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Working Group 3 – Control Premiums
c/o Paula Douglas Seidel
The Appraisal Foundation
1155 15th Street NW, Suite 1111
Washington, D.C. 20005
Email: vfr3comments@appraisalfoundation.org

Re: Appraisal Institute Comments on Control Premiums Discussion Questions

Ladies and Gentlemen:

On behalf of the 25,000 members of the Appraisal Institute (AI) thank you for the opportunity to provide comment on the December 9, 2009 Discussion Questions regarding Control Premiums. The Control Premium Working Group is to be commended for the quality of the Discussion Questions offered for public comment.

Within the last two years, the Appraisal Institute has spent a significant amount of time and resources in developing programs for real estate appraisers in the emerging area of Valuation for Financial Reporting. Our new 7-hour "Introduction to Valuation for Financial Reporting" seminar was offered 9 times in 2009 and was attended by nearly 300 valuation professionals. The seminar is scheduled to be offered 14 times in 2010. An "advanced" version of this VFR seminar is currently in development and will be released in 2010. It is also likely that the Institute will also offer a new certificate program for those that can demonstrate expertise on this important topic through successful completion of a rigorous training program. Lastly, the AI has a 76-year body of knowledge (including Best Practices) dealing with the valuation of real estate assets as part of a control acquisition.

The Appraisal Institute is concerned about the development of hypothetical or arbitrary methodologies for control premium adjustments. "Rules of Thumb" or other measures should not be developed and cited as reliable methodologies to assess and measure control premiums. It is important to note that the Internal Revenue Service (IRS) recently issued a decision which requires strong support from market transactions for any discounts or premiums for market control or lack of control. There are serious penalties for "participants" (including appraisers) who use improper or unsupported control premium adjustments, as determined by IRS valuation experts. The AI encourages the Working Group to solicit the input of the IRS when developing control premium assessment methodologies.

Further, the AI feels that all adjustments for control fair value, minority fair interest value, or any other fair value must be supported by either observed publicly traded market share prices for each of the fair value categories cited (Sales Comparison Approach); or other real and reasonable analyses that would show a benefit or loss from control or lack of control based on quantity of shares, including income analyses, discounted cash flow analyses (Income Approach), etc.

We appreciate the opportunity to provide general comments on the Discussion Questions. If you should have any questions, or if you need additional information, please do not hesitate to contact me at (954) 583-2116 or via e-mail at vanceval@comcast.net, or the Appraisal Institute's Scott DiBiasio at (202) 298-5593 or via e-mail at sdibiasio@appraisalinstitute.org.

Respectfully submitted,

Appraisal Institute