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Real estate valuation challenges in M&A deals

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Real estate valuation plays a crucial role in many mergers and acquisitions (“M&A”), especially when real estate assets may represent a significant portion of a target company’s value. However, accurately assessing real estate value in M&A deals comes with unique challenges. Key obstacles include diverse valuation methods, complex ownership structures and strategic tax planning.

The first challenge, evaluating the real estate assets, requires the calculated decision on which valuation method is best suited for the deal. There are three main valuation methods:

(i) the income approach which utilizes the current profitability of a property; (ii) the replacement cost approach which utilizes the current reconstruction cost of a property; and (iii) the comparable sales approach which utilizes recent similar real estate transactions. Further, companies may own a mix of properties, from office buildings to retail spaces, each of which may warrant the use a particular valuation method. Land, for example, may be valued based upon zoning potential or other factors that may not be relevant in evaluating an office building.



Ultimately, navigating the difficulties of real estate valuation in M&A deals requires expert knowledge, thorough due diligence and a flexible approach to account for these varied challenges."

The second challenge, strategic tax planning, is vital. There can be many intricacies depending upon the length of ownership of the real estate, the current ownership structure and the sales price. Often, real estate owners may elect to complete what is known as a 1031 like-kind property exchange to defer any capital gains tax liability. A 1031 like-kind property exchange requires that the selling property owner(s) purchase another replacement property utilizing the sale proceeds to defer any capital gains tax liability.

Ultimately, navigating the difficulties of real estate valuation in M&A deals requires expert knowledge, thorough due diligence and a flexible approach to account for these varied challenges.

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