When buying out other heirs, go easy on discount for fractional shares

by Ilyce_Glink

Q: My mother and I equally owned a duplex. Upon her death, I received half her share in the property and the remaining half went to the two adult children of her son.

They each now own a 1/8 share in the home and I would like to purchase their shares.

Our problem is that itâ€™s difficult to get a precise value of the property since the local real estate market is soft. Two similar properties have sold in the past year. One of them recently sold for $25,000 less than prior sales in the area and another sold several months ago for $25,000 less than that one.

My mother died a couple of months ago. How should we value this property? And, should there be a discount for the fact that my nephews own fractional shares. My lawyer said that a typical discount when buying fractional shares is 10 to 25 percent below what it would otherwise be worth. I want to be fair.

A: Generally speaking. I do think that there should be some sort of discount for fractional shares. But in this case, that sort of thinking might not be quite right.

First, these are your nephews, and youâ€™ll want to do right by them since theyâ€™re family.

Also, since they own 1/4 of the property and buying it would make you whole, they might expect you to pay a premium. Think of the game Monopoly. If you own two of three colors, and buying the third property means you get to buy houses or build a hotel, owning that last property is more valuable to you. When trading or paying for it, you might pay a premium.

Iâ€™d take your nephews out for dinner or have a conference call in which you talk about what the properties are worth at the current market value and explain how much other properties have sold for recently. Then, talk about how theyâ€™ll get this cash outright, and since itâ€™s from their grandmotherâ€™s estate there wonâ€™t be any taxes due. You might also talk about how there really wonâ€™t be a market for their shares.

Offer them a fair price based on the most recent sales prices (perhaps discounted slightly) and see what they say. Donâ€™t forget that if they owned the home and wanted to sell it, they would most likely use a real estate agent for the sale and would pay a 6 percent fee to the agent. If they donâ€™t accept immediately, you can ask them to think about it or raise the price a bit. You can also talk about how much it costs to own and maintain the property each year. Be prepared to show them the cost of the mortgage (if any), and what their share of the property tax bill, insurance premiums and maintenance costs will be.

Hopefully, theyâ€™ll see that itâ€™s in their best interest to sell. However, if they donâ€™t want to sell at any price, then you need to talk about what youâ€™re going to do with the property and how it will be managed going forward.

Q: Our home has been listed for 8 months and we lowered our price a month ago. The day we lowered the price, we received two offers.

We accepted the offer of $217,000. The mortgage companyâ€™s appraisal came in at $210,000. We were shocked, as our market analysis and several agents stated that what we got was obviously what the market would bear.

Our agent has been adamant that we tell the buyer he only has to pay us $210,000. We thought it was the buyerâ€™s responsibility to present us with another offer. What is the proper protocol in this situation?

Also, our agent stated that no one purchases a home over the appraised price. That seems odd to us. Should we drop our price $7,000? I believe that because the buyerâ€™s finances are limited, the mortgage company wanted a lower appraisal. What do you think?

A: First, the rising level of foreclosures and defaults is forcing mortgage lenders to be more careful about appraisals and making sure homes are really worth what buyers want to pay. While I do believe that mortgage lenders often encouraged appraisers to come in with a higher appraisal in order to make the deal, I donâ€™t believe they tell appraisers to come in with a lower appraisal because they donâ€™t want to lend the money.

Of course, market forces (meaning you received two offers for $217,000) would seem to indicate that this is what your house is worth. But lenders are nervous these days and want to know that if the borrower stops making payments, the house is really worth the cash theyâ€™re shelling out in the form of the mortgage.

I think your agent should ask the buyersâ€™ agent what the buyers want to do. Perhaps theyâ€™ll have another $7,000 in cash tucked away that their agent doesnâ€™t know about. You might also want to go back to the other buyers and see if theyâ€™re prepared to do what it takes (i.e. come up with $7,000 more in cash) to buy the property.

If, however, you want to do this deal, then I think you should take one of several steps: Either lower your price to $210,000, or figure out a way for the buyers to come up with another $7,000. Or, ask the agents to take a bit of a hit on the commission and share the pain.

One last option might be to get a different appraiser to look at the house. There are times that some appraisers can be â€œtoughâ€• on an appraisal but another one might see it differently. A second appraisal might cost several hundred dollars and you can see if the buyer wants to pay for it, split the cost or you can bear the cost.

While it may technically be the buyerâ€™s responsibility to give you another offer, I think if you want to save this deal, you should make a move soon.

When buying out other heirs, go easy on discount for fractional shares by Ilyce_Glink