



VALUATION OF FINE AND DECORATIVE ART



THE APPRAISAL FOUNDATION

*Authorized by Congress as the Source of Appraisal
Standards and Appraiser Qualifications*

This brochure will shed light on fine art, decorative art, and antiques appraisal. After reading this information, you will understand the definition of a credible appraisal and important elements that should be included in the appraisal report. Additionally, the brochure includes a definition of the appraisal process, an explanation of the importance of appraiser independence, and suggestions on how to proceed if you think a correction or clarification should be made to the appraisal report.

You may want to retain an appraiser to assist you in settling an estate, establishing value for a charitable donation, obtaining insurance, settling a damage claim, or for setting a price for a purchase or sale. Lenders are required to acquire an appraisal report prepared by an impartial and unbiased appraiser to obtain an opinion of the value of the collateral. You may also need a valuation for financial reporting or gift tax purposes.

*This brochure was produced by The Appraisal Foundation. The Foundation sets the Congressionally-authorized standards and qualifications for real estate appraisers, and provides voluntary guidance on recognized valuation methods and techniques for all valuation professionals. This work advances the profession by ensuring appraisals are independent, consistent, and objective. More information on The Appraisal Foundation is available at **www.appraisalfoundation.org**.*



WHAT IS AN APPRAISAL?

An appraisal is an opinion of value¹. An appraisal can also be defined as the act or process of developing a thoroughly researched and well supported opinion of value by an impartial and properly qualified individual. The opinion can be expressed as a specific amount, a range of values, or in relationship to a previous value opinion. Appraisal may also be used as an adjective (i.e., of or pertaining to appraising and related functions such as appraisal practice or appraisal services).

WHY ARE APPRAISAL REPORTS REQUIRED?

Appraisal reports are required for uses such as estate planning, charitable contributions, estate or gift tax preparation liabilities, insurance or damage and loss claims, equitable distributions, fair rental and sale decisions, collateral loans, and legal disputes.

Appraisals conducted for fine and decorative art and antiques enable owners to obtain an independent opinion of value with descriptions of the appraised property included in the report. Clients may need values for paintings, photographs, prints, maps, sculpture, furniture, rugs and carpets, ceramics, china, silver and silver-plate, metalware, lamps, candelabra, glassware, textiles, object d'art (miscellaneous items), and antiques. Clients who own or manage such objects, including individual collectors, advisors, institutions, galleries, insurance companies, lending institutions, and attorneys, should engage a professional personal property appraiser with expertise in fine or decorative art and antiques.

¹ USPAP 2014-15 Edition, Page U-1, line 8. The Appraisal Foundation.

WHAT IS PERSONAL PROPERTY?

Personal property is defined in the *Uniform Standards of Professional Appraisal Practice* (USPAP) as:

*identifiable tangible objects that are considered by the general public as being "personal" - for example, furnishings, artwork, antiques, gems and jewelry, collectibles, machinery and equipment; all tangible property that is not classified as real estate.*²

The main characteristic of personal property is its ability to be moved without damaging either itself or the real property to which it may be attached. Personal property can be tangible or intangible.³

FINE ART AND ANTIQUES

Fine Art

Fine art generally refers to the media of painting, sculpture, drawing, original prints, photographs, and architecture. Fine art is distinguished from other art forms in which the aesthetic or intellectual expression is more prominent than the utilitarian purpose.⁴ Professional appraisers of fine art have extensive training in their area of expertise.

Decorative Art

Decorative art includes objects that are primarily utilitarian in form or function, but that have aesthetic value provided by the design, decoration, or embellishment. Objects classified as decorative art include ceramics, furniture, textiles, glass, leather, metalwork, silver, arms and armor, clocks, and other household or utilitarian objects.

Antiques

The term "antiques" is traditionally applied primarily to works of fine or decorative art and furnishings, but is currently employed for any type of man-made object of a past era. U.S. customs laws define antiques as artifacts whose date of initial purchase was at least 100 years before the present. All three categories are defined as personal property.⁵

² USPAP 2014-15 Edition, Page U-4, lines 116-118. The Appraisal Foundation.

³ Examples of intangible personal property are rights of ownership to property, such as cash, government and corporate securities, personal bank accounts, insurance policies, shares, annuities, stocks, bonds, licenses, patents, copyrights, and goodwill.

⁴ The Getty Research Institute's *Art & Architecture Thesaurus*®

⁵ *Ibid.* (Antiques will be included under decorative art in the remainder of this publication.)

THE APPRAISAL PROCESS

First, your appraiser will interview you regarding the reason you require an appraisal. Many people consult an appraiser saying, “I just want to know what it is worth.” The appraiser will explain the many levels of “worth” or value, such as what an item of fine art would be worth if you were going to sell it, and even then, where you are considering selling it. Your appraiser must know who the intended users are and the intended use of the appraisal, in order to correctly develop an appropriate appraisal.

The Scope of Work, which is the type and extent of research and analyses required to prepare the appraisal, is determined by the appraiser at this time. In each appraisal, an appraiser must identify the problem to be solved, determine and perform the scope of work necessary to develop credible assignment results, and disclose the scope of work in the report.

The client and appraiser will schedule a date for an on-site inspection. The client may provide the appraiser with information relevant to the objects being appraised. On-site, each object is inspected, other information is gathered and photographs taken to fully document the condition and appearance of the object.

After data collection and analysis is complete, the appraiser determines the best approach to value each object. The three traditional approaches to value are the *cost approach*, the *sales comparison approach*, and the *income approach*.





The *cost approach* reports the present cost to reproduce the item or create a property with similar utility and marketability. This approach is often used when appraising items that are still in production or can be reproduced using contemporary artists or makers.

The *sales comparison approach* utilizes recent sales of similar items, and is accomplished by researching all relevant and available sales records and asking prices. The appraiser analyzes comparable sale characteristics that include age of the object, material or medium, style, maker, manufacturer, artist, quality, rarity, exhibition and publication history, and the market in which they were sold. Careful research and analysis is required for the appraiser to reach a credible value conclusion.

The *income approach* produces an opinion of the present value of anticipated monetary benefits for income producing objects such as fine or decorative art objects that are being leased, or are part of a rental loan collection.

The appraiser develops the opinion of value, prepares the report, and communicates or delivers the report to the client. The supporting information may or may not be included in the actual appraisal report; however, it must be contained in the appraiser's workfile.

ESSENTIAL ELEMENTS OF A CREDIBLE APPRAISAL

A credible appraisal report clearly identifies the objects appraised, the scope of work performed by the appraiser, the client and other intended users, and the intended use of the report. The appraisal report must also include the definition of value (e.g., fair market or replacement value), the effective date, and the subject object's relevant characteristics. The data and analysis required to support the opinion of value must be effectively communicated.

There is no single standard appraisal report form, format, or style. Regardless of the type of appraisal report used, all reports must contain sufficient information to enable the intended user to properly understand the conclusions and to be credible.

Regardless of the intended use of the appraisal report, the appraiser should prepare the report in compliance with the *Uniform Standards of Professional Appraisal Practice* (USPAP) and include:

- A complete description of the item in sufficient detail to identify the object (may include photographs).
- Methods of analysis and data used to provide a value conclusion and the rationale for value.
- A signed certification similar to the one included in USPAP which includes a statement that the appraiser is not biased and does not have a present or prospective interest in the property.

SELF-REGULATED APPRAISAL PROFESSION

Professional appraisers are trained to deflect any attempt to influence the appraisal or opinion of value, and to remain independent, impartial and objective. Since the appraiser has the sole responsibility for the analyses, opinions, and conclusions contained in the appraisal, his or her independence is a critical element to enhance the public trust that appraisals contain credible opinions of value. Appraisers complying with USPAP are required to maintain this level of independence, to perform assignments without bias and to include in the appraisal certification the following statement.

I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.⁶

COMPONENTS OF VALUE

Age - Dating an object determines whether an object is from the period or is a reproduction.

Authorship - The artist/maker and their reputation might greatly affect value; if a work is not attributable to an artist or maker, it is likely that its value will be impaired in the marketplace. Formally resolving issues of authorship is outside of the appraiser's scope of work and expertise. Resolving issues concerning the identity of the maker, manufacturer, author or artist may be completed with the assistance of experts.

Condition - Physical characteristics and condition of materials are extremely important to the market value of an object. Generally, objects in good and stable condition are more valuable. Works that have been damaged beyond normal wear and tear, or have been improperly restored do not retain their value in the marketplace.

⁶ USPAP 2014-15 Edition. Page U-58, lines 1883-1884. The Appraisal Foundation.

Functionality - Generally, functional objects are made in multiples, and non-functional works of art are unique. With the economic aspect of the market's reliance on supply and demand, functional objects are more readily available and, commonly, these objects hold less value in the marketplace.

Historical Importance - The documented and historic importance of an object and its role in history can establish or increase the value of an artifact.

Maker/Artist - The individual who produces works in the visual arts. The maker's (or visual artist's) reputation adds value to an object. If was it made by a well-known or collected artisan or craftsman, or is produced a highly desirable maker name, it will likely be more valuable. Signed works can also have higher values.

Material - The material used to create an object may affect value; higher quality and rare materials may add value to the object. A qualified appraiser must determine whether rarity outweighs material value and whether quality of workmanship outweighs rarity.

Provenance - An object's history of ownership, or its association with a significant collection, can increase the value in the market. Provenance can also help to establish authenticity.

Quality - An aesthetic concept, quality is used in judgment of inherent merit, worthiness, or excellence in a work or an object. A determination of whether the object is exceptional, unexceptional or mass-produced must be made. The qualified appraiser must be experienced and trained to recognize these differences.

Rarity - An extremely rare object may be quite valuable in spite of condition issues. Since the market is determined by supply and demand, the rarer an object the more valuable it may be in a competitive market.

Size - Sizes of objects can vary from era to era, from country to country, and from casting to casting. Being familiar with such information may help to conclude a date or locate the region where object was made. Additionally, size can affect the desirability and demand of objects; large-scale paintings or sculpture may have less value than smaller works by the same artists.

Style and Trends - Collector tastes change from generation to generation. These changes may affect an object's collectability, and understanding these styles and trends is needed in order to produce a credible opinion of value.



FREQUENTLY ASKED QUESTIONS

What happens during an appraisal inspection?

The appraiser first gathers all available documents and verbal information (this can be done previously, but is often completed on-site). Whenever possible, the appraiser physically inspects fine or decorative art objects, sometimes using a flashlight or UV light, and through magnification. The appraiser takes measurements, weighs metals, and locates and records any signatures or other identifying marks on the object that may affect value. The appraiser inspects the condition and structural integrity of the objects for any needed repairs or former alterations. Finally, the object(s) are photographed.

What information is useful for the appraiser?

The more information the appraiser can gather about an object, the more credible the appraisal will be. The appraiser will need to know what the intended use of the appraisal will be, or how clients will use the report when it is completed.

During the process of conducting the appraisal, the appraiser may request any available background information about the property being appraised. This could include, but is not limited to, the provenance, restoration records, exhibition, publication, sales history, the property's title, and previous appraisals.



How does the appraiser develop the opinion of value?

After the appraiser inspects the object(s) being valued, he or she researches the appropriate marketplaces to locate the amounts asked, offered or paid for properties similar to the object(s) being appraised (sales comparison approach). The cost and income approaches are considered, and if appropriate, are developed. The market data is studied, including public, gallery and private sales records. The appraiser may consult additional experts to resolve authenticity issues. After all material research relating to the value of object(s) is carefully considered, the appraiser develops an opinion of value and prepares an appraisal report.

What is a comparable sale?

Opinions of value are frequently based on sales of similar or like objects (sales comparison approach). Comparable sales enable the appraiser to render an opinion of value for the subject property by comparing similar properties that have sold or are being offered for sale in relevant marketplaces. The comparison may include considerations of age, physical characteristics, functional attributes, attribution, provenance, and location of the sale. Realized sales of comparable or like properties may provide the strongest evidence for an opinion of value.

Auction houses, galleries or artists are the sources most commonly-used for obtaining records for fine and decorative art properties. The appraiser often has to pay for completed sales information, such as the sales information available online.

What might attorneys look for and expect from an appraiser?

Attorneys who engage fine or decorative art appraisers should expect to receive a defensible and credible appraisal report. The report prepared should meet the requirements of USPAP and those of any government entity that may be involved in the assignment. Attorneys, as well as all clients, should seek an appraiser with verifiable education and experience in valuing the type of property being appraised.

What can you do if you believe a correction is needed to the appraisal report?

If, after reviewing an appraisal report, the client believes the appraiser did not consider information about the subject property that could affect value, the client should discuss the matter with the appraiser. The client should submit his or her concerns in writing to the appraiser, providing factual evidence that supports the position, and request that the appraiser address them. If the appraiser agrees that pertinent information was omitted and should be included for a credible valuation, he or she may provide a revised appraisal report with commentary.

After asking for a reconsideration of value, the appraisal remains flawed. What are my options?

A client may request an appraisal review assignment or a second appraisal report. A different appraiser may perform an appraisal review, which will include an opinion about the quality of the other appraiser's work. If the review appraiser does not agree with the opinion of value in the original appraisal report, a new opinion of value may be provided in the form of an appraisal report completed by the review appraiser.

What is appraiser competency?

The COMPETENCY RULE in USPAP requires that the appraiser be competent to perform the assignment, or acquire the necessary competency to perform the assignment, or withdraw from the assignment.⁷

Generally speaking, competent professional appraisers may fall into two general areas: (1) appraisers who are specialists and have training in principles of valuation and knowledge of the markets with knowledge focused on a specific area of expertise; and (2) appraisers who are generalists and have training in principles of valuation and knowledge of the markets with broad experience in many areas. It is essential for clients to seek appraisers with expertise relative to the marketplace and type of objects to be appraised.

⁷ USPAP 2014-15 Edition. Page U-58, lines 1883-1884. The Appraisal Foundation.



Why doesn't The Appraisal Foundation enforce the Uniform Standards of Professional Appraisal Practice (USPAP)?

While the *Uniform Standards of Professional Appraisal Practice* are standards for developing and communicating appraisals, it is not within the purview of The Appraisal Foundation to enforce USPAP, as it was not granted such authority by Congress.

Formal enforcement of appraisal standards is provided by personal property appraiser organizations, such as those that are Appraisal Sponsors of The Appraisal Foundation. Courts and/or case law may also serve to enforce USPAP.

Appraisers may also simply choose to comply with USPAP, even if they are not otherwise required to do so. Enforcement of USPAP in these situations may depend on jurisdictional or other legal matters. If an appraiser is not required to comply with USPAP but otherwise chooses to comply, a client should ask the appraiser if any enforcement entity oversees the appraiser's practice.

IMPORTANT TERMINOLOGY

Antiques - Antiques are artifacts created or produced in former periods. The term was traditionally applied primarily to works of fine or decorative art and furnishings, but is currently employed for any type of man-made object of a past era. U.S. customs laws define antiques as artifacts whose date of initial purchase was at least 100 years before the present.⁸

Decorative Art - Decorative art includes objects that are primarily utilitarian in form or function, but that have aesthetic value provided by the design, decoration, or embellishment. They may include ceramics, furniture, textiles, glass, leather, metalwork, arms and armor, clocks, and other household or utilitarian objects.⁹

Fine Art - Fine art is created by those with more extensive training and generally includes the media of painting, drawing, sculpture, original prints, photographs, drawing, and other non-functional objects. Although there can be an overlap

⁸ Ibid.

⁹ The Getty Research Institute's *Art & Architecture Thesaurus*[®]

between fine and decorative art, fine art is generally distinguished from other art forms because the aesthetic or intellectual expression is more prominent than the utilitarian purpose.

Personal Property – Identifiable tangible objects that are considered by the general public as being “personal” – for example, furnishings, artwork, antiques, gems and jewelry, collectibles, machinery and equipment; all tangible property that is not classified as real estate.¹⁰

Appraisal – An opinion of value. The act or process of developing an opinion of value by an impartial and properly qualified individual.

Appraisal Review – The act or process of developing and communicating an opinion about the quality of another appraiser’s work.

Credible Appraisal – A credible appraisal is one that is worthy of belief. A credible appraisal includes support, by relevant evidence and logic, for the opinion of value.

Value –The monetary relationship between objects and those who buy, sell, or use those objects.¹¹

Effective Date of Valuation – The date that the appraiser inspected the object, developed the opinion of value, or another date of relevance to the client or intended user. The client may request a date of valuation to obtain an opinion of value on the date of death for an estate, date of a charitable contribution, transfer of gift, or sale date.

The Appraisal Foundation - The Appraisal Foundation is a Congressionally authorized non-profit organization established in 1987. The Appraisal Foundation is dedicated to the advancement of the appraisal profession. The Foundation accomplishes its mission through the work of its three independent boards: the Appraisal Practices Board (APB), the Appraiser Qualifications Board (AQB) and the Appraisal Standards Board (ASB).

Appraisal Standards Board (ASB) – The ASB sets forth the minimum requirements for ethics and competency in developing an appraisal and reporting its results within the *Uniform Standards of Professional Appraisal Practice* (USPAP).

¹⁰ USPAP 2014-15 Edition. Page U-4, lines 116-118. The Appraisal Foundation.

¹¹ USPAP 2014-15 Edition. Page U-4, line 141. The Appraisal Foundation.

Appraiser Qualifications Board (AQB) – The AQB establishes the minimum qualification criteria for state licensing, certification and recertification of real property appraisers. The AQB also sets forth voluntary criteria for personal property appraisers.

Appraisal Practices Board (APB) – The APB provides voluntary guidance on recognized valuation methods and techniques, which may apply to all disciplines within the appraisal profession.

Authentication – Verification by an authorized, qualified person that a fine or decorative art object or an antique, was produced by a certain person or was produced in a certain place or period of history. Generally appraisers are not authenticators, and unless they have an area of expertise in research and publication in a particular field of fine art, decorative art, or antiques, an outside expert is required to resolve issues of authenticity.

Comparable – A shortened term for comparable sale, a sale record for a similar object used for comparing objects in the sales comparison approach in order to develop an opinion of value.

Sales Comparison Approach – A set of procedures in which a value is derived by comparing the property being appraised to similar properties that have been sold recently, then making adjustments to the sale prices of the comparables based on their differences with the property being appraised. Adjustments to comparable object prices are based on marketplace conditions and the objects' characteristics of value.

Cost Approach – A set of procedures through which a value is derived for an object by estimating the current cost to create a reproduction of or replacement of the object. This estimate may include deducting depreciation from the total cost.

Income Approach – A set of procedures through which an appraiser develops a value for an income-producing property by calculating the present value of anticipated cash flows.

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