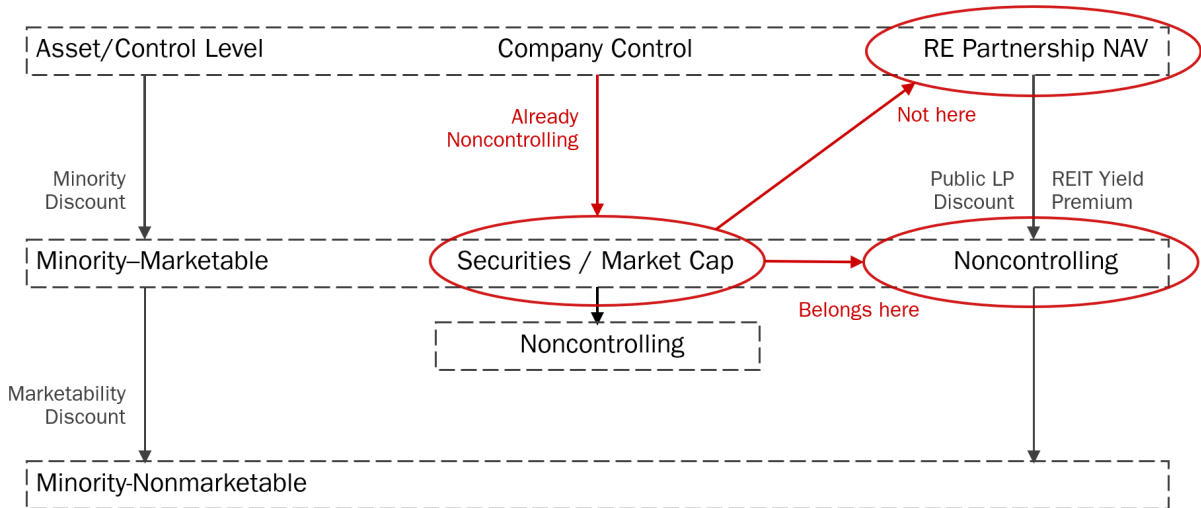


A real estate partnership holds assets whose market value can be directly measured. Thus, the process is usually reversed; the top, asset-level value is determined first as the total of the market values of all the partnership's assets and liabilities. Then a discount for lack of control can be applied, giving a *minority-marketable* or *noncontrolling* value for the partnership. At this point, it's just like a market cap. Such discounts are normally taken from public real estate partnership interests traded on the secondary market, or extracted from REIT data (as yield premiums, effectively the same thing as discounts).

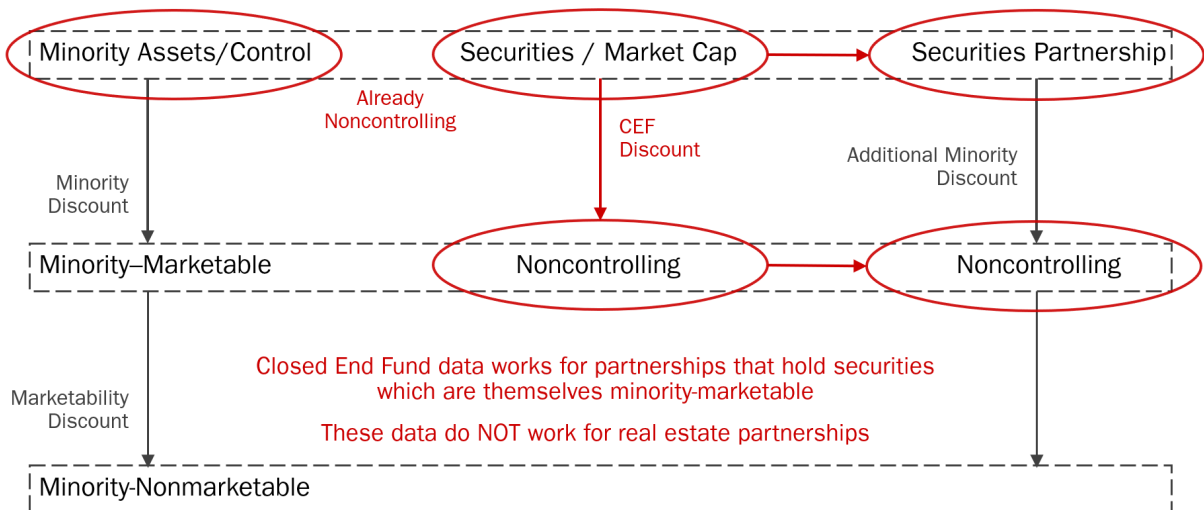




The proper application of closed-end fund discounts is to partnerships that hold securities, since both asset bases are noncontrolling securities.



The discounts (and premiums) shown in the first table apply to the difference between the trading price of the closed-end fund's assets to the trading price of its own shares. The figure above shows the misapplication to real estate partnerships. The figure below shows the correct application of closed end fund data to securities-holding partnerships.



Blind spots strike again

Blind spots abound in any multidisciplinary valuation, and no application is more loaded with blind spots than real estate partner interest valuation. This one is based on a simple misunderstanding, but there are many others, some of which are addressed in my other articles.



These and all other issues pertaining to the valuation of asset holding companies are included in *Valuing Fractional Interests in Real Estate 2.0* (at <https://www.primusivs.com/book-page>). Please stay tuned, since there is much more to come.

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