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Case Study:

Do you need an Estate Valuation?

A family patriarch recently passed away leaving an office/showroom/warehouse property in a southern Twin Cities suburb to his three children, but only one of the offspring and the decedent owned the business that occupied the property—having bought it in a separate transaction when the real estate was acquired eight years earlier. As a result of this related-party situation, the lease being paid by the business was under market.

After the father's passing, the family needed an appraisal for estate matters dealing with tax reporting purposes and a possible buyout of one or more interests between the heirs. The situation was further complicated by a declining market between the date of death and the six-month anniversary of the date of death, on which the Internal Revenue Service allows the beneficiaries to choose from to base the estate taxes.

What TaTonka Can Do To Help!

This estate matter was dealt with by having a licensed and experienced appraiser perform an appraisal assignment. This assignment may have involved one or two valuations, but only one certified appraisal report needed to be submitted to the IRS. TaTonka provided the family with this service.

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What Questions To Ask:

When dealing with an estate valuation matter, a number of questions need to be asked and answered first in order to identify the appraisal problem at hand. First, what is the specific intended use of the appraisal; i.e., is it for the estate tax reporting purposes, disposition of the real estate, internal allocation between beneficiaries, or a buyout of one or more interests by another? Second, how has the market for the particular subject property performed since the date of death—should a valuation as of the six-month anniversary date also be considered? Third, what is the condition of the subject property as of the date of death? What is it as of the six-month anniversary date? Fourth, what is the lease status of the subject property; is it rented to an unrelated party (or parties), is (are) the lease(s) above or below market, how long is (are) the remaining lease term(s)? The latter determines whether the property needs to be valued in fee simple estate or leased fee estate.

What To Do Once The Appraisal Problem Is Identified:

Once the appraisal problem has been identified (that is, once the type of market value to be appraised is determined and what the effective date of the appraisal should be), then the type of appraisal and the scope of work involved in the appraisal can be identified. Sometimes a restricted-use appraisal report is all that is needed; other times a written narrative appraisal report is required, especially if parties other than the immediate family members are going to rely on the results of the appraisal. An example of the latter is the IRS.

Before the decision is made by the client as to which type of report should be performed—if at all—the appraiser can consult with the parties involved and provide an oral report as to the value conclusion(s).

Arriving at an opinion of a property's value is a complex and disciplined process that can significantly impact the estate, the business occupying the property, and/or the amount of the estate taxes that have to be paid to the IRS. A well-supported appraisal is often a necessary step in this process. Achieving a credible valuation report that complies with the client's requirements and all of the applicable professional standards and regulations requires a qualified professional with a strong understanding of the property and its broader market trends. The Appraisal Services Division of TaTonka Real Estate Advisors is well-equipped to handle this work and provide vital insights and credible reports on all property types.